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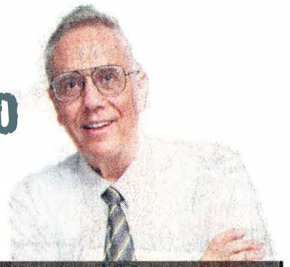
THE LAST WORD



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BY the time you read this, it may all be over. No more drama. No more intrigue. No more fun.

I am talking about the European showdown with Greece. It is fun to watch. Of course, if you are Greek and suffering from enforced austerity, it's no fun at all. Living the nightmare is not the same as watching it.

The other side is that suffering has become "the new normal" for Greece and – more surprisingly – maybe it should be. After all, Greece has lived it up on other people's money for decades. Now, it will have to live on its own.

That is the view of German Finance Minister, Wolfgang Schäuble. He said before the debt negotiations last Monday that Greece had lived beyond its means for so long that there was no appetite in Europe for giving it any more money without guarantees it was getting its finances in order.

"Getting its finances in order" brings up the dreaded "A" word: Austerity. Lenders want it because Greece is the most indebted of the 19 countries using the Euro. Its total debt is US$274 billion (S$370 billion), which comes to 175 per cent of its GDP and the highest in Europe. (If debt were an Olympic event, Greece would get a gold medal.)

The need for reform is real. There are strange stories of waiting one year to get government approvals just to open a coffee shop in Greece's capital, Athens. In Singapore – by contrast – you can register online at www.acra.gov.sg, pay $65, and get your business up and running the same day.

It is mostly Germany, the most prosperous country in Europe, which finances Greece and so far, it has shown no desire to relax the bailout conditions. There might be even bigger problems if it did, since other debt-heavy nations would ask for the same deal. Italy and Spain are also heavily indebted, and special debt terms for them would be very expensive since they are the third and fourth largest economies in the Eurozone. Greece, by contrast, is small.

WHY OFFEND GERMANY?

Germany is the most influential Euro-nation, but in his first major speech to Parliament, new Greek Prime Minister Alexis Tsipras demanded that Germany continue paying World War II reparations to Greece. Supposedly, that was all settled with the 115 million deutsche marks that Germany paid Greece in 1960. Greece counters that was just an initial payment, with the remainder to be discussed after German reunification, which happened in 1990.

Germany has said there is a zero per cent chance that will happen, but World War II is a sensitive and shameful topic for Germany. Bringing it up as part of these debt negotiations doesn't bring feelings of warmth and friendship.

In a Feb 17 article for The New York Times, Greek Finance Minister Yanis Varoufakis said that before he become Finance Minister (a few weeks ago), he was an economics professor in Texas, USA, where he taught Game Theory. It is about how to gain the upper hand in negotiations like this.

But Minister Varoufakis said Game Theory doesn't apply because there is no bluff, which is how it should be since Greece and its lenders must work together for a win-win outcome. In this spirit, it is not in the interest of Europe to treat Greece as a "debt colony", according to Minister Varoufakis, who characterised the present agreement as imposing "the greatest austerity [on] the most depressed economy".

Greece has rejected an extension of the current bailout agreement, which it finds unfair. Technically, Greece has until the end of February to change its mind so it can continue receiving aid for another six months. As a practical matter, however, it needs to make its application sooner, by Feb 20.

If it doesn't, Greek banks would probably face a cash crisis from a run on the banks by depositors who will try to withdraw the few deposits that remain. Greece would then need to impose capital controls so almost no money would be permitted to enter or leave the country.

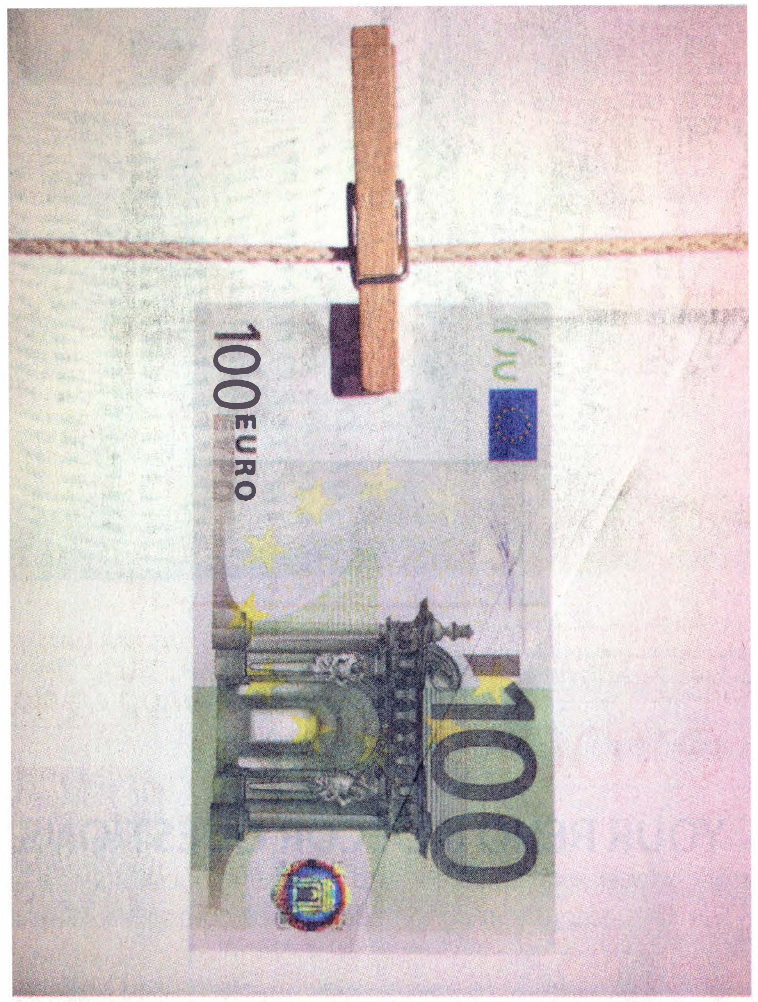
The next step would be for Greece to switch from the Euro to its old currency, the Drachma, and try to repay its debts in nearly worthless Drachma, like Argentina did when it went broke in the 1990s. As of this writing, Commerzbank AG puts the chances at 50-50 of a Euro exit.

I will take the other side of that bet and put the chances at 90 per cent of a happy outcome from Greece caving in at the last minute. I think it will choose austerity and extend the bailout with few changes. To do otherwise, as Greece probably knows, would be economic suicide.

*Quick***Quote**

"The early bird gets the worm but the second mouse gets the cheese."

Stephen Wright, 59, American comedian



An adjunct professor at SMU, Dr Haverkamp contributes this column weekly to help our readers understand money matters better.