

“Greece, birds and bees: Time for tough love “

A recent 20-year research study, published in the *Global Change Biology* journal, has determined that the arrival of spring in Britain has slowly been moving forward. Bulbs are appearing earlier in the year than they did 20 years ago, flowers and trees are blossoming earlier and so on. One of the concerns raised as a result of this new research is whether the entire complex ecosystem was moving at the same pace. The reproduction cycle of animals and birds coincides with periods of food abundance. Will this desynchronisation of events mean that there is not enough food available? For example, if flowers appear earlier, will bees also appear earlier to ensure that pollination can take place? What would happen if flowers come out but no bees appear?

The financial ecosystem is also undergoing a desynchronisation of events. We are currently living in the midst of a slow but dramatic change, which will have unintended and unimagined consequences.

At the moment, our preoccupation is with Greece, PIGS, the Euro and, perhaps, the fate of the whole common currency experiment.

Greece's problems are all too well documented and do not require much explanation here. What does warrant a very close look is the EU's current debate about the appropriate response to these problems. Simply put, European countries seem to have divided into two blocs: The first bloc – let's call them the Unionists – think that Europe needs to act collectively, unilaterally and quickly in declaring full and complete support and backing, removing any doubt about Greece's ability to roll over and service its debt. The other bloc – let's call them the Rigorists – believe that Greece, along with other unnamed Eurozone countries, has been irresponsibly living beyond its means and broke the clearly stated rules – the so-called “eligibility criteria” – it had accepted when it

joined the Euro. As a result, they say, Greece and other profligates should bear the full consequences of their actions and thus ingest whatever medicine is prescribed to bring them back to the Euroclub's prescribed norm.

I fully understand the logic and arguments of both camps. However, as both an investor and a father, my experience is that unconditional no-strings-attached support is highly unlikely to ever solve a structural problem. Furthermore, the EU, or rather the Eurozone, appears to lack the stick needed to ensure that the carrot of unconditional support brings about the required behavioural changes from delinquent countries. Worse, the EU's unconditional support to Greece will merely entitle other vulnerable countries to demand an equal treatment.

These events ring a distant but familiar bell: Britain was ignominiously ejected from the European Exchange Rate Mechanism in 1992 when the market severely tested the resolve of its Conservative Government. We all learnt then that defending a line in the sand is possible only if you have unlimited resources at your disposal and if you are prepared to use them. As the disparate European summits have amply illustrated, there are two problems: Europe does not have unlimited resources and is it far from united in how to deal with most issues. Ironically, however, European countries are unanimously reluctant to allow the IMF to lead any Greek discussions, since its support usually comes at a steep price. In the current circumstances, no one really wants the IMF in its back yard.

So what are the options this stage? Are we going to witness the end of the Euro experiment? Will weaker countries opt to leave or be ejected so that they can reflate themselves back to health through the dubious benefits of one-off currency devaluation, inflation and maybe debt restructuring? Will the

Eurozone's real strongman, Germany or, to be more precise, the German electorate clamour for separation from the rest of Europe and a return to the Deutsche Mark?

Another possible, but less likely, course of action would be a full-on push for the complete federalization of Europe, since many single currency sceptics have long argued that you cannot have monetary union without political union. Ironically, had Tony Blair been chosen as the EU's President, I think this federalization might have had a chance. However, such hope has dimmed with a relatively unknown former Belgium Prime Minister as President.

Financial markets are inter-linked by a complicated web and Europe has made it even more complicated with a common currency. Whilst markets often overreact, they are reacting because the current structural setup within Europe has allowed some countries to blatantly flaunt the rules and to live above their means at the expense of their neighbours. Common sense dictates that if anyone – be they a country, a corporation or an individual – lives an unsustainable lifestyle, at some stage, necessary adjustments will have to be made or imposed in order to live viably within one's means. Over the last decade, we seem to have forgotten much about basic economic tenets and, when everything converged, risk became something that we seem to have misunderstood. Do you remember the not so distant past when Italy would devalue its currency, when large uncompetitive companies and financial institutions did go bust and when financial

markets differentiated risk by pricing credits according to the debtor's ability and willingness to pay? Domestic interest rates, set by a domestic central bank, were vital tools in the complex interplay of government finances and foreign exchange levels. It is healthy to differentiate risks and price these differences accordingly. This healthy process is happening at the moment in Greece.

How does this all relate to our fragile and changing financial ecosystem?

Supporting Greece today – and Spain, Ireland or whoever tomorrow – only makes sense worth if this support comes at a price. That price is compliance. Obviously, such compliance is politically difficult and can trigger social unrest. The Greek government is indeed trying to avoid austerity measures. But in the end, Greece will have little choice if it wants to remain in the Eurozone. Ultimately, failure to comply will lead the market to apply a higher risk premium to the culprit's debt and, if no one wants to purchase that debt, the message will be pretty clear: changes are in order. If the Euro is to remain viable as a single currency, the Eurozone members need to remember that rules have to be obeyed and that flaunting these rules will have clear and dire consequences.

We are far from the birds and the bees. To avoid the far reaching consequences of a contamination of the Greek fiasco, now is the time for some tough love. Or else...

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