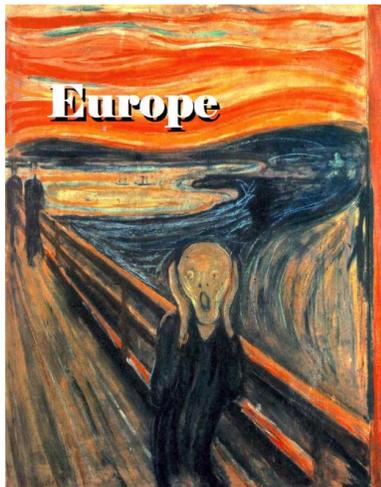


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Now What's Going On

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ITALIAN HEAD OF STATE BERLUSCONI PLEDGES TO RESIGN

WHAT IS REALLY GOING ON? IS THIS SCHUMPETER'S CREATIVE DESTRUCTION?

The euro strengthens against dollar after day of drama that saw the Italian prime minister lose his majority in parliament as pressure mounts on the Italian bonds. Unfortunately, what is going on behind the curtain is just sheer chaos. Europe now hinges on the Merkel Government in Germany. What has been done to Greece and now the financial chaos that spreads to Italy, on the one hand people can cheer that some progress seems to be unfolding, but in truth, these may be two heads of state that have just had enough. Berlusconi has been in court over 2,000 times. He has been said to have been linked with an under-age prostitute. Nothing has been able to get him to leave until this financial crisis. He has vowed to resign **IF** they pass these austerity measures. Nobody seems to see what is really going on? Here is an email from a good political source there right now in Germany.

This is an email from a political contact there in Germany right now

"I can tell you that the political class here finds the failure of the European project to be unthinkable. That being said, they absolutely told Greece that they would be thrown out of the monetary union (not the larger EU) if they went through with the referendum. Their plan seems to be to muddle through one crisis at a time and count on time to make things better. They look to keep doing that as long as the Merkel govt is in power...no election for 2 years, unless the govt fails. That won't happen easily because both parties in the ruling coalition know they would lose badly if elections were forced now.

So my take so far is that will keep doing what they have been doing until they can't any more. How soon will that be? You know better than me! "

Europe is in an authoritarian mood. Politicians everywhere are sitting on their hands because they believe that if they do nothing and maintain the status quo mixed with austerity to save the bankers somehow we will grow our way out of this one as before. The problem is they fail to distinguish between a private generated financial crisis and a **Sovereign Debt Crisis** where they are the problem. Berlusconi is pledging to leave because he has had enough and is not interested in going along with this insanity.

The people are just not to be given a right to vote on any of this and if the system can grow out of it, in two years everyone will forget about it – that's the plan. To clarify why I have been critical of the austerity in Greece and the property taxes, Schumpeter describes the Business Cycle as a force of **Creative Destruction**. These are periods of tremendous economic transition. It is one thing to impose property taxes and insist upon government reducing its work force that sound like solid conservative economic advice for Greece. However, that presumes there are private sector jobs waiting in the wings. What is taking place in Greece is that there is no private sector alternative at this time. Laying people off is one thing. To impose then property taxes that are due irrespective of income then subjects those same people to massive waves of foreclosures for failure to pay the tax. The US Great Depression was so bad **NOT** because of the stock market crash, but (1) the sovereign debt crisis that wiped out savings and reduced capital in the USA contributing to over 3000 bank failures, and (2) the Dust Bowl that eliminated agrarian jobs when agriculture accounted for 40% of the civil work force resulting in the "hobo" lifestyle. It was WWII that provided the "transition" reducing unemployment and transformed farmers into skilled labor. The Great Depression after the **Panic of 1857** was followed 4 years later by the US Civil War, which was also the "transition" at that time relieving unemployment.

Today, there is no plan. There is no transition, only austerity. The politicians are doing **NOTHING** whatsoever for any reforms they reject because it would change the way they have been doing business since WWII. Italy's debt is bigger than Spain, Portugal, and Greece combined. It is too big to be bailed out and there is no **PLAN B** to even address what happens if sitting on their hands blows up in everyone's face? Stay away from **ALL** government debt! This is a wave of **Creative Destruction**. We are in a transition to a completely new world ahead.