



Written by [Bruce Walker](#) on September 7, 2011

## Few See Hope in European Crisis

“I believe the U.S. will have slow growth[;] I don’t believe it will move to a double dip, but these things are very hard to predict because if you have events trigger uncertainty in Europe, that will flow back to the U.S.,” Zoellick noted, mentioning that the success of the eurozone “depends on the political decisions moving forward. He added:



Sometimes people hope that you can muddle through by providing financing and liquidity, in the case of Europe, from the European Financial Stability Facility or the European Central Bank. They now recognize that’s not going to happen and instead what you see is with some of the weaker economies, that the austerity policies are pushing them into slower and slower growth and so this could be a downward spiral.

The World Bank President’s commented appear intended to prompt Europe’s political leaders into taking whatever actions are necessary to halt the sovereign debt crisis that now appears to seriously threaten Italy, the seventh largest economy in the world. Italian state bonds have lost value for 11 straight days, though fluctuation up and down is the typical pattern of securities on the open market. Although a trend line in a positive or negative direction over time is standard, very seldom does a particular security instrument move in the same direction every single day for over two weeks of trading.

Almost as troubling has been the fall of Asian stocks and American futures. Both have fallen for five straight days. Tharman Shanmugaratnam, Minister of Finance for Singapore, said growth in the United States and Europe may be about one percent. “We’re already at stall speed in the U.S. and Europe, which means we’re now more likely than not to see a recession.”

One impact of the crumbling of EU and American economic confidence, as well as the value of the currencies of those two, is that the Swiss franc has risen steadily as investors, seeking some safe haven for their portfolio, have bought Swiss francs and driven the value of that stable currency higher. As a consequence of that, the Swiss National Bank pegged the franc to 1.2 francs per euro and announced that it would [buy unlimited quantities](#) of other currencies to maintain the position of the franc. It is not just Swiss francs that have been viewed as a good investment in these uncertain times. Swiss stocks have also risen steadily as the stocks of the eurozone and of America have dropped.

The Swiss move is widely interpreted as essential to enhance Swiss exports, which were being priced out of the world market by the dramatic rise of the franc. Switzerland is highly dependent upon trade



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with eurozone nations such as Italy, and if the value of its money rises too high, fewer customers will be able to buy its goods and services.

While the dangers to the economies of the European Union are clear, what is less clear is what at this point the governments of the union can do to prevent an economic recession. Germany, Finland, and the Netherlands are meeting at a high governmental level to discuss the demand of the Finnish government for collateral to cover any bailout of Greece. Meanwhile, the Italian Senate begins debate on an austerity plan proposed by the Berlusconi government, with the debate occurring during a protest strike.

Although Zoellick recognized the troubles of those economies, he tried to look for some silver lining in the current crisis. Ireland and Latvia, he noted, seemed to be on a “better path” and Spain has “taken a lot of important decisions.” That rosy talk cannot hide the fact that Greece today is practically in default. Short-term yields on Greek bonds have risen to astronomical levels — so high, in fact, that actual repayment of the principal and interest seems almost impossible. In late August, the interest rates on two-year Greek bonds had risen to a euro high of 45.91 percent and 10-year bonds were as high as 18.55 percent.

The Finn’s skeptical attitude toward Greece’s ability to repay its debts suggests that this frugal nation will be the first to simply refuse to participate any longer in what looks increasingly like a Greek ponzi scheme. Switzerland, another nation accustomed to paying its bills and maintaining a stable currency, appears as well to have “voted” on the prospects of the European Union providing a solid currency and containing the profound fiscal problems of the PIIGS member-states (Portugal, Ireland, Italy, Greece, and Spain).

More and more American analysts are looking at Europe as a certain drag on U.S. national economic security. European banks, which hold Greek, Italian, and Portuguese bonds as part of their portfolio, will almost certainly create a poor investment climate in Europe, and slow growth across the Atlantic means fewer customers for American goods. Not only is the European Union in a downward spiral, but those nations which tie their fate to its fate face a grim future as well.



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