

Just a thought

- All countries/regions have problems. In my view those in Europe are more threatening and have the greatest potential to disrupt the global economy. They are self-inflicted.
- There is commentary about a crisis of capitalism. In my opinion we are witnessing the crisis & hopefully the demise of social democracy.
- For a generation most governments in Europe have pursued policies which have resulted in public expenditure rising faster than the growth in GDP. (There have been exceptions, notably Margaret The Great!). As a result we have witnessed a continuing rise in the level of public debt as a proportion of national GDP.
- This has been facilitated firstly by the decline in interest rates since 1982, made available to periphery economies as a result of joining the Euro and currently supported by the various forms of QE.
- Secondly governments have had willing partners in the major banks whose skills are best exemplified by their need for state rescues. As an aside I have often suggested that the answer to the inadequate capitalisation of the banks is the “Tyndall” solution, convert the banks’ bonds to equity and compensate the shareholders with warrants.
- The symbiotic relationship between banks and governments is best illustrated by the ECB expanding its balance sheet to enable Italian banks to lend money to the Italian State so that it can repay German banks.
- The creation of the Euro and the capture of the European project by a largely unelected elite will be reflected upon in the future as one of those “how could you be so stupid” moments. Monetary union has never worked absent fiscal union. The disparity in the economies of Europe is such that it could never work in any event.
- The willingness of the European elite to sacrifice the people of Greece and especially Ireland on the altar of the Euro is a reflection of their actual disconnect with real people. Canapés in Brussels, poverty in Athens!
- Germany has a trade surplus with almost all if not all other Eurozone countries; it thus has a rising financial claim on the assets of all the other countries. There are no circumstances in which this can be sustained. More particularly the principal beneficiaries of a weak Euro are German exporters.
- The government of the Netherlands has collapsed in circumstances in which it has failed to meet its fiscal obligations. There has been no effective government in Belgium for 18 months.

- The French have elected a president whose solution is to increase public expenditure and thus public debt. As Reinhart and Rogoff demonstrate in their stellar work “This Time is Different” once public debt reaches 90% of GDP the prospect for GDP growth diminishes. France’s public debt to GDP is already 90% and rising.
- Were it possible to legislate for growth or if economists had a clue or planners could plan then the Soviet Union would still be with us!
- The Greek election has resulted in a non-result in that it is likely to be repeated next month!
- The French election has resulted at best in a major debate between France & Germany.
- We are near endgame and at the very best face a period of prolonged uncertainty. The ECB is almost certainly going to continue to expand its balance sheet with unknown consequences.
- The relative importance of Europe and in particular its banks will continue to decline.
- Several countries, Greece, Portugal, Spain & to a much lesser extent Italy face the possibility if not certainty of leaving the Euro.
- All of this brings the long bull market in bonds closer to its end and suggest maintaining an emphasis on the BRICs and their dependencies such as Australia! Include the US for its innovative skills & likelihood of energy independence and also what my friends David Fuller and Eoin Treacy at Fuller Money (www.fullermoney.com) describe as the “autonomies”. Add in a generous proportion in precious metals and avoid European banks like the plague.
- At present S is in Europe twice – socialist & stupid! History suggests they usually go together, anyone recall Diocletian? Despite much pain in (socialist) Europe mankind’s onward march will be maintained.

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