

Global Systemic Economic Crisis: Stagnation in Europe, US Relapse into Recession. Crash of Markets and Financial Institutions

The five devastating storms in summer 2012 at the heart of the world geopolitical swing

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In its January 2012 issue, LEAP/E2020 signalled the current year as that of the world geopolitical swing. The first quarter 2012 has, to a large extent, started to establish that an era was in fact coming to an end with, in particular, the Russian and Chinese decisions to block any Western attempt at interference in Syria (1); their stated desire, associated with India (2) especially, to ignore or circumvent the oil embargo fixed by the United States and the EU (3) against Iran; the increasing tensions in relations between the United States and Israel (4); the acceleration of the policy of diversification out of the US Dollar led by China (5) and the BRICS (but also by Japan and Euroland (6)); the premise of change in Euroland's political strategy at the time of the French electoral campaign (7); and the intensification of actions and statements fuelling the rising strength of trans-bloc commercial wars (8). In March 2012, we are far from March 2011 and the "hustling" of the UN by the USA/UK/France trio to attack Libya. March 2011 was still the unipolar world of after 1989. March 2012 is already the post-crisis multipolar world hesitating between confrontations and partnerships.



Chinese foreign exchange reserves and holdings of US Dollar securities (2002-2011) (in trillions USD) (in green: total; in salmon: US securities; red line: % of US securities as a share of the total) – Sources: People's Bank of China/ US Treasury / The Wall Street Journal / Dollar Collapse, 03/2012

Thus, as anticipated by LEAP/E2020, the handling of the "Greek crisis" (9) has quickly caused the disappearance of the so-called "Euro crisis" from the media headlines and market participants' concerns. The mass hysteria maintained by the Anglo-Saxon media and the Eurosceptics during the second half of 2011 on this subject hasn't lasted long: Euroland is increasingly asserting itself as a sustainable structure (10); once again the Euro is in vogue in the markets and for emerging countries' central banks (11), the Eurogroup/ECB functioned effectively and private investors will have to accept a haircut of up to 70% on their Greek assets, thus confirming LEAP/E2020's 2010 anticipation which then spoke of a 50% haircut when almost no-one imagined such a possibility without a "catastrophe" signalling the end of the Euro (12). Ultimately, markets always yield to the law of the strongest... and the fear of losing more, whatever the students of ultra-liberalism may say. It's a lesson which political leaders will jealously guard because there are other haircuts to come, in the United States, in Japan and in Europe. We will come back to this in this GEAB

issue.



Central bank held sovereign debt (as a % of GDP) (2002-2012) – United States (in violet), United Kingdom (in grey), Euroland (in violet dots), Japan (in grey dots) – Sources: Datastream / central banks / Natixis, 02/2012

Contemporaneously, and that contributes to explaining the gentle euphoria which feeds the markets and many economic and financial players these last few months, due to it being an electoral year and from the need to make a good impression at all costs against a Eurozone which isn't collapsing (13), the US financial media have given us a remake of the “[green shoots](#)” story from the beginning of 2010 and the “recovery” (14) from the beginning of 2011 in order to paint a picture of an America “exiting the crisis”. However, the United States at this beginning of 2012 really resembles a depressing scene painted by [Edward Hopper](#) (15) and not a glowing 60s chromo in the style of [Andy Warhol](#). Just as in 2010 and 2011, the spring will for that matter be the moment of the return to the real world.

In this context all the more dangerous, as all the players are lulled by a dangerous illusion of a “return to normal”, in particular of the “restarting of the US economic engine” (16), LEAP/E2020 considers it necessary to alert its readers to the fact that summer 2012 will see the shattering of this illusion. In fact, we anticipate that summer 2012 will see the crystallization of five devastating shocks which are at the heart of the current process of world geopolitical swing. The black clouds which have been accumulating since the beginning of the crisis around economic and financial issues have now been joined by the dark clouds of geopolitical confrontation.

Therefore, in LEAP/E2020's view, five devastating storms will mark the summer of 2012 and thus accelerate the process of world geopolitical swing:

- . US relapse into recession against the background of European stagnation and BRICS slowdown
- . dead end for the central banks and interest rate increases
- . storm on the foreign exchange and Western sovereign debt markets
- . Iran, the war « too far »
- . new crash in the markets and financial institutions.

In this GEAB issue our team analyzes these five shocks of summer 2012 in detail.

At the same time, in partnership with the Anticipolis Editions, we are publishing a new excerpt from the book by Sylvain Périfel and Philippe Schneider, “2015 - The great fall of Western real estate”, at the time of the French version going on sale; dealing with the prospects for the American residential real estate market.

Lastly, we give our monthly recommendations targeting gold, currencies, financial assets, stock exchanges and commodities in this number.

Notes

(1) An article from [CameroonVoice](#), published on 03/06/2012, offers an interesting review of this log-jam which seems useful to us to analyze as much from the geopolitical angle as from the humanitarian one, which tends to camouflage many parameters behind the

“evidence of just cause”. Remember the attack on Libya and the disastrous consequences which it today entails for many Libyans and the whole region; the latest: the destabilization of a whole section of sub-Saharan Africa, like Mali for example. On this subject read the very interesting analysis of Bernard Lugan in [Le Monde](#) of 12/03/2012.

(2) And Japan, which keeps a low profile but has no intention of stopping supplying itself with Iranian oil. As regards China and India, they are increasing their Iranian oil deliveries and step into the vacuum left by the West. India even now uses Iran as an opening towards Central Asian oil. Sources: [Asahi Shimbun](#), 29/02/2012; [Times of India](#), 13/03/2012; [IndianPunchline](#), 18/02/2012

(3) Let's wait to see what the EU's willingness for this will be in the second half of 2012. With the end of US supervision over French foreign policy following the change of French president, European foreign policy will change in many aspects.

(4) There are many responsible Israelis and Americans who wonder in what state relations between the two countries will be at the conclusion of this unprecedented quasi-confrontation on the question of a possible attack on Iran. For some, the United States is reaching “frustration” point with Israel, as the article of Gideon Levy in [Haaretz](#) of 04/03/2012 analyzes.

(5) The latest examples: the agreement between the BRICS to trade in national currencies, and particularly in Yuan because of Beijing's willingness to internationalize its currency; and Japan's decision to purchase Chinese Treasury bonds with Beijing's agreement. Beijing thus acts in contrast to the “dominant” Japan of the 1980s, which had never dared push the Yen's internationalization. This aspect is sufficient to nullify all the comparisons between Japan's abortive rise and China's situation today. Tokyo was under Washington's control; Beijing isn't. Sources: [FT](#), 07/03/2012; [JapanToday](#), 13/03/2012

(6) Euroland banks are withdrawing from their USD loan activities. Source: [JournalduNet](#), 23/02/2012

(7) Namely the end of social-liberalism which had taken the place of European social democracy during these last two decades; and the return of the “social market economy” at the heart of the Rhineland model, the historic continental European model. From the Slovakia of the new Prime Minister, Fico to the France of the future president, Hollande (this isn't a political choice but the result of our anticipations published from November 2010 in the GEAB N°49) via the Italy of Mario Monti and a Germany where conservatives and social democrats must, from now on, take the European path together, as they must to obtain the majority necessary for the ratification of the new European treaties, one sees the contours of Euroland's future economic and social strategy taking shape: reinforced progressive taxation, social solidarity, economically effective, the financial sector put under control, customs vigilance,... in short: a high speed distancing from the Anglo-Saxon model in vogue amongst the European continent's elite for the last 20 years.

(8) Latest events: the United States attack at the WTO on the Chinese trade policy concerning “rare earths”, supported by the EU and Japan; new twists on USA/UE reciprocal charges, still at the WTO, concerning Boeing and Airbus subsidies; the “monetary war” started by Brazil against the United States and Europe. Sources: [CNNMoney](#), 12/03/2012; [Bloomberg](#), 13/03/2012; [Mish's GETA](#), 03/03/2012

(9) Moreover, unthinkable for many people only three months ago, a rating agency has just upped Greece's rating. Source: [Le Monde](#), 13/03/2012

(10) The question of these structures' democratization arises as we highlighted. But these structures (ESM, ECB...) are now established. With the players and political forces in these next two years beginning their placing under the citizens' control rather than spending their time regretting a marvellous period... where citizens didn't even have the least idea of how their country managed its debt. And it's not by attacking the technocrats who did the "dirty work" in the eye of the storm that the politicians will find the path of democratic legitimization for Euroland institutions, but by proposing new mechanisms and processes involving people in the decision-making process. On this subject, it's useful to know that in the European Parliament, the EPP group (where in particular the parties of Nicolas Sarkozy and Angela Merkel sit) is trying to nip in the bud a cross-party proposal for the creation of 25 European Parliament seats which would be filled on transnational tickets with the EU as a single constituency. LEAP/E2020 considers this proposal as a small step on the only path which can lead to citizens' control of European decisions. It is regrettable that the champions of the need for bringing Europe closer to the people are, in fact, accomplices in the blocking of a first serious attempt in this direction. Source: [European Voice](#), 11/03/2012

(11) Even the Financial Times, although one of the keys players in the anti-Euro hysteria, must recognize from now on that the emerging markets (public and private players) have found their appetite for the European currency. Source: [Financial Times](#), 26/02/2012

(12) We stress these points because the dominant talk in 2010 and 2011, which encouraged investors to buy Greek debt because it was a "golden opportunity", shouldn't be forgotten too quickly! Often the same "experts" also forecast €/ \$ parity leading many market participants to sell their Euros and buy Dollars following this same reasoning. Result: these "experts", who populate the media headlines and the financial programmes, caused each of them to lose a great deal of money. To know how to anticipate the future, you have to keep your memory in good shape!

(13) Let's not forget that without the mass hysteria fuelling the "Euro crisis", from the end of 2011 the United States would have been unable to finance its enormous deficits. Wall Street and City had to dangle Europe over the edge of the cliff to ensure the continued flow of bond purchases. Now that this propaganda doesn't work anymore, it's thus vital to try to embellish the US situation in default of the external source of US economy financing drying up. See GEAB N°s 58 to 61.

(14) For the record, in mid-2010, the IMF was concerned not to "handicap the recovery". And in January 2011, the experts wondered how to profit from the "recovery" shown by the famous "key indicators"! Sources: [IMF](#), 07/07/2010.

(15) Our team would like to make it clear that we appreciate Hopper's talent and that he is only quoted here because he is the painter par excellence of the middle class of the United States' "golden age", that he has however generally shown in a very depressive context. We can only imagine what the setting of his paintings today would be with a distressed middle class in the country's "iron age".

(16) Remember that it's the fundamental creed on which the whole of the economic and financial system rests. And in three years of crisis, for the first time since 1945, this engine doesn't work anymore. So it's necessary to assert it for as long as possible, hoping for a

miracle. By summer 2012, the storms will bring flashes of lightning but none will be miraculous; quite the contrary.

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