Germany v Greece – the next instalment

The EU, we are told, is a good thing because it has kept the peace in Europe over the past 70 years. It may be true that the nations of Western Europe have not been at war with one another since 1945 but, quite apart from the credit for peace truly belonging to NATO, the drive towards ever-closer union between the different member states has not by any means ended the tensions between them.

Two recent examples prove the point – one fairly trivial, the other far more serious. A minor tension recently erupted between France and Belgium over plans for a commemorative €2 coin marking the 200th anniversary of the Battle of Waterloo. The battlefield is a few miles from Brussels and the idea to mark this event originated with the Belgians. However, French sensitivities knocked the idea on the head on the grounds that glorifying a time of conflict ran counter to efforts to foster European unity. Ironically, last year France issued a €2 coin last year to mark the 70th anniversary of the Normandy landings. Maybe the real issue for the French is not so much European unity but the simple fact that at Waterloo, they lost!

Outside the Eurozone, the UK is not bound by the wishes of other countries and our £5 commemorative coin has already appeared. We actually had a choice of victories to commemorate, as this year also marks the 600th anniversary of the Battle of Agincourt. It also marks the 50th anniversary of the death of Winston Churchill. Anyone with a detailed knowledge of the UK rail network would know that Handborough, the nearest station to Bladon church, where Churchill wished to be buried, is easiest reached from London's Paddington station, but Churchill insisted that his funeral train was to depart from Waterloo as the very name would irritate his longtime nemesis General de Gaulle.

On a more serious note, the war of words between Germany and Greece has intensified in the last few days. Firstly, the Greek finance Minister Yanis Varoufakis, accused his German counterpart, Wolfgang Schäuble, of calling him “naïve”, an accusation which Schäuble has emphatically denied. However, Greece’s Syriza-led government then poured fuel on the flames by raising the delicate matter of war reparations, seeking €341 billion from Germany to compensate for the behaviour of the Nazis during their occupation of Greece from 1941 to 1944. Germany has rejected these claims, saying the issue was dealt with in 1960, when a payment was made to the Greek government. Greece’s justice minister, Nikos Paraskevopoulos, then asserted that as Germany has refused to pay anything more, he is about to sign a court order allowing German property in Greece to be seized.

Where this is going to end up is anyone’s guess, but it looks like an amicable parting of the ways may be best for Greece and the Eurozone. Greece’s best chance of recovering from its financial woes is to follow Iceland’s example and default on its debts – a move which could only be accomplished outside the Eurozone. Greek public finances deteriorated during the four years the country was run by a government reasonably committed to the austerity programme demanded by its creditors. The country’s public debt to GDP ratio rose from 129.6% in 2010 to 174.9% between 2010 and 2014. Syriza wants to increase the tax-free allowance and spend more. The likelihood of any improvement in the public finances under the new government is therefore precisely zero. Indeed, Varoufakis has acknowledged the desperate plight his country faces. Greece is “the most bankrupt of any state,” he said, adding, “Clever people in Brussels, in Frankfurt and in Berlin knew back in May 2010 that Greece would never pay back its debts. But they acted as if Greece wasn’t bankrupt, as if it just didn’t have enough liquid funds.”

Statistics for January 2015 from the Greek finance ministry show that he is not exaggerating the plight his country faces. Income tax, which yielded €988 million in January 2014, brought in a paltry €519 million a year later, a drop of over 45% and barely half the €998 million target. VAT revenue also fell from €1,622 million to €1,329 million over the same period, whereas the target was an increase to €1,687 million. The fact that the Greek government managed to run a primary surplus for the month is an indication of the extent to which the austerity programme has forced it to scale back its public spending in order to satisfy its creditors. With public servants to pay and some substantial loan repayments due in a few months' time, it is hard to see where the money is going to come from. In the past week a desperate search for cash has caused the Greek government to raid the bank deposits of pension funds while delaying payments to its creditors. It has even approached the Greek subsidiaries of multinational companies for short-term loans.

Things clearly are going to come to a head soon, especially as the Germans – both the government and the people at large – have no sympathy whatever for the problems of their fellow eurozone-member: "The Greek government is behaving as if everyone must dance to its tune. But there must be an end to this madness. Europe must not be made to look stupid," said one German paper.

As a non-Eurozone member, we in the UK may feel that we are observing this tragedy as outsiders. However, Neil Woodford, the head of investment at Woodford Investment Management, a large firm in the City of London, believes that we cannot indefinitely continue to watch from the sidelines. "Ultimately, this country will have to make a choice about whether it is a fully signed-up member of a eurozone project or not," he said.

In other words, adopting the euro or withdrawal are the only long-term options. Whether we consider the curtailment of our freedoms to commemorate our victories over the French or our likely entanglement in the sport of spat going on between Greece and Germany at the moment, it’s pretty clear which would be the best alternative.