GlobalResearch
Center for Research on Globalization

The European Ponzi Scheme and the Euro

By Bob Chapman
Global Research, January 04, 2012
International Forecaster 4 January 2012

Region: Europe
Theme: Global Economy

It is now obvious to alert observers that the ECR's new long-term refinancing program, LTRO, is an end-run quantitative easing program. The bankers and politicians would not dare call it what it really is. Who would not want 3-year loans at 1%? Then there is Target 2, where the Bundesbank has secretly but legally, lent the ECB $640 billion. That money will be shared as a bailout for the six euro zone nations, which are on the edge of bankruptcy. These are technically claims not loans. You only discover the legerdemain if you root around in the footnotes of the reports of euro zone members. Just five years ago these target claims were just 7% of Bundesbank assets. They now represent 64% of assets. Worst yet the collateral the ECB holds to back these loans is toxic debt. If and when debt failure occurs proportionately Germany's part of all that debt is 28% of the total. We learn something new every day. What this means is that $1 trillion swap, which is really a loan to the ECB by the Fed, will probably be exclusively used to bail out European banks, 523 at last count.

Just to give you an idea of debt structure, as a percentage of GDP, Germany's public debt as a percentage of public debt in 2009 was 74% and today it is 83% of GDP. In Greece in 2009 it was 79% and today it is 82%. Italy is 120% and Greece 160%.

The bottom line is there has been little or no restraint in spending over the last ten years in government, personal and corporate debt all of which has grown exponentially. Just look at Italy and Italians are big savers. In ten years corporate debt is up from 96% to 128%, personal debt has risen from 30% of GDP to 53% of GDP. Overall debt is up from 252% to 310%. The 18 main countries in the OECD saw the total debt to GDP rise from 160% of GDP in 1980 to 321% in 2010. Corporate non-financial corporations increased by 300%, governments 425% and personal by 600%.

We just saw this latest swap of $1 trillion by the Fed to the ECB and you have to ask yourself how long can this go on? The leverage in the system; where does it end? We do not know and neither does anyone else, but it will end unhappily.

The elitists want fast GDP growth attained by the issuance of more money and credit as exemplified over the past three years by the Federal Reserve and others. This supposedly allows fast growth. Unfortunately, thus far this has not been successful as yet, just sending GDP slightly upwards for a short period of time. History shows us that 98% of the time this approach has been unsuccessful. It is glaringly obvious that the only thing central banks have tried to do is save themselves, banks and other financial institutions and governments. Little or no effort has been made to rebuild labor markets or to provide capital for expansion, research and market protecting efforts. Nations cannot trade their way out of this dilemma, because they have to compete against China, German, Japan, etc., which means the powerhouse will grab 60% of the trade benefits due to use of slave labor and productivity. We hear the elitists and their mouthpieces recommend more international cooperation to rebalance trade flows. Of course they realize we have seen what a problem WTO and NAFTA have been for trade facility. They know right well that the only solution for trade is universal barriers on goods and services. We operated that way for hundreds of years and a fair balanced system worked. The reason the WTO and NAFTA haven't been dumped is that transnational corporate interests are making a fortune and that free trade, globalization, offshoring and outsourcing are being used to destroy economies of the US, UK and Europe in order to force these countries inhabitants to accept world government. Nobody wants to talk about it, but this is part of the economic and financial solution. A balanced playing field, which is something we certainly do not have presently. Incidentally, this is another reason we need Ron Paul as our president. The end of free trade would allow the US, UK and Europe to recover and thus help bring about a long awaited recovery, which central banks and insolvent banks, have not been able to bring us. Politicians are reluctant to change labor markets, because their major campaign contributors all want free trade for profits and to bring about world government. Corporate profits during this inflationary depression are staggering. Corporations get tax breaks and instead of creating jobs they buy more automation equipment to effect more layoffs. Their profits are being used to hold up the banking system and the government, instead of being used to support a fair system. Thus, a combination of trade tariffs and bank lending could help save the system, or should we say the best parts of the system.

Corporate profits, as a percentage of GDP, are at an all-time high of 13% in just cash alone. Yet, real net investments are the lowest in some 35 years. Doesn't that seem strange to anyone especially professionals, who know exactly why the system is not working and why the economies of the US, UK and Europe are being destroyed. Yet, like the elimination of free trade no one wants to even think about it. Even conservative newsletter writers or commentators shy away from discussion or simply do not understand the issue. Many cite the problem of aging in western societies and they are in part correct. These problems can be suppressed by offering incentives for breeding and the recreation of tariffs on goods and services to allow for a balanced trading field. The latter will allow for training of a new generation of workers, which currently have no future at all. Companies say growth is sluggish, so they won't loan. They caused the sluggishness in the first place via offshoring and outsourcing financing that has caused the absence of jobs, all, or most all countries are headed in the same direction with the same problems. Everyone is trying to export more as all nations undergo austerity programs and tax increases. As we all know that is impossible. That is why 523 banks in the euro zone needed $600 billion in loans. If they are not all broke they soon will be. This points up the impossibility of any debt payback. The loans are a subterfuge to keep the game going.

It is pretty obvious that the Illuminists are going to inflate away the debt they have created. They will keep doing that until the system falls to its knees and they cannot do it anymore, which should in finality bring the system down. Elitists tell us confidence in the system will keep higher inflation at bay. We'll see, but do not attempt to use official figures. They so often have been proven to be bogus.

Europe wants to change the structure of both the Maastricht Treaty of 1992 and the Lisbon Treaty as well. That could take them two years. Considering the EU's track record we are not at all optimistic that any changes will ever be followed. Again, all that is being done is buying time. The ECB bank will have to keep interest rates down and plenty of freshly minted money and credit available via swaps with the Fed. No matter what the ECB, EFSF and the ESM do they all must borrow money from the solvent members, and the Fed and there is no possible way of paying it back. The Fed isn't concerned about getting paid back, because the US taxpayer will pick up the bill. While this transpires over the next three years Spanish debt to GDP could increase from 60% to 70% and from 120% to 140%. There is simply no end to the game, because eventually it spells failure. Who would have believed with all its economic and financial success that Germany would have debt to GDP of 87%? They need 3% GDP growth to stay even and in 2012 that will be no easy task with fellow EU members having the same problems.

In addition to the current European Ponzi scheme we have the problem of the euro. For years we said the euro would fail and now many other analysts accompany us. We have been told as a precaution that Germany and France have been printing the Deutschemark and the franc. Needless to say, many steps would have to be taken for any nation leaving the euro, and there would be significant turbulence in all markets as a result; especially in the CDS unregulated market. The beginning of the failure could be the catalyst that ushers in worldwide depression. Considering the trillions of dollars being fed into the system, as we have said earlier Europe should recover and some of those funds will slosh over into England and the US causing a better than expected year.

Thus, we move forward with the trillion-dollar swap – a Mickey Mouse way of again breaking the rules and the spirit of the rules. The funds will be distributed by the ECB to the 523 banks, which will lend a portion of those to hedge funds and other connected investors, so that they can continue to manipulate markets.

The Germans are at a crossroads. Do they really want to abandon the euro? They know tariffs will go up immediately that will make German products more expensive as exports. Such an event would spell the end of the WTO, the World Trade Organization. The euro zoned and the EU that exclusive club would be in for big changes. The end of free trade and their treaties would be ripped asunder. Tariffs would rise all over the world and a level playing field would be created, allowing America and many other countries to again protect their national interests. US deindustrialization would end and many German advantages as well would end. The Germans were the big push behind the euro in 1990 to 1993, but they were not alone. Their banking masters were always in the background expediting the process of monetary, fiscal and political union in order to bring about world government. It should be remembered in the G20 agreement that the US had to comply with those rules. Either Germany really wants to consolidate the union with or without the euro, or they want to break up the union and dump the union. The question is which is it, and our answer is we do not know as yet. All we can say is there is something big brewing. Does Germany want to dominate Europe or go on its own? This is a very intriguing question. Germany's strengths are exports and they must keep their advantages in some form. It could be in increased productivity, but attempting to maintain productivity growth at 4% to 5% is very difficult, when the annual US average since WWII is 2.5%. Whatever is apparent is that the interdependent, interconnected world of free trade and globalization is not working. Even with all the WTO and NAFTA controls there are vast imbalances. Just look at the US economy, 12 million jobs lost over 12 years and 450,000 businesses never to return, unless tariffs are implemented. The same is true for England, southern and Eastern Europe. The only countries that have held on fairly well are those with natural resources. Even Wall Street has been affected with a slower economy and less funds to be invested. The credit crisis pointed that out and now they are faced with a debt crisis, as major US banks hold over $2 trillion in cash to weather the coming storm. It may take awhile, but it is on the way.

Yes, we know the transnational, global banks continue apace to move the industrial base as well as service base out of the US, the UK and Western Europe, which continues to put extreme downward pressure on those economies. Eastern Europe is a basket case like the leading six nations in trouble. We are sure, as will be the case with the six; they'll be bailed out as well. Remember, the actions of the Fed and the ECB provides endless sums of money. This torrent of money and credit does not solve any underlying problems; they just extend the problem into the future. These are the same characters that are moving assets into their own hands and out of the US. They are assisted in these efforts by well paid off politicians and in there endeavors are crushing the upper middle and middle class. We wrote feverishly in the 1990s regarding the Commodity Futures Modernization Act, the Gramm-Leach-Bliley Act and the linking together of FASB, of GAAP and with IFRS, which proceeded to spread corruption all over banking and Wall Street. They then followed with the creation of the OTC derivatives market, which now holds the entire financial world in its tentacles.

Articles by: Bob Chapman