

It's all Greek to NY

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Greek Prime Minister George Papandreou came to Washington yesterday to ask President Obama to help save his nation from speculators. In other words, he wants America to help him shoot the messenger.

Sorry, Greece is no innocent victim: It helped get itself into a mess -- by exploiting the bailout mentality.

New Yorkers should pay special heed -- because we could be in the same boat.

For years, Greece spent beyond its means and borrowed to cover the difference. It found willing lenders because bondholders figured that the other nations with the common European currency, the euro, would rescue the Greeks when the collapse came.

The same bond market now figures that New York (and other profligate US states) can count on the feds if *our* finances implode.

Greece's annual deficit is up to 13 percent of its gross domestic product. Until a few months back, its leaders planned to keep on borrowing this year, as they have for so long. They'd *talk* about cleaning up their finances -- but past performance tells us that the government would have kept on shoveling money to its public-worker blocs (via perks like early retirement, automatic bonuses and special tax breaks).

But the bond market finally noticed that such lazy profligacy had pushed Greek debt to nearly 100 percent of GDP and hobbled the private sector: Greece already owed more than it could reasonably repay.

In the past, Greece could have inflated its way out of the problem -- paying back debt with cheaper *drachmas*. But joining the euro has made it more like a US state: It can't print money anymore.

So Greece has turned to the Eurozone's stronger states, Germany and France -- which have made it clear to bond buyers that Greece is "too big to fail."

So what's Papandreou's gripe? Well, speculators have been betting against Greek finances -- buying up unregulated "insurance" that would pay out in a Greek default. That's helped create a panic, making it harder and more expensive for Greece to borrow.

As Papandreou said yesterday, "If Europe and America jointly step in to shore up global financial regulation . . . we can curtail such activities."

OK, we *do* need better financial regulation. But Papandreou & Co. didn't complain until the speculators stopped *helping* Greece escape reality, and started making it (and its creditors) admit the truth instead.

That pressure has finally forced Papandreou and parliament to freeze government wages and slash those public-sector "bonuses." Which is *good* for Greeks -- yet Papandreou could never do it if his markets hadn't seized up.

Which is why Europe's "help" (beyond the immediate crisis) might actually hurt. Bondholders now are *sure* that Europe would never let a euro member default. So why should they care if Greece has really learned its lesson, or is just waiting 'til the heat dies down before going back to its old ways?

Absent a European guarantee, no sane investor would lend Greece money. And the same is true for New York, except that our creditors rely on the expectation that the feds would never let a state default.

Yet (like Greece) the last thing the Empire State needs is more debt. As a new Citizens Budget Commission report finds, New York, despite its wealth, ranks fourth-worst in the nation in being able to afford its obligations, which total \$120 billion.

All this borrowing has "helped" us by letting state government spend and spend. That's how New York got its own Greek-style 11 percent budget deficit.

New York could use what Greece has recently experienced -- a capital-market strike that forces it to freeze government wages.

Instead, of course, state leaders would much rather just borrow their way out of the immediate \$9 billion budget hole. Even if that turns out *not* to be part of the plan that Lt. Gov. Richard Ravitch will release today, lawmakers are surely toying with the idea.

The question is: If New York continues to act like Greece, how will the bond markets react?

If New York *can* borrow easily, that's a *bad* sign. It means that bondholders see safety in Washington. That's the real lesson bondholders learned from the 1970s bailout of Gotham. Absent that bailout belief, why would *investors* ever participate in things like the impossible debt bomb that former Gov. George Pataki constructed for the MTA a decade

ago?

Alas, the *only* new signal bond markets would understand is the one that the White House *won't* send. Washington could make bond markets worry by making clear that any rescue of New York would come with nasty strings -- including penalties for the bondholders that fund our profligacy.

And no, this wouldn't be messing with settled bankruptcy rules: There *are* no consistent rules for state insolvency is that except the ones that states create themselves -- a conflict that bondholders should notice.

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