

# The Economic Crisis in Europe; Unpayable Debts. Impending Financial Insolvency

By [Bob Chapman](#)

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The big question is will Greece succumb to insolvency in November? Our answer is probably not. It should take 3 to 6 months but it is coming no matter how much money and credit is thrown at the problem. The markets on the short-term basis believe it is a coin toss. If the funds are not forthcoming you could see a 60-80 percent haircut on bond losses. If it is 3 to 6 months it will probably be 100%. Many in Europe believe the Merkel-Sarkozy team has a plan that will work, but as yet we do not know what that plan is. In spite of that the euro this past week rallied from \$1.32 to \$1.38 as the US dollar fell lower.

Greece has been laboring under austerity imposed by the EU, IMF and the ECB and as a result their deficit for the first half of the year rose to \$21.4 billion from \$17.3 billion. Needless to say, tax revenues have fallen off a cliff and as a result the Troika has mandated further cuts in order to offset revenue loss. This is a never ending story, because when all is said and done the economy will be all but dismantled, that is what economy existed in the first place. As a result unemployment worsens and that provides more demonstrators in the streets. Those lower tax receipts mean more government layoffs. As a result of these and other problems Greek projections came up about 25% short of projections. These nebulous announcements by key players certainly did not justify major rallies in stock markets. Economic numbers in Greece are dreadful and in the UK, US and Europe they are only marginally better. It is obvious the world is slowing down.

Very disturbing is that the Fed, other central banks; governments and financial communities have no idea as to how to end the ongoing financial and economic crisis. All they can come up with is to throw money at the problem, which has not worked and extending the timeline has solved nothing. As a result the world is headed into a further fall into depressionary inflation. Virtually everyone in the financial sector in the US, UK and Europe are clamoring for more issuance of money and credit, now known as quantitative easing.

As you are aware the Greek government has passed an increase in real estate taxes, which generally are unpayable and they intend to pass more legislation making the increases retroactive to 2001. Strikes continue day after day as demonstrators march in the streets. Knowing Greek debt is unpayable German and French economists are urging a 50% default on Greek debt, which was offered by Greece 1-1/2 years ago. Recent figures call for a 60% to 80% write off. Greece will fall into default - it's only a matter of when and how much money EU members want to throw at the problem. The markets we believe have priced in a Greek default already, but what hasn't been discounted is the failure of the other five nations in trouble.

In contrast we look at Ireland, which bailed out Anglo Irish Bank and Nationwide Building Society. That will cost Irish citizens about \$70 billion. The Irish political establishment sold the people of the Republic of Ireland down the river. The banks, owned by the Alpha Group made up of among others the Royal families of England and Holland and the Rothschilds, were let off the hook for \$70 billion. Finance Minister Michael Noonan wants to use funds from the expanding rescue fund to get funds at lower interest rates rather than have to sell bonds. The cost of funding this every year could play a big part in bringing sustainability. Current Irish 10-year interest rates are 7.76%.

Last year Irish politicians took on \$93 billion of aid to bail out banks too big to fail. In an effort to spread assistance to the banks government finance gave the banks IOU's for the full amount. This allowed government not to have to raise money and in turn the IOU's were used as collateral to borrow funds from the Irish central banks, which is simple slight of hand. The overall goal is to reduce interest charges.

Next, Ireland will tap the EFSF for a loan to pay off the IOU's and save \$23 billion. That loan would not have to be paid for 15 years at lower interest rates.

Ireland has been a tale of woe for centuries, mostly due to the British. Part of our family emigrated from Dublin, Ireland in 1882. The period of the 1980s and 90s saw Ireland boom and far, far too many homes were built. The resulting real estate crash is still in process. As apposed to Greece banks lent only modest amounts of money to the Irish government, because building produced large revenues to the government, some 30% to 40% of housing costs went to the government. As we all know now Ireland is in an austerity program. Salaries and pensions were cut, but not by 40% to 50%, but by 15%. As in Europe the complaint is the cut in social services, which we believe are outrageous. A family of 4 would get \$9,400 a month. Mind you that is for doing nothing. These recipients also do not have to pay property taxes or for water.

Ireland is a favorite place for American business, some 600 companies that employ about 100,000 people. On the other hand over 200 Irish firms employ over 80,000 Americans. Ireland has as a result a positive trade balance and that means they have the ability to survive. The other five insolvent countries do not have that advantage. The Irish government should have never taken on the banks' debt, because under current terms they cannot repay it. They are now totally enslaved to the banking system. The old government in place for many, many years was voted out and the new one is attempting to obtain new terms. If they do not Ireland will be in poverty for the next 25 to 50 years. Ireland should default just like the other five should. Such debt should have never been assumed because it was the debt of the banks, not the people. The Irish people were sold out by their previous politicians. When Irish politicians capitulated the IMF and ECB guaranteed that any help given to other countries, such as Greece, would be given to Ireland as well. That is why Irish politicians went along with the deal and to save the euro. We do not see a resolution in sight unless terms are changed and large amounts of bailout loans are made.

Contagion has been promised and if it is not forthcoming the euro, euro zone and EU will be history. That number is \$4 to \$6 trillion for six countries, a figure that is unattainable from solvent countries. All the experts, two years after we made our projections are still in la la land. The German government is closest to reality at \$3.5 trillion. The experts offer a guesstimation of \$2.8 trillion. One group projects \$8.3 trillion. Who knows they may be right. The bottom line is anything above \$1.5 trillion can't be done, thus collapse for these six countries has to come.

Almost weekly banks and government debt ratings are lowered, making the situation even more dire. France is very close to losing its AAA rating as a result of their own banking profligacy and the burdens they face in bailing out the near do wells. The French and other politicians talk of leveraging the \$500 billion in EFSF funds into the trillions. It is illegal due to some sovereign constitutions, but such things do not deter politicians, who are all with minor exceptions, controlled by the bankers.

Politicians cannot make the right decision, because they are elitists, out of touch with their constituents and taking orders from the elites. The longer this goes on the worse it will get and kicking the can down the road is not going to work as well. The big hitters in this game cannot forgive debt of the insolvent and they cannot bail them out. Politicians like Sarkozy and Merkel want joint resolution via all 27 EU members to cover themselves against the voters. A real solution is moving further and further away whether they know it or not. The euro probably won't survive, because the problems have gone to far and citizens of the solvent countries do not want to bail out the insolvent anymore. This all could have been avoided if the EU and euro had never been created. This is and has been an unnatural association, which was doomed from the very beginning to failure. This is all the result of those in banking, finance and big business and their mad dreams of world government that cannot work.

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