artax
N E W S L E T T E R

23.05.2017

Dr. iur. Bernhard Madörin
Tax and trust expert
Licensed audit expert RAB
Licensed insurance intermediary FINMA

Carrying owls to Athens – when the Euro supports Greece

Dear Sir or Madam,

In ancient Greece the drachma was a European world currency with an owl on the coin. The German saying "carrying owls to Athens" (γλαῦκας εἰς Ἀθήνας κομίζειν oder γλαῦκ' Ἀθήναζε ἄγειν) implies an unnecessary activity. It goes back to the ancient Greek poet Aristophanes who coined this phrase in his satiric comedy "The Birds" in around 400 BC (Wikipedia). The silver Drachma had been highly sought after all over Europe and stood for quality, value and stability. Anybody arriving from anywhere in Europe to the then world centre of Greece with drachmas "carried owls to Athens".

Today we carry Euros to Athens
The Greek national debt is almost double the value of the Greek gross domestic product. Throughout Europe, national debts are between 100-200% of GDP. China, Japan and other Asian nations supply similar figures, as does the USA. However, what nobody mentions: How will those debts actually be paid off?

The previous national currencies allowed for inflation of 5-10%. This allowed a country to pay off debts in 10-20 years. The side effect was increased interest rates, but at the end of the day, debt rehabilitation via price increases was part of the whole picture. However, with the introduction of the Euro, the European national debt situation has changed. Countries within the Euro-zone are no longer able to practice a country-specific currency policy. The Euro has enmeshed all Euro countries, regardless of an actual country-specific situation. The Greek Euro is on the same footing as the German Euro.

The press tells us that the financially strong Euro countries carry the main burden of the EU. This is only half as dramatic as it sounds. They also profit from the main advantage of the Euro community. A single currency should function on the basis of a homogeneous market, as with the Swiss Franc since 1815, and with the US Dollar. However, it is a different matter with the Euro. The Euro was not created to supply a homogeneous economic area with a single currency, but to create a homogeneous economic area – something it has failed to achieve.

The current national debts face two problems
The first of these problems is that nobody can even approximately explain how national debt repayment can be achieved. The general consensus is that all assume it is so, and that all countries have to live with it. That many countries can only survive by continuing to run up debt is ignored. This means an increase in national debt for the USA, for Japan, countries in Europe, Africa, Asia, Middle East, and so on.

The second problem lies in the fact that national debt cannot be measured accurately, due to a lack of clear and concise accounting standards. If, as an example, Switzerland decided to include as liabilities all future pension obligations by old age and survivors' insurance as well as those of private pension funds, then national debt in Switzerland would be around three times as high as what had previously been published. If it were mandatory for countries to include future contractual obligations under liabilities, then national debts would increase by two- to five-fold from that currently declared. This would happen if, for example, South Korea needed to include the reunion with North Korea in the balance sheets, China its debts to its worker and farmer generations, Greenland for the melting of the Arctic ice, and so on.

Currently we carry the burden of the financial crisis
Black Monday on Wall Street and share prices plummet. With the crash of investment bank "Lehman Brothers" on 15 September 2008, the financial crisis reached its peak – thousands of staff needed to leave their offices at the world's fourth largest investment bank. The worst crisis since Black Friday 1929. What followed as a consequence of that crisis was World War II. A similar consequence had to be avoided. In a concerted effort, notable central banks supplied the economy with cheap money. For the last ten years, all over the world, we have had the lowest interest rates, even from a historic point of view. Fortune tellers are convinced that such a crisis will last 20 years, half of which is already a thing of the past. Currently, interest rates in the Euro region remain low, whereas interest rates in the USA are slightly on the up. Thus, it is quite likely that, within a period of 5 to 10 years, we will have a standard interest level of 5%. Switzerland will continue to stick to negative interest rates, to avoid being attractive as a currency of safe-haven. With rising interest rates, a country's indebtedness will again be responsible for interest forming the major part of government spending. Financial expense will thus replace expense on public services.

Conclusion
It becomes clear that no country gets a boost from the Euro, with weaker countries like Greece particularly suffering. We have no idea where this journey will lead. Even the ancient Romans had no idea, and the implosion of the Western Roman Empire in 395 AD created the gloomy Middle Ages. The cause was a climate change. After a warm Roman period, a minor ice age followed. Today we are living in a hotspot. Looking back 25'000 years, the temperatures had been similar and sea levels around seven metres higher than now. So why should we care about low interest and a few national debts?

Kind regards
artax Fide Consult AG

Member of Morison KSi

Gartenstrasse 95, Postfach, 4002 Basel
Tel: +41 61 225 66 66, Fax: +41 61 225 66 67
info@artax.ch, www.artax.ch