

The Demise of the Euro as a World Currency?

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Greece has its immediate financing. Now the question is can they follow the prescription? In all likelihood the answer is no. The bond markets are reflecting that via a lack of confidence. In fact, some bond markets are falling apart and there is no end in sight. We have bond rating firms lowering ratings, as the rating services themselves are under serious fire and we do not believe they will be around long. The big question is why did it take two years and 10 months to react?

There are 19 nations with serious sovereign debt problems and there is really no way back for them. They may as well all default, because the austerity programs they'd have to follow and at the same time to satisfy creditors, not only is impossible but it signals years of stunted growth and perhaps in many cases the possibility of revolution. Greece certainly fills that bill. We see the eurozone rules may soon be changed, so that eurozone participants can assist one another. That means in time they will all collapse together. As many as five members could need assistance of the 16 in the zone. Our guess is permanent bailouts will go forward and the ECB rules will be changed to allow the ECB to function like the Fed. Greece and many others are trapped and they will burden the healthy nations and neutralize them. This approach is the ECB nuclear option. It will destroy the zone eventually. This will destroy the euro and end the option of the euro becoming the world reserve currency. The zone would have adopted the same approach as the US and UK in destroying their currencies. How can you have a union with one interest rate, where the ECB controls the monetary policy, but cannot control the budget deficits, borrowing and spending activities of its members?

The Keynesian dictum of borrowing and spending has led the eurozone into a black hole. What will emerge from that black hole will be something similar to the Federal Reserve. The psychology behind all this is a move to make the US dollar again preeminent as a world reserve currency. In the meantime the day of reckoning is shoved forward, a diversion from these economic policies are failed terrorist bomb plantings in NYC and the destruction of offshore oil platforms. As we said in an earlier issue Greece is the poster child - the goat. Greece has done no more or less than the other 18 insolvent countries and many more. One asked, how can the dollar be a strong currency, when they themselves are broke. They talk of fiscal stability and reform, such as higher taxes and the reduction of entitlement programs, but you will see little of that and lots of bait and switch tactics. We are also seeing in US Treasury auctions not only massive offerings, but also a new crop of direct bidders accounting for 13% of sales vs. 1%. The indirects, or foreign central banks, have fallen from 37% to 23%. In our mind there is no question that the directs are really the Fed. That means to us that the US was behind the forced downgrading of Greek and other debt. That was to bolster the position of the dollar and lower the value of the euro and other currencies, making their exports far more competitive and profitable.

Thus here we have a calculated lowering of the euro and other currencies, a stronger dollar to attract more funds to US bond auctions. We also have rating agencies assisting in the operation. Incidentally, Moody's received a Wells notice in March and never announced it. We are sure we will find out soon that Warren Buffett has sold his Moody's position. While this transpired the Greeks experienced another rating fall and at the US auction the indirects took 28% of the offering. The directs were there but as usual and as usual it was a secret as to who they were. Again, the direct bidders are the Fed. That is called quantitative easing and that is very inflationary.

As of this past weekend we find we have another all-inclusive ECB bailout package for those who haven't asked for it yet, but will need it. This is the European version of quantitative easing. This method of saving the international banking system is to essentially nationalize it. The bottom line is this stopgap measure will eventually cause the dollar more harm than good. Once investors realize what the US and European nations have done to gain time they will be horrified and the ensuing fallout will be devastating for the dollar.

Europe's response has been atypical. Take from the industrious and give to those who cannot or won't run their economies effectively. This is what socialism is all about including public guarantees against loss for mega transnational conglomerates. Europe's elitists and America's as well are morally and financially bankrupt. Goldman and others are being called onto the carpet with the rating firms. All of the players knew \$1 trillion isn't going to do the job. They are again buying time and creating more inflation. Debt may have been backstopped by economic growth by bailouts, but cannot be present in a mode of austerity. The magicians are again creating illusions. The alchemists will be wrong again as they have always been throughout history.

You say who is going to be buying Greek bonds and other bonds? European central banks of course. More quantitative easing. This is significant. It surely is because it reveals that both the European and US financial systems are irretrievably bankrupt. Don't forget that the dreams of socialism and fascism are being shown to be giant losers. This past week ushers in another phase of the ongoing collapse - another interlude - that stretches out the time horizon, but it won't affect the ultimate outcome.

These are pretensions that will go unfulfilled. You saw the Greeks in the streets; do they look like people who are about to submit to austerity indefinitely? We hardly think so. We see the same reaction from the rest of the basket cases. Of this \$1 trillion European bailout, EU countries will pay \$700 billion that they do not have. The British have refused to participate and the US will via the IMF will be about \$65 billion. There is no guarantee that these funds won't be used up within a year. Then it's another TARP type of bailout, or the whole EU goes under. Even though Europe and the US will have hyperinflation as a result the end result is going to be massive insolvency. This situation is far more serious than the credit crisis of the past 20 months. As a result the euro is headed for \$1.20 and perhaps lower. German President Mrs. Merkle was not re-elected in a majority and pays for what Germans regard as a sellout. As a result of these forced payments to bail out erstwhile fellow EU members we could well see rioting in countries forced to pay for the losers. Europe could experience chaos from two different points of view.

European elitists are willing to throw money at Europe's problems, but not one idea about how to fix the problems of these nations, no necessary restructuring. Just doing the same old socialist thing. Something for nothing, and it has now been discovered someone actually

has to pay for. If you stop for a minute and look at this picture it is ludicrous that EU nations that are near bankruptcy are bailing out other EU countries like themselves. The question is what will the euro eventually be worth? The euro, the eurozone and the EU are history. It is now just a question of when it is over. Sovereign debt is unserviceable and is to be serviced by more unserviceable debt. That dear reader is truly desperation.

The top 7 nations that are owed money by Portugal, Ireland, Italy, Greece and Spain aggregate almost \$300 billion. There are a total of 22 nations owed money by just these five nations. The major debtors are France \$911 billion; Germany \$703 billion; England \$416 billion; Holland \$244 billion; the USA \$186 billion; Spain \$150 billion and Japan \$122 billion. This is what interconnectivity brings you in a socialist-fascist international.

Greece is the poster child of Europe's failed system called socialism. Greece is just the beginning of the financial and economic collapse of Europe. Perhaps with minor exceptions we have 27 morally and fiscally bankrupt governments, aided and abetted by central banks and financial institutions. Prosperity cannot be created out of government debt. The only people who gain are the bankers and the financial centers from such shortsighted debt accumulation. Again, there is little or no planning for sound investing to offset such debt. It is called living for today and the heck with tomorrow.

Thus, the debt is being misallocated in frivolous ways. It is called malinvestment. History shows it manifests itself in failure and insolvency. No country has ever spent itself out of debt in a fiat money system. As a result of this degenerative system the only safe money is gold, as has been the case for centuries. It is the only true totally liquid investment that protects one from the vicissitudes of fiat money. The stage has already been set for the second phase of gold domination. Gold is the antithesis of the fraud known as fiat money and debt. There is no logic or morality that allows central banks to create money at will. How can people tolerate such a system Is it any wonder that gold has gained against every currency for the past seven years. In the end only one currency will survive and that is gold. The flight from currency has begun in earnest.

This in part is what Europe's problem is all about. We are the victims of a vast fraud in which government promised a social welfare system they simply couldn't deliver. This will happen in America and has already happened in Europe. Those in power behind the scenes know the system is imploding and they are helpless to stop it. Very shortly Greece's problems will fade into the background as major countries bite the dust. If you own bonds of any kind or stocks, with the exception of gold and silver shares, sell them now and move to gold and silver related assets. All these debt obligations are unpayable and are a fraud. If you have assets we implore you to switch them to gold and silver related assets, because soon the window of opportunity will be closed. Please do not allow yourself to be financially destroyed.

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