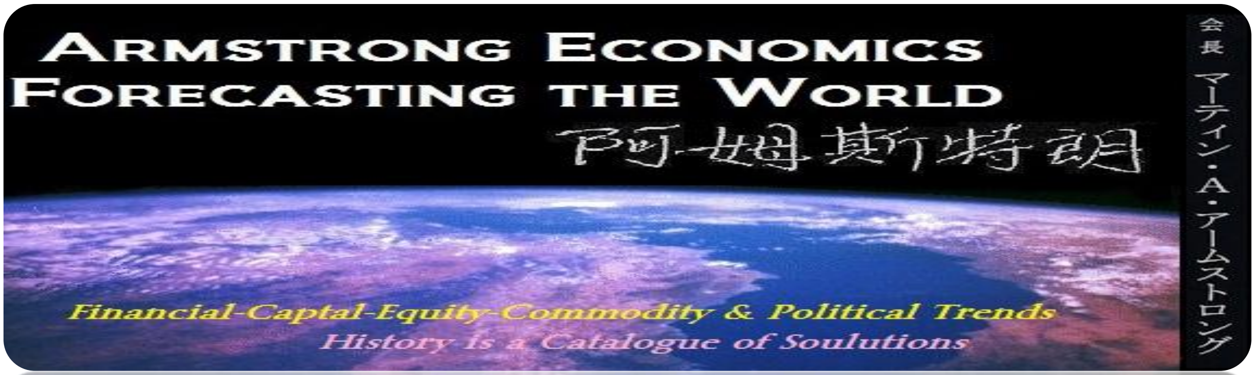
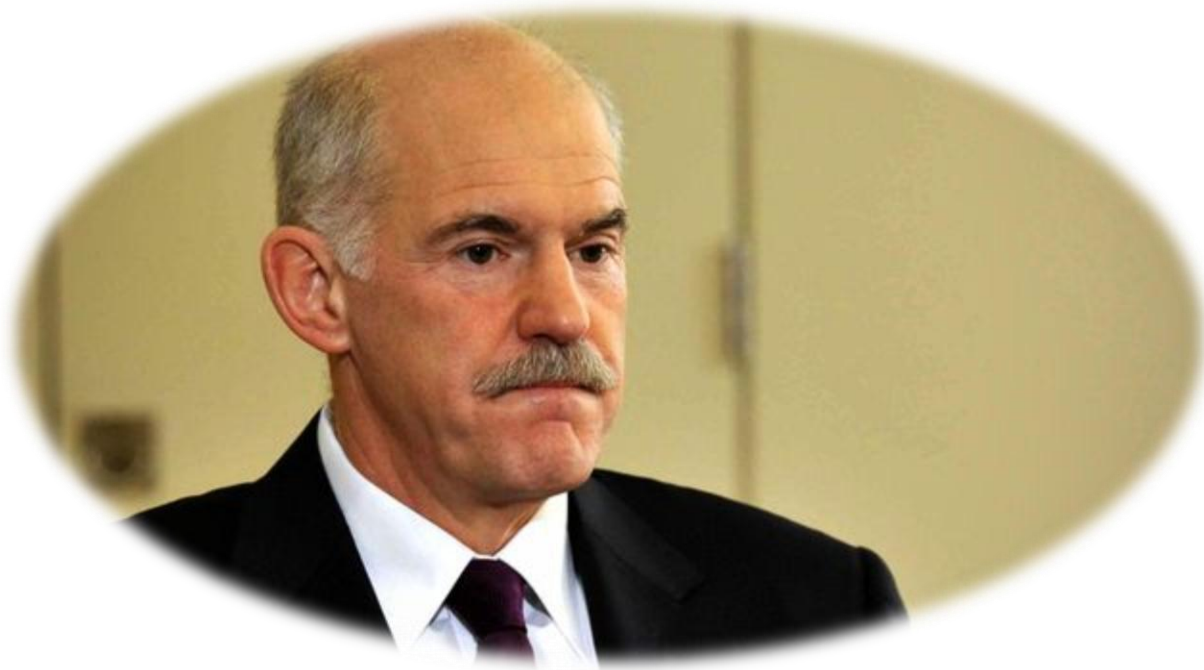


GREECE

It's time to default before civil war breaks out

The Coming Greek Default



Prime Minister George Papandreou

By: Martin A. Armstrong
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ATHENS, Greece is once again in turmoil. The Greek **Prime Minister George Papandreou** is struggling to ensure Parliamentary approval for a critical austerity bill. On June 15th, just one day after the turn of the **Economic Confidence Model**tm, the Prime Minister said he would reshuffle his Cabinet and seek a vote of confidence for his new government after coalition talks with opposition parties failed. There is simply no way out. This is the price they had to pay to be part of the Euro. Greece surrendered its ability to naturally offset its debt by allowing the currency to depreciate. That is how ALL governments get out of their debts – inflate their way out! The US is no exception. In 1980, the national debt was $1 trillion. Today, that is less than the annual budget. A trillion isn't what it used to be any more. With Greece unable to inflate its way out, it is forced to now pay in Euros, as the economy declines, the **REAL** debt rises making the austerity measures even harsher. The Euro is a complete failure because there was no national identity in Europe. That was the key to making the Euro work. Absent that – sorry; it was a nice dream while it lasted. It has been a brief shining moment of bravado. But it's over now and it's time to wake up or else the dream will transform into an economic nightmare and tear down the European monetary system brick by brick.

New Jersey Colonial Curreny 18d March 25, 1776

When the Euro was forming, I warned that the design would fail. I warned that **ONE SIZE FITS ALL** would not work. Some regarded I was just an American and thus biased. Sorry. China is knocking the US off its pedestal and this has nothing to do with bias, just plain old common sense.

The depth of analysis is far too often superficial. People skim the surface making presumptions without investigation. The whole theory behind the Euro was flawed. It was seen that a single currency would allow Europe to compete with the US. They wrongly saw the US made it because of a single currency. Nobody bothered to dig just a litter deeper. For you see, the US began as 13 colonies each autonomous issuing their own currency, yet the currency tended to circulate freely among all the colonies.


Spanish 8 Reals


1794 US Silver Dollar

Since prior to the American Revolution, each colony issued its own currency, as was the case in Europe. Fiscal management was not something understood in the least. There was massive hyperinflation that had developed because nobody understood much about economics. After All, the first person to even theorize about ***supply and demand*** was John Law (1671–1729) and that was in 1720. Currency was based upon a unit of account called a "**dollar**" (*English translation of the German "**Thaler**"*). In reality, it was based upon a Spanish 8 Reals silver coin that became the US silver dollar coin when all was said and done.

The earliest currency was issued in British sterling equivalent. Nevertheless, as illustrated here, there was massive inflation one would call HYPER as seen in the list of exchange rates for the currency of Mass.

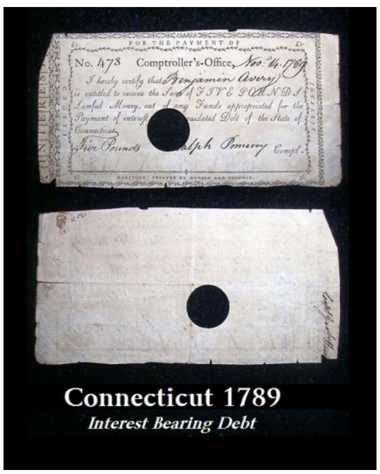
Year	Mass. Exchange Rate English Sterling Standard Par (100)
1702	133
1713	150
1717	225
1722	270
1728	340
1737	500
1741	550
1749	1100

Continental Currency	$40 for $1	April 1780
N.Y. & Conn	$40 for $1	April 1780
South Carolina	$52.50 for $1	May 1780
Mass., N,H. & R.I	$100 for $1	June 1781
New Jersey	$150 for $1	May 1781
Penn. & Delaware	$225 for $1	May 1781
Maryland.	$280for $1	June 1781
North Carolina	$800 for $1	Dec 1782
Virginia	$1000 for $1	Jan 1782
Georgia	$1000 for $1	Feb 1785

Continental Currency $60
January 14, 1779

Colonial American was not much different than Europe, except it had general one language that facilitated trade. Yet there was wide diversion of cultures and customs (how people did things) that is reflected in the hyperinflation of the currency. Illustrated here is the depreciation schedule of the colonial currency when everything was being transformed into the new US dollar. Just as we see a great divergence within Europe due to cultural-custom differences, the same was true in the United States colonial period.

Because of a unified American Revolution, it was decided that there should be a single national government and thus there was new central currency issued known as the **Continental Currency** – a 1776 version of the Euro. When the US was formed, **Alexander Hamilton** argued that the states had also shouldered the burden of expense and as such, the new federal government should absorb their debts.



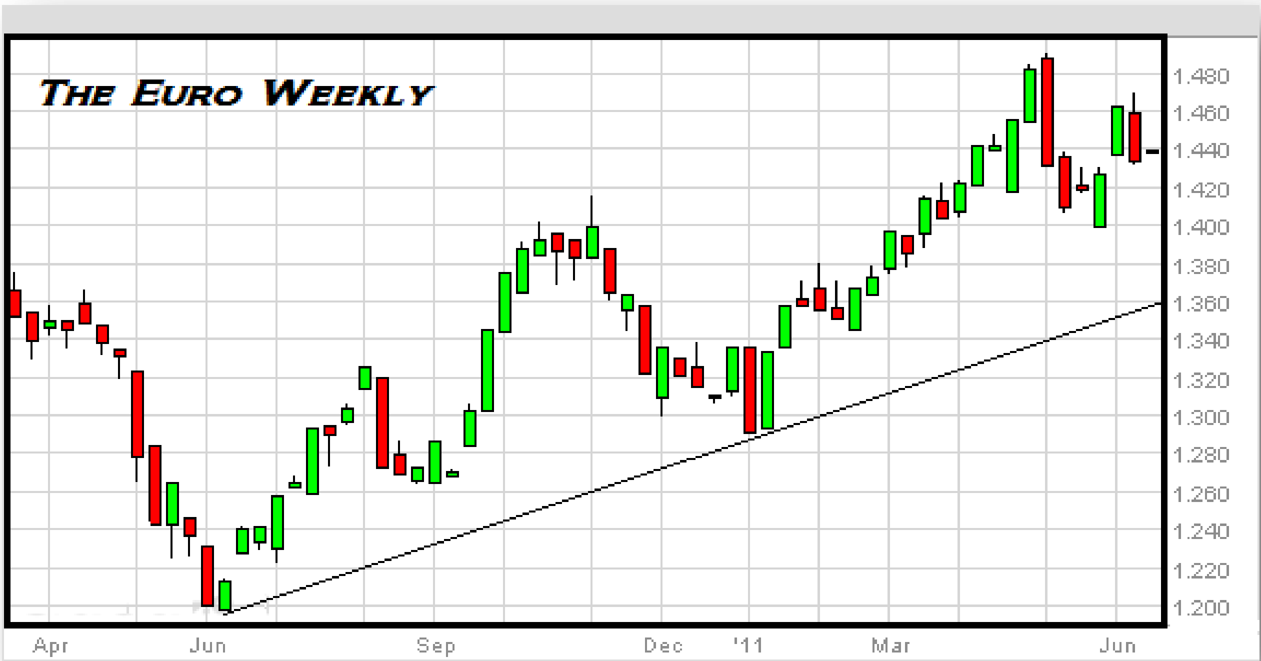
Because of war, a single currency was born. However, it was the huperinflation and the disparity among the state regarding the wide variety in the value of their currency that created a foreign echange business among states, that led the designers of the Constitution to prohibit the states from ever issuing currency again. It was in this sequence of events that gave birth to the US dollar as a single currency.

What enabled the success of the dollar was the **absorption** of the bulk of state debts under the theory they had funded the war effort benefiting the whole nation. **Alexander Hamilton** was trying to strengthen a federal government making the union of the colonies a single nation. He did not quite understand or ever articulated the assumption of state debts to create a lasting union. Rather, he was more concerned about trying to create a nation with a central government to compete with Europe. As pictured here, there was still NEW interest bearing notes issued by states as this 1789 Connecticut piece. The formation of the Euro went in the opposite direction. It created a **SINGLE CURRENCY**, but left the states with their debt and thus independence of culture and mind. While over time, the individual US states borrowed money creating their own debts, they could not diminish those debts through currency depreciation as was the case during the colonial days. Borrowing at first was at least more responsible. They had to pay out debt in real money. For you see, the United States did **NOT** issue paper money at all. The only money was coin issued in various denominations as pictured here.

Hamilton's plan had a consequence. It eliminated the problem of dealing with depreciation of state debts that would have destroyed the union as is taking place in Europe today. Hamilton did not realize what he did, but if the states retained their prior debts issued in old currency, but now had to pay them US dollars in a reformed currency, they would have spiraled down into deflation precise as Greece is experiencing today. It is the worst of both worlds. Hamilton's plan resulted in fiscal budgets had to start to be actually responsible. It was the birth of Marxism that set socialism in motion in the late 19th century that set the debt time bomb in motion.

The federal government did not issue paper money until they needed to fund the **Civil War** in 1861. Pictured here is the first series of demand notes. These were known as "***greenbacks***" for two reasons. It is true to a marginal extent that they were not backed by gold and as such derive their name from the color of the ink used to print the reverse. It is true that there was a gold backed issue where the reverse of the notes was printed in a gold ink. However, this issue did not appear until 1863.

Another well-kept secret is the fact that during the **Civil War**, finances were extremely bad. As a result, there was a hybrid currency that appeared that actually paid interest. In reality, this currency was a form of circulating bearer bonds. There were coupons attached to the right and one would clip the coupon when ready. These notes are extremely rare and in many cases unknown other than proofs and specimens. The reason is obvious. Someone would have to be dead or completely insane not to redeem this currency. It was issued in one, two, and three year periods where interest would be paid. If you held the note thereafter, there was no interest due. Therefore, the term "***greenback***" meant more than just not backed by gold. The interest bearing notes listed the rate of interest on the reverse. Therefore, a note that neither paid interest nor was backed by gold, became known as a "***greenback***" for it was simply a demand note. The 1861 demand notes merely said the US promised to "***pay to the bearer.***" In 1862, they released the Legal Tender notes that qualified what they were good for everything "***except duties on imports and interest on the public debt…***" meaning they still required gold for duties on imports.



Therefore, the substantial difference between then and now is that the states in America were given a clean slate. In Europe, the outstanding national debts were merely converted to Euro. This has had the side-effect of actually causing the historic debt to rise in real terms of replacement cost to nations such as Greece. Not only is it true that Greece surrendered its ability to devalue its currency and prior debt as all other sovereign nations enjoy, but its debt accumulated post-World War II has now appreciated thanks to its conversion to the Euro. They lost the luxury of watching their past debt depreciate in real terms as is taking place in the United States right now.

Prime Minister George Papandreou has been struggling to contain an internal party revolt over a new austerity package that is the main condition for continued funding from a euro €110 billion ($155 billion) international bailout. Without continued funding from the rescue loans, Greece will default on its massive debts. Greece will have to choose between its people and the bankers. This system is deeply flawed and it is just unsalvageable. We have so many brilliant people out there. But nobody wants to get involved. The **SINGLE CURRENCY** has turned into a nightmare, not a blessing. The plan for the Euro stopped shy of what was necessary to create a real **SINGLE CURRENCY** – absorption of all debt.

It has been said that **Prime Minister Papandreou** offered to even step down to secure a coalition with the opposition conservatives before the talks collapsed entirely. Somebody has to step up and review this whole world monetary system from a practical long-term perspective. The whole thing is broke and unsustainable. Unfortunately, nobody is coming forward. So it looks like we are heading into a default regardless of who says otherwise. There is just no means of saving a system such as this that is totally flawed. If Europe wants a **SINGLE CURRENCY**, it has to also have a single debt. Stopping shy of that has produced an inherent time bomb that will tear the union apart piece by piece. This whole thing was not rationally investigated and those with no trading experience won the day.

Police have been battling the people hurling tear gas to repel rioters who in turn volley back with firebombs. The police are also government workers as are the rioters. When they wake up and see they are in the same boat as the other state workers rioting, we are looking at a total meltdown. The Euro does not look good for once Greece defaults others will not be far behind. The next 4.3 years is going to test the nerves of men on all fronts. Then watch what happens to the CDO market again. We are headed into a currency storm as we approach 2016 all because nobody will even review this debt crisis. Nothing will survive that resembles how government operates today. **Karl Marx** really set in motion the end of times.