The Greek Financial Crisis and the European Timetable

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Now that the Lisbon Treaty of 2009 is behind us, after it was forced through Ireland, after the Irish were told to keep voting on this until they said "yes"; now the European Union moves on to the next item on its timetable. The next step is to create a centralized Ministry in Brussels for Finance and Taxation, thereby further eroding the diminishing national sovereignty of the now twenty-seven member states; and what better way to do this than to organize a specific potshot against the little country of Greece?

After the Berlin Wall fell, the former Warsaw Pact countries have now been Westernized, and so Greece has fallen back to its traditional position in, one could say, the Cinderella portion of Europe, southeast Europe, the Balkans. So, as Brussels may then have decided, here is our current whipping boy, our current scapegoat, Greece.

The Ministry of Finance of Greece website, www.mnec.gr/en, also has several pages in English, and so one can spend quite some time reviewing numbers that have also been sent for many years now as well to the Eurostat Agency in Luxembourg. While doing this, it helps to keep two fundamental formulas in mind as one reviews the summary data from year to year. All numbers are expressed as a percentage of Gross Domestic Product, currently in the neighborhood for Greece of 250 billion euros per year:

Total Government Revenues

less

Total Government Expenditures

equals

Net Annual Deficit (no one saves these days)

Previous Year Government Debt

plus

Current Net Annual Deficit

equals

Following Year Government Debt

It should be remembered that bond auctions are held intermittently throughout each year, and the bidders are foreign governments as well as large, private financial institutions. Such auctions are often held as a previous bond issue is about to expire. Thus, one can certainly expect that these recurring bidders are constantly aware of what the outstanding Greek government debt has just become, and how the new issue now will affect this total. Not only the bidders know each time, but the ratings agencies, Moody, Standard and Poor, and Fitch can also be expected to know, and even the Eurostat Agency in Luxembourg knows.

Now, we can briefly consider how the Greek financial crisis was introduced to us by the western media. After the Pasok Party defeated the New Democracy Party in October, 2009, it was then that the new Prime Minister revealed the suddenly revised numbers. The outgoing Finance Minister vaguely then agreed, and then so did the President of the Bank of Greece.

There has never been any definite announcement as to how the revised numbers came about. There have been vague references to maybe it gradually happened in prior years, but there are no numbers to confirm this.

At the website named above, at the left, one can click Economic Data and Reports. Then click Hellenic Stability and Growth Programme. Here we see annual updates of the Hellenic Stability and Growth Programme, the most recent one dated January, 2010, the previous dated January, 2009. Page 20 of the January, 2009 update, and page 58 of the January 2010 update provide the numbers that seem to suddenly lead to much larger deficits for 2008 and 2009, and so talk about misreporting during prior years to Eurostat becomes incorrect.

The thing to carefully do then is to look at the estimates for the calendar years 2008 and 2009, as they are first presented in the January, 2009 report (update), and then see how these estimates change in the January, 2010 report. The conclusion is that all of the purported damage can be completely localized in this manner.

The revenue number for calendar 2009 drops somewhat going from the (January) 2009 report to the 2010 report, but the real surprise appears in the calendar 2008 and 2009 expenditure numbers as compared between the 2009 and 2010 reports. How can this happen? The major components of expenditures are:

Compensation of employees

Social payments

Interest expenditure

In effect, Other

The surprise bumps for calendar years 2008 and 2009 don't come largely from any particular component. Instead, one might say, the doctor in charge of the numbers has methodically raised each of the individual component numbers in the neighborhood of two percentage points each time, and then we get the financial crisis. For calendar year 2009, in the 2010 report, there is even a gap in the addition to reach the total expenditures number.

The obvious question then becomes, was there more borrowing than usual during calendar years 2008 and 2009 to cover these strangely, belatedly raised expenditure numbers? And if so, what rabbit hole did that money really go into? Maybe a credit default swap derivative on an unregulated futures index? In other words, the financial equivalent of a genuine copy of a fake Dior?

Is Eurostat in Luxembourg really happy with all of this? Or, is there something smug in the State of Luxembourg?

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