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World watches in frustration as Europeans argue 09 October 2011

Wouldn't it be nice to go back to the days when Greece was all about whitewashed buildings and blue skies and Germany was associated with beautiful cars? Instead, we hear daily about Greece's debt woes and the Germans' reluctance to help out their sister nation.

New Zealanders have traditionally had something of an ostrich mentality. We know that we are a small, isolated country, but that hasn't bothered us because life in Godzone is pleasant and we don't need to concern ourselves with Northern Hemisphere goings on. Unfortunately globalisation has brought us closer to the rest of the world, whether we like it or not, and we cannot escape the influence of bigger economic powers.

Consequently our financial markets have been knocked around by factors that are quite removed from what our businesses and institutions are doing. Our country even got a double credit downgrade last week, not because of anything we had done or not done, but because of a knock-on effect of wayward economies on the other side of the world.

Billionaire investor George Soros this week wrote an excellent piece that put the European situation in perspective. While I don't usually support arguments that link 2011 with the 2008 credit crisis, because they can be exaggerated and used to frighten people, Soros suggests that the European crisis is a direct consequence of the 2008 crisis. He notes that when Lehman Brothers failed, the US government stepped in to support it because it was considered too big to fail. At the same time, European finance ministers got together and agreed they too would not allow any financial institutions to fail.

The difference was that when Europe agreed to provide support, they agreed on a country by country basis rather than as a Union of countries. When support was needed, the US was alright because they had financial authorities in place to respond to the crisis.

But Europe didn't.

Without a central facility, a well-funded European central bank, support could only be achieved by getting each country to agree. Hence, the political argy-bargy that we've had to put up with this year.

The Europeans probably could have achieved political consensus if there was no time pressure and we lived in 'normal' times. But faced with tight deadlines – like Greece about to run out of money in a matter of weeks – political agreement gets a little harder.

The good news is that progress is being made. We have a couple of bodies, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ECM) that will ultimately be capitalised properly and start doing what they should. There is also a dawning realisation among individual European countries that they're going to have to tow the line.

The bad news, at least in the short term, is that this progress is happening painfully slowly and in full view of the rest of the world. And we are reacting to each step – backwards and forwards.

Maybe we should do the ostrich thing for a bit longer and stick our heads up when the Europeans have sorted themselves.