

# The Brink of Total Financial Collapse

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The Western World is careening towards a total financial collapse that is now appearing to be unavoidable.

Since our four-part series on [Understanding America's Financial Crisis](#) in early May, the unraveling of the global financial health of the world has accelerated to near free-fall conditions. If you are a neophyte to the financial crisis, read our four-part series first to get an overview of the rapidly escalating crisis.

Total unraveling of the global financial crisis was narrowly averted when the [Greek parliament](#) voted at the end of June to impose two major austerity bills. The legislation allows Greece to receive a \$40.6 billion installment of a \$159 billion package in financial aid from the EU (European Union) and IMF (International Monetary Fund). While averting a short-term disaster, the [Financial Times](#) reports economists are warning that the new measures “may have simply delayed the inevitable.”

The problem of Greece's enormous debt and [its inability realistically to finance itself](#) in future years remains as intractable as ever. Default is inevitable. Writing for the [Financial Times](#), [Chris Giles warns](#) that even under the best of circumstances Greece is predicted to default by 2013 sending shockwaves through Europe that certainly will find their way to the U.S. Giles predicts that not only would Greece be kicked out of the EU, but Spain, Ireland, Italy and Portugal (the so-called PIIGS nations) also default and lose their membership in the EU. Hyperinflation will grip these defaulted nations as they lose the protection of the EU, cascading into a severe depression for the rest of Europe. It is also likely the Euro would either cease to exist or would no longer be a serious contender with the U.S. dollar.

That's the good news. Greece is highly socialistic with most people depending on the government for their benefits, and indeed, their livelihoods. Outrageous benefits and corruption are the norm. Losing even some of those socialist benefits has already caused frequent riots. However, with the passage of the austerity laws in late June, [Greek unions are rioting](#) with increasing violence. Leaders are holding their collective breath. If the violence threatens the government, even with Marshal Law imposed, the newly passed austerity laws may go down in

flames – literally. The unions actually want the government to default on their debt and go back to the Greek drachma. They falsely believe it to be like bankruptcy that would free them from the backbreaking debt to continue life as usual.

More likely, however, if the unions get their way and Greece defaults, the EU banks will no longer fund Greek banks and Greek government will simply run out of money. It will neither pay its bills nor provide the outrageous benefits to the rioting population. That would cause a [mass run on Greek banks](#), forcing them to close their doors. Everything would grind to a halt. The unions would not only lose their generous benefits, they would get nothing at all. It would be an unimaginable catastrophe.

Other European banks have also loaned Greece tens of billions of dollars. It is extremely difficult to determine the exact amount, but private banks in the U.S., France and Germany all have about a [\\$40 billion exposure \(loss\) if Greece defaults](#). They are currently rolling over the debt into new loans, hoping for the impossible – that Greece will recover, or they can shed their debt to some other institution, preferably their government's central bank. Then it becomes the liability of the people. (We've already seen how that works out with TARP – the banks profit, the people suffer).

The [central banks](#) will provide unlimited liquidity to the banks suffering runs or default on Greek loans, thereby limiting the damage. However, the world could ride out the storm; albeit with some significant belt tightening. The downside is that if Greece defaults, the PIIG nations fall like dominos. Again, it is hard to estimate total private bank exposure, but [Bloomberg](#) estimated in April of 2011 that U.S. private banks held a \$236.8 billion exposure. Bloomberg reports that European private banks hold over [\\$1 trillion in Greek and Spanish debt](#) alone.

Ironically, some economists are warning that Spain and Italy are very close to total collapse already. They believe that it may happen this year regardless of what happens in Greece.<sup>1</sup> It is impossible to get accurate information from the central banks because they don't

provide an accounting, but the exposure is likely in the many trillions of dollars. In the case of the U.S. Federal Reserve (Fed), American citizens are liable for any bad debt incurred by the Fed.

This is not idle speculation. The Fed recently complied with a Freedom of Information Act request that revealed that all of the \$630 billion Second Quantitative Easing (QE2) ending June 30 this year directly, or indirectly went to bailing out defaulting European banks, not to U.S. banks to help the U.S. economy. No wonder small business could not get loans! [Tyler Durden, writing for zero hedge.com](#) made this staggering conclusion:

In summary, instead of doing everything in its power to stimulate reserve, and thus cash, accumulation at domestic (US) banks which would in turn encourage lending to US borrowers, the Fed has been conducting yet another stealthy foreign bank rescue operation, which rerouted \$600 billion in capital from potential borrowers to insolvent foreign financial institutions in the past 7 months. QE2 was nothing more (or less) than another European bank rescue operation! (Original in bold)

Durden also provides evidence that the Fed has done this in the past to bail out the European Central Bank as well as many other private European banks. These machinations have saved Europe from going under already. However, there is no way either private or central banks can weather a PIIGS default storm. Trillions of dollars would soon disappear from the balance sheets of hundreds of private and central banks in Europe and the United States. As banks directly affected by the PIIGS' defaults begin to fail themselves, their failure will set off a domino effect, seriously affecting banks not directly involved.

All but a couple economies of the Western world are teetering already. The real concern is whether this chain reaction would result in a severe depression for the Western world, or whether the financial structure of the

world would completely collapse. In either case the United States would suffer as well. Even more sobering; rather than this scenario not playing out until 2013, it could actually happen much sooner in late 2011 or early 2012.

We all hope this does not happen. Yet, we are told nothing by either the government or by the mainstream media. Why? The financial cartel controlling the world's central banks (including the U.S. Federal Reserve) has known about this inevitability since the 1990s. They could have prevented it then. Instead they have systematically implemented a new global financial architecture that creates a financial and political world government. To learn more, reread our May 3<sup>rd</sup> article, [Part IV: Implementing the New Global Financial Architecture](#).

Time is extremely short. Yet the Progressives in Congress are attempting to block every effort to deal with it, guaranteeing the worst possible collapse possible. If we are given the time, our only hope is to vote every progressive out of office at every level of government in 2012 and replace them with those who understand the U.S. Constitution and are committed to systematically restore America to the Constitutional Rule of Law.

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<sup>1</sup> Weekend Edition: Porter Stansberry: The World's Global Currency System Is Collapsing. The Growth Stock Wire. June 25, 2011.