

Greece is Already Bankrupt

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One of the recurring pessimistic themes of the past several years is that Greece is about to default on its debt. Now that Greece is negotiating again, this fear is back. Some wonder if a major European financial firm, like Deutsche Bank, will also fail.

A big problem with this theory is that Greece already defaulted on about half of its debt to private creditors in 2012, back when private European banks both owned a larger share of Greek debt and were more thinly capitalized. A great wave of bank defaults didn't happen back then and there's even less of a chance of that happening today.

What investors need to realize is that Greece is already bankrupt. All the supposed fixes from all the international negotiations are temporary. Eventually math wins, which means, Greece, having lived well beyond its means for years, must now accept a lower standard of living.

A default just recognizes money was wasted; it's a financial issue, not an economic one. All that's left to decide is who takes the losses. Nothing about the default process changes the incentives to work, save or invest. Detroit defaulted and nothing changed in Grand Rapids, MI; they didn't even notice. Some bondholders will pay a price for

Greece, but much of the debt is owned by government entities, like the European Central Bank, IMF, and other alphabet-soup groups.

Some residual amounts are owned by private foreign banks, but not enough to destroy those institutions. And even if it hurts a little, those firms have portfolios of other loans that someone else will buy. Meanwhile, many bankers who get laid off will either be snapped up by someone else or move to a line of work that's more productive.

Our only concern is if Greece, or any other entity that can, will raise tax rates. Greek workers, investors, and businesses need lower tax rates to make them more competitive and make it more likely that they obey the law. Greece also needs to get real about government benefits. Working from age 25 to 55 and spending the rest of your life living off others just won't cut it. Sooner or later too many productive citizens just leave the country for greener pastures.

As long as that doesn't happen, a default would be the best thing for Greece. They get to start over. Who knows, maybe this time they will adopt enough good policies so they won't have to default again in twenty-five years.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-31 / 7:30 am	Personal Income – Apr	+0.4%	+0.5%	+0.4%	+0.4%
7:30 am	Personal Spending – Apr	+0.7%	+0.7%	+1.0%	+0.1%
8:45 am	Chicago PMI	50.5	52.1	49.3	50.4
9:00 am	Consumer Confidence – May	96.1	97.2	92.6	94.2
6-1 / 9:00 am	ISM Index – May	50.3	50.4		50.8
9:00 am	Construction Spending – Apr	+0.6%	+0.4%		+0.3%
Afternoon	Total Car/Truck Sales – May	17.3 Mil	17.4 Mil		17.3 Mil
Afternoon	Domestic Car/Truck Sales – May	13.6 Mil	13.7 Mil		13.5 Mil
6-2 / 7:30 am	Initial Claims – May 28	270K	271K		268K
6-3 / 7:30 am	Non-Farm Payrolls – May	160K	196K		160K
7:30 am	Private Payrolls – May	150K	191K		171K
7:30 am	Manufacturing Payrolls – May	-2K	-8K		4K
7:30 am	Unemployment Rate – May	4.9%	4.9%		5.0%
7:30 am	Average Hourly Earnings – May	+0.2%	+0.2%		+0.3%
7:30 am	Average Weekly Hours – May	34.5	34.5		34.5
7:30 am	Int'l Trade Balance – Apr	-\$41.0 Bil	-\$42.0 Bil		-\$40.4 Bil
9:00 am	ISM Non Mfg Index – May	55.3	55.5		55.7
9:00 am	Factory Orders – Apr	+1.9%	+2.3%		+1.5%