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Global Economic Crisis: The USA, An Insolvent and Ungovernable Country

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As announced in previous GEABs, in this issue our team presents its anticipations on the changes in the United States for the period 2012-2016. This country, the epicentre of the global systemic crisis and pillar of the international system since 1945, will go through a particularly tragic in its history during these five years. Already insolvent it will become ungovernable bringing about, for Americans and those who depend on the United States violent and destructive economic, financial, monetary, geopolitical and social shocks. If the United States today is already very different from the "super-power" of 2006, the year the first GEAB was published, announcing the global systemic crisis and the end of the all-powerful US, the changes we anticipate for the 2012-2016 period are even more important, and will radically transform the country's institutional system, its social fabric and its economic and financial weight.

At the same time, every December, we evaluate our anticipations for the year just ended. This exercise, too rarely practiced by the think tanks, experts and media (1) is a tool enabling our subscribers (2) as well as our researchers to verify that our work retains a high added-value and and is in direct contact with reality. This year our score improved slightly and LEAP/E2020 attained an 82% success rate in its anticipations for 2011.

In addition we also detail our recommendations on foreign currencies, gold, stock exchanges and the consequences of the United Kingdom's marginalization within the EU (3) on the Pound, Gilts and UK debt and we set out some advice on developments of the American institutional system (4).

In this public communiqué we have chosen to present an excerpt from our anticipation on the changes in the United States for the 2012-2016 period.

But before addressing the American case, we wish to review the situation in Europe (5).

From the non-dislocation of Euroland to the dislocation of the United Kingdom

As anticipated by our team, the EU summit in Brussels on 7 and 8 December last has led to two key events:

. the further integration of Euroland with an acceleration and strengthening of budgetary and financial integration and the initiation of a fiscal integration (6). The Eurozone governments, led by Germany, have confirmed their willingness to go right through to the end of this process, unlike all the Anglo-Saxon and Eurosceptic discussions which, for the last two years, predicted that Germany would abandon the Euro. At the same time, they have refused to follow the path of the Fed and the Bank of England by refraining from running the printing press (Quantitative Easing) as long as budgetary discipline is not achieved within Euroland (7). The clear failure of QE in the US as in the UK (8) confirms the relevance of this choice which will allow the issue of Eurobonds at the end of 2012 (9).

US, UK, Japanese and European central bank balance sheets (2007-2011, based 100 in June 2008) – Source: Société Générale, 11/2011

In contrast, the “assurance” that the Greek case (of a “voluntary tax” of a 50% “haircut” for the country’s private creditors) will remain an exception is a promise that binds only those who believe it. Incidentally it has been pushed by the French President, Nicolas Sarkozy, whose citizens are well aware, after five years of seeing him in action, that his commitments have no lasting value and are always tactical in nature (10).

. the lasting marginalization (at least 5 years) of the UK within the European Union vividly confirms that it really is now Euroland that henceforth leads European affairs. David Cameron’s inability to gather even only two or three of the United Kingdom’s “traditional allies” (11) illustrates the structural weakening of British diplomacy and the general lack of confidence in Europe on UK’s ability to overcome the crisis (12). It’s also a reliable indicator of the loss of US influence on the continent since the sending of Treasury Secretary Tim Geithner and Vice President Joe Biden to maraude on the mainland a few days before the summit served no purpose and didn’t prevent the British failure (13).

Comparison between interest rates on current debt and the market rate for 10 year borrowing – Source: Figaro, 11/2011

In fact this summit will have been historic, but not yet because it will have settled the European financial and budgetary problems. As we anticipated in December 2010, and as Angela Merkel has just said in the Bundestag, the Euroland path is a long journey, complex and chaotic, like the road traveled since the 1950s for European integration (14). But it’s a way that strengthens our continent and will place Euroland at the heart of the world after the crisis (15). If markets are not happy with this reality, it’s their problem. They will continue to see their ghost-assets go up in smoke, their banks and hedge funds go bankrupt, trying in vain to push up interest rates on European debt (16) resulting in the ratings of the Anglo-Saxon credit rating agencies losing all credibility (17).

Large hedge funds’ donations to the British Conservative Party (2001-2011) – Source: Financial Times, 12/2011

This summit is historic because it confirms and boosts the return of the EU founding countries in charge of the European project and because it shows that far from witnessing a collapse of the Euro zone, the shock treatment attempted by David Cameron on the orders of City financiers (18), is resulting in an acceleration of the United Kingdom’s dislocation (19). In addition to the confrontation between Liberal Democrats and Conservatives which Cameron’s posture initiated, undermining even further a coalition already in really bad shape, this British marginalization raises fierce opposition in Scotland and Wales whose leaders proclaim their attachment to the EU and its volition, as regards Scotland (20), to join the Euro once the independence process starts around 2014 (21).

And, the icing on the cake, the collusion between the City and the British government is now a topic that extends beyond the UK's borders and reinforces the continent's determination to finally bring this "outlaw" under control. As we have described since December 2009 and the beginning of the attacks against Greece and Euroland, the City, alarmed by the consequences of the crisis as regards European regulations, launched itself in an attack against an evolving Euroland, putting the Conservative Party and Anglo-Saxon financial media in its service (22). The episode of the recent Brussels summit marks a major defeat for the City in this increasingly public war, exposing by the way the resentment of a majority of British who are not so much against Euroland than against the City (23) accused of exploiting the country (24).

With £1.8 trillion of public money invested in banks to prevent their collapse in 2008, the British taxpayers are in fact those who have paid the most for the rescue of financial institutions. And the British government may well continue to exclude this amount from its public debt calculations by claiming it's an "investment", de facto, fewer and fewer people consider that the banks in the City will recover from the crisis, especially since its worsening in the second half of 2011: the shares purchased by the Government in fact are already worthless. The "UK hedge fund" is on the brink of collapse (25) … and thanks to David Cameron and the City, it's isolated with no one to come to its aid, neither in Europe nor the United States.

With the Chinese bubble (26) about to join the European recession and the US depression, the 2012 storm will determine whether David Cameron and his finance minister George Osborne are worthy descendants of the great British sailors.

Maritime freight costs China/Europe (in blue) and China/USA (in red) (September-November 2011) – Source: Phantonomics, 12/2011
But back now to the extract from our anticipation on the future of the United States for the 2012-2016 period.

The future of the USA – 2012-2016: An insolvent and ungovernable United States

In this issue, our team therefore gives its anticipations regarding the future of the United States for the 2012-2016 period. We recall that since 2006 and the first GEAB issues, LEAP/E2020 described the global systemic crisis as a phenomenon characterizing the end of the world as we know it since 1945, marking the collapse of the American pillar on which this world order has rested for nearly seven decades. Since 2006, we had identified the period 2011-2013 as that during which the "Dollar Wall" on which the power of the United States sits would fall apart. Summer 2011, with the cut in the United States' credit rating by S & P, marked an historic turning point and confirmed that the "impossible" (27) was indeed in the process of coming true. Therefore today, it seems essential to provide our subscribers with a clear anticipatory vision of what awaits the "pillar" of the world before the crisis at the point when the crisis moved into "top gear" in summer 2011 (28).

Thus, according to LEAP/E2020, the 2012 election year, which opens against the backdrop of economic and social depression, complete paralysis of the federal system (29), strong rejection of the traditional two-party system and a growing questioning of the relevance of the Constitution, inaugurates a crucial period in the history of the United States. Over the next four years, the country will be subjected to political, economic, financial and social upheaval such as it has not known since the end of the Civil War which, by an accident of history, started exactly 150 years ago in 1861. During this period, the US will be simultaneously insolvent and ungovernable, turning that which was the "flagship" of the world in recent decades into a "drunken boat".

To make the complexity of the current process understandable, our team has chosen to organize its anticipations around three key areas:

US institutional deadlock and the break-up of the traditional two-party system
The unstoppable spiral of recession/depression/inflation
The breakdown of the US socio-political fabric

The unstoppable US economic spiral : recession/depression/inflation (extract)

In fact, the United States ends 2011 in a state of weakness unmatched since the Civil War. They practice no significant leadership at international level. The confrontation between geopolitical blocs is sharpening and they find themselves confronted by almost all the world's major players: China, Russia, Brazil (and in general almost all of South America) and now Euroland (30). Meanwhile, they cannot control unemployment where the true rate stagnates at around 20% against the backdrop of an unabated and unprecedented reduction in the labour force (which has now fallen to its 2001 level (31)).

Real estate, the foundation of US household wealth along with the stock market, continues to see prices drop year after year despite desperate attempts by the Fed (32) to facilitate lending to the economy through its zero interest rate policy. The stock market has resumed its downward path artificially interrupted by two Quantitative Easings in 2009 and 2010. US banks, whose balance sheets are much more heavily loaded with financial derivative products than their European counterparts (33), are dangerously approaching a new series of bankruptcies of which MF Global is a but a precursor, indicating the absence of procedural controls or alarms three years after the collapse of Wall Street in 2008 (34).

Poverty is gradually increasing in the country every day, where one in six Americans now depend on food stamps (35) and one in five children has experienced periods of living on the streets (36). Public services (education, social, police, highways…) have been significantly reduced across the country to avoid city, county, or state bankruptcies. The success with which the revolt of the middle class and the young (TP and OWS) has met is explained by these objective developments. And the coming years will see these trends get worse.

The weakness of the 2011 US economy and society is, paradoxically, the result of the "rescue" attempts carried out in 2009/2010 (stimulus plans, QE …) and the worsening of a pre-2008 "normal" situation. 2012 will mark the first year of deterioration from an already badly impaired situation (37).

SMEs, households, local authorities (38), public services,… have no more "padding" to soften the blow of the recession into which the country has fallen again (39). We anticipated that 2012 would see a 30% drop in the Dollar against major world currencies. In this economy, which imports the bulk of its consumer goods, this will result in a corresponding decrease in US household purchasing power against a backdrop of double-digit inflation.

The TP and OWS have, therefore, a bright future ahead of them since the wrath of 2011 will become the rage in 2012/2013.

Notes:

(1) Not to mention the rating agencies that spend their time changing their ratings, proof that they have no reliable methodology and that they float at the mercy of pressure and fashion.

(2) Which can thus directly determine both the relevance of our anticipations and the honesty of our assessments.

(3) A development anticipated by our team for a long time.

(4) At the request of numerous American readers.

(5) We will put forward our anticipations for the EU in the GEAB N°61 or 62.

(6) The EU president, Herman Van Rompuy, is almost right in saying that in a few years this 2011 year-end will be judged as an "annus mirabilis" for Europe. Our team considers that 2012 will actually be the key year. Source: Le Soir, 13/12/2011

(7) Source: New York Times, 10/12/2011

(8) The Bank of International Settlements has just warned the UK that its policy of Quantitative Easing was in the course of failing. Source: Telegraph, 12/12/2011

(9) Whatever Angela Merkel may say today.

(10) The Germans, Dutch and other countries with a surplus are for that matter determined to return to this point when the time comes. And we maintain our anticipation that 30% of Western public debt will not be repaid in 2012: in Europe, Japan and the United States.

(11) That's to say European countries still subservient to Washington such as Vaclav Klaus' Czech Republic, the Baltic countries or Sweden.

(12) All countries outside the Eurozone, except the United Kingdom, have wisely lined up behind the banner of the European single currency. But of course, they are without any doubt "irresponsible", "idiots" or "foolhardy"… unlike the writers in the Anglo-Saxon media who know that this is doomed to failure. Just as before 2008, they were convinced of the invincibility of Anglo-Saxon finance or, until the second half of 2011, that the crisis was under control! Source: Libération, 13/12/2011

(13) This type of high-level US visit or presidential phone call, widely reported by the US press, just before an EU summit, has become a feature of the Obama administration. In the absence of being able to influence events – since Euroland has made it clear to Washington that it should mind its own business, it helps to convince the US public that Washington is

still the “eus ex machina” of European affairs, even though never since 1945, has US influence been so weak on the evolution of Europe. It’s true that without money, without a common threat, and without credibility, as regards economic and financial affairs, the task of US envoys isn’t easy!

(14) Source: Euronews, 14/12/2011

(15) LEAP/E2020 considers that today Angela Merkel is undoubtedly the only European, and even Western, “statesman”. She isn’t a great visionary but is the only political leader combining the need for difficult policies with a positive vision of the future. And whatever we may think, she shows an undeniable determination, a necessary quality to achieve the things that are important in politics and which are always difficult.

(16) We say “in vain” for two reasons. First, because the actual current rates are not those used by the press (see chart above) and, secondly, because according to our analyses, Euroland in 2012 or early 2013, if interest rates continue to rise, will undertake to directly collect a part of the huge European savings in order to withdraw under its own conditions from the Anglo-Saxon financial markets… who will have to accept a major haircut.

(17) In this regard, the shareholding composition of the three agencies throws the light on the complete lack of decision-making independence since they are held by a few large US banks and investment funds (source: Bankster). It’s time that they downgrade Euroland by several notches… so that investors are compelled to make their choice: believe the agencies’ ratings or rely on their own views (source: CNBC, 15/12/2011). Ultimately there will be a difference. LEAP/E2020 believes those who follow the agencies will be the biggest losers in this financial crisis. And the attempt by European governments to “keep their AAA rating at all costs”, as in Nicolas Sarkozy’s case, demonstrates just one thing: they’re only listening to their financial friends. When one is Euroland and the first global trading bloc, the holder of the largest global savings, etc… one couldn’t care less about the rating agencies. One ignores them or one breaks them. Two things that will be in the 2012 programme for that matter.

(18) The City “hedge funds” have become the largest donors to the Conservative Party (see chart above) which is de facto their political intermediary. And these same “hedge funds”, of course, have a special affection for the British Eurosceptics of whom Roger Cohen paints a particularly edifying picture in the New York Times of 13/12/2011. What the British Eurosceptics have against Angela Merkel, is not that she’s German, but that she’s not a Nazi. If it were so, their ideas of “superior race” could be expressed more easily within the EU.

(19) Which will find itself left without influence over the decisions that will affect it in any way. Source: Guardian, 10/12/2011

(20) Sources: Scottish TV, 12/12/2011; Wales Online, 10/12/2011; Independent, 05/12/2011

(21) In this regard, our team took the opportunity to share its thoughts on the use of the term “United” in country names. We believe that all countries or political entities that put the word United or Union in their name are doomed to disunion the day a serious crisis changes the internal balances. Using the term “United” in fact masks a fundamental problem of common identity. That is why the Union of Soviet Socialist Republics collapsed, the United Provinces were disunited and the United States like the United Kingdom are

facing growing centrifugal tendencies. It's also why the European Union is not a viable political entity (it is doomed to be only a big market, source: Spiegel, 18/11/2011)… unlike Euroland which has no need to add Union or Uni to have a common identity. Franck Biancheri, director of LEAP/E2020, had thus expressed, for these reasons, his opposition to the adoption of the term European Union in place of European Community at the beginning of the 1990s.

(22) And making full use of its ability to manipulate the currency markets and other financial assets. An aptitude in rapid decline due to the crisis and the growing unmasking of ongoing manipulation.

(23) Source: Independent, 10/12/2011

(24) The City is a feudal relic that escapes all genuine regulation within the United Kingdom. Even if only because it is a huge financial center that too few controllers "control", supported by the extensive network of tax havens created from the confetti of the former British Empire. For information, France Télévisions has just broadcast a remarkable report on the City on 11/2011. One could say that the City is a kind of "pirate" base like the Barbary corsairs that the European powers finally mastered by military campaigns in the nineteenth century, after centuries of piracy and smuggling of all kinds.

(25) Whether due to the fact that the debt is public or private. Thus in 2012 the British real estate investors will be unable to refinance USD 156 billion in loans. Source: Bloomberg, 09/12/2011

(26) Sources: Telegraph, 14/12/2011; Les Echos, 01/12/2011

(27) Let's remember just a year ago it seemed totally crazy to anticipate such a breakdown. Financial experts, the specialized media and other experts of "the future as a mirror image of the past" considered such a breakdown impossible, or possible after five or ten years if the country's financial situation continued to deteriorate.

(28) This requirement is all the higher that the media and financial sectors are completely parasitized by the "lure" of the "Euro crisis" destined, as we have been emphasizing for the last two years, to hide the seriousness of the situation at the heart of the global financial system, namely on Wall Street and in the City. David Cameron's resounding failure in Brussels last week incidentally shows the panic that reigns in the heart of Anglo-Saxon finance.

(29) Euroland, despite its "handicaps", repeated at length in the Anglo-Saxon media and the hysterical gibes of Wall Street and City intermediaries, has managed for nearly two years to build a whole new politico-institutional device to pass through the crisis and prepare for the world after. On the contrary, the United States is proving itself totally incapable of the least initiative to adapt itself to the new world order as was once again recently demonstrated with the failure of the deficit reduction super-committee goal despite its very limited target of 1.5 trillion in reductions over 10 years (see chart above). The history of states, like the species, shows however that the ability to adapt is essential for survival, and it's a law that has no exceptions.

(30) In his marvellous poem « If », Rudyard Kipling wrote "… If you can bear to hear the truth you've spoken/ Twisted by knaves to make a trap for fools/ Or, being lied about/ Don't

deal in lies/ Yours is the Earth and everything that's in it". And this advice applies to communities as well as individuals because the reading of the Anglo-Saxon press about the Euro and Euroland irresistibly makes our team think of this passage from the poem. However, with the marginalization of the United Kingdom within the EU and faster Euroland integration (as per our anticipations), we note the crossing of a psychological barrier in Euroland: it's no longer the time to avoid offending the sensibilities of our Anglo-Saxon "allies", but simply to protect ourselves from the attacks of our Anglo-Saxon opponents. Unlike the media and "mainstream" experts of Wall Street and the City, Euroland isn't wasting time "to twist the words to make a trap for fools", it satisfies itself in taking reality into account, to move forward "grinning and bearing it" and cut, one by one, the ties that bind it to the British and US financial centres (and the political ones later). Our team cannot resist the temptation to provide a further illustration of the daily "spinning" of information of which most of the British and US media have made a specialty. Thus, in the section of our heading "twisted by knaves to make a trap for fools", MarketWatch published an article on 14/12/2011 entitled "Fund managers fear a Eurozone break-up" Yet what did we discover in the article? That their main concern (75% of them) was a further US downgrade (48% think it will happen in 2012) and only 44% of them thought there was a risk that one day a country would leave the Eurozone, without mentioning a timeframe. An honest title should, therefore, have been "Fund managers fear a further US downgrade". But as they say in French: "A la guerre comme la guerre (make do with what you've got)!".

(31) Whereas in the same time, the US population has increased by 30 million, a 10% rise. Source: Washington Post, 02/12/2011

(32) Our team thinks 2013/2014 will provide, via the Congress and due to massive public support, an unprecedented opportunity to demand a dismantling of the Fed. The anti-federal beliefs of the Tea Parties and those anti-Wall Street of the OWS will find a compelling focal point here.

(33) Source: New York Times, 24/11/2011

(34) In this connection it is interesting to note that the rating agencies, led by Moody's, saw nothing coming once again since, until the end of summer 2011, MF Global had a positive rating from these agencies… even while the company was already tapping its clients' accounts in an attempt to survive. May those who believe that their investments are better protected on Wall Street or in the City reflect on this "detail".

(35) Sources: MSNBC, 11/2011; RT, 08/12/2011

(36) These are the numbers that henceforth rank the country fully in the "Third World" category in social matters. Source: Beforeitsnews, 29/11/2011

(37) Gregor McDonald says the country can no longer generate growth. Source: SeekingAlpha, 05/12/2011

(38) Source: Washington Post, 29/11/2011

(39) In fact, it has never left it since 2008, except technically due to macro-economic measures. But no one eats macroeconomics… except economists.

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