

View from the Bridge

By Clive Hale

an alternative look at the investment world

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Answers on a postcard...

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It is all very well giving our politicians, central bankers and assorted economists grief for just sitting around and tuning up for the next violin concerto, rather than putting out the fire that started in Greece and has now spread rapidly to Spain, but can anyone define exactly what sort of fire it is? If you use water to put out an electrical conflagration, at best you will get a nasty shock; at worst it will kill you.

The aforementioned group are in denial about shocking pain or death. But as the denouement approaches like an unbroken tsunami wave, they realise that the fan originated effluent will be on its way long before their tenure in office is over. There will be no one else to blame but themselves, although Obama may just get lucky as crises have a habit of going on for much longer than you can remain credible to misquote Keynes; something much in vogue these days...

So despite the headlines and the warnings of Armageddon from every blog site ex CNBC it would be unlikely that a wet weekend in June (they are building an ark down at the Lymington pier...) would actually see the end of the world despite the Bernank failing to oblige with QE3 last week. Remarkably the S&P had its best week of the year, but the announcement after the close that Moodys was looking to cut Spain's sovereign debt rating (that will almost certainly happen on Monday...) and that Italy would not be far behind must have left anyone playing rigged casino feeling a little queasy. A state further compounded by the latest estimate of the Spanish bank bail out rising from €40 billion to €100 billion! Nor is it clear how Spain reciprocates as they are not keen on the German straight jacket, never mind the hair shirt, that they would almost certainly end up wearing for this amount of largesse.

Well you can't have it both ways, which is what most southern European politicians want. The solution to the vexatious problem seems on the surface to be a binary choice. You either go with full and accountable political and fiscal union, which has been the "hidden" agenda all along, or you admit that the whole idea of a common currency was stillborn from the off and go back to drachmas, pesetas, DMarks et al. Anyone who has ventured within spitting distance of a text book on social anthropology will understand that cultures are a long time in gestation and calling oneself European is very different from actually being European, especially in times of stress (there won't

be many “Europeans” watching the Euro 2012 football), so the first option is an almost impossible ask.

The alternative is to go back to square one with multiple revalued / devalued currencies and with the EU reverting to being a trading bloc. This has more serious implications for Germany, simply as a result of the law of large numbers, than it does for Greece for example. However with Spain on the verge of a €40/€100 billion back hander it's a bit late in the day to be arguing about the practicalities. The German constitutional court may well have a problem with an unconstrained bale out, but recent history shows that driving a coach and horses through a constitution and then “making up” legislation to make it “whole” some way down the road, and often beyond the pile of cans put there whilst you made your mind up, becomes a political “necessity”.

This then is the “third way” and it will be sold to a gullible public on the grounds that it is “in your best interests”; “what else could we do?” The ECB will print; the German constitutional court will be sidelined the Spanish banks will get their money and for a brief, oh so brief, moment the crisis will be over. The ticking clock will then be reset as the centre of the hurricane moves from Madrid to Rome.

In the midst of this rudderless vacuum can anyone please tell me what is the point of having a Herman van Rompuy? Answers on a postcard please. The winner will receive a signed photo of Nigel Farage. The judge's decision will be final unless over ruled by the German constitutional court and/or a clause in the NDAA (National Defense Authorisation Act aka the repeal of habeas corpus in the US) we have all missed or I have to post the photo as collateral with the ECB to qualify for a loan to pay the gas bill...

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