Written by **Bob Adelmann** on January 12, 2012

The Collapse of the Euro

One Greek banker said that safe deposit boxes are in great demand: “There has been a big increase in rentals … about fivefold compared with last year. About 10 percent of the withdrawals we see are headed there. The most extreme case was a client who told me he was building a safe under his pool.” Retail bank deposits in that country are now at five-year lows, adding to the instability of banks whose balance sheets depend on those deposits staying put.

Italian citizens are moving their money out of the country into Switzerland while others are purchasing German bonds. Those purchasers have been so willing to pay for the privilege of owning safe German bonds that they have driven interest rates to less than zero.

Others are putting their paper into hard assets such as apartments in Berlin. Frederico Racca, a realtor in Berlin, reported, “Sales skyrocketed in the last two months due to fears of a possible default of Italy.” In November his agency sold 78 properties to Italians seeking safety. In the first week in December, it sold 50 more. Annalisa Fornara, a realtor specializing in such properties, related, “They are arriving en masse. What we are seeing has no comparisons with the last eight years. There is an entire portion of the market that is [being purchased by nervous] Italians.”

Investment managers are having trouble keeping their clients’ accounts from being liquidated and moved to safer locales. One such manager acknowledged, “They’re worried about a default and a run on the banks Argentina-style. I personally am managing to keep my clients although I must admit while I spent 10 minutes with them before, I am now spending a couple of hours to explain things.”

Even spokesmen for the rating agencies are getting nervous. David Riley, head of sovereign ratings for Fitch, the international credit rating agency, declared, “The end of the euro would be cataclysmic. What would [such a collapse] do in terms of financial and political stability? It’s hard to believe the euro will survive if Italy does not make it through. One might argue that [Italy] is too big to rescue.” Fitch has officially announced that it has no plans to downgrade France, the second-largest economy in the eurozone, but it remains “in a precarious position.” Standard & Poor’s credit rating agency has warned that France could be downgraded by at least one and perhaps two notches in the near future, adding to the uncertainty.

In April, the euro was trading at just under 1.50 to the dollar. On Wednesday it closed at 1.27, a decline of almost 15 percent in nine months. Barclays Bank anticipates further declines in the euro in 2012 due to continuing weakness in the European economies. Jose Lynne, Barclay’s head of foreign exchange research, noted that “before September economic activity was pretty strong in Europe,” but it has declined substantially since then, with the euro headed for 1.20 to the dollar or even lower. Nomura, the international banking firm located in Tokyo, is considering the likelihood of a total euro collapse. Said the bank's foreign exchange strategist, Jens Nordvig, a break-up of the eurozone could play out in two ways: gradually, with the value of the euro dropping steadily over time, or instantly, following a default by Italy. In that event, the euro would disappear altogether and the eurozone countries would revert back to their own currencies. Nordvig admitted, "European policymakers continue to argue that they will do 'what is needed' to save the euro. But the genie is out of the bottle, and various break-up scenarios are now being discussed more openly."

How far could the euro decline? By continuing to attempt to solve the euro crisis with the very tools that started it, the Keynesian central bankers will make sure that the euro goes to zero. As Ayn Rand put it:

> The world will soon wake up to the reality that everyone is broke and can collect nothing from the bankrupt, who are owed unlimited amounts by the insolvent, who are attempting to make late payments on a bank holiday in the wrong country, with an unacceptable currency, against defaulted collateral, of which nobody is sure who holds title.