

## A Greek tragedy or a world tragedy?

*By Paul Sandison*

I do think it is possible to use the recent post-August 2011 pullback to re-enter the markets to trade, if one has no illusions about the long-term cycle. Presently it does look as if the market has absorbed so much bad news that the good news is making itself felt. So I think it is possible we may see a rally, but for how long? A day or two, a few weeks or months, only to fall back severely? Why do I think there must ultimately be a grave shakedown? Many people seem to have concluded that 2008 was the equivalent of the 1929 crash and all we have to do now is crawl slowly upwards.

I disagree. At the start of the Great Depression the downward steps in the stock market from 1929 to 1932 were in the absence of monetary stimulation. This time around the quantitative easing QE, numbers QE1 and QE2 have masked the underlying problem of a lack of competitiveness and output in the U.S. and 'lifted all boats'. However, I believe a continued liquidity surge is unsustainable in the long run, not least because the United States is not starting from scratch with its injections of liquidity. Furthermore, the liquidity has to a considerable extent been used to prop up banks rather than stimulate production and employment, with the result that the economic recovery has been weak.

In my humble opinion I believe 2008 was the equivalent of the 1925 Florida housing bubble bursting, 2011 was the equivalent of the 1928 stock market rumblings, and the year end of 2012 plus early 2013 will be our equivalent of what happened in 1929. Only this time the trigger of the entire crisis was far greater than any housing bubble in the state of Florida. This time it was and still is countrywide. The aggregate effect of the various nefarious mortgage schemes such as sub-prime, Alt-A, etc. was the \$56 trillion of imploded housing wealth in the U.S. It is this black hole that is still creating poverty and a fall in aggregate demand in the economy, which is why there is such sluggish growth despite the payout of food stamps to keep demand for essentials up and prevent deflation.

However, there are limits to how long the food stamps can continue. The first limit is called politics. The second limit is the financial markets, which at some point, perhaps quite soon, are going to call the bluff of whoever is in the White House, Congress and the Senate because of the sheer unsustainability of the present U.S. creation of debt. Plus there is a mountain of sovereign debt in Europe, and when the national and international rows of dominoes fall the effects will reverberate across the globe. Unlike in the 1930s, the financial system is now global and so interconnected that everyone on the planet will be affected at each successive collapse.

Today the creditors of the Greek banks are baulking at taking the haircut of 50% demanded of them by the technocrat Greek government, headed by Lucas Papademos who formerly worked in the European Central Bank. This demand comes in turn from the agreement between the ECB and the IMF as a condition if Greece is to be able to receive the next tranche of loans to survive the next few months. That the creditors should balk should not surprise anyone. They are being



the result that many of the poorer countries in Europe are instead being forced to borrow at rates of 7% when they are already in trouble. The demands on their populations that they cut down their salaries and sack government employees are reducing their citizens' buying power and thus reducing their demand for goods and services, thus reducing their tax revenues, making it even more difficult for their governments to raise the cash to pay the interest on the loans, let alone pay them back.

As I write this it is creating a downward spiral into default while simultaneously transferring wealth from the already poor countries to the richer countries' banks and governments. But in the final analysis, what creates wealth in a society is the extent to which the population is engaged in profitable employment. Yet, due to this faulty central bank, the European population as a whole is heading for the loss of jobs, loss of wealth, reduced goods and services, greater government deficits, bringing closed schools, hospitals and in the very last stage, more expensive costs and eventually inflation. Europe is already in recession and the problem is nowhere near solved. What we are seeing now is a very cleverly designed recipe for bringing about a collapse and a depression for the European population as a whole.

When Europe goes down, the crash in the U.S, and China will be inevitable. The EU has 750 million people and both the U.S, and China are the EU's major trading partners and are highly dependent on the EU not falling into a depression. Already Germany is in recession because Europeans are de-leveraging and cutting down on their purchases to make ends meet.

The irony is that the Germans are so rigidly terrified of inflation that they now have brought about deflation and a recession instead. Now their demand that the European Central Bank should not lend to various EU countries will be tested. Either they will realize their mistake and allow the ECB to lend to EU governments – which is the normal state of affairs in a modern civilized economy – or Germany will have to leave the euro. If Germany does neither, then the collapsing administrations of Greece, Italy, Ireland, Spain and Portugal will bring about default in these countries and they will have to leave the euro instead. Hungary is still outside the euro but it will collapse anyway since it has similar problems and is also in fruitless discussions with the IMF on unresolved issues.

If you want to know what the effect of Ron Paul's idea of getting rid of the U.S. Central Bank (the Fed) would be, then look at Europe.

Widespread default in Europe will bring down a lot of banks both in Europe, the U.S. and China. Ben Bernanke will launch a QE3. That is more or less all he has time for before the elections, so he will hire a fleet of helicopters and drop \$100 bills in all the major cities in the U.S. He may do a miserable half QE4, but I doubt it. He is after all a Republican, and he wouldn't want to be propping up Obama.

The only people happy about all this QE are the secret families who own the Federal Reserve and the Bank of England. Those two central banks are not owned by the people but are privately owned. Every time Bernanke makes available \$1 trillion by going into the Fed computer and typing in the amount (it is literally created from nothing) and then sending it to Timothy Geithner in return for Treasury bonds, the

shareholders in the Fed become \$1 trillion dollars richer. Who has to foot the bill for that Treasury purchase? The U.S. taxpayer, who is the ultimate debtor to the Fed.

Never before has the Fed had such a vastly expanded balance sheet. The U.S. population owes the Fed's shareholders several trillion dollars, and that does not include what the Fed has collected during the centuries. If there is world war and astronomical amounts of money are spent, then they will have a ball.

The problem is not the Fed as a central bank, as Ron Paul would have it, the problem is that it is privately owned. Normally a central bank is state owned with ultimate control of the central bank by Parliament or in the case of the U.S. by government, which creates the legal framework for the day-to-day operations of the central bank over which it has more recently been given operational control.

However, when the central bank is state owned the Treasury debt to the central bank can be cancelled or the central bank can take a 99% haircut.

How is this possible? Since the Treasury is part of the state the debt can simply be cancelled because the central bank is also part of the state. The debt is one part of the state owing another, and the money the central bank lent out was created from thin air anyway. But you cannot do this when the Treasury is part of the state apparatus and the central bank is privately owned. Then the debt becomes real, and you are in hock to the legal persons who own the shares in the central bank.

Woodrow Wilson probably realized as much when he regretted having pushed through the law in 1913 allowing the privately owned bank to become the central bank, calling itself the Federal Reserve. It is neither federal since it is not owned by the federal states, and it is not a reserve, since any funds lent to the Government puts the government in debt to the Federal Reserve. If the government is in debt, it is the taxpayers who are in debt and have to foot the bill, as the U.S. population will painfully have to suffer for the rest of the century. It is no secret that the U.S. population is inexorably sliding into poverty.

If Greece goes into default any day now, then all the relevant credit default swaps kick in, and there will be financial mayhem. Not forgetting that the \$65 trillion unregulated derivatives are largely outside the stock market, making it impossible to see what is happening. A lot of bets will come unstuck. Who knows which banks and companies will be left standing after the financial system has been wrecked.

If it does not happen now it will very likely happen a bit later. If sanity does not return to the European leadership, 2012 will be a momentous year, and 2013 to 2016 will be grim indeed. By June we should have an inkling of what we are heading for. The likelihood of massive roiling in the markets, entire regions going into default and a world war will be very high this year and is increasing by the day.

In more senses than one, if you want to know what is in store for you in the U.S., just study what is happening in Europe. When Europe has collapsed in economic and ultimately political slavery, the money-changers will come after you.

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