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Jonathan Davis: Euroland is creaking under a massive burden of debt

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SO, you believe Greece and Ireland have been bailed out and are now on the road to recovery? Think again. The debts owed by some Euroland countries to others in the EU amount to literally trillions of euros.
Also, there was much of the following: Peter lent to Paul and Paul lent to Sophie and Sophie lent to Peter. The bailouts of Greece and Ireland, by the ECB and the IMF this year, were not bailouts at all. They simply added more debt to an already astounding debt-ridden position. All it did was – yet again – kick the can a little down the line so that the culprits would not be apprehended until a little later.

Who are the culprits? The politicians who promised the electorate the earth for no cost. That wasn't very clever really was it? Also, the bankers who loaned recklessly to consumers who had no possibility of repaying and profligate governments at the same rate of interest as to prudent and far more successful Germany.

Yet, governments have not the gumption to tell the bankers to take the losses as they shouldn't have been so greedy. It's madness. It's also immoral.

Billionaire and multi-millionaire bankers and hedge fund managers get wealthier while we, the taxpayers, foot the bills with higher taxes – direct and indirect, eg tuition fees – lower public services, higher unemployment, higher cost of living etc. If you think I'm sounding like some kind of revolutionary or Marxist you would be 100 per cent wrong. It's in banking that we have socialism. When they make money, they make money. However, when they lose vast amounts, we bail them out as opposed to (the capitalist solution) letting them go bust.

So, what about the euro? Well, they already shot themselves in the foot by "printing more money" (electronically) and handing it to bankers for Greece and Ireland. Now the citizens of those two countries have smaller pensions, higher taxes etc. Probably, Portugal, Belgium, Italy and Spain will soon be on the radar of the lenders (the bondholders).

They will be saying to themselves, "are we likely to be able to get our money back?" Of course, the answer is "no" and they will raise the interest rates for future borrowings. That is what it means when bond rates rise.

So, Portugal will probably be first (or third, in fact, after Greece and Ireland). The ECB will print yet more money, the euro will go down again (when you create more of something it becomes less valuable) and Portugal will be bailed out with all that that entails for its citizens. Will they do it for Spain which is much much bigger? Yes, probably as that is all elected politicians and appointed Central Bankers seem to know to do.

Of course, it will be entirely the wrong course of action. They should let the bondholders take the losses and let the country formally go bankrupt – as opposed to pretending they are not already bankrupt.

That way the economy can reboot and get going again as we have seen happen in Chile, Russia, Scandinavia, Iceland etc. The only country that continues to prop up failed banks is Japan. Twenty-one years in depression and counting.

Eventually, the people will ask serious questions. Why are we putting up with lower pensions and higher taxes and fuel, clothing, food and light costs etc (the inevitable result of currency debasement) when the bankers are getting richer? Indeed.

This will spill over to the political class and some of them will finally wake up and say "OK, let's get out of the euro and tell the bankers where to go. It was their greed anyway".

I suspect, given the likely political and economic tensions there will be, that will be attractive to many voters. Especially, as it will allow the country to devalue and export and create jobs.

So, I am expecting either of the following to occur within this decade (and maybe sooner):

The peripheral countries – Ireland, Portugal, Spain and Greece – to default and leave the euro so leaving northern European countries in a smaller currency bloc, or

Germany to get so tired of bailing everyone else out, alone leaving the euro, which of course demolishes it.

Either way, I would not be in euros for the next couple of years as it falls in value, significantly.

By the way, as for the UK and sterling, well the UK is an even bigger basket case than the rest of them. We owe so much when you consider government debt and PFI, bad banks debts and household debts. The only difference is our government debts don't come up for repayment for a few more years.

When the lenders come a callin', sterling will fall faster and further than the Titanic. You think that the coalition is cutting hard? Try living in Ireland.

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