Understanding the Greek mess. By Greg Canavan, for *The Daily Reckoning*.

Years ago, Greece got screwed…bigtime. Or I should say ordinary Greeks got screwed. Since joining the EU in the late 1990s, Greek politicians ran up enormous debts and international bankers were only too happy to lend them the money.

After the global crisis in 2008 the markets turned on Greece. Lending stopped and interest rates skyrocketed. The country then had a number of 'bailout' packages, which were all about paying money to Greece so Greece could in turn pay its creditors.

While some creditors did get a 'haircut' — meaning they lost some of the money they loaned — it wasn't much in the scheme of things.

The haircut was a sop in order to get a massive bailout package through. But it was Greece's creditors (not Greece) that received the bailout funds. The 'Troika' — made up of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) — loaned Greece billions at below market rates in return for committing to a policy of austerity to get its financial house in order.

In addition, the Troika bought up a huge amount of Greek government debt — for much more than it was really worth — rewarding those debt holders speculating on a bailout.

These actions avoided an immediate crisis but now the 'Troika' hold around 80% of Greece's debt, which in total amounts to around €320 billion, or a massive 175% of GDP.

I want you to be clear on what happened so current events have some context: Greece still has a massive debt burden. Its bailouts didn't lessen that burden…they only improved the terms and the interest rate.

The only bailout was for the speculators and bankers who misjudged the risk in lending to Greece in the first place. The Troika 'saved' Greece merely to keep their cushy jobs in Brussels and the euro experiment alive.

Despite what you may read or hear, the European experiment needs Greece much more than Greece needs Europe.

This is nothing new. Greece was under the rule of the Ottoman Turks for around 400 years. When it finally won independence in 1832 (following a decade long war) the major European powers moved in to assert their control.

They created a constitutional monarchy and put the Bavarian Prince, Otto, on the throne. Thus the newly independent nation of Greece had a German King as its head!

Nearly 200 years later, and Europe is still using Greece. This time, they are making sure the Greek people pay for the failed risks taken by bankers and speculators.

The austerity policies <u>have</u> improved Greece's finances. The primary budget (which doesn't include the effects of interest payments) is in surplus and the country also runs a trade surplus.

But this has come at a massive social cost. The Greek people have had to endure a depression for years. Austerity has ripped holes in the country's social fabric, and left record numbers of young people unemployed and without hope.

Yet massive debts and years of hard work remain, all to pay back creditors who got it wrong and weren't penalised.

With their promise to repeal austerity policies and reduce the debt burden, no wonder Syzria got elected. Now the question is whether they follow through with their promises or whether they succumb to the bribes from the EU and continue in debt slavery.

Judging from the market's reaction, debt slavery for Greece will continue. The market isn't too bothered by Syzria's win. That's because the Troika owns the majority of Greece's debt, so there isn't a risk of panic selling right now.

And the ECB's new QE policy, announced last week, will create another liquidity backstop when it comes into effect in March. It wasn't a coincidence that the European establishment announced QE just ahead of the Greek elections, it was necessary to maintain confidence in the system.

So for now, Greece isn't a concern and markets (including Australia's) remain in a post European QE glow. But if Syzria pushes ahead with its plans to reduce Greece's debt load, expect volatility to increase.

The problems are as much political as financial. As I mentioned, the Troika owns 80% of Greece's debt. If Greece defaults, it's ultimately the taxpayers of Europe and the US (via the IMF) who will take the hit. Germany in particular is the main backer of the Troika.

Germany won't agree to a large write off of debts. Any concession is not likely to be enough to allow Greece to recover and remain in the euro.

We're not dealing with financial markets here. We're dealing with politicians and unelected bureaucrats desperate to maintain an unworkable system. That these people are willing to sacrifice Greek society to achieve their aims tells you a lot about who they are.

So be prepared for a coming fight between the creditors and the debtors. This will lead to investment market volatility in the months ahead. If the Greeks do abandon the euro, the whole project would come crashing down as Spain, Portugal and Italy would be next.

This would increase the flow of capital into the US dollar, giving further momentum to the US dollar bull market that I discussed yesterday.

This in turn will create additional volatility in commodities and emerging markets holding huge amounts of US-dollar debt.

You can thank years of money printing for all these problems. The system is straining at the seams, unable to handle such gross mismanagement.