

## View from the Bridge

By Clive Hale

an alternative look at the investment world

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When will financial socialism run out of money?

If you run a business badly and overload on debt you will eventually go bust. In essence capital has been misdirected and money looking for a new home will go elsewhere in search of a profit. This is how capitalism works but it is getting a lot of bad press because of investment banking greed, compounded by central bank and government "financial socialism".

"To each according to his needs," was never meant to apply to bankrupt finance houses or economies. History is replete with failed institutions, debt defaults and currency devaluations, but the world has continued to spin on its axis. "Too big to fail," has come under pressure with suggestions that financial institutions should be "downsized" yet there is enough in the kitty –for the time being - to bailout the Greeks.

Don't think for a minute that the European crisis is over. This is just the "end of the beginning." Greece will default. Based on some heroic assumptions of GDP growth their current debt to GDP number of 133% will rise to 149% in 2013 falling back to a mere 143% in 2014! The bailout has been put together to save the euro; not Greece.

An uncoordinated default would cause mayhem so the eurozone members are left with no option but to approve interim funding so that a default process can be engineered. The German banks are being coerced into the proceedings so the electorate can have some comfort that it is not just the taxpayer footing the bill; ignoring the fact that insolvency may well be the path that this takes them down.

Of course the politicians are hailing this as a victory. "I don't think the markets will put Portugal and Spain under attack because their situation is in no way comparable to Greece," Luxembourg's Jean-Claude Juncker said yesterday. French Finance Minister Christine Lagarde said "Greece was a special case, because it reported special numbers and provided funny statistics." ie they lied.

Portugal and Spain are already under attack and, unless they voluntarily follow the austerity route, the bond vigilantes will be arming up again. In the UK winning the election is going to be a poisoned chalice and the odds are now that the Tories will get to taste the "vintage".

Has the EU done enough? Will the euro survive? Will "PIGS" fly? Where is Batman when you need him...

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