

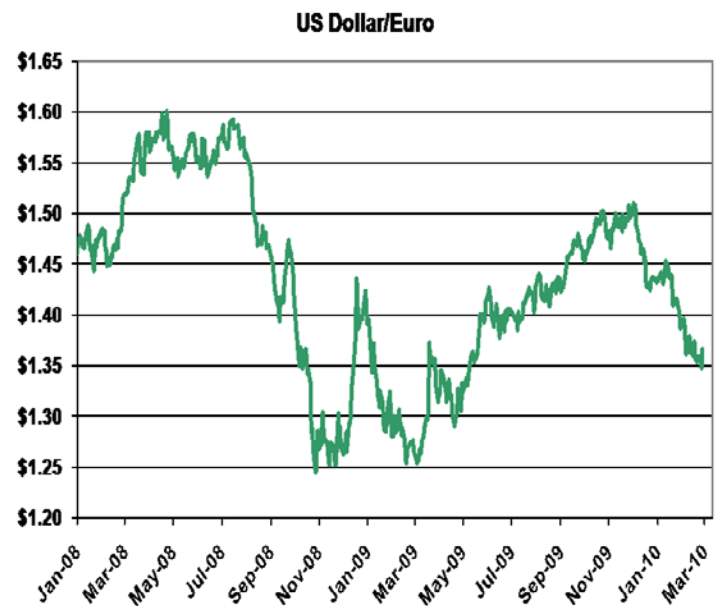
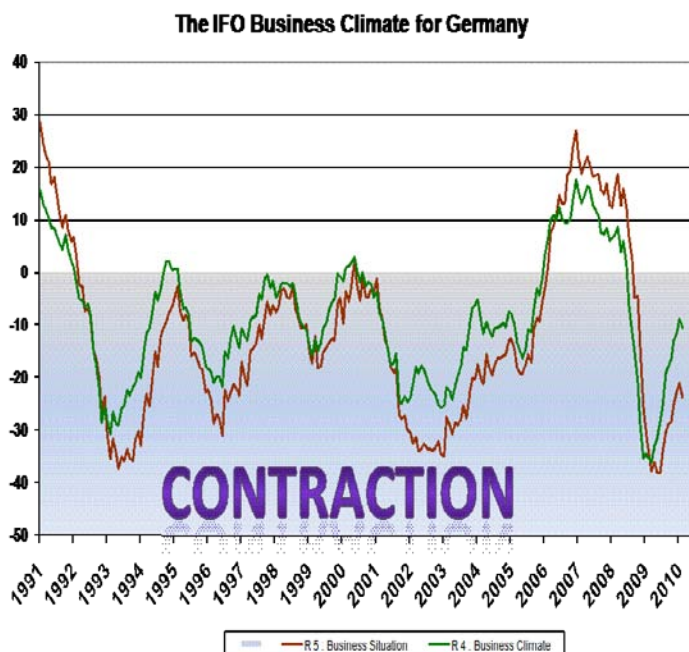
Cales Investments, Inc.

Member NASD / Member SIPC

February 28, 2010

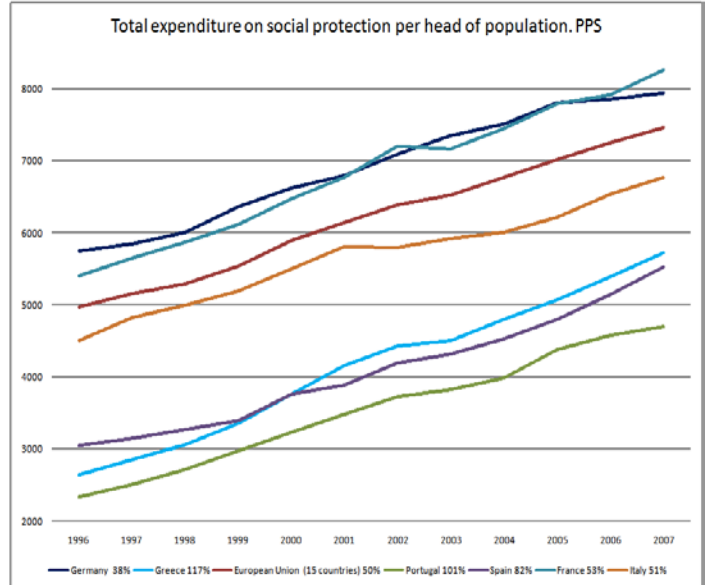
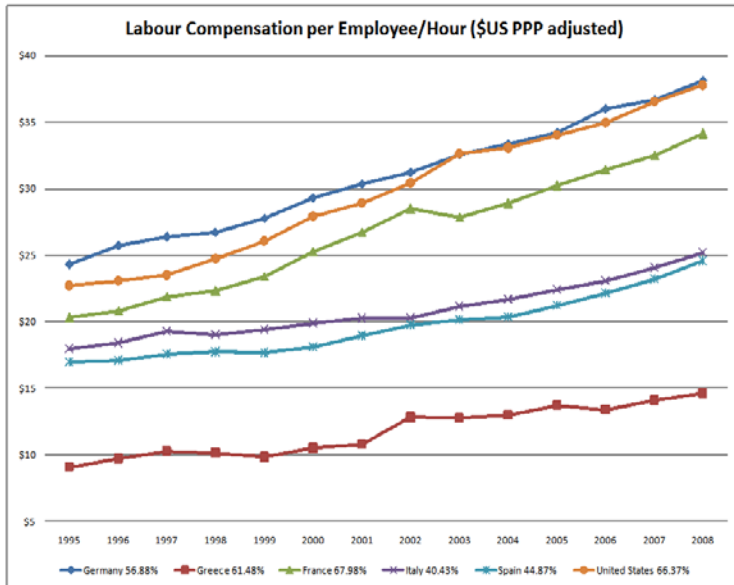
Greek to Me

I guess it was Germany's fault all along - and Goldman Sachs' of course. [The Germans stole the Greek gold](#) during WWII, thereby subjugating the Greek nation into providing a life filled with sun, beach and dance to the German workforce, who vacationed on Greek islands in Greek hotels at exorbitant prices every year. Year after year for 50 years they came, appreciating nothing, especially not the country's role in creating civilized minds in the western hemisphere. (The cruel fate of men with independent thoughts like Socrates, for example, is to this day a valuable lesson to be learned by every politician around the world.) After thus having exploited their Greek hosts by paying too much while being insulted in a foreign language, but having regained their productive powers in only two weeks, the evil Huns then returned north and proceeded further in their quest to outwork and out-earn the rest of Europe. Truly a devilish plan. WWII was just a scouting mission for what came later. I guess if Germany wants to continue in its evil ways, it has to pay the ransom to the Greeks, or else - the German workforce will be stuck at home. Revolts would be inevitable. After all, no Spanish, Italian or Turkish ruins around the Mediterranean are as educational as a Greek ruin that was aged further and better by acid rain and neglect. In Spain meanwhile, Prime Minister [Zapatero accuses evil speculators](#) to run the country into the ground. The silliness knows no bounds. No wonder the [IFO German Business Climate Index](#) dipped in February.



No wonder the Euro continued to decline. Negotiations and brainstorming throughout Europe are continuing. Germany wags the index finger in fiscal righteousness, while Greece is raising the other finger in indignation. God knows there is enough chauvinism in this world and I denounce it wherever I discover it. I try to be a citizen of the world, but really, the Greeks even managed to offend me. Perhaps it is my German heritage that is offended. Be that as it may, we need to find out what it all means. Europe faces a horrible dilemma. 16 nations have one currency but not even a common bond market. 16 nations have a common currency yet wide disparities in hourly wages, productivity and accounting standards. Prior to the advent of the euro, countries would devalue their currency to recoup (at least momentarily, before inflation ate it away) some competitiveness. That road is blocked by the European Monetary Union. Now Greece, Spain and others are bound by the golden chain that they wanted so badly around their necks. Ultimately, it all comes down to competitiveness. Germany has it, Greece does not, so there. But the current worldwide deflation and the problems caused by it are not about Germany and Greece.

They are not about two countries or two different lifestyles. We have to go broader, more global to get to the root of all this. I have often mentioned [GaveKal](#) and their most excellent, insightful work. Let me quote from one of their newsletters: *“Since 2004, we have been writing about ‘The Circle of Manipulation’ which saw Asian governments, still traumatized by the long shadow of the Asian Crisis, manipulate their exchange rates, thereby depressing interest rates in the West and subsidizing a) US consumption and b) European government spending. Over the past few quarters, it has become obvious to all that this Circle of Manipulation has come to a crashing halt. This is not because Asian governments stopped manipulating their currencies and elected to favor their domestic consumers over their domestic producers. Instead, the Circle of Manipulation broke down because the US consumer and European governments simply choked under the weight of excess debt. So the party did not end because the booze ran out, but because the participants started to develop potatorum tremors.”* This makes perfect sense to me. Asian countries tied their currencies to the USD, thereby reaping the benefit of fixed exchange rates with lots of exporting convenience and huge current account surpluses that were recycled into the bond markets of this world, especially in the US and Europe. This in turn enabled European governments to buy their citizens lots of social security and thus get reelected. Let’s take a look at the graphic representations:



Labor compensation in the western Hemisphere has been rising almost uniformly since 1995. The lowest increase took place in Italy with 44% and the biggest increase took place in France with 67% followed by the US with 66%. These are almost identical increases if one annualizes over the 13 years. Now look at the second chart above. Total expenditure on social protection per head of population* increased in only 11 years by over 100% in Greece and Portugal and by 82% in Spain. No wonder those countries are in trouble. They doubled their welfare programs in eleven years, while their GDP grew by only 50% in the same period. European governments (especially “Club Med”) and the US consumer are now waking up with a giant hangover. Social security is no longer the carrot that gets politicians elected. It now becomes a test of brain and spine for all those who want to feed at the public trough. In that regard the Greeks are shooting themselves in the foot, if they adopt the blame game as a solution. It is interesting in this regard also, that [Payscale.com](#) lists [government salaries in Germany](#) according to job function whereas [government salaries in Greece](#) are broken down by “Years Experience”. One third of all employees in Greece work for the government and therefore have every incentive to cooperate with a system that does not even know how to tabulate -, much less collect taxes. The longer they work there, the more experience they have and the more they have to lose. There are lies, damned lies and Greek statistics, I guess. It looks like I am turning chauvinist over this after all. My apologies are offered to all who I may have offended.

Hermann Vohs

* Expenditure on social protection contain: social benefits, which consist of transfers, in cash or in kind, to households and individuals to relieve them of the burden of a defined set of risks or needs; administration costs, which represent the costs charged to the scheme for its management and administration; other expenditure, which consist of miscellaneous expenditure by social protection schemes (payment of property income and other).