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The Greek Tragedy Is Just a Sneak Preview of What's Coming to Washington

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I was just in Greece, where the stupidity and venality of the political class are in full view.

The coming repudiation of Greek debt and the credit contagion that will spread among the weaker members of the European Union, including the UK, will ultimately slop over onto the U.S. But while we wait, the process will bring us the answer to a long-simmering question. Will the European Union be a supra-state ruling the formerly independent nations of Europe or will it be a confederation of quasi-independent sovereign nations?

The Eurocrat elites want a union of European nations with one central bank, one currency and just one flag that really matters, all molded to fit the American model. I believe Europe would be far better off as a confederation of sovereign states that allows competition among individual national currencies. Some countries might even revert to backing their national currency with gold. It's amazing how responsible institutions become when they're forced to compete.

Even with national currencies, there still would be room for the euro, which the European Central Bank might make convertible into gold. Remember, Germany knows more about the catastrophe of runaway sovereign debt and currency collapse than any other nation in the West, and today they lead Europe and the European Union.

Although the euro has lost 16% of its value in the last 120 days, I expect it to survive the sovereign debt crisis. But the euro zone may shrink as Greece and the other fiscally weak governments replace the euro with national currencies that they can inflate whenever convenient.

That would leave the euro as the currency of choice for a few strong, wealthy and fiscally conservative nations like Germany – the countries most likely to welcome a gold-backed currency.

We are now living through the violent end of the age of fiat paper money and thoughtless government debt. In the future, the desire for a secure store of value and medium of exchange is going to force currency competition. Even the U.S. dollar, following hyperinflation and a run on our American national debt, could be reborn as a gold-backed currency.

But the transition will be full of hazards that could touch you in a very painful way. Where will bankrupt Washington get the gold to provide a credible cushion for a new currency following a hyperinflationary collapse? The special hazard for American citizens is that the government will get the gold it needs by taking it from them.

But between now and then, prepare for some tough times, and expect periods of dollar strength vs. the euro and even the Swiss franc. There is no official link between the franc and the euro, but the euro tugs on the decisions of the Swiss National Bank, since Switzerland trades predominately with the EU countries. The Swiss franc won't move as violently down and up as the euro's big swings, but it will track the general direction.

Americans should use their recently stronger dollars to add to holdings of Swiss francs, of securely stored offshore gold and of mining shares, along with some Asian investments. With trillions in unfunded liabilities for Social Security and Medicare, Washington's debt load is far greater than the burden that is now crushing the governments of Greece and the other PIIGS countries. The dollar's current strength will prove transient.

Eventually the sovereign debt crisis will also come to the U.K. and then to the U.S., with disastrous results. The tragedy in Greece today is just a glimpse of what will happen to the sovereign debt of the United States. It will come to America, and it will come on its own schedule, so be prepared.