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For Greece, it's Deja Vu All Over Again

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John Trever. New Mexico. *The Albuquerque Journal*. 10 March 2010

In 1865, four European countries decided to form a monetary union. France, Belgium, Italy, and Switzerland formed what is known as the Latin Monetary Union.

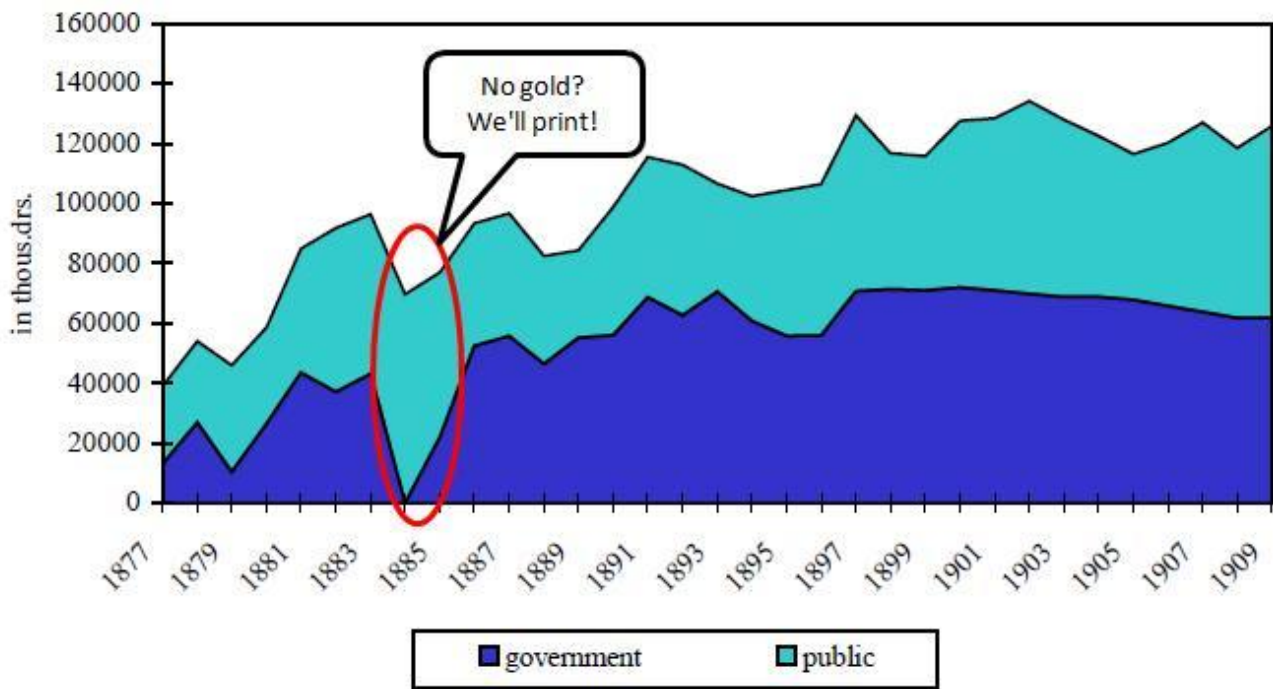
This union was to be a bimetallic monetary system. Although it had no common currency, the French Franc was the international store of value, and the Banc of France was the lender of last resort. All national silver & gold coins were allowed in settling domestic transactions. Incidentally, the fixed parity of silver to gold was 1:15.5.

Great, a monetary system set up to promote stability and commonality, sounds like a good idea -- Enter Greece. In 1868 Greece joined the LMU, and from the very beginning it couldn't keep its act together. Fresh off a default in 1843, Greece thought it a good idea to join such a union and presumably rebuild its creditworthiness. Sure, they would honor the full convertibility of all paper money into gold & silver, keep budget deficits in check, and overall comply with the rules of the union - right?

Not so much. Greece immediately began to issue fiat money, and stopped converting their paper into gold and silver. Then they began to spend, spend, spend. By the mid 1870's, Greece was in political turmoil, and they were seeing deficits skyrocket as revenues declined (sound familiar to anyone?). Since they had defaulted already, they were shut out of credit markets, so they decided the only way to continue to survive would be to print more paper money and issue it from their own bank.

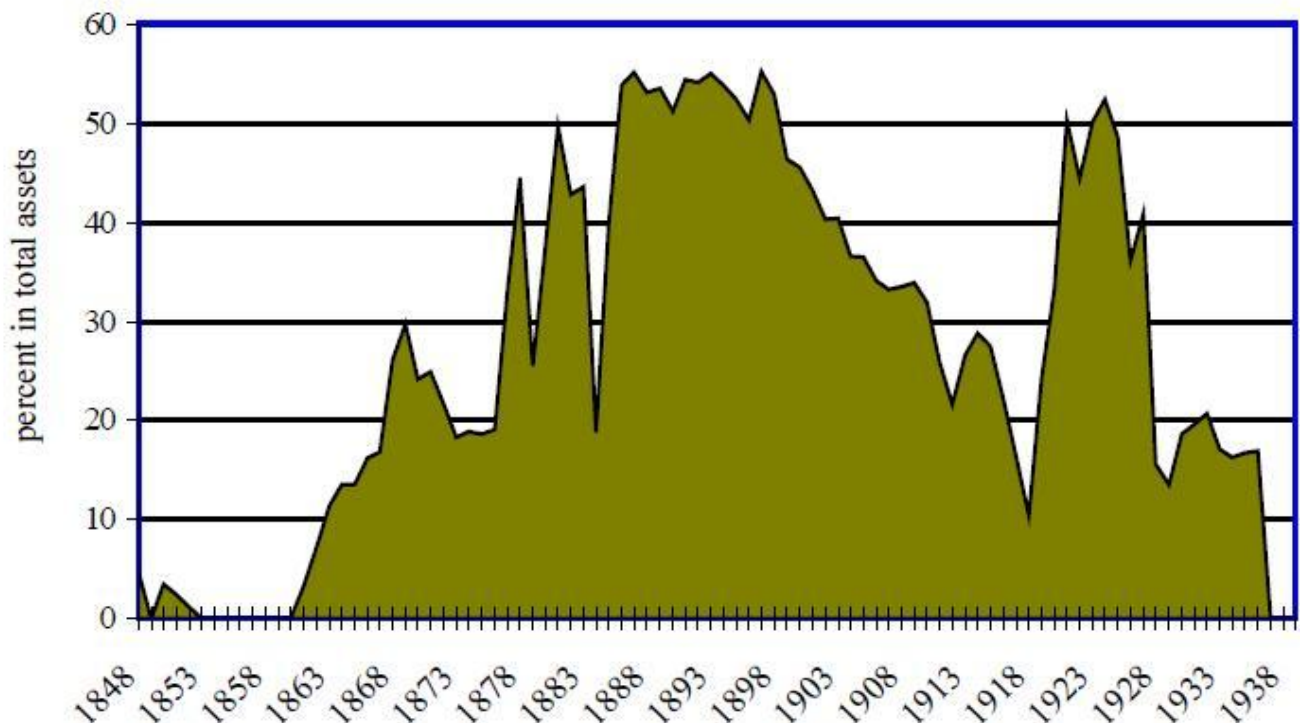
Here's a visual of what that looked like - as you can see, the gold & silver had left the country as the convertibility began to stop, and being that they were shut out of the credit markets, they literally had no choice but to print.

Figure 3
Banknote Circulation, 1877-1909



And just so you're aware, central banking has been around for a long, long time. Here is a visual of how much Greece's national bank loaned to the government back then, just so they didn't have to control spending, work, or tax anyone (kind of like today).

Figure 1
Domestic Debt, 1848-1939



Greece was able to settle their previous default by 1878, and Greek bonds were back on the London stock exchange. Lesson learned right? Eh. A short fifteen years later they were in the exact same deficit spending hole with no end in sight. So, they decided to again stop payments servicing external debt... and they again defaulted.

The LMU eventually dissolved ~1925-1926, and Greece went on to peg the Drachma to the British Sterling.

The point of the story is that history will repeat itself, and Greece will always be looking for the next free ride. A way to start again with a clean slate. Wiping away their insane deficits & ignoring the spending habits that got them there. **The current situation within the European Union should not be a surprise to anyone.**

So the question is, what's after the Euro?



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