# Investment Commentary by Roger Nightingale

## The extremes of Farce and Tragedy have much in common.

Events in Greece illustrate the point.

11th June 2010

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Europe's economy has been a disappointment for many years.

In a recent poll of global investors, 77% of respondents reported terminal disenchantment with Greece. The country, they said, would either default on its borrowings or leave the Euro bloc. It might do both.

It stumbles from crisis to crisis.

Why so *low* a figure? What did the other 23% expect? That the world economy would boom? That a newly competitive Greece would surge ahead and generate sufficient tax revenue to pay off the debts? Of course not.

Its policymakers never learning from past mistakes.

Even those in the 23% minority knew the Greek play was over (*baissez le rideau, la farce est jouée*). But they hadn't yet brought themselves to acknowledge it. Their earlier analyses had been wrong; their earlier investment strategy ill-conceived. Accommodating themselves to the new reality would take some time.

It isn't just Greece. It's most of the rest as well.

And it wasn't just Greece's financial credibility that'd been wrecked. That of much of the rest of Europe was under review. All of the EZ's members had agreed to the lunacy of the single currency. All had sacrificed productivity and competitiveness in the process. Hadn't they realised they'd gone into a *cul-de-sac*? That, if things went wrong, they'd be trapped? That, with no way out, they'd be shot to pieces?

Fiscal orthodoxy won't help in the near term.

Severe cuts in public expenditure won't (in the short term) remedy the situation. They'll serve only to publicise the seriousness of the problem. And, if they provoke labour disputes, output will be disrupted. Unit costs will rise! Tax collections fall!

But it may later on.

Longer term, though, lower public spending might be a boon. If currencies could be sensibly re-jigged in the meantime, the ECB disbanded, and the Commission disciplined, the outlook would be much improved. Four years hence, in summer 2014, with a new economics upturn beginning, it's possible that Europe would prosper once again.

Britain is somewhat similarly placed.

Britain's situation is not dissimilar. It already enjoys currency flexibility, but is as handicapped as the rest of Europe by the Commission's mindless strictures. The country's politics, moreover, are messy. The new coalition knows it has to cut public spending severely, but is moving very slowly. It's more concerned with popularity than efficiency, with perception than reality.

Does the PM really want to know what people think of public spending?

Cameron says he can't decide where to cut. The general public must make recommendations, he pleads. Really? Would he listen if they did? The people would almost certainly tell him, as a first priority, to stop the wars in the Middle East and, as a second, to reduce payments to the EU. At home, they'd like to see public sector pensions reviewed: defined benefits scrapped and retirement ages raised. At the social level, the people would doubtless focus on handouts to the feckless: take a job, they'd recommend, or take a cut.

They'd be a good deal more ruthless than he!

The forthcoming Budget will be revealing. But, significantly, the markets are already gloomy. Investors are guessing that taxes will be raised too much and spending cut too little. Equity valuations will drift, therefore; they'll possibly fall steeply. It's noted that the economics recovery here and overseas is faltering; that the financial crisis is not yet over. The danger is that both get a good deal worse before they get better!

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