“Kicking the can?”

- The EuroCrisis
- How the next 3 - 5 years might play out
- What law firms should do

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Constructive destruction ....

“I am sure the Euro will oblige us to introduce a new set of economic policy instruments. It is politically impossible to propose that now. But some day there will be a crisis and new instruments will be created.”

Romano Prodi (EU Commission President)
December 2001

The future is not what it used to be ....
A convergence of pressures

Impacts on law firms

Impacts on clients

Economic + socio-political impacts

Basic market forces

Just six binary variables ....

Open new office versus Don’t open new office

New lateral stays with the firm versus New lateral leaves the firm

Change partner compensation system versus Keep partner compensation system the same

Change billing focus to AFAs versus Remain with hourly billing

Bolster Practice Area “X” versus Bolster Practice Area “Y”

Keep key client “Z” within firm versus Lose key client “Z” to competitor

.... lead to 64 possible outcomes

The future is simply not predictable ....

Reality 1

The future is not predictable. The possible iterations are too many. Probabilities can be estimated but nothing is certain.

25 x 25 x 25 x 25 x 25 x 25 x 25 x 25 x 25 = 25^{10}

95,367,431,640,625 possible iterations

(> 13,500x the population of the earth)
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**Context: Half a century in the making**

- 1945 – End of World War 2
- 1948 – Brussels Treaty
- 1951 – Paris Treaty
- 1954 – Modified Brussels Treaty
- 1957 – Rome treaties
- 1965 – Merger Treaty
- 1975 – European Council Conclusion
- 1985 – Schengen Treaty
- 1986 – Single European Act
- 1992 – Treaty of European Union (Maastricht Treaty) *
- 1997 – Amsterdam Treaty *
- 2001 – Nice Treaty
- 2007 – Lisbon Treaty *
- 2011 – Establishment of the European Stability Mechanism

Next?

* The three core foundations of the European Union

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**Middle classes are burgeoning in emerging markets**

"Demographics, creativity and increased productivity .... will help drive the super-cycle."

Standard Chartered, 2010


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**The G7, BRICs and “Next 11” in 2020**

"Will the future Europe be one of three primary global economic and geopolitical influence blocs .... or revert to being an agglomeration of adjacent but disparate states?"

Source: Goldman Sachs Asset Management

* Note: These projections assumed an intact Euro and Eurozone
The Euro is not the only common monetary area

- The United States of America
- The United Kingdom
- European Union
- Southern Africa
- Erstwhile Soviet Union
- Czech Republic + Slovakia

Irish Pound  Scottish Pound

English Pound  Welsh Pound

Growth in U.S. GDP 2001-2010, by State

Top 5 States (in millions / % of U.S. GDP, 2010):
- California ($1,936,400 - 13.3%)
- Texas ($1,207,432 - 7.9%)
- New York ($1,156,500 - 7.7%)
- Florida ($754,000 - 5.2%)
- Illinois ($644,200 - 4.4%)

Bottom 5 States (in millions / % of U.S. GDP, 2010):
- South Dakota ($38,900 - 0.27%)
- Wyoming ($38,200 - 0.26%)
- Montana ($37,200 - 0.26%)
- North Dakota ($33,400 - 0.23%)
- Vermont ($26,400 - 0.16%)

Source: U.S. Bureau of Economic Analysis, Urbanophile.com

Growth in U.S. GDP per capita 2001-2010, by State

Top 5 States by GDP per capita (in 2010):
- District of Columbia ($174,500)
- Delaware ($69,667)
- Alaska ($65,143)
- Connecticut ($64,833)
- Wyoming ($63,667)

Bottom 5 States by GDP per capita (in 2010):
- New Mexico ($35,952)
- South Carolina ($35,717)
- West Virginia ($35,053)
- Idaho ($34,260)
- Mississippi ($32,957)

Source: U.S. Bureau of Economic Analysis, Urbanophile.com

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Ensuring stability in a common monetary area

- Labour market mobility
- Labour market flexibility
- Fiscal transfers

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Labour market mobility

- 2.8% - rate p.a. at which US residents change state
- 1.1% - rate p.a. at which UK residents change region
- 0.3% - rate at which EU citizens changed country in 2008 (>50% to UK, Germany, Spain)

Productivity increased too, but not uniformly

Increase in productivity (1999 – 2009)
Compound annual growth rate

Productivity by region, 2009
GDP per hour, EK$1

Northern Europe 2
1.1% 1.6%

Continental Europe 2
1.1%

Southern Europe 2
0.7% 42

Source: McKinsey & Company (Greece 10 Years Ahead, September 2011)
1 EK$ = Elste-Koves-Szulc method to derive transitive multilateral purchasing power parities
2 Northern Europe = Denmark, Finland, Ireland, Sweden, United Kingdom
3 Continental Europe = Austria, Germany, Belgium, France, Netherlands, Luxembourg
4 Southern Europe = Greece, Italy, Portugal, Spain
European LBO loans to mature to 2016, by country

Global PE dry powder, by investment region

What is happening in your jurisdiction?
Have you received specific crisis-related mandates?
How are you communicating internally?
How are you communicating with clients / the market?
How are you developing new capabilities?
What opportunities might be emerging for your law firm, resulting from the crisis?
What threats?

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