

## Governments' problems stem from having to reconcile gross habits with net income.

Adapted from a remark made by Errol Flynn—the eternal truth is that people have no respect for what belongs to others.

This is not the end of Greece's financial crisis . . .

It's one thing to contain the symptoms of a crisis; quite another to remedy its causes. Doctors usually recognize the distinction; economists and politicians don't. Recent developments in Greece make the point. Europe's self-appointed leaders, its Commissioners and Central Bankers, may have staunched the flow of Hellenic blood, but haven't closed the wound. The respite they've secured is likely to be temporary therefore, not permanent. Reconstruction hasn't yet begun.

. . . nor even the beginning of the end . . .

Barroso and Trichet missed the point, perhaps deliberately, when they said at a Press Conference last week that the priority was the re-establishment of confidence in Europe's financial affairs. That's a mis-analysis; the priority is (it certainly *ought to be*) the re-establishment of economics competence within the European Community. If the region were to be competitive, its other problems would diminish; if uncompetitive, they'd intensify. If Greece's costs were consistent with its membership of the euro at current levels, it'd prosper; if not, it'd atrophy.

. . . merely the end of the beginning.

To demand that the country reduce its fiscal deficit is to attack the irrelevant with the immaterial. It'll probably delay the denouement, but not alter it. The EU is a mess and Monetary Union its greatest catastrophe. Politicians will pretend otherwise, but the simple fact is that the core no longer has the resources to support the fringe.

Will Germany once again sacrifice itself on the altar of European Unity?

Germany could easily afford to support West Berliners in the sixties and seventies. And it could make a good fist of subsidising French farmers in the seventies and eighties. But it was severely stretched when asked to bail out the DDR in the nineties and noughties. Compelled to do so, economics growth slowed progressively. What had been impressively fast at the beginning of the period was disappointingly slow at the end of it; unemployment initially well below international norms was latterly well above them.

If in doubt, ask the people!

Can the country be asked to be paymaster once again? To settle the debts of its feckless neighbours? Chancellor Merkel might be willing to try, but what do the people themselves think? They've not been consulted in the past. Do they have an opinion now?

*In extremis*, they'll refuse. But probably not for a while.

Perhaps if the burden were thought to be temporary, if it could be expected to get lighter as the years passed, it might be deemed tolerable. But what if recent trends should continue, if the Commission and ECB were allowed to proceed to emasculate the economy, wouldn't there be a reckoning? Wouldn't Germans make common cause with Englishmen; sanity being restored? Happy days!

Meanwhile, the economics outlook is not good.

Not yet though. The near-term is going to be dire. Europe will be a disaster and Britain not much better. Growth rates are moderating. They were pathetically slow in the

fourth quarter of 2009; they'll be slower still in the first of 2010. The forecasting consensus is talking still of a quickening, but a growing minority is fretting about a double-dip.

Even the previously *happy-clappy* Governor is worried.

Significantly, Governor King distanced himself from the optimists last week; pouring cold water on their blue-skies expectations. Activity had barely risen in the context of an extraordinarily powerful monetary stimulus; it had to be expected to slip back whenever credit became tighter. He didn't make specific reference to the labour market, but it's likely that he's worried by its vulnerability. If jobs were to be scaled back in line with output, the chances are that sentiment would crash, taking GDP with it.

He'd like more fiscal discipline.

It may be that the Governor's remarks were partly inspired by Greece's tribulations. He'd not like to find Britain in similar circumstances. So, while happy to continue with monetary accommodation, he's begun to take a tougher line on fiscal laxity.

So would Cameron, if his latest change of mind is to be taken at face value.

Cameron likewise. He's frequently changed his mind on the issue (and most others), but seems at the moment to be proposing severe public spending cuts. Rightly so. The economy won't recover its poise until resources are allocated sensibly. Civil servants and local authority workers have to be culled (their retirement age increased to 70); quangos downsized; and political advisers all but abolished.

Let the asset sales begin! Start with the banks.

Most importantly, of course, banks must be reconstructed along Volcker's recommendations. Any activities in fund management, investment banking and proprietary trading have to be sold off. They must be run in future by those who are competent, not bankers therefore.

Markets will rise as the year progresses. New York looks encouraging.

The outlook for securities markets is troubled. In the near-term, policies are counter-productive and crises are likely to recur. Later on, if the loonies can be restrained, if logic re-imposed, there's hope. Hitherto, the US has been more sensible than Europe. It'll be reflected in the valuation of its currency and equity market.

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