

Discussion inspired by David McWilliams

<http://www.davidmcwilliams.ie/2015/07/02/dont-underestimate-the-damage-of-a-small-failure-like-greece>

<http://www.davidmcwilliams.ie/2015/07/13/what-sort-of-life-would-wolfgang-schauble-have-had-if-america-behaved-towards-germany-the-way-germany-is-behaving-toward-s-greece>

stanb

July 3, 2015 at 3:15 am

David,

Respectfully, I disagree with your statement that the hedge fund will be dropping the bonds and that the interest rates will go up any time soon.

As to the first part, the funds have already sold the Greek bond a few years back and if they try to get rid of more bonds – they have nowhere to go except treasury bills or cash. A good example was 2008 – did the funds ditch the bonds? Not on a big scale – they waited it through. Bonds, even illiquid and unsaleable can still be counted as income bearing “assets”. Fund managers get fired for holding cash.

Interest rates cannot go up because it would probably bankrupt all government (addicted to cheap financing), most large corporations (ditto) and would instantaneously devalue almost all banking collateral (bonds and property).

The establishment have a very tight control over the system and will not allow that! Not unless they have an alternative. I don't think they have an alternative, do they?

Thus, interest rates have only one way to go – down, asymptotically to zero!

I think they will most likely isolate and forget the weaker countries with cancerously overgrown government and atrophied private sector, like with ebola and let the rest of the system continue. Regards, Stan (Heretic)

stanb

July 3, 2015 at 6:48 pm

Tony,

Greece yields do not count if they would never be paid.

There is a very strong downward trend in the US treasuries yields, see the maximum span chart of the same chart that you posted:

CBOE Interest Rate 10 Year T No (^TNX) - Chicago Options

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2.3490 ↓ 0.0030 (0.13%) Jul 17, 2:59PM EDT

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Jul 2015: ■ ^TNX 2.3490



<https://ca.finance.yahoo.com/echarts?s=%5ETNX#symbol=%5ETNX;range=my>

The current slight rise in yields looks like a small fluctuations that used to occur quite regularly throughout the last 50 years. See for example the 50 day and 200 day moving averages on the 5 year chart:

<http://chart.finance.yahoo.com/z?s=%5ETNX&t=5y&q=l&l=on&z=l&p=m50,e200>

The yield will probably top after a couple of months from the 50-200 intersection point (about now) since the current rise is smaller than the previous one in mid 2013.

I made similar mistake regarding yields in 2008, based on logic and rational economics, that it it does not make a sense to have the cost of capital (yields) driven

so low, however the control interests of the power elite and banking are so powerful that they seem to manage to overcome the rational logic. For the time being.

Please notice that the authorities – governments, public sector, large corporations and banks, cannot allow the capital market system to naturally correct towards the higher yields while at the same time obliterating value of their personal wealth, value of the entire banking collateral and devaluing all paper “assets”! This process (towards the higher yields) will certainly be opposed by the authorities as hard as they can, because it would render them poorer and less powerful.

Regards, Stan (Heretic)

stanb

July 3, 2015 at 9:45 pm

Re: *“The only way interest rates on bonds can remain low or decline further is if the central bank buys all the bonds as the regular market dries up and there are no buyers.”*

I believe, that’s exactly what is happening right now!

Re: *“At some point before this the system collapses and interest rates shoot through the roof...”*

Quite likely since the current situation is unstable, but I don’t know when it will happen. For the time being we are experiencing a classical deflationary spiral masked by the quantitative easing. Eventually it will end. If you know when it will happen please let me know so that I can start shorting the market (again).

Regards, Stan (Heretic)

stanb

July 3, 2015 at 9:38 pm

I red the original article

[<http://wiadomosci.onet.pl/swiat/badzmy-solidarni-z-grekami/dyc2pr>], and had a strong impression that Krzysztof Rak has ignored a proverbial “elephant” in the room.

Factually it is correct, the borrowed euros were indeed used to pay Greeks’ public sector wages instead of being invested, then the euros of course, flew back to the countries that were producing the most goods that those Greeks public employees, that is probably nearly everybody there, needed to buy to live. The question is _who_ exactly did it and _who_ benefited.

Krzysztof Rak forgot to mention that the biggest culprit and the biggest beneficiaries in this scheme were the political upper classes and the entire public sector! The biggest losers of this debt fraud were and are the individual people working in the private sector, who could not compete against the rising cost of doing business caused by the incessant flood of publicly borrowed euros!

I am with the IMF and the Germans on this one. **I think that a necessary precondition of any reform, with the external help or without, regardless of the currency, is to trim the public sector fat, stop paying people who don’t produce anything useful and revitalise the real economy. It is called the “Shock Therapy”.** It has been done once and it does work. I am sure you must have heard of it... 8-:) Regards, Stan (Heretic)

Adam Byrne

July 3, 2015 at 9:47 pm

“trim the public sector fat, stop paying people who don’t produce anything useful and revitalise the real economy”. They can’t even do that in Ireland, what makes you think they can do it in Greece?

stanb

July 3, 2015 at 9:57 pm

If they won't do that then the circumstances will do that for them. Nature has her ways...

Stan (Heretic)

"If something cannot last it won't!"

stanb

July 4, 2015 at 12:27 am

Grzegorz,

When was young and stupid I also admired Thatcher, now that I am slightly older and stupid, I found that her privatization replaced large corporations run by corrupt state and labor officials with the same large "private" corporations run by probably even more corrupt upper class banking elites. She replaced labor socialism with banking socialism. I was naive. I am not sure what Balcerowicz can be blamed for, but his reforms did work! Compare Poland now with Czech Republic or Hungary.

Pozdrawiam, Stan (Heretic)

Grzegorz Kolodziej

July 4, 2015 at 6:00 pm

I would not totally agree that Balcerowicz's reforms worked, although I would not criticise everything he has done either. There were some elements in his plan which did work, such as introducing market prices on some (not all) products which are, as it were, the bloodstream of every normal economy.

One has to bear in mind that the goal of the Sachs-Balcerowicz plan was not so much free market state but – as Sachs himself admitted in an interview – social-democratic state.

The predominant narrative in Poland at the time was that there was no alternative to Balcerowicz's plan, that no one else came up with an alternative plan. In that

Balcerowicz enjoyed total support of most media in Poland and whatever criticism there was, it was coming from non-professionals from the left (with their intransigent and demagogic attitudes), not from professionals (although Milton Friedman was highly critical, but Polish media glossed it over).

The inconvenient (for Balcerowicz) truth is that opposite to what he said, there were alternative, much more free market plans, but their introduction would have jeopardized both soft landing the communists were provided with at the Round Table and particular interest of people like George Soros. The most coherent plan was proposed by prof. Beksiak – one of his favourite students was your humble servant (Beksiak said it's been years since he met someone who actually did read Keynes). Beksiak has much more clue about economy that Balcerowicz has even now.

The Polish tragedy was that in Solidarnosc circles Balcerowicz was one of the few who had any clue about economy – Sachs writes that he was invited by Adam Michnik to meet Jacek Kuron and when he was outlining his plan, Kuron would sometimes interrupt him saying “you are right”, “I agree”. When Sachs finished, it turned out that neither Michnik nor Kuron did not understand anything from what he said and Kuron asked him to write everything down. Sachs said that he would need two weeks to refine his plan, but Kuron insisted it has to be done now. Sachs took a piece of paper and that's how Balcerowicz's plan was created.

Sachs had a reputation of a crook even before his experiments in Poland and Russia. Take the Harvard Institute of International Development scandal where he was involved in financial speculations he was an advisor to. HIID had to be dismantled and Sachs moved to Columbia University. Sachs had also f...d up Bolivian economy before he moved to Poland.

What were main weaknesses, negligence and omissions in Sachs-Balcerowicz's plan?

1. No privatization – in 1990 he privatized only 15 companies.
2. No tenders on companies privatizations of which he oversaw; as a result no price discovery (some companies were even given for free)
3. Wealth transfer from farmers and small entrepreneurs to Wall Street due to
- 3.1 Pegging zloty with dollar while

3.2. Introducing deposit rate to 100pc and

3.3. Rapid increase in interest rates on loans (wave of bankruptcies)

4. Preferential treatment of western (mainly German and French) corporations (i.e. minister Lewandowski in a government of which Balcerowicz was a member exempted them from paying taxes for 5 and 10 years)

5. Attempts to control inflation through salary increment taxes rather than money supply, which he was increasing. On the other hand his policy of issuing Polish government bonds at interest rates higher than 15pc to buy US bonds at interest rates 2-3pc is a bizarre example of Poland subsidizing the US (Poland lost \$100bn as a result).

6. What was successful (SME's) in Polish transition from socialism to crony capitalism was not successful thanks to Balcerowicz's plan, but despite of it (grey economy).

In fact Sachs is quoted in Stiglitz's book "Globalization" saying that the fall of communism presented a unique occasion to conduct an a controlled economic experiment, and that this experiment has failed in Poland (not that I value Stiglitz as an economist).

Stiglitz further asserts that the only reason the transformation in Poland was successful, was that the implementation of Sachs/Balcerowicz plan has been aborted in 1992/93 while similar plan has been fully carried out in Russia.

Was Poland really successful compared to Hungary and Czech Republic?

GDP per capita is a little over \$14,000 in Poland, which is comparable to Russia, though nearly 5 times as high as in the Ukraine and higher than Argentina or Mexico (but lower than Uruguay which went bust). It's similar in Hungary, but over \$16,000 in Lithuania and Latvia, over \$18,000 in Slovakia nearly \$20,000 in Czech Republic and almost \$22,000 in Greece after their 5 years of austerity. Slovenia, a former communist country with no Balcerowicz and outside the euro and the EU has GDP per capita not only almost twice as high as Poland, but also higher than Greece and Portugal: \$24,000.

Taxes for a family with one child are the second highest in OECD.

As to Maggie Thatcher, she INCREASED public spending – 44.6pc of GDP in 1979/80 compared to 48.1 in 1982/83 (38.9 in 1988/89 and 43.3 last year...).

Only when she started cutting public spending (throwing out monetarists who advised cutting some public spending, but also raising taxes – policy copied by Balcerowicz) the UK economy started to take off.

Monetarism made some sense pre-1980 when money velocity (how often a unit of currency turns around) was stable but technological changes and regulatory changes in the industry increased the velocity and made bollocks of the idea.

But as in case of Balcerowicz, not everything what Thatcher did was bad – if it was not for her, Britain might have been a second Greece, particularly with their trade union leaders on KGB payroll (surprisingly, Scargill's views today are akin to BNP for each socialism ends up with national socialism). I met one such moron who was distributing leaflets among British workers urging them not to support Solidarnosc. Today he is active in Trotskyite circles.

This archive video in Polish shows how clueless Jeffrey Sachs was in 1989:

<https://www.youtube.com/watch?v=z0Scg43GeE8>

After many years one influential figure in Polish government said “we all have been done by a lobbyist”

stanb

July 4, 2015 at 10:00 pm

Thank you for posting a fascinating summary of Balcerowicz's reform (below) , especially that you probably saw that all from the inside. My take on it as an outsider (I wasn't living in Poland since 1986) was that Polish politicians seemed to have been more lucky than wise. Which I think is a better way to be 8-:) As an example – the slow pace of privatisation in 1990 turned out to have been probably a bonus rather than a hurdle. It caused a rapid disappearance of the large state “dinosaur” corporations through attrition as opposed to having been propped up artificially by a better private management like in the other former Eastern Block. That has cleared the field for a large number of new private companies formed from scratch which seemed to have worked very well in the long run. Another lucky “mistake” was the slow pace (probably deliberate?) towards an adoption of the euro.

Sorry for digressing away from the main topic, though it may not be that far off. The present Greece's situation and path towards the reforms will probably be quite similar to Poland in 1989. If they choose to follow it that way.

Best regards,

Stan (Heretic)

stanb

July 14, 2015 at 2:57 am

I disagree with David's take on it [i.e. criticism of Wolfgang Schäuble's plan] and I suspect that Schäuble may be right. Germany post WWII was a totally different situation. German state ceased to exist in May 1945. The Allies were dealing with the people only, not with the institutions of a failed state. In contrast, I think that the Greek crisis is a game played by a corrupt, and seemingly unreformable government who used the funds borrowed from German and French banks to pay themselves and their own servants lavishly, and now is trying to wiggle itself out of the obligation of doing anything at all, holding their citizens hostage!

To make it similar to Germany 1945 you would have had to first dissolve the entire Greek government and large sections of their public institutions (those not immediately needed to serve the population), and replace it with some externally appointed but democratically-controlled interim governorship. Realistic? I doubt it.

Stan (Heretic)

Daithi7

July 15, 2015 at 12:53 am

Db,

Yes, as I said I would vote for the Troika if that option existed in the next election. I kid you not, they were the best governing body in Ireland since the PD/Ff coalition of 1987 imho.

Hmmm as for our current options well tbh the options are not that great. Imho Leinster house does a very poor job giving Ireland good government. Way too many absentee teachers, too few other professions represented e.g. accountants,lawyers, engineers,nurses, docs, builders, business people, etc, etc And too few career women. So would i like to see be in the next government. Well I'm not gone on any of then tbh so I'll start with who I wouldn't like to see :

No to Labour, public sector union lackies. No to SF, a liability in the making. A qualified yes to some FG people, a very selective yes to a minority of Ff people abs I like some individual independents. But truth is we lack serious politicians and statesmen and women who I feel can lead us forward. Bring back the troika :))

REPLY



stanb

July 15, 2015 at 2:00 am

Re: *Way too many absentee teachers, too few other professions represented e.g. accountants,lawyers, engineers,nurses, docs, builders, business people, etc, etc And too few career women.*

Exactly my impressions when I lived in Ireland in the 1990-ties!

The trend now, in many countries, especially in the eastern Europe (including Germany), is to favor women in politics, since the voters there may have realized that they tend to have less political strings attached and are much less clanish than the pub-cultured and thus largely useless male politicians (I am intentionally exaggerating).

I hope Ireland will follow this trend, it is very good for Europe!

Heretic

stanb

July 18, 2015 at 7:46 pm

David,

I doubt if the next recession will kill Euro. Euro is a very decentralized currency and decentralized economic entities seem to have a knack of surviving, unlike centralized entities which seem extremely strong on the outside but have a tendency to collapse from within like Soviet Ruble.

An advantage of the Euro is that there is no central political power or a single bank that would be able to print more of it or twist it for a short term goal.

Euro seems more akin to a currency unions or multicurrency peg similar to 19-th century gold based system, rather than being a centralized currency issued by a central bank like US\$, British Pound etc.

I suspect that the centralized politically controlled currencies like British, Russian, Chinese (and probably US\$ at the end), in this order, will be more likely to crash catastrophically first.

I believe, what is more likely to happen in the forthcoming financial crash, is the sudden devaluation of paper assets which will dramatically affect the corporations and governments, but not as much the debt-backed currencies. The reason being that the falling assets and falling debt resale values will simply cause a contraction of monetary mass, reduction of velocity of money, both of which will automatically ensure the currency valuation, preventing inflationary currency collapse to set in. Only those currencies that are controlled by governments alone rather than being backed by assets, may collapse. Rubles, Yuans – anyone?

Regards, Stan (Heretic)

Tony Brogan

July 18, 2015 at 8:53 pm

Legal information[edit]

Legally, both the European Central Bank and the national central banks (NCBs) of the Eurozone countries have the right to issue the 7 different euro banknotes.[2] In practice, only the NCBs of the zone physically issue and withdraw euro notes.[2] The European Central Bank does not have a cash office and is not involved in any cash operations.[2] However, the European Central Bank is responsible for overseeing the activities of national central banks in order to harmonise cash services in the Eurozone.[2]

Issuance and printing[edit]

The ECB has the exclusive right to authorise the issue of notes within the Eurozone, but most notes are actually issued by the National Central Banks (NCBs) of the Eurozone.[1] As of 2004, 8% of banknotes were issued by the European Central Bank and 92% were issued by Eurozone NCBs.[1] The issuing central bank can be seen from the serial number. Each NCB is now responsible for the production of certain denominations, as assigned by the ECB.[1]

https://en.wikipedia.org/wiki/Euro_banknotes

I am not sure how you arrive at your conclusion. The ECB is the sole authorizer of the issuance of currency although they are printed by or issued by member central banks.

If confidence in the EURO is lost it will suffer the same fate as any other currency. If the use of the EURO is detrimental to a nation member there will be a demand to return to national currency. As it is, the use of the Euro by a member state is a de facto relinquishment of national sovereignty. When the people realize this they will abandon the EURO even if they wish to remain in the EU. Then the EURO disintegrates. It is that or Authoritarian economic slavery of the people of the EURO zone.

Tony,

You see there is a difference ECB between an overseer and an auditor only (or mostly, plus subject to public scrutiny) over the national banks, versus being solely involved in the execution of the policy, like for example the Bank of England, or Russian central bank, both responsible and reporting only to 1 person. See also (**)

I am not an expert and am not 100% sure to compare the euro system versus other quantitatively, Euro simply looks to me like a much looser entity (therefore more trustworthy in my books...) than the other systems.

You may find Lietaer and Belgin book "New Money for a New World" [<http://www.amazon.ca/New-Money-World-Bernard-Lietaer-ebook/dp/B006MXZBR6>] fascinating and well worth a read. Note: I didn't read it but watched the interviews (*) with Belgin. These guy are really insightful, plus a bonus - the fact that Lietaer is one of the creator of the Euro is also worth mentioning...

Regards, Stan (Heretic)

*) <https://www.youtube.com/watch?v=Mmfa7FWuTOA>

<https://vimeo.com/48801144>

**) <http://www.lietaer.com/birdseyeview/>

Quote:

<i>The fundamental problem with our current monetary system is that it is not sufficiently diverse, and as a result it dams and bottlenecks our creative energies, and keeps us trapped in a world of scarcity and suffering, when we actually have the capacity to create a very different reality by enabling our energies to move more freely where they are most needed, including toward cleaning up our environment, building adequate housing, providing good quality health care etc. To ensure such diversity,

we need to actively support the circulation of different types of currencies for different types of purposes. Specifically, I believe that we need to support the introduction and expansion of three different kinds of currencies alongside our national currencies: (1) an inflation-proof global complementary currency designed to stabilize the world economy; (2) business-to-business currencies designed to counteract the effects of conventional money shortages during periods of economic crises and contraction; and (3) community currencies that address a variety of social problems and strengthen the fabric of society.</i>