# Investment Commentary
## by Roger Nightingale

**If a patient has a fractured leg and a sore throat, the doctor should treat the former before the latter.**

Greece's fiscal deficit is trivial in comparison with its international uncompetitiveness; solve the second and the first will look after itself.

16th April 2010

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The politicians and the people have been outmanoeuvred-red again.

The EuroZone edged a little closer to Political Union last week. Words proved not to be enough to convince investors that Greece wouldn't repudiate its debt. Guarantees were required. Eventually, reluctantly, they came.

They've had political union thrust, unwanted, on them.

The rest of the community conceded that, *in extremis*, it would under-write Greece's liabilities. The language that was used was deliberately ambiguous because it had to mean different things to different audiences, but the markets' interpretation—the only one that mattered—was that the "whole" would guarantee the "parts." Put more simply, Germany would do to Greece what it had done to the DDR.

The euro rose, but Greece's problems . . .

The euro rose strongly on the news. Trichet and the Commissioners were all smiles. They knew that the most significant aspect of political union was a willingness to share tax revenues. Angela Merkel denied that this had been agreed, but realists thought otherwise.

. . . remain unattended.

Will it solve the problem, though? Will Greece's economy be revived, its competitiveness and efficiency raised, by the advent of subsidised borrowing costs? Probably not. The opposite is more likely.

Commissioners are not medics, but undertakers.

In exchange for community aid, Greece has surrendered its management of economics affairs to the Commissioners. Do these guys know what to do? Have they demonstrated insight in the past? No; their track record is appalling: problems mis-diagnosed and therapies mis-applied. It looks as if they're doing so again now.

What's required is faster growth, not more regulation.

Greece's fiscal deficit isn't particularly large. Other countries have successfully dealt with much bigger burdens. The trick is to get extra revenue via quickened GDP growth rather than higher tax rates. De-valuation and deregulation are the standard treatments.

The US has demonstrated how.

It's no surprise, therefore, that the US has fared better than most other countries. It was more heavily borrowed than the EZ and thought by the Commissioners, therefore, to be likely to be handicapped. Not so. While Europe has stagnated, America has rebounded. In the last six months, the latter's growth has exceeded the former's by about 3% per annum. That'll show up shortly in the fiscal returns: the US's deficit declining, the EZ's rising.

The UK similarly. Sadly, politicians here are as . .

Perhaps significantly as well, the UK's numbers have taken a turn for the better. Domestic demand picked up in the fourth quarter of 2009 and appears to have accelerated again in the first of 2010. Concurrently, the trade balance improved a good deal. That'll have generated extra tax revenue. There'll be downwards revisions to estimates of the fiscal deficit in months to come.

. . . willing to concede sover-eignty as those in Greece.

Whether that'll be enough to save Gordon Brown is very doubtful. People vote on what has happened in the past, not on what is likely to in the future. Cameron, of course, is also vulnerable on this front. His campaign promises to return power to the people. Really? Why then did he renege on the commitment to hold a referendum on the European Constitution?

Happily, for the moment, equities are appreciating.

Despite generally unsatisfactory politics, equity markets are likely to continue to rise. Money will be accommodative and interest rates low until the end of the year. Inflation will decline and profits improve. The indices will test, probably exceed, the old highs.



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