

Europe at the brink. Can it come back from deep debt bunker?

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You could be forgiven for seeing the performance of Europe's golfers on Friday and Saturday during the Ryder Cup as something of a metaphor for the European economy; not least with the leading role played by Spain.

As the Spanish economy came under more pressure last week, Spaniard Jose Maria Olazabal was getting ready to lead his European Ryder Cup team in the latest instalment of golf's Battle Royal against the United States. And much like the European economy of recent years, the Spanish-led European team's various players were soon running up big numbers, leading their partners into trouble, falling behind the competition, and in deficit. Indeed, the scoreboard on Friday and Saturday looked something like a European stock market of late, with red – the colour of the US team - splashed across scoreboards and monitors.

According to Northern Ireland's Graeme McDowell, Olazabal's response to the poor play was austere, with the 'hairdryer treatment' dished out to his team. Clearly austerity was what the European team needed as it subsequently came back from the brink on Sunday to make a miraculous recovery. Similarly, Spain's Prime Minister Mariano Rajoy turned to austerity last week to deal with the Spanish economy's challenges, as his nine-month old government announced its fifth such package to rein in spending.

This fiscal masochism is designed to shrink Spain's budget deficit, with the objective of heading off tougher conditions that would prevail from a potential European bailout. And whilst Olazabal's approach resulted in cheering crowds in Medinah, Rajoy was never going to get anything other than jeering crowds in Madrid. The only cheers were coming from the markets who will applaud louder the more austerity is applied.

No one should really have doubted Europe's comeback abilities in the golf, as its performance in the Ryder Cup since the mid-1990s has been impressive, with victories in seven of the last nine tournaments. In golfing terms, Europe has consistently and successfully integrated different players from different countries and cultures into a winning team. This is something the Eurozone economy cannot lay claim to, and the fact that monetary integration wasn't followed through to greater fiscal and political integration lies at the heart of the current challenges.

Another major factor leading to the Eurozone being trapped in its current debt bunker is the fact that it didn't apply the same kind of strict etiquette and rules that predominate in golf. In golf, there is a code of conduct which all players are expected to follow at all times. The rules of the game are not open to flexible interpretation. Indeed, if a player was economical with their golf score, they would be thrown out of any club. In contrast, when the euro zone was established, the European authorities were prescriptive when it came to fiscal rules but were much more flexible when it came to interpreting & applying them.

Convergence criteria were set to filter out any unsuitable economies. Economic scorecards were submitted, supposedly scrutinised rigorously and admission granted or not. It has now become clear however that any old applicant was accepted into this not so exclusive euro zone club and given a handicap. Greece, in particular - which coincidentally is neither renowned for its golf courses nor its golfers - clearly exaggerated its scores and was given a handicap way beyond its capabilities. Greece was the most striking example, but a range of different players with vastly different capabilities were given the same handicap. As any golfer will tell you, this is never going to work. As a result, the Euro zone became a pro-am rather than a strictly top-class field. The US may have been unsuccessful in the Ryder Cup, but they win hands down when it comes to running a successful monetary and fiscal union.

However, the European authorities were keen to maintain a quality of play within their club from all of the members of different standards signing up to a Stability & Growth Pact. Each member state had to run their fiscal policies within limits of 3% of GDP for fiscal deficit. This can be viewed as *(a generous) par for the hole*. Meanwhile the total limit for cumulative debt, the par for the course, was 60%. But some players were ultimately guilty of slow play, not replacing their divots and carding triple bogies. Sooner or later, a crisis in the clubhouse was inevitable.

But as players from the continent's periphery are amongst Europe's top golfers and were prominent in the European Ryder Cup team's success on Sunday - including Irish player McIlroy, Italian player Molinari and Spaniard Garcia - the peripheral economies fared well in the early days of the Eurozone, and by-and-large stayed on the fairway on the front nine. With hindsight, it seems that this was largely due to luck, fair economic weather and light rough (*e.g. low interest rates*). In turn, this led to too much time being spent in the 19th hole, as opposed to on the driving range perfecting technique. This lack of practice was unsustainable and the periphery was therefore unprepared when the strong economic headwinds came.

Now, whilst the members of the European Ryder Cup team can celebrate coming back from the brink to a resurgent recovery, the European economy remains deep in battle with its debt burden and the markets. Akin to the golf course in the famous film *Caddyshack*, which suffered from a troublesome gopher infestation, Europe's economy is facing a debt blight, and its policymakers are having to play '*whac-a-mole*' as yet another debt problem pops up just as they knock the previous one on the head. Bill Murray ran around the *Caddyshack* golf course trying to eradicate gophers with plastic explosives; Mario Draghi is trying to perform a similar feat in the Eurozone with the infamous big bazooka (*the unlimited ECB purchases of Spanish & Italian government debt*). The large gopher currently in front of him is Spain, and an even larger Italian gopher appears to be lurking below. But the intricate and complex nature of the Eurozone's debt structures are akin to an elaborate underground network of gopher tunnels and one inaccurate shot with the bazooka could destabilise the whole course.

Just like in the Ryder Cup where Europe's top players stood up and were counted when they were needed most, the European economy will ultimately require its biggest players to save the day. The Spanish captain had a bailout with Germany at the centre, in the form of Dusseldorf-born Martin Kaymer winning a point in the decisive match, and the Spanish economy looks destined for a similar fate, whether Snr Rajoy wants it or not. Just like the Ryder Cup, the Eurozone's fortunes are sensitive to management and leadership qualities of a Spaniard. For the European Central Bank to unleash its policy weapon, the Outright Monetary Transactions (OMT) option which will begin sovereign debt purchases of Spanish & Italian debt, Spain and Italy must first request a formal bailout. Without OMT the Eurozone faces OMG. Fore!

Richard Ramsey,
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