How the Euro was saved: a mid-winter miracle play

In one act with three scenes
(prepared by Marcus Miller for the University College, Oxford, Annual Seminar held in London, 29 November, 2011)

Scene ONE: DREAMING OF DROWNING

In a secret location somewhere in Europe, the heads of the Euro 17 are in fruitless conclave.

Hope for the Euro has gone: the Economist magazine sees the currency as a falling meteor, crashing to the earth in a ball of fire.

For those who had looked for stability and harmony in Europe, it is a growing nightmare. Like that famous dream where Duke of Clarence is pushed overboard by his ruthless brother, and as he sinks he sees

... a thousand fearful wrecks,
a thousand men that fishes gnawed upon,
All scattered in the bottom of the sea. *Shakepeare Richard III,*

For the Duke it was a foretaste of his death – drowned in a butt of malmsey wine!
So what of the Euro? Is it to drown in a sea of its own debt?

In despair, the leaders of Euro 17 turn to three trusty advisers
- an economist, a political scientist, and a lawyer. Let them speak.

The economist is first up – an orthodox type, alas!
‘Plan A, my friends, is austerity! And if that fails, more austerity.
That is my considered counsel’.
For Europe, mired in recession, this is a counsel of despair.

What says the **political scientist** then?
‘Forget democracy, think technocracy. Let bankers take over the reins of power!
They are our only hope’.
As bankers caused the crisis, this is no magic cure: more like masochism.

Finally it is the turn of **the lawyer** to speak.
I am a corporate lawyer, she says.
You ask me how to save Euro Inc?
My answer is bankruptcy!
That is how I see it.

Oh no! cry the leaders of Europe, this must be the end.
Like the outgoing kings of Araby, we are to be sold for scrap!

Not necessarily so, she says, and here’s the reason why,
If the continuation value of Euro Inc exceeds its value as scrap,
Chapter 11 of the Bankruptcy code may very well apply.

Chapter 11, the leaders gasp, what on earth is that?
Pray explain to us all before too late:
Is it something to love – or something to hate?

Scene TWO: LIABILITY AND THE LAW

The same location, after a break for coffee as the delegates have been up all night.

Chapter 11 is to keep creditors at bay, she explains.
When times are bad, a company with good prospects
can ask a wise judge to swap its debt into equity.
To pay more when times are better, less when they are bad.

Sweet words, say the leaders, sweet words indeed, but stay:
we are no companies, we are sovereign states, what then?
No matter. For you Growth Bonds will suit: you only pay when you grow

Oh wise young lawyer, go find us a judge; but hang on:
if the creditors don't like Growth Bonds, will panic not resume?
There is another step along the way, she says, that's true.
But trust me and the learned judge - a man of great fame:
Master Goodhart of Univ. Coll. Oxon. is his name!

Scene THREE: THE LEARNED JUDGE and the SGB

A street in Frankfurt.

Chaos reigns as creditors besiege the banks, all trying to dump their sovereign bonds for cash, causing panic among the banks. Chaos is growing – like some mythical beast that feeds upon its own entrails.
Suddenly a thick mist falls upon the scene, bringing the mad bustle to strange halt.
Then, like messengers of the gods on the battlefield in ancient Troy, shadowy figures move among the silent crowd taking the unwanted bonds from trembling hands.
When the mist clears, the first thing that catches the eye is a new and mighty building reaching up to the Frankfurt sky, with the letters SGB blazoned on its flanks.

What signifies SGB, oh Judge?, the creditors wail afresh,
Where are our old bonds – unwanted but not worthless?
And what are these new bonds thrust into our hands?

Pray silence, calls the clerk of court, and listen to the Judge.

What you have, says he, are Stability Bonds paying coupons like a Deutsch Bond;
They are the liabilities of the **Stability and Growth Bank** that you see.

Your old bonds have been are returned to issuers, he adds,
and replaced by national Growth Bonds; they are assets of the SGB.
It is so-called as it offers stability and encourages growth.
(Adding *sotto voce:* as growth is now so low, the SGB has a medium term loan from the EFSF)

Job done, the judge and lawyer quit the scene, leaving all amazed.
The creditors, in wonder such a miracle, stay silent then disperse:
they have all gained stability and the debtors can have growth.

Thus was the Euro saved - and the lawyer earned her fee,
Paid, as rumour has it, in new bonds of the SGB*

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* rated AAA by the rating agencies.
Historical Note: Once there was a clear political lead, the agencies also accepted that the creditworthiness of debtor Sovereigns was increased by the swap, with their enhanced prospects of growth and better schedules for payment.