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Subject: Myths of Today

Date: Tue, 13 Apr 2010 18:21:13 +0000

Myths of Today

Asher B. Edelman

New York, April 13, 2010

Dear Friends,

Myth #1 - Greece

30 Billion Euro commitment will solve the problems of the Euro currency zone.

As was the case with the American banks, the number 30 billion was put forth as the salvation of the system. At the top the U.S. government (taxpayer) exposure was about \$12 trillion. In April of 2008 we put forth that the number would be at least \$3 trillion. We were wrong by \$8 trillion. The Greek needs are yet to be determined but they are not 30 billion Euro!

I will venture to say that the weak, maybe, what if commitment by the Euro currency zone of 30 billion Euro and the possible IMF contribution WILL NOT SOLVE THE GREEK PROBLEM. The Euro currency zone, as constituted originally and continued today, with one currency and no Federal Reserve equivalent, is not equipped to deal with countries that go off track. There are three scenarios I envision as possible results of the Greek issues.

First, and perhaps most practical, Greece withdraws from the Euro currency zone but maintains its position in the Common Market. It creates a new currency convertible in the free market, and pursues a plan of recovery based upon its new devalued currency. This would certainly include a partial default on its Euro debt but would sufficiently separate Greece from the relatively stable Euro to pursue its own course and needs.

Second possibility - Greece defaults on its debt, restructures and remains in the Euro currency zone. This would serve short term needs but not Greece's medium and longer term need, namely economic recovery.

Third - to play the illusionary game that is now being played by its Euro partners. This game could bring down not only Greece but the whole of the Euro currency zone and lead to an inflation of proportions experienced only during the Weimar Republic, a massive blow to the world economy - once more.

In thinking of Greece we need to keep in mind that Portugal, Spain, Ireland, Italy and, YES, FRANCE are all in similar circumstances. Some or all of these countries will soon be facing the same decisions extant in Greece.

Myth #1 is a Myth.

Myth #2

The American banking system is now healthy. The Government (U.S. Taxpayer) is about to realize profits on the bailouts.

One forgets that accounting standards were altered (compromised) in the early days of the financial debacle. Banks were exempted from writing down their stated assets to real values. This exemption remains in place and many, if not most, banks have not begun to realize most of their losses! There is much more to be written down than has yet been written down. The big banks are still teetering while most smaller ones are walking the walk of the walking dead.

Indeed the larger banks have been showing profits. So would you if you could borrow trillions of dollars from the U.S. government (taxpayers) at an interest rate of 0%. If you were able to borrow against assets with no reserve requirement and you could receive 2% to 4% on Treasuries and borrow infinite amounts at zero you too would show profits. Not a bad business except for the American taxpayer who has gifted the big banks at least \$100 billion under this scenario. To boot, some of those same assets, not marked down, (new accounting compromise) are also being used as SECURITY at the Fed - all very tenuous, indeed!

Myth #2 is a myth.

Asher B. Edelman

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