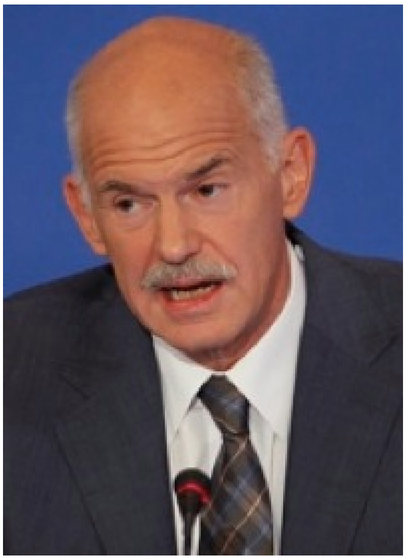
Written by **Bob Adelmann** on September 11, 2011

Greek Prime Minister's Promises Ring Hollow



Said Papandreou: "We have taken the decision to fight to avoid a catastrophe for our country and its citizens: bankruptcy. We will remain in the Euro. And this meant and means difficult decisions.... If this year the recession [already in its third year] is markedly greater than the estimates of international organisations on which the medium-term fiscal plan [to obtain additional bailouts from the European Central Bank] was based, despite that, Greece will make its fiscal targets, doing all that's needed in this direction."

Those difficult decisions, as noted here and here, have involved raising the Value-Added Tax rate, seeking out tax-evaders, selling off state-owned assets, firing 20,000 government workers and cutting the salaries of others, and imposing a one-time "solidarity contribution" tax — decisions that have so angered the citizenry that 20,000 of them showed up at his speech (probably why it was in Thessaloniki in northern Greece rather than in more heavily populated Athens) to protest them and him and his cabinet.

Papandreou's Finance Minister Evangelos Venizelos earlier warned that Greece's situation was "critical" and that the next two months would be "decisive for our existence." But Venizelos then tried to squelch rumors that the situation was so dire that they might have to default, reject the euro, and quit the Eurozone altogether. He called such rumors "a game in bad taste; an organized piece of speculation against the Euro and the Eurozone countries," and he said that Greece would move ahead with the austerity measures demanded by the European Union and the International Monetary Fund "without taking into consideration any element of political cost."

The chances that those Draconian measures will bring down the deficit to the requisite 7.5 percent of GDP in order to qualify to receive the next $10 billion of bailout money are between slim and none. Those measures have successfully slowed the already staggering economy so that budget deficits have increased by 24 percent just since the first of the year. And that is being reflected in the debt markets for Greek securities. Interest rates on their two-year treasury notes have risen to nearly 60 percent, and the cost of insuring their five-year notes against default have risen from the usual 1 to 2 percent to nearly 33 percent. To put that into perspective, a holder of a $10 million, five-year Greek note would have to pay an insurance premium of $3.2 million just to guarantee that he'll get his money in five years. Other measurements of risk are indicating that the chances of a Greek default are approaching 100 percent by the end of the year, perhaps sooner.

German reluctance to allow Greece to receive the next round of bailout money was expressed by German Finance Minister Wolfgang Schaeuble at a meeting in Berlin last Wednesday: "I understand that there is resistance among the Greek population [polls are showing 90% opposed] to austerity measures. In the end it is up to Greece whether it can fulfill the conditions necessary for membership of the common currency. We offer no discounts." He added that if Greece doesn't meet its obligations, then "it's up to Greece to figure out how to get financing without the euro zone's help."

A "troika" of representatives from the European Central Bank and the IMF left Athens without being able to determine if Greece would even come close to meeting the terms. Schaeuble said, "Ladies and Gentlemen, the situation in Greece is serious. At the moment the troika mission is suspended. There can be no delusions here.

As long as this mission cannot confirm that Greece has fulfilled the conditions, then the next aid tranche cannot be paid. There is no wiggle room here."

And so Greece is out of options. It can't pay its bills because it can't comply with the conditions necessary to obtain the money. And it can't comply because the conditions are so onerous that they are working to push Greece further away from compliance. According to CNBC, "Time may already have run out. No more money means a hard restructuring for Greece and a massive recapitalization of Europe's banks." And that translates into huge losses for those holding soon-to-be worthless Greek government debt. "Haircuts" (reductions in principal) are expected to be between 50 and 90 percent, which will be sufficient to jeopardize the capital positions of the European Central Bank (ECB) and other banks, including those in Germany, holding that debt. As a result, Germany has announced a plan to protect its banks in the event of the inevitable Greek default.

The downward spiral will continue. When Greece defaults, at least two other countries teetering on the far edge of financial disaster, Spain and Italy, will likely see that as an opportunity to default as well, putting the entire European Union into jeopardy.

For those who have been predicting the natural end result of trying to fool basic economic laws and of trying to create a regional dictatorship without the consent of its victims, the Greek tragedy currently being played is just one act in a larger European tragedy. As commentator Gary North reflected in his recent newsletter, "The defection and default by Greece's government will be the warning shot. The doom of the Euro is sure. This will be the first visible step in the break-up."

North continued: “The experiment has failed. The New World Order can’t do a thing about it. They will seek fiscal union. They won’t get it. The voters will not accept it. No treaty among parliaments will work, any more than the [European Union] treaty has worked.

Photo of George Papandreou: AP Images