



“To preserve their independence, we must not let our rules load us with perpetual debt. We must make our decision between economy and liberty, or profusion and servitude.”

Thomas Jefferson

Our Founding Fathers recognized, and history has proven them prescient, that in order to build a new and everlasting republic it had to be built on the basis of sound fiscal management. We have been witnessing a tragedy in Greece where perpetual and growing debt has come to a breaking point. The question now is whether the fall and decline of Greece will be the catalyst to knock the global economy back into recession.

The European Union is doing its utmost to prevent a domino effect triggered by a potential Greek default. The \$1 Trillion rescue package was not so much in answer to the apprehension of the small economy of Greece faltering, but rather the concern that it would then leak to the other PIIGS (Portugal, Italy, Ireland, Greece and Spain) nations. Indeed, all of these nations owe more than their annual Gross Domestic Product (GDP) and have annual deficits above 10% of their GDP. Clearly, there is significant concern that this debt will lead to the collapse and disintegration of the European Union.

The potential collapse of the European Union is worrisome. The rescue package is enough to stave off the collapse in the near term; however, the collapse of the Euro, and thus the European Union, may only be a matter of time. This is true because the interests of each of the 16 European Union Nations are unique to themselves. German citizens do not want to bail out the excesses of Greek citizens and Greek citizens do not want to accept the austerity measures being imposed on them. Yet, in order to save the entire European Union, it is necessary to assume responsibility for the extreme recklessness of the PIIGS countries by issuing more debt in their common currency. In Greece, there are more takers than makers; that is, there are more citizens taking from the government than there are paying taxes. 40% of the Greek workforce are employed by the government and are allowed to retire at full pay as early as 52 years old. The Greek government has promised more than they can deliver and now the populace is upset that they can't have all that has been promised to them.

Moral hazard is the idea that a party behaves differently if they do not have to pay the consequences of their actions. The Greek bailout is perpetuating this theory, at a price of piling more debt on top of a mountain of existing debt. The Euro has lost 20% of its value since late last year with little prospect for recovery. As the Euro continues to lose value, countries that have been relatively more responsible will begin to wonder why they subordinated their sovereignty to the European Union. They will clamor to withdraw from the Union and restore their sovereignty with the issuance of their own currency.

The Greek Tragedy is only in its first act, with the final act still years into the future. It is yet to be determined if the Greek Tragedy will become the European Union Tragedy, with the death of the Euro as the final cataclysmic scene. But certainly this will be the result if the on-going annual deficits for the European Union nations do not improve dramatically.

Meanwhile, it should be expected that the bailout has also bought time for the global economy. Yes, Europe will have a slower growing economy with the austerity measures being put into place, but the new debt will grease the wheels of commerce for a bit longer.

In the United States, the leading indicators are still clearly bullish and corporations have begun to hire in anticipation of continued growth. Many large U.S. companies have significantly improved their balance sheets and most of the large multi-national companies are sitting on hordes of cash and trading at very reasonable prices. This is not the time to sell these companies.

The United States must learn from this tragedy and get its own fiscal house in order. Thomas Jefferson said it so well, that the choice of liberty or servitude is directly linked to our decisions of living within our means or living in profusion.

Thomas W. Wirth, CFA
Senior Vice President &
Senior Investment Officer