

Global systemic crisis

New tipping-point in March 2009: 'When the world becomes aware that this crisis is worse than the 1930s crisis'

By [GEAB](#)

Theme: [Global Economy](#)

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LEAP/E2020 anticipates that the unfolding global systemic crisis will experience in March 2009 a new tipping point of similar magnitude to the September 2008 one. According to our team, at that period of the year, the general public will become aware of three major destabilizing processes at work in the global economy, i.e.:

- the length of the crisis
- the explosion of unemployment worldwide
- the risk of sudden collapse of all capital-based pension systems

A whole range of psychological factors will contribute to this tipping point: general awareness in Europe, America and Asia that the crisis has escaped from the control of every public authority, whether national or international; that it is severely affecting all regions of the world, even if some are more affected than others (see GEAB N°28); that it is directly hitting hundreds of millions of people in the “developed” world; and that it is only worsening as its consequences reveal throughout the real economy. National governments and international institutions only have three months left to prepare themselves to the next blow, one that could go along severe risks of social chaos. The countries which are not properly equipped to cope with a surge in unemployment and major risks on pensions will be seriously destabilized by this new public awareness.

In this 30th issue of the GEAB, the LEAP/E2020 team describes these three destabilizing processes (two of them are described in this public announcement) and gives recommendations to cope with the surge in risks. In addition, this issue also provides the opportunity to make an objective assessment of the reliability of LEAP/E2020's anticipations and specifies a number of methodological aspects of the analytical process used. In 2008, LEAP/E2020's success rate reaches 80%, and even 86% when it comes to strictly socio-economic anticipations. In a year of major upheavals, our team is altogether quite proud of this result.

The crisis will last at least until the end of 2010



Evolution of the US money base and indications of related major US crisis periods (1910 – 2008) – Source: Federal Reserve Bank of Saint Louis / Mish's

Global Economic Analysis

As we already explained in GEAB N°28, the crisis will affect in different ways the different regions of the world. However, and LEAP/E2020 wishes to be very clear on that aspect, contrary to the dominant stance today (coming from those experts who denied the fact that a crisis was coming up three years ago, who denied that it was global two years ago, and who denied the fact that it was systemic six months ago), we anticipate that the minimum duration of the decanting phase of the crisis is 3 years (1). It shall be finished neither in spring 2009, nor in summer 2009, nor at the beginning of 2010. It is only towards the end of 2010 that the situation will start stabilizing again and improving a little in some regions of the world, i.e. Asia and the Eurozone, as well as in countries producing energy, mineral and food commodities (2). Elsewhere, it will continue; in particular in the US and UK, and in all the countries depending on their economy, were the duration could approximate a decade. In fact these countries should not expect any real return to growth before 2018.

Moreover no one should imagine that the improvement at the end of 2010 will correspond to a return of high growth. The recovery will take long. For instance, stock markets will take a decade to return to levels comparable to 2007, if they ever return to that. Remember that it took twenty years before Wall Street resumed its 1920 levels. Well, according to LEAP/E2020, the present crisis is deeper and longer than in the 1930s. The general public will gradually become aware of the long-term aspect of this crisis in the coming three months and this situation will immediately trigger two tendencies carrying with them socio-economic instability: fear of the future and enhanced criticism towards leaders.

The risk of sudden collapse of all capital-based pension systems

Finally, among the various consequences of the crisis for dozens of millions of people in the US, Canada, UK, Japan, Netherlands and Denmark in particular (3), there is the fact that, from the end of the year 2008 onward, news about major losses on the part of the organizations in charge of managing the financial assets supposed to finance pensions will multiply. The OECD anticipates that pension funds will lose 4,000 billion USD in 2008 only (4). In the Netherlands (5) as well as in the United Kingdom (6), monitoring organizations recently blew the whistle asking for an emergency contribution reappraisal and a State intervention. In the United States, growing numbers of announcements call for contribution increases and benefit reductions (7), knowing that it is only in a few weeks time that most of these funds will start calculating their total losses (8). Most of them are still deluding themselves about their capacity to build up again their capital after the markets turn around. In March 2009, when pension fund managers, pensioners and governments will become simultaneously aware of the fact that the crisis is there to last, that it coincides with the « baby-boomer » generation's age of retirement and that the markets will not resume their 2007 levels until many long years (9), chaos will flood this sector and governments will reach the moment when they will be compelled to nationalize all these funds. And Argentina, who took this decision a few months ago already, will appear a pioneer.

All the trends described above are already at work. Their combination and the public becoming aware of the consequences they could entail, will result in the great collective psychological trauma of Spring 2009, when everyone will realize that we are all trapped into a crisis worse than in the 1930s and that there is no possible way out in the short-term. The impact on the world's collective mentalities of people and policy-makers will be decisive and modify significantly the course of the crisis in its next stage. Based on greater disillusion and fewer beliefs, social and political instability will settle down worldwide.

Finally, this GEAB N°30 presents a series of 13 questions & answers designed to enhance savers'/investors'/decision-makers' capacity to understand and anticipate the next stages of the global systemic crisis:

1. Is this crisis different from the previous crises which affected capitalism?
2. Is this crisis different from the 1930s crisis?
3. Is the crisis as serious in Europe or Asia as in the USA?
4. Are the current actions undertaken by public authorities worldwide sufficient to curb the crisis?
5. What are the major risks still weighting on the world financial system? And are all savings equal in front of the crisis?
6. Is the Eurozone a true protection shield against the worst aspects of the crisis and what should the Eurozone do to improve its protection status?
7. Is the Bretton Woods system (in its 1970s last version) currently collapsing? Should the Euro take the place of the Dollar?
8. What can be expected from the next G20 meeting in London?
9. Do you think that deflation is right now the biggest threat to economies worldwide?
10. Do you think that the Obama administration will be able to prevent the USA from sinking into what you called the 'Very Great US Depression'?
11. In terms of currencies, beyond your anticipation of the Dollar resuming its collapse in the very next months, do you think that the UK Pound and the Swiss Franc are still currencies with an international status?
12. Do you think that the CDS market is about to implode in the coming months? And what could be the consequences of such a phenomenon?
13. Is there a 'US Treasury Bonds Bubble' about to burst?

Notes:

(1) It can be useful to read on this crisis a very interesting contribution by Robert Guttman published in the 2nd half of 2008 on the website Revue.org, supported by the Maison des Sciences de l'Homme Paris-Nord.

(2) As a matter of fact, commodities have already started contributing to boost the market of international sea transport. Source: [Financial Times](http://FinancialTimes), 12/14/2008

(3) It is in those countries that capital-based pension systems were most developed (see GEAB N°23) but is also the case of Ireland. Source: Independent, 11/30/2008

(4) Source: OECD, 11/12/2008

(5) Source: NU.NL, 12/15/2008

(6) Source: BBC, 12/09/2008

(7) Sources: WallStreetJournal, 11/17/2008; Phillyburbs, 11/25/2008; RockyMountainNews, 11/19/2008

(8) Source: CNBC, 12/05/2008

(9) Not to mention the effect of an explosion of the US T-Bond bubble on pension funds. See Q&A, GEAB N°30.

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