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Spiralling Public Debt and Economic Stagnation in the European Union

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Europe continues to struggle from one problem to another. The euro has been strong only because the dollar has been weak. The governments of Greece, Ireland, Portugal and Spain continue their balancing acts on the edge of a financial precipice. All have Socialist governments, which have done terrible jobs, but the opposition is not much better. Each economy is in serious trouble and if Italy and Belgium follow it will take $4 trillion to bail them out. If the solvent EU members bail them out they'll fail as well. Americans and Brits can look down their noses, but their problems are just as bad if not worse. They all have practiced different versions of Keynesian economics that has been disastrous. Their fiscal and monetary policies have been and continue to be out of control, as corruption abounds. The solutions are unpalatable, especially for politicians, because they all spell austerity. We have just seen the European Central Bank raise interest rates as euro zone economies slow, as they hope to arrest 2.8% official inflation. Real inflation is double that number.

We predicted $4 trillion would be needed to bail out Europe some time ago and Germany and the other solvent nations have come to the same conclusion. Even if it were possible, those six nations would live in poverty for the next 50 years. That is hardly a solution. The underlying problem lies with the central banks and the lending banks. Loans to these nations for whatever reason should have never been made in the first place. The bankers who lend money that they create out of thin air knew what they were doing and they knew full well the risks they were taking; 80% of the blame lies at their feet, thus, 80% of the bill is their responsibility, not that of the taxpayers of these countries. Months ago Germany was offered 50 cents on the dollar to settle its debt owed by Greece. The offer was rejected. In time that rejection will be viewed as a major mistake. As a result Greece's Illuminist president is in the process of laying plans to collateralize new debt repayment commitments with Greek assets such as islands, ports, the rail system, the electric and gas companies and any asset not nailed down. That is why George Soros had top people from JPMorgan Chase and Goldman Sachs with him two weeks ago when be attended secret meetings in Athens. The underlying theme is let's steal everything. Greek GDP will probably fall 4% this year, as wages and salaries have been slashed. Banks like JPM and GS that create money out of thin air do not care about the money, they want the assets.

Central bank bond buyers last year cut their exposure to Greece, Ireland and Portugal. These actions were prompted by concerns over sovereign default and were replaced by purchases of gold. The euro zone, England and the US have large deficits and only modest growth generated by QE and stimulus. Conditions now question debt sustainability. Debt rollover in Europe is acute, especially for Irish and German banks, with as much as half of their outstanding debt coming due over the next two years. As you know the IMF and EU have bailed out Greece and Ireland with Portugal in process. Spain is next and that is more than a $1 trillion problem. European banks are buried in euro zone sovereign debt, which makes them very vulnerable. In fact bank balance sheets are in terrible straights and need to raise significant amounts of capital to further participate in funding markets. At the present time they are in no condition to take on more paper.

In Greece the budget deficit may be only 8.1% of GDP, but the economy is stagnant as GDP declines. Overall public debt is about 150% of GDP. We have a difficult time envisioning Greece not defaulting. That is why the moneylenders want almost everything the Greek government owns as collateral. The socialist government of Illuminist George Papandreau cannot handle the job just as his Marxist father Andreas couldn't handle it 25 years ago. Today's Greece is still suffering from terrible decisions made during the 1980s. The bottom line is Greece probably will default and they should default. It is the only answer for them and the other five insolvent countries of the euro zone.

All these six countries are victims of one-interest rate fits all that we wrote about 12 years ago, as a disaster waiting to happen. That is why in the first quarter in Ireland the average house price fell 43% from the peak. Prices have a lot further to fall. Some say to 63%, which will probably be worse than in some sections of the US. Ireland has been sold out by its politicians and has little hope of survival without bankruptcy. Their economy is not doing that badly – it is the debt of the banks that government assumed that would take them under. The banks that caused these problems cannot help or they'll go under, which are just deserts considering they were running a Ponzi scheme.

Portugal on June 5th will probably get a new center-right government. The economy will continue to decline with a budget deficit of 7% of GDP, as wages and the living standard declines. Like Greece, Ireland, Italy and Portugal should have never joined the euro. The original mistakes to prepare Europe for world government are now coming home to roost. In the late 1980s we spent a great deal of time in Portugal and we could see it wasn't going to work. Just as an example, in preparation for acceptance, we saw prices rise 50% to bring Portugal up to the levels of other more advanced European countries. As we have seen amalgamation was a very bad idea.

Spain's banks are carrying real estate on their books at twice their real value. Again it is the banks that are the problem. The sovereign debt is low, but in recent years the socialist government has far over spent. The phony house prices will come down to earth sooner or later and you will see a replay of the US and Ireland. For the next few years' growth will be negative. Spain will need a bailout, but can the IMF and EU afford another $1 trillion? We don't think so.

Like in other countries inflation is rising in Europe and it is going to get worse. Do not think for one second that a ¼% rise in official interest rates by the ECB is really going to change anything. The official EU inflation rate is 2.6%, whereas real inflation is 5.5%. In the US the official rate is 1.9% and the real rate is 8-1/2%. Realistically far higher rates are on the way for this year and next year and that means higher real interest rates. The US will see 14% real inflation this year along with England and 10% to 12% in Europe. Will the US see QE3, or an equivalent and will Europe and England do the same – probably? If they do not there will be hyperinflation. Those countries will go directly into deflationary depression. The elitists who planned all this are quite well aware of the options. If the Fed stops buying Treasury paper the US will go into default. The same is true for Europe, but on a piecemeal basis. This is why if the Fed and the ECB are going to more quantitative easing they had best do it quickly before inflation makes it impossible to do so, Remember, all the monetary expansion done by the Fed and ECB over the past 2-1/2 years is still in the pipeline. A year and one-half from now you may not be able to sell sovereign debt.

Most analysts and economists look at all these events in a logical fashion. They say many mistakes were made, but few realize these were not mistakes. What we are seeing was deliberately created. The study of monetary and financial history shows you the way and lets you better understand what these elitists are up too. We are now entering a time frame that is going to be financially explosive. If you are not prepared you are going to be very unhappy. That is why gold and silver related assets are important for your future.

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