

## The elasticity of brinkmanship

*A compilation of the various blogs I've written on greece. I was there at the start of the euro, which was also introduced at its inception in a couple of countries for whom the rules were, transparently, bent. Greece though completely fiddled its figures, on the assumption that once in no-one would be able to throw them out because of a little creative accounting a few years earlier. And so it proved...*

## 8 july 2015, greece - the end

Working at the ecb the night euros first came out of atms was a proud moment. It now looks almost certain different notes will soon be coming out of greek banks. This may be what the greek government has envisaged for some time given the way it has managed the situation: reversing reforms and wearing brinkmanship and obtusity as badges of pride, perhaps afraid to openly make the (not-unjustifiable) case that they may be best off out the euro now and so letting events prevail. There may have been little choice given a public that wants the euro but clearly favours the expansionist platform on which syriza was elected but which is in stark contrast to the binding terms greece signed up to when borrowing money. Debtors, alas, don't get to dictate repayment conditions, even when democratically elected to do so (see 21 february 2015, **le demos nouveaux et arrivé**). So, let the others be the baddies, giving tsipras and co some of the domestic political capital they will need in the months ahead. Even those years ago there was unease that greece, an economic outlier, making the grade looked like a triumph of political idealism over economic common. Yet its numbers were sturdy - until they weren't: it turned out, greece completely **fiddled its figures**, on the assumption no-one would to throw them out over a little creative accounting. And so it proved. Now, the first western country in living memory to default, its banks all but insolvent, its economy 25% smaller than 5 years ago, 50% of its youth unemployed, greece a country being hurtled backwards to the balkan neighbourhood it seemed to have escaped, but only on the surface. European indulgence, it turns out, has limits. While the eurogroup on the other side made mistakes, in this bitterest of ends, the whole of the body is prized higher than the arm which if it really can't be healed must ultimately be cut off, as if in a more classic greek tragedy. The euro area will survive, perhaps even be stronger in the long-term; but for greece, these days bring unmitigated disaster. The rest of the eu must surely be extremely magnanimous in humanitarian and other relief to try and hold the line at the broader union, if indeed after another few months of acrimonious monetary divorce, greece and the broader european body politic still want that. After so much, that it should come to this.

## 21 february 2015, le demos nouveaux et arrivé !

Greece has **folded** this hand, but the poker game **continues** into next week, the summer and beyond. Behind the "who stands to lose more" gamble though, the bigger prize of democracy looks like it is being utterly eroded. Long after matters are somehow settled and greece gets enough help from its european partners to avoid collapse, the inability of its electorate to change anything, despite an overwhelming desire to do so, will be the salient outcome of this crisis. The basis of the last weeks' drama turns on the age old dilemma of a creditor insisting a debtor stick to the deal it made to get money in the first place. Whilst some blame and risk for making the loan rests with those that made it, the most part rests with an inept, unbalanced and corrupt economy that chose to lock itself into a bigger one and then needed the loan. Unlike the irish, portuguese and spanish, which were essentially problems of liquidity, greece was insolvent. There was no way around the many years of fat leading now to many of lean. An alternative eurozone strategy of **keynesian stimulus** would have helped greece, but at a price, given its governance, of avoiding necessary economic restructuring and, more potently, with no

way of stopping the floodgates of equal treatment opening to portugal, spain, italy, france et al, which very quickly moves from an affordable stimulus, germany's great, and justifiable, fear. Where though does that leave the greek, and by implication other eu, electorates. Actually in the same place as most electorates: in the thrall of the majority. Just like the strong anti-austerity of scotland's electorate cannot at all change the policy of the overall uk government, which is supported by a majority of its parliament, so the electors of the greek corner of europe cannot change the contrary policy espoused by the european majority. It is rather vicious to see unfold, and not at all understood, but the great european democratic deficit question of our age is actually being answered before our eyes. Here is the european demos, laid bare, fittingly enough, by the greeks.

## 15 january 2015, greece is the word, again

Many are the doom mongers scenario-planning various outcomes of the **imminent greek election**, spreading that worst of ailments, uncertainty and panic, around the markets at the possibility of a grexit from the euro. We have been here before (14 may 2012, **the unthinkable exit**; 16 june 2012, **the greek election**) and got through, but past performance, as every investor will tell you, is no guarantee of the future. The general relaxed attitude, given that the new greek government seems likely to **push for debt forgiveness**, seems borderline complacent. My ex-boss **Ibs** provides a very cogent analysis in **the ft** about why greek debt isn't, or shouldn't really be, a worry, but little market or especially political behaviour has much to do with grounded reality. Its national debt of 175% gdp, he points out, is hardly unprecedented and anyway sovereigns never pay back their debt, they just refinance it and actually greece doesn't need to issue any new debt for quite a while, largely because they've stocked up through the bailout on 30-year maturity. The debt, he concludes, is more sustainable than many other eurozone countries. As was the case at the other end of the crisis (see 7 feb 2010, **bring in the imf**), greece's central problem remains its economy's competitiveness. The euro is neither the problem's creator nor its solution: that lies, still, in greek hands.

## 16 june 2012, the greek election

We are already in a least bad scenario, but what is needed this sunday ? First, stability, which means greece being able to form a government in the next few days, and one that will last through what will be a very stormy few months. For that to happen, the best case is for what have emerged as the two main parties at this point, the traditional centre right new democracy and the radical new centre left syriza, to emerge as strongly as possible. The winner gets an extra 50 seats, putting it in pole position in terms of forming a government. The key point is not really the platform, as in fact all greeks pretty much want syriza's platform, namely an end to austerity but staying in the eurozone. The big question though is whether that is possible. If they think it is, they are increasingly voting syriza, if they think not, then new democracy. Whichever wins, they will at first try to form a coalition from "their" bloc, be that left/right or for/against the austerity-ridden bailout. The very best outcome though would be for them to join forces. Without new democracy, there is simply not the continuity needed; without syriza, the will of the people is thwarted and they will never have consensus. Best would be for a joint approach to renegotiate the bailout, from the starting point of where it is, not a blank sheet; and that needs both of them to compromise and work together. We can only hope.

## 1 june 2012, yes

Referendums have a habit of getting a no (**20 february 2011**), but in ireland, when on a european treaty, they usually have a second try to get the right answer, both on nice in 2001 and lisbon in 2008. Then, the fate of the eu pretty much hung on a purist irish constitution that empowers people over parliament but is a process subject to populist pressure. Today though, they resoundingly said **yes**, in a reluctant vote against greek-style self-seeking victimhood

rather than take the medicine; which would have meant more medicine administered more harshly. The vote signals ireland's maturity and is a milestone on their long road back to growth and stability. For europe it is also a minor triumph, for the wonks amongst us, because for the first time there was no power of veto. Only 12 members states need to ratify, and so had ireland voted no, the treaty would still have come into force, but ireland would have excluded itself from the (underwhelming but serious) array of tools, like the **esm**, that the treaty brings on line to help stabilise the eurozone. The new treaty's architects have finally cracked giving countries a genuine choice, rather than making every vote a gun-against-the-head all-or-nothing. That much is sure, the next bit is not; but the innate optimist within me sees a low-key turning point in a population saying quite loudly that it believes that the euro is going to make it. For some time now the doom-mongers have been making the running. Suboptimal make-do politics in a complex scenario is willfully seen as dereliction and aimlessness, and a break up as inevitable. Francois hollande's victory was seen in that way, with france and germany set to tear consensus apart. That has not happened (**7 may 2012**) and, as they have done for a long time now, leaders are still ready to do what they need to muddle through to avoid collapse at all costs. The root of stability lies in neutralising greece, and that, as it was in ireland, is in the hands of the people, when they vote on 17 june either to take the medicine for the foot they have shot themselves in (**5 november 2011**), or head off into the chaos and uncertainty of "out", by which time the euro has hopefully got its big bazooka plans in place to firmly stabilise the new configuration.

## 25 may 2012, greece on grease

Few stories have dominated the news like greece has (I'm at **2:45 and later**) for now so many weeks and months; quite remarkable for a small country of just 11 million people, although disproving the truism that all publicity is good publicity. There remains such a wide variation of **possible outcomes** that no-one at all knows what will happen and that level of uncertainty totally undermines confidence not just in greece but in growth in europe, to such a degree that we might not even make it through to the june elections. In an ironic way this is something of a success, in showing how deeply interconnected the eu has become, and especially the euro, which now is really the heart and soul of the project. It is difficult to imagine the one existing in its current form without the other. It is a sign that greeks have begun to realise this that support for keeping the euro has actually gone up over these weeks (to 80%) even as support for the anti austerity party also rises. And people have begun to draw out their euros and stick them under the mattress. Solutions such as eurobonds are part of a proper fiscal co-ordination package (**8 may 2010**), and even the fiscal compact, seem slow and irrelevant, but in fact it's the architecture that's wrong (monetary without economic union) and so at least agreeing on that, and then showing some determination to fix it with a realistic plan that may get support and be implementable, is a key part of the solution, a foundation on which confidence can be built, followed by stability and then growth. Fresh with a renewed term as president, van rompuy is the latest to have **another try** at that, hopefully before the jokes start about humpty dumpty (**21 november 2009**). For all that the higher ups do or don't though, this is going to be decided by voters - in ireland next week, and in greece a fortnight later.

## 14 may 2012, the unthinkable exit

That the crisis, greece's fault (**28 april 2010**), would lay that country low, was never in any doubt. The only question was the degree to which the euro would suffer collateral damage (**23 july 2011**). Two years ago, greece somehow leaving would have been absolutely catastrophic. Eighteen months later though, the dam was breached when the greek pm pulled his referendum rabbit out of a hat (**5 november 2011**) and merkel and co started talking openly about an exit. In doing so, they were clearly signalling their view that the threat level had been reduced from fatal. Today, floods, as even the no-break up high priests of the ecb's governing council **let the greeks know** that they simply can't have their cake (no austerity) and eat it (stay in the euro). Nor can they pretend they don't have a choice by not establishing a government like a naughty child hiding in the bedroom instead of facing the music. This high-stakes game of poker must

have an end, and that greece will lose is inevitable. They really now must realise that they have to make a call: in or out. That is the abyss they must stare down in what is likely another election, though it may not wait for that. I must say I was very surprised to read the **german line** (of both merkel and schauble) that "greece would always be in the eu", as to my mind the best strategy to minimise the collateral damage includes showing clearly that the rules still operate, and in that respect things are pretty clear: the only option is for greece to leave the eu (**16 january 2010**). The germans though are nothing if not deliberate, and as politics is the art of the possible, this is another signal - that the plan is in place, and so just get on and push the button now if you're going to. It looks then like there's no more stake raising - it's for the greeks to see, or fold. And it's right that the people make the call, as they're the ones that will have to live with it. As for the rest, well the picture should be clear by the irish referendum of 31 may. Never a dull moment.

## 7 may 2012, not just yet

The age of austerity may or may not be right, and may or may not be inevitable one way or the other - but it is certainly not popular. And so **sarkozy**, who started with such great promise, became a rare one-term french president, and the eleventh european government to lose an election since austerity began. Days before, the uk contingent suffered a significant (though largely consequenceless) defeat, and on the same night anti-austerity greeks stormed to victory. However, the british results conform to a typical mid-term reaction; indeed had they been held a couple of months before, the government would likely have held up very much better. For the french, this was above all an anti-sarkozy vote. Beneath the rhetoric there is vastly more that hollande and merkel have to gain by being nice together (and quickly) than in arguing. A new narrative that destresses austerity, bolts on a new "growth" component that anyway everyone was looking for, tweaks the new treaty and lets hollande claim victory, merkel continue with more small steps, and the eurozone avert a crisis of confidence, all ought to be possible after these new dance partners get used to each other's moves. The big unknown however is greece, where the traditional two party-led system, both reluctant defenders of forced austerity, was shot to pieces; registering together just over **30%** of the vote, and probably not enough to form a government. This heralds weeks of negotiation and uncertainty, the real possibility of an anti-austerity coalition, or more likely new elections after no government of any sort can be formed. This is exactly the sort of chaos to throw the markets, the euro area's only counterargument being, once again, that greece is small and exceptional. This very much strengthens hollande's hand, as to evidence that argument rapid unity with france is even more necessary. Weeks then turn to days to show the new "merlande" partnership is going to work. There is little doubt it will; but as for greece...

## 5 november 2011, greeks punch gift horse in mouth

Sometimes, a little time to reflect is better than instant reaction, and a week on, as opposed to a day, the **results of last week's euro summit** look pretty much as they did on the night: it is enough. Or at least, it is until it's not, when the actors showed themselves determined enough to go the next half-mile. The day after, the greek prime-minister's **referendum announcement** shattered the "no surprise" rule, and **merkel and sarkozy responded** in kind, breaking the "never talk about a break up" rule, saying that there was a choice for greece: take the medicine or leave the euro. That was the dose of salts needed, as while some 60% of greeks are against the bailout package, some 70% want to stay in the euro, and so the referendum proposal disappeared as quick as it arose. All this though destroyed the build-up to the much built-up g20 summit, and with the sherpa work not done, the result was **dazed and confused**, and so no contribution at all to the stability desperately needed. And all this in the week that **the most powerful man in the eu is replaced by an italian**, just as all the pressure moves to italy's woeful debt burden, and yet more pressure is put on the **ecb to use its unique muscle to solve at a stroke** the new and fundamental problem created in today's credit conditions of italy being solvent but unable to manage its liquidity, due to its (hardly new) dependence on constant refinancing. Laying some groundwork for that is the reason

behind **berlusconi's abrupt summoning** by said m&s, obama and the head of the imf (**21 may 2011**), who told him that his country is now being monitored by the imf like it was argentina. It's going to be a big week for mario.

## 27 october 2011, is it enough ?

So, they (and its with a slight pang of regret it's not "we") finally seem to have come to **a solution**, or at least to a state that things can settle: greece can "default" in an orderly way, the other countries seen as weak but not insolvent can be left to trade their way out to stability, the banks get a bigger cushion of cash, and the first steps are taken on the long road towards stopping all this ever happening again, through treaty-change towards economic union. By nature I am an optimist, and a deep euro enthusiast, and so maybe I cannot help but be biased. However, yes, I think this is enough. The problems were never going to be solved by a dramatic gesture, but by a process around which there is confidence. It may take an age to get to china walking one step at a time, but if you walk long enough, you get there eventually. So, though confidence may again fizzle out, though the devil of the details may yet risk elements of the package unravelling, I do think that two rubicons have been crossed. First, greece has gone, and second the argument over the way the others will be guaranteed the breathing space they need, namely fiscal or monetary, has been definitively answered. It's the former, and so now all can just get on with it, and if at some point some element needs bolstering, that will happen. A **classic distraction** has even been thrown in to stop people talking about the deal, getting them to talk instead about whether greece should have been in the euro in the first place instead (correct but irrelevant). This gives confidence a few more precious hours to build in this ludicrous news cycle led mass media world we live in (see **15 august 2011**). So there it is, we can breathe **a bit easier**, think a bit further ahead, and sleep rather better across europe tonight, as pax merkela reigns.

## 24 september 2011, rabbits, headlights, action

Two things have created the precipice of economic meltdown we find ourselves overlooking. One is powder keg, the other is sparks. The keg is the huge global imbalances that built up in our years of plenty, when china and the emerging world were very happy to lend us an endless amount of money to buy their goods, as anyway they had little faith in their own governance to manage it. The first spark was three years ago, with the implosion of the american sub-prime market, which took every fiscal policy lever we had to stabilise. The second was greece, which became the whole euro area, as inept leadership allowed the problem to fester and grow enormously. It is clear to everyone that there is deep global uncertainty about what to do, with fundamental misgivings somewhere over any particular strong course of action, making for total stalemate as to be effective any policy at this point needs everyone to be strongly rowing the same boat. We stand like rabbits, frozen in the headlights of the oncoming recessionary juggernaut. The markets are intensely volatile, as they struggle to read the runes of every move and statement, and desperately cut their losses when things momentarily subside. Though the bigger eu rescue package agreed before the summer will surely now finally come into being, it already looks too little, too late; though expect some rabbit out the hat tricks to make the number much bigger. The ecb too must surely both chip in and also find some way, at least temporarily, of underwriting the big european banks, where, just as in 2008, the fear that they are sitting on massive potential bad debts (this time sovereign) is utterly undermining confidence. These are the sorts of measures that will need to be in place to create the ring of steel within which greek debt can finally be restructured properly, something the markets have long since priced in (although that need not at all mean leaving the euro, see **no way out, 16 january 2010**, nor should they want to, as they're not **the uk in 1992**). The hope must be that default by another name will finally lance the boil, amongst other things allowing the eu's monetary and fiscal sides, which have been fundamentally at odds over the issue throughout the crisis, to lace together their actions better, hopefully beginning to restore confidence. All this is unlikely to be enough to stop the slide into recession, nor will it alter the movement of tectonic plates between east and west that is really driving the crisis. However, it may at least

mark the end of a particularly chaotic phase and enable some stability of sorts to be once again established, on which the foundations for moving forward can then be built.

## 23 july 2011, and on the euro – and now the dollar too

A tired looking angela merkel left brussels yesterday with a deal agreed at a pre-meet with sarkozy and trichet, which most seem to agree was more than papering over the cracks. They committed to more economic governance which, based, on the expansion of the european financial stability facility, will be less than a euro area ministry of finance (see **2 june 2011** ) but well beyond what we have today. Whilst the "m" bit of economic and monetary union was meticulously planned and delivered, the "e" is an abrupt and ad hoc process. We will see what they deliver in this round, and what all 27 agree to. Meanwhile, enough was done to deal with the immediate issue of greece. The deal, with bondholders taking a 20% haircut, will see the rating agencies declaring a default, which will hasten the serious money already leaking from euroland, but should be enough to enable the system to manage that through in the short term. Whether it is enough to set greece on the road to recovery, to dam off contagion to the other **piigs** (definitely two eyes) or to stop the increasing mis-association of the eu polity in the public mind with pouring taxpayers' money down a somehow greedy bankers-linked black hole, we shall also have to see. Probably not, as the write-down surely needs to be bigger, and the transformation of the greek economy towards productivity and growth hardly begun. Meanwhile, as well as the euro teetering, the absolutely unthinkable across the atlantic is also somehow getting out of control, and there is **a chance that the usa too may default**, so too making the dollar teeter. **Mark blyth** sums that up well, talking about america's enormous long-term fiscal gap and dependence on china, with the us economy " like wile e coyote who runs off the cliff and it takes him a while to realise it. What has been keeping him up is chinese blowing air up". Suddenly global macroeconomic meltdown is right on the immediate agenda again. Short-term this is all going to shore up boutique operations like british gilts and of course gold, but any global tsunami will wash over us all, big time. No need for the ark just yet, but its time for the **wellies**.

## 28 april 2010, greek tragedy

Since **13 february**, things have moved on, but not all that much. Sovereign debt is the new bank crisis, with the risk being they fall like dominos. This is not the last run we will see; britons especially should beware. For now though, the market's herding instincts are rounding on greece, where they should be, and portugal and spain, tenuously linked through the euro, where they shouldn't. For the latter countries, the onus is on them to introduce tight measures of the sort ireland did in good time. For greece, it is much too late. The euro has slipped, but the currency markets have not reacted much, and greece's plight would be infinitely worse without that protection. It would by now have seen not an advantageous devaluation but a catastrophic crash. Not least because although now "junk" (or "high yield" as it is euphemistically termed) greek bonds are still being accepted as collateral by the ecb. Surely though even the biggest haircut (i.e. providing less than apparent value to take account of risk) cannot much longer disguise this as a significant subsidy affecting the credibility of the ecb's whole collateral framework. It is still in the balance whether a big-enough package can stave off a full-scale debt restructuring that would particularly hit euro area banks investors. This is caveat emptor v pass now, pay later. In truth, it surely must be pay now, whatever the cost - although the euro area would have been wiser to lay more off earlier on the imf - better to have greek riots aimed at washington than brussels.