Phantom Cash May Backfire as Financial Bomb

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The world has entered an age where countries continue to create loads of cash out of thin air to finance exploding debts. The phantom cash flow is being used to stem the tide of the European Union debt crisis and keep the U.S. government running.

MSN Money reports that, “I’d suggest that we all brush up on Gresham’s Law, the 16th-century description of what happens to strong currencies when they meet up with bad money. In a nutshell, Gresham’s Law says that the bad currencies win. Figuring out what to do about that is important as investors head into an era of bad money as far as the eye can see.”

Apparently, in the aftermath of the global financial crisis in 2008, localized crises had been solved through the creation of vast sums of cash coming essentially out of thin air and posted on the official balance sheets of central banks including the Federal Reserve and the European Central Bank. The trend is likely to continue.

According to MSN Money, “It’s still an open question if the ‘solution’ will work. In the case of Spain, for example, the European Central Bank fixed the crisis for a while by giving banks access to 1 trillion euros in three-year loans in December and February. But by late March the crisis was back, and the yields on Spanish and Italian government bonds had started to rise again. Now we’re looking at another program of bond buying by the central bank to lower yields or another program of three-year loans to banks to give them the money to buy more bonds in order to lower yields.”

To read the entire article from MSN Money, link here:Mcgregor@chinadaily.com.cn