

Υποκρισία - Hypocrisy

Suppose a woman was screaming for help from a fifth floor window of a burning building? Suppose some guy was boating a mile upstream from Niagara Falls and his motor conks out? Suppose 36 miners are trapped in a mine cave-in? Clearly they all want to be rescued, and generally the technology and manpower are in place to rescue them. And, assuming they are rescued, we get a good newspaper story and that's the end of it. Even if they are not rescued we still get a story and then that's the end of it.

But what has the word "rescue" got to do with Greece? They need 50 billion, 100 billion, and finally we hear 150 billion. The way the number increased weekly indicates just how out-of-control the situation is. But whatever the amount to be lent to Greece, it is not a rescue but just another huge increase in the national debt. The loan will increase the annual debt service bill for Greek taxpayers by billions. Forever. And it will set the stage for another so-called bailout next year. And the next, and the next. Probably forever.

Will such a loan work? How can it? Greece's debt service bill will increase by x , austerity measures are supposed to save y , and the loss of tax revenue as a result of austerity measures will be, say, one half y . There is no way the remaining half y will come close to x . And, by the way, we haven't heard a word about how Euroland and the IMF will get the money to lend to Greece. And will there be any left for all the other basket cases?

The hypocrisy (from the Greek word *hupokrisis*, acting of a part, pretense) of Western policy makers is breathtaking. Much of this "rescue" money isn't really for Greek citizens (although they will be on the hook to repay it) but is instead headed for the ill-advised banks that have already lent Greece lots of money and for the policy makers who keep telling us what a good thing the "rescue" is. M. Trichet, Brussels and the IMF have all squirmed but they wanted the loan to go through to maintain the charade that the Euro and, indeed, the global financial system, are under control.

Policy makers are also worried (more than they can admit) about contagion from the Greek situation to many places (even as far away as Ontario!) which have

heavy debts, heavy deficits, many off-balance sheet items and which may also face ratings downgrades. Going forward, dealing with Euro problems will be like herding cats.

Besides a loan for Greece there are/were two other possibilities to deal with the situation which were non-starters. One is/was for the European Central Bank to print the money and give it to Greece. This, of course, would lead to other Eurozone countries asking for their pro rata share of fresh money and make Europe into a banana republic.

The second possibility (plan B for bankruptcy) would have Greece say to heck with it, repudiate its debts, pull out of the Euro, devalue and reinstate the drachma. Then, in a few years, they could renegotiate the debts and settle for payment of thirty cents on the dollar (Euro). This is, sort of, what Argentina does from time to time. In the sweep of history currencies come and go but life goes on.

Plan B is by no means illogical but it is what policy makers and bankers fear, probably more than contagion. The last thing banks need is more write-downs and we all know that, after Greece, the deluge. And plan B would only encourage the ratings people to do what they should have done all along, and this might be the establishment's greatest fear of all.

Because, with a huge percentage of the Western World's savings invested in bonds, and with bond portfolio managers almost legally obligated to walk away from all but investment grade products, downgrades present huge problems for the system. It's not often one sees, at the stroke of a few pens, over a trillion of bonds deemed ineligible for investors. And there are likely more to come.

But, as always, lack of confidence in one area leads to enhanced confidence somewhere else, and in the current situation bond investors are increasingly forced into US paper while other needy borrowers face tough times. The dollar, notwithstanding its blemishes, is almost the last man standing. The US may have shrugged off the responsibility of being the world's

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reserve currency, but it still enjoys some of the benefits. At least for now.

For years we have howled about a flight out of money and now Euroland is giving us a fantastic example. There will be more to come. Notwithstanding its unique capacity to survive, and even thrive, the dollar fails every imaginable test as a store of value. The gold market is already indicating just that, but the stock

market has yet to get really excited. The stimulus is wearing thin, the economy may drift. Not all consumers can or want to spend crazily. But stock markets, at least the value components, will climb as currencies decline.

And when the time comes, how will the establishment “rescue” the dollar?

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