

Coloring between the lines, and only using the red crayon

Written by Bruce Enberg

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The stock markets in the US dropped 1.5% today from the renewed sturm und drang over the potential Greek bond default. The Euro zone is trying to force a 50% haircut on the holders of Greek bonds in order to avoid their default, but the catch is that it has to be “voluntary”. If it’s not, it becomes an “actual” default and those CDOs (credit default swaps) start kicking in.

The problem with these insane contract arrangements is that they can be triggered by any significant down turn, not just by a major default. A down grade in a credit agency’s rating of a bank or a nation state will do it. They’re all done in secret, so we have no real idea what the risk really is. It was a cascade of derivative failures tied to consumer debt, mostly home mortgages, that brought us within a hair’s breadth of ending civilization in 2008.

About 15% of Greek debt is held by investors not covered by Greek law, and they can’t be forced to accept the “voluntary” haircut. CDOs are a type of derivative and there are many hundreds of trillions worth of these contracts in existence for all manner of things. The question is whether a Greek default would set off enough of these financial WMD to create an unstoppable chain reaction.

It was only the printing of trillions of USDs by the Fed that kept things going through the crisis, but we have no way of knowing if that will work a second time or not. At least this time around we have President that doesn’t need to have the briefing books read to him while he colors the pictures. Unfortunately, it’s not clear if the people writing the briefs really know what they are talking about. They have had three years to figure it out, and the Dodd-Frank Act gave them authority to do something about it. However, the Republicans in Congress have refused to fund these activities, so we could be looking at the conflagration of all time, but the fire trucks are all up on blocks.

Even if this Greek tragedy is avoided, or this simply isn’t the “big one,” we are still not on anything that could be called the right course. The Euro countries other than Germany are in for a rough ten years at best, and there are those who don’t want a happy ending at all. The same people who have been using the IMF to loot and pillage the third world are doing the same to Greece and won’t stop there.

Here in the US, none of the economic fundamentals have been corrected, everything is still being run in favor of the very few. The only good thing is that more people are catching on to

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the truth of the problem. Our economy really belongs to the very many, and needs to be run that way.

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