Global Crisis/Innovation Blog

History DOES Repeat Itself, Only Losers & Winners Change Sides

By Shlomo Maital

Lloyd George after Versailles

It is not only those who forget history who are doomed to repeat it, as Santayana warned. It is also those who *remember* history who repeat it.

On June 28 1919, the Treaty of Versailles was signed, imposing on Germany the responsibility for World War I and with it, the demand to pay (in 2011 dollars) the staggering sum of $442 billion in war reparations. Germany could not possibly pay this enormous sum, with its post-war economy depressed. So it simply printed marks, paid the reparations with worthless paper, created hyperinflation that destroyed Germany's economy, and set the stage for the rise of Hitler in 1933. Hitler's war machine created jobs, income and employment, and ultimately destroyed Europe in WWII.

After Versailles, the British economist J.M. Keynes, who attended it as British PM Lloyd George's advisor, went home to Cambridge and wrote a book, The Economic Consequences of the Peace, protesting at the war reparations and predicting accurately that the result would be to destroy Germany and set the stage for a second world war.

Fast forward. Nov. 29, 2011. It is now GERMANY that is imposing 'reparations' on Greece, only they are not war reparations, but penance for overspending. Germany's psyche has a deep scratch from the 1920's hyperinflation and hence Germany utterly refuses to allow the European Central Bank to print money and bail out Greece, Ireland, Portugal, Spain and Italy, nations that overspent and overleveraged. Germany remembers history – all too well.

The problem is, just as Germany could not possibly pay $442 b. in 1919, in war reparations, so Greece cannot possibly pay all the debt it has accumulated, especially when bond traders are betting against Greece and raising the interest rates on new Greek borrowing to astronomical heights – a doom loop that is inexorable and fatal.

So history is repeating itself. A rich nation is imposing a huge tax on a poor nation, in the name of justice. And the result? It will be ruinous for Europe, just as WWI and WWII were. As Joseph Nocera points out in today's Global New York Times, Germany too will suffer, because when Greece and perhaps other nations leave the euro block, the resulting turmoil will greatly hurt German exports. Nobody benefits from chaos.

Treated unfairly in 1919, Germany now does the same to the profligate nations of "Club Med", as the Germans call them. History does repeat itself. Everyone will lose as a result.

RSA algorithm (Rivest-Shamir-Adleman)

RSA is an Internet encryption and authentication system that uses an algorithm developed in 1977 by Ron Rivest, Adi Shamir, and Leonard Adleman. The RSA algorithm is the most commonly used encryption and authentication algorithm and is included as part of the Web browsers from Microsoft and Netscape. It's also part of Lotus Notes, Intuit's Quicken, and many other products. The encryption system is owned by RSA Security. The company licenses the algorithm technologies and also sells development kits. The technologies are part of existing or proposed Web, Internet, and computing standards.

How the RSA System Works

The mathematical details of the algorithm used in obtaining the public and private keys are available at the RSA Web site.

from a central administrator and encrypt a message to you using your public key. When you receive it, you decrypt it with your private key. In addition to encrypting messages (which ensures privacy), you can authenticate yourself to me (so I know that it is really you who sent the message) by using your private key to encrypt a digital certificate. When I receive it, I can use your public key to decrypt it. A table might help us remember this.