



Episode 442: The Fiasco in Greece – And Europe

Guest: Nick Giambruno

WOODS: I had initially resisted doing an episode on Greece for the simple reason that when I do episodes on other countries, people don't listen. For whatever reason, people don't want to listen. I won't do them. And for example, for years, there would be financial – well, maybe not financial newsletters, but political newsletters that would go out in your email that you would always delete. But everybody would delete them if they had the word, "Euro," in the title.

But I finally decided that they do care about Greece actually, because this is such a stunning state of affairs and series of events that have taken place. We have to talk about it. It could have very significant long-term consequences. And of course, internally within Greece, just leaving out the IMF and all the other countries that are involved, Greece itself is a standing warning of course of what not to do. Don't get yourself in a situation like this by adopting a socialist mentality. If they hadn't a socialist mentality, they wouldn't be in this situation to begin with.

You've been writing about this over at Casey Research's International Man website, so give me your overview, how you see things. Over the past couple of weeks, what's going on in Greece? For a man from Mars coming to the U.S., and he's reading headlines, and he doesn't know what to make of what's going on in Greece; he's seen things like, "Capitalism Has Failed in Greece" – I've actually seen that. I think that was in *The Guardian*, that capitalism has failed in Greece. I've seen all kinds of stories about what the problem is. What's the problem?

GIAMBRUNO: Well, capitalism clearly hasn't failed in Greece, because it wasn't in Greece. What has failed and why Greece is so important is that it illustrates so many different themes that are important to everybody – not just to Europeans, not just to Greece. And what has happened here is that Greece has revealed the totally unsound nature of the banking system that the whole world basically operates on. And that's a fractional reserve banking system, so that's something that's relevant to pretty much everybody on this earth.

But it also reveals that this whole bailout model, where you can kick the can down the road and not really be fiscally responsible – you know, all this Keynesianism – it's really shown how that has failed too. So it is not just a little issue tied to some European country that most people have no connection to. It really reveals some of

the larger economic fallacies that are present in the world today, and that's why it's so important.

WOODS: We're talking right now – we're recording this on July 8th, 2015; this will be broadcast tomorrow, July 9th, so in case some dramatic thing happens in the next 24 hours, there are riots that burn down the whole place, we didn't know about them. But we're as close as we can possibly get. We just had this referendum that came out voting "no." What was the referendum all about? I've seen libertarians cheering the "no" vote, and I've seen libertarians exasperated that anyone could possibly cheer the "no" vote. Where do you guys come down on that? So first, what was it all about? And then secondly, what do you think is the correct way to look at it?

GIAMBRUNO: Well it was about the Greek prime minister taking the proposal for these austerity measures to the Greek people for a referendum, so that every Greek could voice their opinion on it. I see it a couple of different ways. I think from a moral standpoint, you know, they borrowed that money, and that's their responsibility to pay for it. But on the other hand, voting "no" – which, you know, they did – also helps reveal, as I mentioned before, some of the unsound economic practices that are in the world today, namely, the fractional reserve banking model and this bailout model, and also the government spending stimulus socialism model, too.

So I think you can look at it both ways, in the sense that, yes, they did borrow that money, and theoretically they should be morally obliged to pay it back – well, the Greek government did. I don't know how you can put that responsibility on every Greek individual, but anyways, that's beside the point for now, because what it's done is it's revealed these cracks in the unsound banking system.

So by voting "no," it really put into question how solvent these Greek banks can be without further aid from the ECB – the European Central Bank – and these other global organizations. They really couldn't stand on their feet by themselves. And we've all seen the images on TV and in the newspaper of people lined up – you know, lines going out around the block, of people trying to get as much cash out of an ATM or a bank as possible. And that just shows you, the bank – not just the Greek banks; it's basically all the banks in the world – that when you look at a conventional bank, they don't have all the customers' deposits. It's really kind of strange.

So if everybody came and asked for their money back, it's not there. And it doesn't have to be everybody; it just has to be a fraction. 10%, maybe 5% will cause a bank to collapse, because it's practicing what I would view as a fraudulent practice of unsound – of fractional reserve banking. I don't need to get into the nuts and bolts of that, but essentially, they are lending out more money than they can give to the depositors if they come and demand for it, demand their cash. And there's a really good article on the International Man site, called "Unsound Banking," that I can send to you that you can link to that really gives good explanation of that. So it reveals that.

It also reveals that the whole idea of bailing out Greece didn't work. They just kicked the can down the road. And if they're going to find a way to negotiate further bailouts,

it's not going to fundamentally solve the problem. It might delay the problem a little bit further.

But the "no" vote — the idea behind the "no" vote, so that the Greek government could go to the negotiations and say, look, I've taken your demands to the Greek people, and Greece is a democracy, and they've rejected it. So what do you want me to do? Do you want me to act like a dictator and impose these austerity measures, which have been democratically rejected? He thought that would give the Greek side more negotiating leverage. Now where we are right now, it remains to be seen if that's the case, or whether the Europeans will just walk away from it. So we don't know what is going to happen.

But I would also differentiate: defaulting is not the same as leaving the Eurozone. There are other geopolitical reasons that might trump economic reasons to keep Greece in kind of a Western orientation, in the EU, the Eurozone, and so forth. And you've seen the Greek prime minister flirting with Putin a little bit, too. And Greece is a strategic country; it's a NATO country; it's in a strategic area. So at the end of the day, you could possibly see geopolitical concerns trump economic concerns, and they might cave in to Greece and say, look, we'll meet some of your demands, and you can effectively stay in the euro, and we'll kick the can down the road a little further. So that's where the situation's at today.

WOODS: Let me read you an excerpt from an article by David Stockman, who's been a guest on this show a number of times, and get your thoughts on it. I mean, the whole article should probably be read.

He says, "A clean default on this massive burden of official debt is in order for two reasons. First, Greece's government never asked for the giant bailouts of 2010 and 2012 which transferred their onerous debts to the world's taxpayers. The \$250 billion outstanding was forced upon them by Brussels and IMF officialdom in order to protect the German, French, Dutch, Italian and other banks; and to insure that when the markets opened on innumerable Monday mornings, there would be no inconvenient turmoil on the stock exchanges or in the bond pits.

"Secondly, the troika" — he's talking about the ECB, the IMF, and I guess the EU — "cannot give honest debt relief anyway. That's because officialdom is now petrified of their own taxpayers—whom they have betrayed and baldly lied to from the very beginning."

And then he goes on and talks about how much these struggling economies — when you look at Italy, which is buried under a 130% debt-to-GDP ratio, and France, which is in a terrible shape — they're on the hook for this, and they can't turn around and go to their taxpayers and say, well, we've relieved the Greek debt. So he's talking about all of this.

So he's saying, in other words, that overwhelmingly, it's either governments or institutions that are connected to governments like the ECB that are really the

institutions that are now caught up in the Greek debt. And his view is that Greece can't possibly be saved by any package they could come up with anyway, and the whole rotten system of other governments bailing out other governments ought to just come to an end and crash down once and for all.

GIAMBRUNO: Yes, I completely agree with that. And it's also the morally correct thing to do, because you look at all this debt, and it's all strapped on the backs of the Greeks for generations to come. And really, like David said, a lot of these Greeks didn't ask for this crushing debt. So yes, I think that would be the right choice to do.

I don't think they're going to do it, because as you mentioned as well, it will also encourage citizens and other governments that are much bigger than Greece to say hey, look, we've got a lot of debt too. Why do we have to pay off this debt? And that could call the whole EU system into question. And that's not what the people in Brussels or the people in D.C. want to happen. They want to keep a strong, unified, and stronger centralized bureaucracy in Europe that gives them geopolitical leverage. So that is — they should do it, but they're not going to.

WOODS: You have an article in which you talk about capital controls in Greece and a bank holiday. These sound a lot nicer than the realities really are. A bank holiday — maybe it sounds like a nice thing. What exactly is going on there, and why is the regime doing these things? Why does any regime do those things?

GIAMBRUNO: Oh sure, and it's actually really interesting, because it's a textbook example of government propaganda. It's obviously not any sort of holiday where you'd be celebrating — you know, popping champagne or shooting fireworks off or anything like that. It's not a happy thing. I've compared it to calling getting mugged on the street a surprise party.

So what happens with a bank holiday is where they come out in a surprise and shut down the banking system. And that means you can't access your funds like you were able to. It's kind of scary. Imagine you not being able to get the money you need to pay for the electricity, to pay for food, and so forth.

And this is always interesting, because whenever there is something like this, you always have government officials come up on TV or they come up on the media, and they deny that oh, no, we'd never consider a bank holiday or capital controls. This'll never happen. You're crazy; why would you say something like this? And in fact, this has happened so many times over. So whenever you hear a government official or a central banker deny that something bad is going to happen to bank depositors, it's probably going to happen, and it's probably going to happen soon. Just the fact that they're out there denying it is a big clue.

WOODS: Well, what are these things? Define them for the laymen.

GIAMBRUNO: Oh, sure. Well like I said before, a bank holiday is just where they shut down the whole banking system on a surprise. So you can't access —

WOODS: Okay, so how does that benefit them? I mean, I guess — I know it's obvious, but maybe it's not for some people.

GIAMBRUNO: Well, capital controls and a bank holiday is all about optimizing the amount of money or wealth that's available for a government in crisis to steal, simply put. So when the banking system is shut down, the money can't leave the country. Anybody in their right mind wouldn't want to keep their life savings in a Greek bank right now, because there are so many examples in history where a government gets into financial trouble and they'll devalue the currency; they'll raise bank accounts; they'll levy taxes on bank deposits. These things happen.

So the reason a bank holiday has to come as a surprise is because they have to catch people by surprise. Because if people knew a bank holiday was coming they know things are much worse than the government and the media is letting off, and they would get the money out of the country. The government doesn't want this of course, because they want to optimize the amount of wealth that's available for them to harvest in these cases.

Now capital controls are very — they often come with a banking holiday. And simply put, capital controls are just restrictions on moving money outside of the country. They can come in all sorts of shapes and forms, but that's basically what it is. It's to prevent money from leaving the country. They could come in the form of a tax: they might say, hey, you can take money out of the country, but you're going to pay a 20% tax on that money. They could say you can't take *any* money out of the country. So there are a couple of variations on what they can do, but it's basically restrictions on the free flow of money out of the country, and it's always a sign that things are not good.

WOODS: So what exactly is going on in Greece with regard to this? So how would that affect the average person in Greece, to learn that this has been imposed?

GIAMBRUNO: Well, they would be limited on the amount of money that they can get. They wouldn't be able to — for example, if they had a bank account in Germany, if they had a bank account in Italy or Switzerland, they wouldn't be able to move money from the Greek bank account to the foreign bank account. And when it's in a foreign bank account, it's out of the reach of the Greek politicians, so if they decide, oh, we're going to tax bank deposits, or we're going to confiscate bank deposits, or we're going to have a bail-in like they had in Cyprus, they can't reach money that's in an offshore or foreign bank. That's exactly one of the main reasons why you would want to do that if you live in a — not just Greeks, but anybody who wants to diversify their political risk, and especially people who have governments who are fiscally irresponsible. T

hey would also be limited — and they are limited. The banking system is literally running out of cash in Greece, because they are allowing limited ATM withdrawals; I think its 50 or 60 euros per day at the maximum. So people are just taking all the money that they can out of the ATMs. And because of this fractional reserve banking

system, these Greek banks don't have all the money — if even a fraction of the depositors demand cash, the whole banking system will come down, because banks simply don't have that cash. They've lent it out on a scale much larger than just simply taking in somebody's money as a deposit and loaning it out. There's not much money there.

So it doesn't take much to tip over the banking system, and that's what's happening now, because if the Greek banks — you know, we're talking now on July 8th — if the Greek banks don't get an infusion of cash, they're going to run out of money, and they're going to be — they are insolvent, but it'll be apparent, their insolvency, in a matter of days. So that's what happens, and that's also exactly why one would want to diversify to mitigate against this risk, because really it can happen anywhere where a country falls into financial and economic troubles.

WOODS: It's interesting, as we were saying earlier, that we can be in a situation in which officials in the Greek government reach conclusions that are not terribly remote from the conclusions that somebody like David Stockman is reaching, albeit for different reasons. And so I, for example, can look at this and say I feel like the Greek regime is just corrupt through and through, and the political culture of Greece is rotten to the core with socialist so-called morality defining it and putting the Greeks in this position. It's their own stinkin' fault that they're in this position.

But at the same time, I would like to see Greece default, because up until now, there has been a falsification of risk. Because people think that a regime like Greece simply can't possibly default or it will always be bailed out, so we will continue to make loans and make loans and make loans. And one way or another, we'll see if we can get these loans onto the backs of taxpayers at one point or another. But maybe if Greece does default and does stiff the creditors, then this sends a message that you do actually have to engage in risk calculations once again when you make loans. And you cannot assume that so-called sovereign debt is somehow sacred and that there will always be an accommodating bailout package.

GIAMBRUNO: Yeah, I completely agree. That is a sound analysis, and it is rather interesting that two people at the opposite ends of the kind of individualist and collectivist spectrum can come to the same conclusion, like you said, but for very different reasons on this issue. But yeah, I agree with David Stockman. I think that is very important that they default. But like I mentioned before, I think they should do it, but I don't think they will do it.

WOODS: Let me ask you about Doug himself. Everybody understands that you're not him and he's not implicated in anything you say, but I am curious about what Casey Research in general is thinking about this, because I know you have a slogan that may be borrowed from somebody else — it may be Doug's own slogan — about the time to invest is when there's blood in the streets — it was something like that. That in other words, there are times when everybody else would be scared away. That's your time to capitalize. Is there any upside in Greece? Is there anything to do in Greece other than run away?

GIAMBRUNO: Well, actually, surprisingly, there is. And it is an interesting quote, because it really captures the essence of what Doug and I are involved with also, and that's looking at markets in crisis around the world and investing in them — crisis investing. It's really where you can pick up some remarkable bargains on quality companies.

So where in the world would anybody want to invest in Greece? No, there is actually one industry in Greece that the Greeks have been — you know, it's in their blood; they've been doing it for hundreds of years, thousands of years, and that's shipping. And it's also interesting, because this is a business that's completely out of reach, as of now, of the Greek government. It's not taxed, because all of the operations happen offshore all around the world. So the Greek government can't tax it. And they also have an arrangement with the industry that they can't tax it. And if the Greek government decided one day, oh, I guess we do want to tax it, well it's very easy for those companies to just up and move to Dubai or to Singapore and so forth.

So I think there's a good chance that they're going to keep their favorable status. So the way to look at it is, if you can find — and the shipping industry has problems of its own, but there are a few bright spots in it. And if you can find those bright spots, and you can find the quality Greek companies that are beaten up from this crisis but have nothing to do with it, are not going to be affected, we think you can look at it and find some good bargains in that area.

WOODS: So is that what International Man is all about? It's going around the world to look for places to invest, and it's also about going around the world, though, to take what you have earned from those investments and diversify where you've got them — just give us another — because I know we talked about this in the past, but I'm increasingly interested in this sort of subject, and I know my listeners are as well. Tell us what exactly it is that you guys are up to with this International Man project.

GIAMBRUNO: Sure, yeah, well finding the best investments around the world — that is certainly part of it. It's not all of it. The main idea is to diversify your political risk or diversify your exposure to any one country so that you're not dependent on it. And in that way, you can live much freer. And that doesn't mean you have to move and leave the U.S., for example, but it means maybe some of your money does.

And having some money stored in a safe banking jurisdiction just kind of makes sense no matter what. Why would you want to keep your money in an unsound U.S. bank that is highly leveraged in a banking system, where the FDIC, if there's even one major bank that goes bust, they can't cover all of those depositors. So it's not really that safe of an environment.

And plus, you can put some money that's out of reach — not totally out of reach, but it puts up some pretty high hurdles for the bureaucrats in your home country to get. SO it makes sense to look at banking in sound jurisdictions in any case. So yeah that's part of it.

It's also about looking at ways to get multiple citizenships, second passports, and that kind of stuff. And when you have multiple — and again, this doesn't mean you have to leave — but when you have second citizenship — I have an Italian passport, for example, because I have Italian heritage, and I was able to claim citizenship there — you know, it gives you options if you ever want to work, invest in different countries around the world. And it's basically all about reducing your dependency on any one country. And that way, you really can live a freer life.

WOODS: Well, the show notes page for today is TomWoods.com/442. We will link to InternationalMan.com — of course, I've just said it, so maybe you'll remember it, but we'll also link to it there. We'll link to the article you mentioned, "Unsound Banking"; we'll link to the article you sent me little while ago that you wrote about the situation in Greece. I'll link to David Stockman on Greece, and we'll see if we can dig out one or two other things. So that will be the place to go, the clearing house for this episode, TomWoods.com/442. Any parting words from Nick Giambruno before we say goodbye?

GIAMBRUNO: No, I think we covered pretty much everything. And yeah, I think the situation in Greece reveals a number of lessons that we've talked about. But first and foremost, it shows the need to internationalize and really reduce your dependency on any single country. And the Greeks had ample time to just do the most basic step, and that's open a bank account in another European or EU country. And they had *ample* time to do this. They had *years*. And if they would have just taken that simple step, they could have really protected themselves from what is to come, and it looks like what is to come is not good for the depositors in Greek banks. So it's a lesson to take action now before it's too late.

WOODS: Well, stirring parting words indeed. Nick, thanks again for being with us today.

GIAMBRUNO: Yes, thank you, Tom.