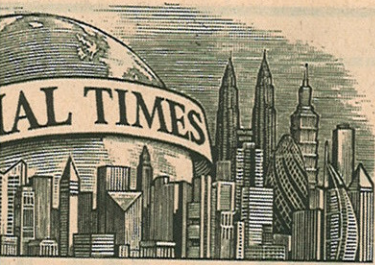


LETTERS



and without favour"

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ng by taste

ow banks' worth is measured

There are two consequences, both worrying. First, that accounting practices can contribute to financial instability. Booms flatter the measured profitability of banks which encourages them to take more assets on their balance sheet. Thus leverage begets more leverage throughout the banking system, until asset prices can rise no longer and the debt-inflated edifice comes crashing down to earth.

The second malign consequence is that to the extent executive compensation is based on their banks' financial results, it is awfully easy to tailor the accounting to achieve a desired level of remuneration – surely not what “pay for performance” is supposed to mean.

The special nature of banking justifies deep changes in the sector's accounting regime. Mr Haldane wants less leeway to put assets beyond mark-to-market valuation, especially when short-term liabilities put a bank at risk of forced asset disposals. He also argues for valuation ranges rather than single numbers to capture uncertainty. These ideas should be pursued; good accounting rules help investors monitor what banks

Fixing trade imbalances is only way to avoid eurozone implosion

From Prof Marcello de Cecco, Prof Paul de Grauwe, Dr André Grjebine and Dr Francesco Saraceno.

Sir, Western governments might have had an excuse in the 1930s: they did not know how to manage a Great Depression. Today's leaders, however, behave like cult followers who refuse to avail themselves of the treatment that will save their lives.

A successful strategy to resolve the eurozone crisis must reduce the debt of vulnerable states, rebalance external imbalances and distribute the burden of adjustment as fairly as possible. The agreement reached at the summit in Brussels on December 9 last year fails on all these criteria.

That agreement focused on tightening budget discipline and on fiscal “golden rules”. This is based on the erroneous belief that the

problems stem solely from the irresponsible fiscal behaviour of peripheral countries. Countries engulfed in recession are being told to reinforce austerity measures that have already triggered a vicious downward spiral of lower growth, lower fiscal receipts and increased debt. We have known since the time of Keynes the folly of such deflationary spirals.

The refusal of the European Central Bank to play a role as lender of last resort to governments removes a necessary firewall around countries vulnerable to speculation. It also increases the bill that will have to be paid to help troubled countries. Treaty provisions are a weak excuse for such dogmatism. What is the good of an insurance company that is unwilling to state

that it will intervene when needed?

Emphasising public deficit and debt, while ignoring trade imbalances, puts the eurozone on the road to macroeconomic disaster. External imbalances led to high indebtedness, excessive borrowing and, finally, “sudden stops” in lending. Co-ordinated adjustment, which spreads the burden of adjustment on deficit and surplus countries, is the only way out. This would mean demand expansion in surplus countries, to match demand contraction in deficit ones, thus sustaining aggregate demand and growth for the eurozone, as a whole.

A chance to avoid the decade of economic stagnation entailed by current policies still exists. European leaders and institutions must abandon an orthodoxy that has

already proved harmful and adopt pragmatic, evidence-based policies. If they do not do so, they will bear the responsibility for the implosion of the eurozone and, in the end, the failure of the whole European project.

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Wrong time for disciplinary action

From Mr Andrew Buchan.

Sir, I was impressed that the FT had two articles on the same day about stress and mental health at work (“Employers need help with the mentally ill” by Michael Skapinker and “When the strain begins to show” by Maxine Boersma, both January 19).

I am a barrister who has specialised in cases of occupational stress – since the case of John Walker in 1994. I have acted for thousands of clients, both blue and white collar, public and private sector, claimant and defendant.

The illnesses from which my clients tend to have suffered are adjustment reactions, anxiety and depression (mild to severe). Usually there has been no previous relevant medical history. The psychotics, commonly those suffering from schizophrenia, struggle to hang on to

When valued employees face problems

From Mr Rob Cave.

Sir, In reference to Michael Skapinker's article “Employers need help with the mentally ill” (January 19), I would add the following.

I am no particular fan of Alastair Campbell, but I do respect what he is trying to achieve with mental health acceptance, especially at work. I have suffered from serious depression and psychosis for most of my life but still run a successful corporate finance firm and lecture at Cranfield School of Management on finance; so in one sense society and business has accepted me although I know I have madness in me.

But what is sane? As the article says, one in four people has mental health issues; and madness can create brilliance – Churchill, Van Gogh, arguably Mozart, there are many. The brain is like any other part of the body; at times it needs care and regular exercise to remain fit. I look forward to the time when

of keeping body and soul well.

Rob Cave,
Director,
Kilriver Capital,
Henfield, West Sussex, UK

From Mr Tony Golding.

Sir, Michael Skapinker is right to say employers “take fright” when faced with mental illness. But he is wrong to confine this reaction to mental illness. Employers are wary of anyone with a disability or a long-term condition.

I was badly affected in the 1980s by the severely debilitating illness ME (also known as chronic fatigue syndrome). The family-controlled investment bank in London where I worked was wonderfully supportive, something that undoubtedly aided my eventual return to full-time employment.

Too few employers are prepared to make the effort to support valuable employees who are struggling with

Hedge funds do not escape laws and regulation

From Mr Anthony Travers.

Sir, In her analysis of the relationship between the offshore fund and the onshore authorised manager (“It may be time to see ‘offshore’ off”, FT fm, January 15), Pauline Skypala does nothing but perpetuate a longstanding misunderstanding.

A Cayman Islands or indeed a Channel Islands fund can only trade in the UK (to use a typical example) through the authorised manager to which Ms Skypala refers, and it is necessarily the case that that authorised manager is fully subject to all UK law and regulation with respect to trading the assets of the offshore hedge fund under its management.

This basic position is then