Towards Economic Collapse: Europe's Debt Crisis has Spiraled out of Control

By Bob Chapman
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As Chancellor Merkel and PM Sarkozy search for a solution that doesn't exist they continue to lose credibility. Nothing of substance has been agreed upon that is legal and can be implemented. At the IMF Christina LeGarde is frantically waving her arms like a cheerleader telling anyone that will listen that if the six sovereigns in financial trouble are not aided the euro will fail and peace in Europe will disappear. The elitists are frantic because they cannot find a solution. LeGarde says without help there will be ten years of depression. She obviously hasn't done her homework. Try 30 or more years. Sarkozy, Merkel and Jans Weidmann council member of the ECB has said the ECB cannot bail out governments by printing money. He is also head of the Bundesbank and said a key lesson of what is being proposed is the hyperinflation in Weimer Republic, which followed WWI. Over in Italy PM Berlusconi, who looks and acts like Benito Mussolini has been unseated and as a result the Italian bond market is on the edge of collapse. There is big pressure downward in stock and bond markets as a result and the US Treasury again attacks gold and silver hoping they can keep gold from breaking about $1,800. The PPT's ability to achieve this is more than questionable.

At Cannes PM Sarkozy and President Obama discuss what a liar Israel's PM Netanyahu is. Their candor was accidentally picked up by a supposedly muted speaker. What is now realized is that euro zone government bonds contain unexpected credit risks. All the European politicians and bureaucrats want to save the euro, but their promises and solutions are not worth the paper they are written on. They are so believable that China won't lend them money. These characters have been kicking the can down the road since last spring with little or no long-term solutions, and no solutions to affect a recovery and create jobs. Austerity has replaced growth and that is expediting a failing economy, even in Germany. If economies don't grow tax receipts fall and the ability to service debt is impaired. Big euro zone banks are broke just as their counterparts in NYC are. As this proceeds we ask how long can the ECB buy Italian and Spanish bonds?

In Greece a coalition has been made and Mr. Samaras has shown his true colors by backing Trilateral-Bilderberg Lucas Papademos, as interim PM. We hope Greek citizens realize that Papademos will sell them out. It is only a matter of when. The debt deal will probably be ratified, but at what price? Will it bring revolution or a coup? Who knows, but under the circumstances anything goes. 60% to 65% of Greeks oppose the bailout, but 71% want to stay in the euro, which is impossible.

If further austerity measures are taken in Italy there will be demonstrations and violence. In the meantime bond market yields climb; Italy's access to the bond market lessens and as a result stock markets fall. There is no coordination between the ECB and its members. The French banks and others are selling bonds, which the ECB is being forced to buy. All of these factors lend to political, financial and economic uncertainty. This is a major full-blown crisis and the US realizes that. Why else would they be strongly trying to suppress gold and silver prices? Europe is in disarray and Germany has to come to terms with cutting loose the six loser countries. That means leaving the euro and perhaps the EU. We see no other choice in this unnatural association.

Europe's banks are leveraged 26 to 1, whereas 9 to 1 is normal. A 4% fall in asset prices will wipe out equity. Debt to equity for corporations is 145% in Portugal, 135% in Italy; 113% in Ireland, Greece 218%, Spain 152% and 89% in the UK. In Germany it is 105% and in France 76%. EU financial problems are endemic not just in the six countries in trouble. Europe is an accident waiting to happen, which we have pointed out for some time. We are now seeing failed bond auctions even in Germany. The sale of EFSF bonds had to be put off due to lack of interest. If it hadn't been for the ECB buying the bonds of Italy, Spain and Portugal the bond market would have already collapsed. Europe is the catalyst and eventually it probably will take the financial system down. The ECB probably has already bought close to $300 billion in just these countries alone.

European banks are howling that they have to increase capital reserves to 9% by June 30, 2012. In the wings we see $610 billion allocated to bailout by sovereigns, which they believe will be stretched to $1.4 trillion via the use of derivatives. That may never happen if the German Federal Court disallows it. On the other hand more savings would allow further business expansion but are we going to see that in a falling economy?

This last recovery as an example in Germany was caused in great part by an increase in government debt from 74% in 2009 to 83% in 2010, in France 79% to 82% and in Greece and Italy 130% to 160% versus 116%. Thus, it is fair to assume that the recent recovery came from an extension of money and credit. This leveraging now leads to de-leveraging, which may bring balance, but is not good for growing an economy. It diminishes the ability of the economy to generate capital. That means the economies statuses are going to worsen. This results in lower manufacturing activity, which we already see falling. Year-on-year the PMI has already fallen from 54.6 to 47.3 in Germany. The service index is 47.2. Both have been and will continue to fall in tandem. At the same time the ECB has monetized $300 billion by purchasing bonds and that is inflationary. Worse yet the ECB has lifted monetary growth from 9.5% in June to 23% in October. Loose monetary policies cause these problems, but debt is so onerous that they have to continue or they will fall into a deflationary depression. In the meantime inflation grows. There can be no real healthy growth until de-leveraging has ended. The banks and the governments won't do that for fear of losing control. That means more debt and higher inflation and perhaps even hyperinflation.

In Italy Silvio Berlusconi is off again, on again, as to whether to resign as PM. His closest coalition ally Umberto Bossi of the Northern League, has told him he should resign.

There is no question that Europe's debt crisis has spiraled out of control. That is something we predicted would happen long ago. Finally, Germany and France are discussing a breakup of the euro zone to allow the six weak countries to exit the euro, but stay in the EU. Italy and Spain show signs of serious trouble and they are simply too big to rescue, because that would bankrupt the solvent countries.

Italy's 10-year T-notes traded as high as 7.5% and are now back below 7%, but the ECB and other countries, plus perhaps the Fed, were buyers.

We have to laugh as all these bureaucrats and politicians try to save six countries, as their own countries are in serious trouble. Mrs. Merkel, German Chancellor, says it is all so unpleasant. Lady, it is a lot worse than unpleasant. Europe is in a defining moment as they face collapse.

As the world economy slows the EU is focusing on growth, because if it doesn't it will fall behind in a very competitive world. Europe, England and the US, as well as others are facing inflationary depression and then deflationary depression.

There is not from our viewpoint at this time, enough time to make treaty changes. All efforts have to be pointed toward immediate financial solutions and to allow those six nations to exit the euro zone, but allow them to stay in the EU. Recession is fast closing in on the world, just not Europe. If they have to increase money and credit on the short term so be it.