

The real state of the world economy is dire

written by Egon von Greyerz | September 8, 2013

We are now back to the “green shoots” era of false hope and total misunderstanding of the real state of the world economy. There are minor tidbits of good news that combined with manipulated and seasonally adjusted economic figures are giving politicians worldwide reason for spreading their optimistic gospel of recovery that has nothing to do with reality.

A world based on debt

How can a world with \$250 trillion of debt and over \$1 quadrillion of worthless derivatives ever recover? Of course it can't, especially since this is a world that is supported by legs of worthless printed paper money – legs that are just getting longer and more unstable by the day as trillions are added to the debt every year.

Wherever we turn Europe, USA, Japan and many other nations, the situation is totally beyond repair. But as I have said in recent interviews and articles, it is not just beyond repair but we are likely to be at the end of a major economic cycle that started at the end of the Dark Ages. I wrote about this already back in 2009 in my article **“The Dark Years Are Here”** . Major economic cycles take a long time to develop and if we are now at the beginning of a major downturn in the world economy, people living today will only experience the very beginning of the downturn. But sadly the beginning will be a major and very unpleasant upheaval that virtually nobody will escape.

We have had a century of false prosperity based on printed money and credit. In the last 100 years we have seen the creation of the Fed in the US (a central bank owned, created and controlled by private bankers) combined with fractional reserve banking (allowing banks to leverage 10 to 50 times), exploding government debt and a derivatives market of \$1.4+ quadrillion. These are the principal reasons why the world economy has expanded in the last century and particularly in the last 40 years. These four extremely shaky legs, Central bank printing, Bank leverage, Government borrowing and Derivatives manufacturing have created a world of delusional wealth and illusory prosperity. Also, there is a total absence of moral and ethical values. We are in the final stages of an era of extreme decadence, an era that sadly cannot and will not have a happy ending.

Europe a hopeless case

But still, governments and the media are continuing to feed us with good news which bears no resemblance to the real state of the world economy. In Europe the Mediterranean countries are expanding their debt at exponential rates. Government debt to GDP of Spain, Portugal, Italy and Greece is ranging from 100% to 180%. There are futile attempt at austerity but this only leads to

lower growth and higher debts. There is sadly no way out for these countries whose population is suffering terribly. The best solution would be to leave the EU and the Euro, renege on the debts and devalue currencies. But the Eurocrats are unlikely to accept this and would rather add more debt and print more money, making the situation even worse.

US debt will sink the world

The situation in the US is no better. There is hardly one economic figure being published that has anything to do with reality. Real unemployment is 23% and not 7% as published. GDP using real inflation figures has been declining for years, and real wages have declined for 40 years. The perceived increase in living standards has only been achieved with a massive increase in debt. US government debt was \$1 trillion in 1980, \$8 trillion in 2006 when Bernanke became Chairman of the Fed and is now **\$17 trillion** and growing by at least one trillion a year. So Bernanke has managed to create \$9 trillion of debt during his brief 7 years as Chairman of the Fed. **It took 230 years from 1776 to 2006 for the US to reach \$8 trillion and Bernanke has beaten that in 7 years. An astonishing achievement.** And this debt excludes unfunded government liabilities of around \$220 trillion. **Who in their right mind can believe that the US can get out of this hole!**

Yes the US and the rest of the world will print unlimited amounts of money. But printed money is printed worthless pieces of paper and has nothing to do with wealth creation. The worldwide printing will just add to the already unsustainable debt worldwide and not create one penny of added prosperity. Instead we are likely to see a hyperinflationary depression in many countries.

For the privileged few that have financial assets to protect, physical gold stored outside the banking system is likely to be the best way to preserve wealth and purchasing power.

Egon von Greyerz

Some of the topics in this article and much more were discussed in my King World News interview on September 6.