

# Spending Debt, which is Other People's Money: Further Recession and Financial Turmoil in America and the EU

By [Bob Chapman](#)

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Remember that \$400 billion increase in debt recently enacted? Well it is gone and it only took six weeks. Washington has quite a talent for spending debt, which is other people's money. Not satisfied the Senate, as we reported, added in another \$500 billion. The media covered up the increase in debt by making a major issue of the President's speech concerning jobs.

The enabling super committee is at work cutting \$2 trillion from the budget. This supposedly will be concluded by November. These cuts were not designed as such, but they will help slow any recovery, as will any tax increase. As the CBO says, the wrong thing at the wrong time. Even with cuts and tax increases about half of federal government spending will be borrowed. Worse yet, most of any cuts will come from Social Security and Medicare, which are not entitlements, but are benefits the public paid for. Government wants to play Robin Hood, take from those who sacrificed and paid for the benefits and give to those who paid nothing into the system. As the enabling committee works behind closed doors the administration tries to use the debt problems in Europe, particularly in Greece, as a cover to shroud the problems in the US, which are potentially much worse. The US has no greater prospect of paying off its debt than does Greece or any of the other five close to insolvent nations. As serious as Europe's problems are the focus should really be on America's debt problems, because they will exert a greater impact worldwide, if for no other reason than the US dollar is the world's reserve currency.

As in America, Europeans are being railroaded into bailing the banks out and will as the sick six sovereigns. That process could take ten years of subsidies and \$6 trillion, which could unfairly bankrupt all of Europe. On top of all this financial horror waiting in the pipeline are carbon taxes. Including VAT the average taxation is 70%. We wonder how long it will take for revolution?

In the recent G-7 meeting in Marseilles, France, the members couldn't identify the problems, much less analysis and solutions. The only cogent comment of value from their point of view was the banks would be bailed out no matter what the cost. So what else is new? We noticed there was little or no reporting on the conference, probably because they accomplished nothing. Of course, they were all for economic growth, strong financial markets and accommodative monetary policy. This lack of success was in part the reason

of the plunge in the stock markets that followed. That is the state of world leadership.

Several months ago we predicted the administration would have a very hard time raising funds for stimulus. The enabling super committee is trying to raise taxes and cut the budget for a total of \$1.5 to \$2 trillion over the next ten years, which is a drop in the bucket, but will come mostly from Social Security and Medicare. It looks like the President's jobs bill will be lucky if it is passed and the stimulus could only be on the order of \$200 billion.

The simple answer to increase employment is to have banks lend out part of the \$2 trillion they have on deposit at the Fed. They have cut back loans to small and medium sized businesses 30% over the past two years. If loans were forthcoming there would be a boom in employment, as these companies create 70% of all jobs. That is the least they could do after the government and the banks' made a deal in which the banks are relieved from any legal liability for their fraudulent securitization practices. It really is enough to make you sick. These crooks should be in jail.

We recently saw a \$500 billion swap package to lend money to European banks, which were the victims of money market and other institutional funds pulling their funds out of Europe. The funds supposedly came from four central banks, when in reality the Fed was the only lender – lies, lies and more lies.

As the Federal Reserve lends trillions of dollars to banks, transnational corporations, and foreign banks and governments the average American cannot get a loan. Many Americans are living constantly under financial stress wondering how they can make it week to week. It is certainly a struggle. There are soon to be 45 million people on food stamps and unemployment remains at 22.4%.

One of the main reasons for this state of affairs is that in 11 years 11.7 million good paying jobs have been shipped to foreign low wage countries in the name of free trade, globalization, offshoring and outsourcing. That includes the loss of 450,000 companies to foreign lands and no one ever talks about it, especially our Congress. This gutting of the US economy goes on daily and it is expected that we will lose 20 million more jobs in the next ten years, and 20 million more in the following ten years. That means very few able bodied men will have jobs. Is it any surprise that American men and women live in fear of losing their jobs. Will they be included in the next layoffs? These fears have caused families to sell things they don't need to raise cash to live on. Anything is up for sale. In this past year 2.6 million more Americans were thrown into poverty, the biggest increase in 52 years. Six million Americans between 25 and 34 are living with their parents and at the rate jobs are being lost to China and other countries that figure will grow over the next 20 years.

The average income after taxes is about \$3,000 a month and for a family of four that is not very much to live on. We see college graduates working for \$2,400 a month in the black economy and at the same time collecting unemployment trying to make ends meet. What happens when unemployment runs out? Compounding the problems we have 15 million

illegal adult illegal aliens fighting those college grads for those jobs.

Costs continue to escalate as a matter of public policy, as inflation reaches 11.4% in the real world. Now government even admits to 3.8%. How do Americans cope with costs growing over 10% a year? How about retirees who haven't had a COLA increase in more than two years, as government lies about inflation? At the same time the super Congress enabling committee wants to cut \$400 billion each from Social Security and Medicare. Those are funds that have been paid in by citizens for more than 50 or 60 years. What kind of a government is it that does such things? Yes, the government is the enemy. The young families simply cannot make it without help from their parents, even those in there 40s. How can anyone afford health care? There are 50 million Americans without health care due to perpetually rising costs. Layoffs are up 14% and unemployment rises again. How can a man support a family on \$10.50 an hour? His \$30.00 an hour job is now in China, India or Mexico. In order to make ends meet, debt has been brought to staggering levels. The average American household has income of \$26,000 and debt of \$75,000. The entire situation gets worse every day as consumers cut back. For almost 12 years Washington has had no jobs policy or growth policy for that matter. It is bail out the financial sector and the government. There is nothing for people – no solutions.

What the Fed and the Treasury have been doing to resurrect the economy hasn't worked and they knew it wouldn't work. The idea is to extend the time line. This is the same thing that is being done in Europe. For those of you who missed it the Bundestag voted overwhelmingly 523 to 85, to approve the expansion of the European bailout fund, the European Financial Stability Facility, EFSF, in spite of the fact that 75% of Germans were against it. Our calculations are that if \$5 trillion is needed to bail out the six insolvent countries, Germany's part will be \$1.3 trillion. This debt crisis will lead to an economic slump and the contributing nations will have to print money and monetize in order to fill their commitments, which in turn will drive up inflation. In this process Greece in all likelihood will default by a minimum of 50% and perhaps totally, and that in turn will bring major losses to banks and participating central banks. At that juncture the Greeks will leave the euro zone to be followed by Ireland and Portugal. Others will follow. That will bring further recession and financial turmoil, along with civil unrest particularly in Germany. All might add that it took three months of dithering by euro-area lawmakers to create and overhaul their rescue fund, probably to allow the banks time to withstand and further market unrest. As this transpired the EU economy lost traction and was sinking into recession. Market volatility continues with Spain and Italy extending their bans of short selling of financial shares.

It is now the intent of bankers and politicians to allow the EFSF to leverage lending in violation of the German Constitution. The Greek rescue package is to be implemented and the banks taken off the hook and be recapitalized, at the public's expense. These are the very same banks that caused all the problems in the first place. These same private creditors are angered that they may be asked to take a larger than 21% loss on their Greek holdings.

The Greeks protest and demonstrate almost every day. The public is not going to cooperate with the current government. PASOK, the party in power, is still trying to find a way to take away taxi driver medallions, which are worth lots of money, and turn the taxi business over

to a Germany company. This past week they passed legislation adding a penalty charge of several percent to real estate taxes and worse yet, they now want to make it retroactive to 2001. These are taxes the people are incapable of paying. The results are continual strikes.

Germany's finance minister, Wolfgang Schäuble says there is no secret plan to leverage the EU's bailout plan from \$595 billion to \$2.7 trillion. This increase, illegal in Germany, would cause a downgrade in the sovereign debt rating of the solvent states. If there is a secret master plan put together with the help of the Fed, it will destroy Germany's constitution and democracy. Social Democrats denounced the back-room dealing and the secrecy. The real implications of such a deal is to put Germany's domestic finances under the control of the EFSF and eventually the European Monetary Union, the EMU. German citizens are being taken to the cleaners, they do not know about these back-room deals. It could lead, once exposed, to a referendum and a new constitution, which would destroy Germany's democracy in order to form government by bureaucrats, who would prepare the EU for the new world order. The current Congress does not have the legal right to sign away German sovereignty. The Bundestag cannot abdicate its fiscal responsibilities to accommodate the banking elitists. This sordid relationship will lead to resistance by the people and could end up in revolution, if the bankers are stupid enough to push the issue. The EU is already in the clutches of supra-national bodies, which are not elected and accountable only to the bankers. They have already usurped tax and spending and want to extend that to domestic fiscal matters, which will destroy the sovereignty of all of the 27 EU countries. Mr. Schäuble is lying. There is a secret elitist deal. This exposure will lead to the breakup of the euro zone and the EU and cause a banking collapse. That won't be difficult because the banks are already broke. The future for Europe is not pretty. Smart Europeans are moving their wealth to gold and silver related assets. The Fed cannot rescue Europe indefinitely. European financial problems are going to get worse because they are trying to save the banks at any cost and it isn't going to work.

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