**THE RESULTS OF THE TROIKA'S "RESCUE PLAN" IMPLEMENTATION IN GREECE AND THE GLOBAL DEBT CRISIS**

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**Introduction**

*Ireland is not like Greece*
***http://globalinsolvency.com/headlines/ireland-not-greece-lenihan-tells-eu***

*Portugal is not like Greece*
***http://www.economist.com/node/15959527***

*Spain is not like Greece*
***http://www.ft.com/intl/cms/s/0/ff2b6e34-2f8a-11e0-834f-00144feabdc0.html#axzz1VZcWNtYp***

*Italy is not like Greece*
***http://www.fxstreet.com/fundamental/analysis-reports/research-euroland/2011/07/15/***

*Obama: US is not Greece or Portugal*
***http://www.eubusiness.com/news-eu/us-economy-politics.bc7***

*S&P downgrades U.S. credit rating from AAA*
***http://www.usatoday.com/money/economy/2011-08-05-s-and-p-downgrades-credit_n.htm***

During the last weeks, we are witnesses of a "new" global financial crisis that was triggered by the S&P's downgrade of US credit rating. The real causes were the global sovereign debt crisis, the slowdown of growth in Europe and the US, the possibility for many western countries to enter again in a recession and of course the end of the QE2 program in the US. This crisis has lately signs of a "Lehman-like" borrowing crunch in the EU among its banks.

As we have written in a previous article [1], and now it is more obvious to many analysts [2], Greece's public debt is just a drop to the ocean of total global debt. The term of total debt and the debt of the private sector is now mentioned in mainstream media like Wall Street Journal. So, reminding the true numbers, Greece has a total debt up to 296% of GDP. Portugal's total debt reaches 479% of GDP, Ireland's total debt is 490% of GDP, Spain's total debt is 506% of GDP. But the problem doesn't stop. Italy's total debt is more than 400% of GDP and UK's total debt explodes to 540% of its GDP. [3]

The final conclusion is painful. The global financial system is bankrupt. There is no way all these loans that have been given to be paid back. The various elites are trying to gain time and move the **global monetary reset** to the future. Their measures, mainly austerity ones, are used for this purpose and at the same time the financial elite in cooperation with the political one is trying to move this debt from banks to taxpayers. But in the long run all the above will be proved useless.

**The results of EU-IMF "rescue plan" in Greece**

We had mentioned in our previous article [1]:

***…In addition, greek inflation rose to 5.2% in December 2010 from 4.9% in November. In this explosive mixture we should add the negative GDP trend we have since 2009 (about -4.5% recession in 2010), that will continue in 2011, and of course the present data projection shows also recession in 2012, and not a slight growth as the EU-IMF "rescue plan" tells us…***

***… The targets of the greek budget for 2011 won't be caught because the additional austerity measures that have been planned won't bring additional revenues…***

What is the result of troika's "rescue plan"? Amid plunging consumer demand, weakening global growth prospects and the fresh austerity measures that will be implemented mainly in September 2011, analysts said Greece's economy could shrink 2% or more next year, following a 4.5% contraction in 2010 and an expected 3.9% downturn in 2011 [4]. During the last days, the greek finance minister admitted that the downturn in 2011 will be finally above 4.5%. There are also predictions that made by Credit Swiss (18/8/2011) that in 2011 the contraction will be 5%. In its report for the greek banks and the macroeconomic data of Greece, Credit Suisse also estimates that, because of the lower than expected collection of revenues, the deficit of government will be nearly 10%, against the target of 7,6% defined by the troika.

What were the latest troika's predictions? In the latest predictions prepared by the troika, Greece is seen growing at an annual pace of 0.6% in 2012, down from a previous 1.1% forecast, while in 2011 a 3,8% downturn was predicted. Once again, their predictions failed as they were always failing during the last 16 months. Of course, we could also mention greek government's predictions in February 2011 [5]. They totally failed.

Moreover, greek unemployment rate hits record high 16.6% in May, according to data released by the Hellenic Statistical Authority (ELSTAT) [6]. The total number of jobless greeks soared above the 800,000 level for the first time in the last few years, reaching 822,719. Twelve months earlier, in May 2010, the figure stood at 602,185 or 220,534 fewer jobless people.

The steep rise in unemployment is obviously due to the recession of the greek economy since 2009 and the austerity measures imposed, forcing a considerable number of enterprises to close down and thousands of jobs to be lost. The problem is greater among women and the young. 20 percent of women seeking a job in May could not find one (against 14.1 percent for men), while 40.1 percent of people aged between 15 and 24 were unemployed.

A more important data is the labor force participation rate. The number of employed during May 2011 is estimated at 4.131.528 persons. The inactive workforce is 4.383.374 persons. The employed reduced to 299.798 in comparison to May 2010 (-6,8%) and to 51.804 in comparison to April 2011 (-1,24%).

And what about the other numbers of the budget in the first 7 months of 2011? The revenues were 26,8 billion Euros (28,7 billion Euros in 2010), the public expenses were 40,9 billion Euros, 2,7 billion Euros more than the expenses in 2010 in the same period. Here, we have two comments. The first comment is that the Laffer curve was verified in our case, as we had written [1]. More taxes and wage cuts were implemented by the greek government and the result was what we expected, less revenues. The other comment has to do with the public expenses. It is inadmissible. After so many wage cuts that made to civil servants, the total public expenses rose for more than 20% since last year. That means there are now some parts in the government, in co-operation with connected companies of the private sector that spend much more than they spent in the happy days of growth and credit expansion.

In addition, during the last days there are info that the so-many-times announced new payroll of the civil servants will be implemented mainly on new employees (the usual "divide and conquer" method among generations during the last two decades). The "special" payroll for the part of current well-paid "special" civil servants will remain almost the same [7]. It is estimated that about 60.000 civil servants will keep their wages almost unchangeable. Troika seems to agree, if the money that will be missing is gathered from other sources. Which sources? From the usual victims of self-employed and owners of very small businesses in the private sector? Yes, this is the "solution" that has been already proposed by the government, and they will present it in the new tax law in the parliament next October.

It is amazing how the government attacks to the major part of the private sector that has entered a death spiral since 2008. The tax measures that are taken, concerning the very weak self-employed and the owners of very small businesses, give us the impression that we have a similar "peaceful" procedure in concept like Kristallnacht in a greek version against this part of private sector. This procedure is done so as the part of the corrupted political elite in co-operation with their colleagues in the part of the corrupted financial elite will still have the power to steal Greece's wealth till the final collapse occurs. Troika is aware of this procedure and responsible for it. Of course, no real measures and procedures are set against tax frauding. No controls in spending of local governments and municipalities (OTA), which have no balance sheets for their entities and no one knows what is really going on with their budgets. In these entities, the party of spending in "shadow", unknown purposes continues during the implementation of the rescue plan.

Finally, what will be the conditions till the end of this year and at the beginning of 2012 after implementing troika's policies? The conditions will be simply depressionary. The recession will reach 5% or more, the unemployment rate will be almost 20% (the real unemployment rate will be almost 25% and if we include the underemployed, this rate will reach at 30%). Taking into account that unemployment concerns only the private sector, the unemployed and the underemployed will reach almost 35% of the working force in the private sector. These numbers are similar to the ones we saw in the Great Depression in the US. Fortunately, there are still strong bonds in the greek family, and the collapse of the society hasn't happened till now under these financial conditions.

Of course, we shouldn't forget that the wages of the employed in the private sector are cut down to Chinese standards in a completely de-regulated labor market. We expected that. The troika's plan is just one more implementation of a similar previous plan in Germany. It is the order given by the *Kommandantur* of EU. It is well-known its view about "work ethic". Arbeit macht frei. And it was first implemented in the program of "mini-jobs".

Now, a soaring number of Germans are working in so-called "mini-jobs," according to official figures that show another side to the "booming" economy [8]. By the end of September 2010, more than 7.3 million of these poorly paid jobs of up to €400 per month existed, nearly 1.6 million more than in 2003, according to the figures from the Federal Labour Office (BA).

The figures, reported in daily Süddeutsche Zeitung, show that roughly one in four jobs are now such mini-jobs. This includes nearly five million workers for whom a mini-job is their main employment but also more than two million for whom it is a second job. Mini-jobs are most common in retail and wholesale sales, in restaurants and hotels, and in health and welfare services. Almost half the jobs in food and beverage hospitality are mini-jobs.

The troika's plan has succeeded. Trying to make us "competitive," the plan drives unemployment to unprecedented levels, devastates the smaller private business sector and the self-employed, destroys the middle class, and has started a general disintegration of the greek society. If we miss some numbers on the way, there is no worry. More austerity measures are to come.

**The global debt crisis**

For a long time, the sole purpose of banks was to supply the economy with money. Since 1982, gradually, the financial industry has largely disconnected itself from the manufacturing economy. A key event happened in 1999, when the Glass-Steagall Act was repealed under President B.Clinton. That law set a strict separation between commercial and investment banks. Removing this major barrier, institutions like Citigroup and Bank of America were enabled to grow into financial giants. Many banks became so large and powerful that they are now "too big to fail".

The latest global financial crisis is not a crisis of the last months that burst because of the greek public debt crisis. It is a procedure that started some years before, on August 2007. The first phase began on 9 August 2007, when BNP Paribas announced that it was ceasing activity in three hedge funds that specialized in US mortgage debt. This was the moment it became clear that there were tens of trillions of dollars worth of derivatives swilling round which were worth a lot less than the bankers had previously imagined.

The banks had excessively given mortgages on Americans without paying much attention to their customers' ability to repay these loans. They packaged the risks into new financial products and sold them on (the so-called subprime products). When the subprime bubble finally burst, it dragged down the entire financial industry with it. The major financial firms found themselves on the brink of bankruptcy and were forced to appeal to the government for help.

The assistance was provided, but there was a terrible mistake in that process. It was not established a new Glass-Steagall Act, and only a few of the dangerous financial products were banned. The next step of the crisis was when the US government allowed the investment bank Lehman Brothers to go bankrupt. Within a month, the threat of a domino effect forced western governments to inject vast sums of capital into their banks to prevent them from collapse. The banks were rescued, but it was too late to prevent the global economy from going into freefall. At the same time consumer and business confidence collapsed.

Finally, on 9 May 2010 the IMF and the European Union announced they would provide financial help to Greece. Now, the issue was not the solvency of banks but the solvency of governments. Budget deficits had ballooned during the recession, mainly as a result of lower tax receipts and higher non-discretionary welfare spending, but also because of the fiscal packages announced in the winter of 2008-09. Austerity became the new keyword, affecting policy decisions in the UK, the Eurozone and, most recently in the US, giving the name to this decade as "the austerity decade". This August, the "transformation" of a private debt crisis into a sovereign debt crisis was complete when the rating agency S&P announced that America's debt would no longer be classed as triple A.

What we are witnessing is not just the decline of the US but the decline of the West. During the last decades, the assumption was that each generation would have a better life than the last. This social contract has broken down. Growth is less rapid than it was 20 years ago, and the gains have disproportionately gone to companies and the very rich.

Western societies have seldom been more divided, and never have income disparities been as great as they are today. At the same time, the markets are constantly demanding higher returns. Those who do not meet their expectations are punished with declines in the price of their stock and higher borrowing costs. Companies, forced to adjust to these requirements, keep wages down and their workforces at a minimum.

The data presented below shows clearly why US is in decline, thus the West is in decline too (similar data exists for the big countries of the Eurozone).

So, according to the most recent Census Bureau data from 2005 – 2009, average US household wealth was reduced by 28% [9]. This represents a loss of $27,000 per household. Currently, at least 62 million Americans of US households, have zero or negative net worth. Moreover, 43.6 million Americans, 14.3% of the population, lived in poverty in 2009, a dramatic increase of four million people since 2008. The National Academy of Science released their latest findings that 52,765,000 Americans, 17.3% of the population, lived in poverty in 2009.

The poverty rate for children is even worse. According to Census data, a total of 15.5 million [10] american children lived in poverty in 2009, which is 20% of all children. The number of children in poverty increased 28% since 2000, and jumped 10% from 2008 to 2009. Extrapolating data from the 2009 National Academy of Science poverty rate, in relation to the Census childhood poverty data, the number of American children living in poverty in 2009 is more accurately 18.8 million, which is 24%.

In addition, nearly 15% of the U.S. population relied on food stamps in May 2011, according to the United States Department of Agriculture. The number of Americans using food stamps shot to an all-time high of 45.8 million in May, the USDA reported. That's up 12% from a year ago, and 34% higher than two years ago.

The official unemployment is around 9%, 14 million people. The only reason unemployment has stayed below 10% for the past few months is because millions of long-term unemployed, and part-time workers who are looking for full-time work, are not included in the government unemployment rate. The labor force participation rate has fallen to a 27-year low of 63.9%. Currently, an all-time record 6.3 million people have been unemployed for over six months, and the average time it takes for a person to find a job has also just hit an all-time high of 40.4 weeks.

We could present more data for the US, or data for the strong countries of the Eurozone, which clearly shows that there is a big problem in the main western societies. This can't be sustainable for a long period of time. The recent riots in London are a proof of our approach.

We will also agree with what Albert Edwards of Societe Generale wrote in his last report in August about what happened during the recent years in the western societies [11]:

*"I and many others have been pointing out for a long time now the simple fact that the global economy has been living way beyond its means for years.* ***A massive transfer of income to the very rich has occurred while middle class real incomes stagnated. The middle classes only tolerated this because Central Bankers created housing booms to keep the impoverished middle classes borrowing and spending to give them the illusion of prosperity and stop them from revolting.***

*I believe the Fed and Bank of England, in particular, were wholly complicit in this daylight robbery. These unsustainable private sector debt mountains were transferred to the public sector in 2008 to prevent the adjustment to the depression-era reality that the debt unwind would undoubtedly have brought about. Yet, those debts are as unsustainable in the hands of the public sector as they were in the private sector".*

## Conclusions

It is obvious now that the “rescue plan” led Greece to a financial depression territory. That will affect a large proportion of the greek population as autumn comes and the tourist period for 2011 ends. We had written [1] that there is a need for a hair-cut of 40-50% in public debt. On the contrary, a very complex mechanism was decided for a rollover of the government bonds in a range of 30 years. That “solution” condemns the next two generations living in a financial environment of a very huge public and private debt with high unemployment and wages similar to the Chinese ones. (This is exactly the environment that will trigger the acceleration of the real estate bubble bust. Many of the unsold properties will remain unsold for more than a decade)

Now, except from the big changes that have to be implemented in the greek economy (the old model already died), a bigger hair-cut will be needed, more than 50% in some cases. As time passes and no serious measures are taken for reducing greek public debt, the cost of that hair-cut will be bigger and painful. Why are we saying that this period of time is crucial for the greek public debt and will have more consequences to a future hair-cut?

We all know that the global stock markets fell sharply after the downgrade of the US. This decline had started at the beginning of May 2011. Regarding the Dow Jones Index, it was noticed a pattern of fall since the top of previous May similar to the one happened in 1937. It was the result of the “capital strike”, as it was called then, that had as a result a strong recession in the US.

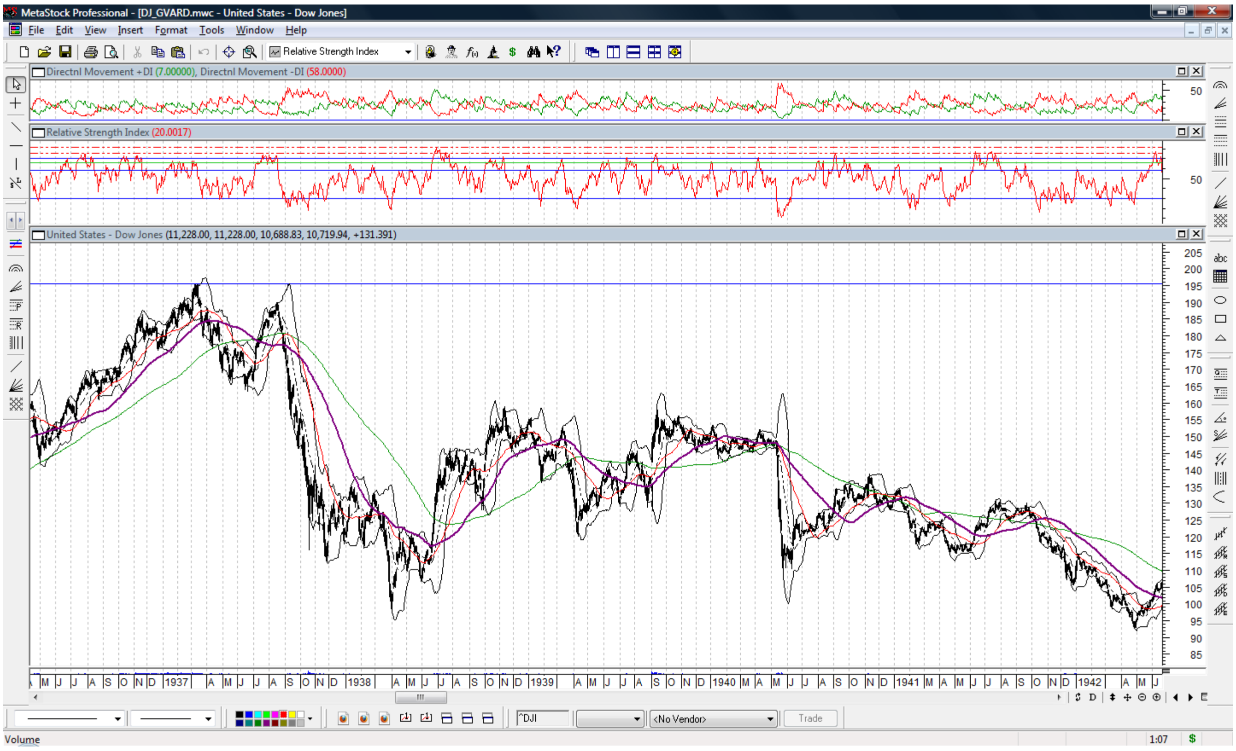


**Figure 1: Dow Jones Index chart from 1937 to 1942 lows**

There are also technical indicators (such as [ MA(50), MA(200) – daily], [MACD, RSI, EMA(13), EMA (39) – weekly] that suggest we may be already in a bear market, because of the fear that the big economies of the planet will return to a recession. According to technical analysis theories, if this bear market is proved in the next few weeks, it will last till Q3,Q4 of 2012, or using another approach till Q3, Q4 of 2014.

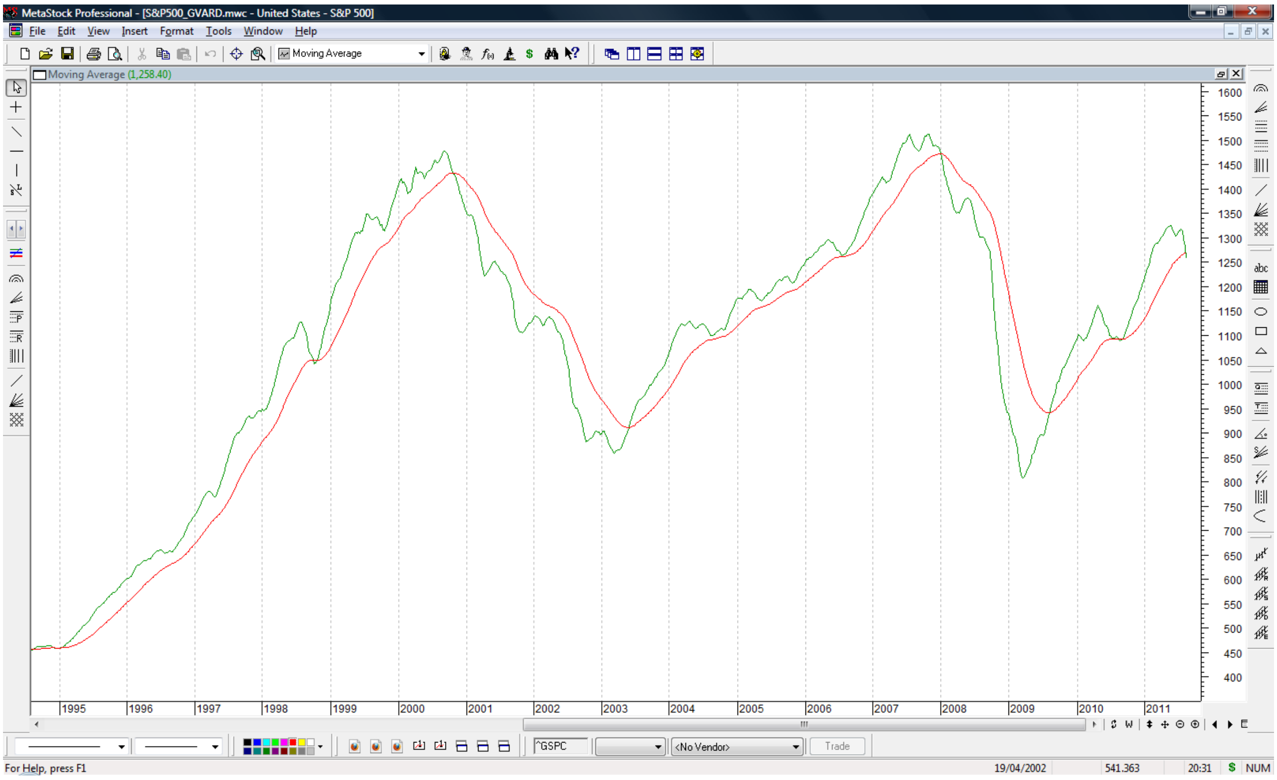


**Figure 2: S&P500 Index, 1995-2011 (Weekly): EMA(13) – green line, EMA(39) – red line**

So, having in mind that we are at the beginning of a new bear market and probably the big economies will enter a new recession, even for just a few months, then the efforts for stabilizing the greek economy will face greater difficulties. Of course, the targets of the troika for 2011 and 2012 will fail. The deficit will rise more, as the public debt will as a consequence, and the need for bigger hair-cuts will be inevitable.

Since Greece is under the control of troika, Europe's fate is decided by German state elections and small Finnish parties. The European Central Bank is divided and it didn't do any actions in time to stabilize panicked markets. There is no way the euro can survive under these conditions.

In this very difficult situation, we observe a failure of economic strategy and leadership in the eurozone and US economies. Governments in Europe and US have been unable to cope with the realities of global capital markets and competition from Asia. Both regions are being whipsawed by globalisation. Jobs for low-skilled workers in manufacturing, and new investments in industry, have been lost to international competition. Employment in the US and Europe during the 00s was held up only by housing construction boosted by low interest rates and reckless deregulation, until the construction bubble collapsed. There is no growth strategy, only the hope that scared and debt-burdened consumers will return to buying houses they don't need and can't afford.

More analysts conclude that there is no chance for the indebted western consumer to manage to pay this entire ocean of public debt and at the same time to consume at levels that support economic growth.

On CNBC, Stephen Roach of Morgan Stanley said [12], we need "ways to forgive the excesses of mortgage, installment and revolving credit, as what was done in the 1930s that will help consumers get through the pain of deleveraging sooner rather than later."

He explains how the conundrum of high unemployment and poor wage gains, juxtaposed with high debt, makes it clear that there is zero chance that consumers will be able to support the kind of economic growth via deleveraging and accumulating savings that avoids a deflationary outcome. The macro backdrop for consumers is deflationary.

Central banks or fiscal agents might attempt to reduce the real burden of debt. But we already observed that in UK the Bank of England has missed its inflation target time again and again. The consumer there is in a world of pain [13]. However, if we see another recession before the deleveraging is complete, deflation is going to be all around us, increasing the real burden of debt.

We'll conclude with that statement. There is no way all this global huge debt to be paid back. That statement applies to the Eurozone, the US, the UK, China, Australia, Canada, nearly everywhere one looks.

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