The International Monetary System’s Breakdown is Underway

By GEAB

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The next stage of the crisis will result from a Chinese dream. Indeed, what on earth can China be dreaming of, caught – if we listen to Washington – in the “dollar trap” of its 1,400-billion worth of USD-denominated debt (1)? If we believe US leaders and their scores of media experts, China is only dreaming of remaining a prisoner, and even of intensifying the severity of its prison conditions by buying always more US T-Bonds and Dollars (2).

In fact, everyone knows what prisoners dream of? They dream of escaping of course, of getting out of prison. LEAP/E2020 has therefore no doubt that Beijing is now (3) constantly striving to find the means of disposing of, as early as possible, the mountain of « toxic » assets which US Treasuries and Dollars have become, keeping the wealth of 1,300 billion Chinese citizens (4) prisoner. In this issue of the GEAB (N°34), our team describes the “tunnels and galleries” Beijing has secretively begun to dig in the global financial and economic system in order to escape the « dollar trap » by the end of summer 2009. Once the US has defaulted on its debt, it will be time for the « everyman for himself » rule to prevail in the international system, in line with the final statement of the London G20 Summit which reads as a « chronicle of a geopolitical dislocation », as explained by LEAP/E2020 in this issue of the Global Europe Anticipation Bulletin.

Quarterly Chinese foreign exchange reserves growth – Source: People’s Bank of China / New York Times, 04/2009

Behind London’s « fools’ game », where everyone pretended to believe that an event of « historical » international co-operation (5) took place, the G20 summit in fact revealed major divisions. The Americans and British (followed by a compliant Japan) desperately tried to preserve their capacity to maintain control over the global financial system, freezing or diluting any significant reform granting more power to the other players, but in fact no longer powerful enough to enforce their aims. The Chinese, Russians, Indians, Brazilians,… strove to change the balance of the international monetary and financial system in their favour, but were unable (or maybe, deep down, unwilling (6)) to impose their reforms. The Europeans (the EU without the United Kingdom) proved incapable of making up their minds between the only two options available: duplicating US and UK policies and sinking along with them, or questioning the very roots of the current monetary and financial system in partnership with the Chinese, the Russians, the Indians and the Brazilians. Today the Europeans have avoided following Washington and London in their endless reproduction of failed past policies (7), but they do not yet dare to prepare for the future.

The ongoing collapse of world trade growth cannot be explained by past relationships – Quarterly growth rates annualized – Source: OECD, March 2009

The Europeans can be held accountable if, in the remaining small window of opportunity (less than 6 months now), they fail to undertake the necessary steps to avoid a 10 year-long tragic crisis (8). Indeed they have the technical know-how that can help to create an international currency based on a basket of the world's most important currencies, and they know which political approach is required to best combine the various strategic interests of a group of countries whose currencies would comprise the new international reserve currency. Unfortunately, EU leaders (namely Eurozone ones) clearly seem unable to face their responsibilities today, as if they preferred to let the Western system break down (though claiming the contrary) rather than fight to turn it into a bridge leading to a new global system. It may be a choice (LEAP/E2020 does not believe so); it may also be the result of the pusillanimity of EU leaders selected on the basis of their docility (vis-à-vis Washington and major European financial and economic players). In any event, this neutrality is dangerous for the world because it prevents the launch of an effective process to avoid a decade-long tragic crisis to unwind (9).

In this issue of the GEAB, our researchers anticipate the different forms a US default will take at the end of summer 2009, a US default which can no longer be concealed concealable from this April (most taxes are collected in April in the US) onward (10). The perspective of a US default this summer is becoming clearer as public debt is now completely out of control with skyrocketing expenses (+41%) and collapsing tax revenues (-28%), as LEAP/E2020 anticipated more than a year ago. In March 2009 alone, the federal deficit has nearly reached USD 200-billion (way above the most pessimistic forecasts), i.e. a little less than half of the deficit recorded for the entire year 2008 (a record high year) (11). The same trend can be observed at every level of the country's public organisation: federal state, federated states (12), counties, towns (13), everywhere tax revenues are vanishing, suffocating the whole country with spiraling debts that no one can control anymore (not even Washington).

US tax receipts on corporate income (1930 – 2009) – Sources: US Department of Commerce / Saint Louis Federal Reserve (Q2-Q3 2009 projection by EconomicEdge)

In this issue of the GEAB (N°34), our researchers focus on how to explain the « mystery of gold price ». Indeed, our seekers (of information, not gold) identified a number of interesting leads to understand why (14) the price of gold has been fluctuating around the same level for months when the number of gold buyers is constantly increasing and demand for coins and bars far exceeds available supply in many countries.

Finally, our team gives recommendations on how to prepare for the crisis in the coming months, with particular regard to savings and life-insurance.

Notes:

(1) Total Chinese foreign exchange reserves amount to USD 2,000-billion, of which USD-denominated assets are 70 percent maximum, equal to USD 1,400 billion. The remaining 30 percent mainly consists of EUR-denominated assets.

(2) Most of the time, the same « experts » predicted that global economy would benefit from banking deregulation, that the Internet economy was opening up an era of endless growth, that US deficits were a sign of strength, that US house prices would always go up, and that taking on debt was the modern way to get rich.

(3) The message on the necessity to switch international reserve currency, sent out by Beijing to the world – to US authorities in particular –, on the eve of London's G20 Summit, was not intended to merely test the waters nor was it some vague attempt with no hope of success. The Chinese leaders had no illusion on the chances for this topic to be actually addressed in the G20 Summit, but they wanted it to be discussed in the backrooms, because they wanted to send an unofficial signal to all the players of the international monetary system: in Beijing's mind, the Dollar system is over! If no one wishes to prepare for a common alternative system, the alternative system will be built some other way, knowing that the actions the Chinese are currently taking corroborate this intention. For instance, precisely these days (random political schedule is rare in Beijing) a book is being published, entitled « Unhappy China », arguing that Chinese leaders should stand up and impose their choices on the international arena. Source: ChinaDailyBBS, 03/27/2009

(4) This link gives the figures to the last cent: ChineInformation.

(5) Angela Merkel was closest to the truth about the G20 summit when she called it « an almost historical event ». The word "almost" is emblematic of what happened in London: the G20 leaders "almost" created a framework for a joint action programme, they "almost" launched new stimulus plans and new international financial rules, they "almost" banned tax-havens, and they "almost" convinced everyone that it would happen. "Almost" but not "really", will make a big difference for the next stages of the crisis.

(6) In the previous issue of the GEAB (N°33), our team explained this dilemma for the "international system" today. At some point, it is in the interests of new players to simply wait for the current system to break down in order to build a new one, rather than strive to reform it, and suffer a long period of uncertainty.

(7) In particular, outrageous government borrowing – also called « economic stimulus » in Washington and London.

(8) The decisions taken at London's G20 summit directly contribute to the long-term crisis scenario.

(9) As regards the EU, LEAP/E2020 emphasizes the inanity of all those economic and political « analyses », produced by leading economists and experts close to the American Democrats, and circulated by all the largest international mainstream media, blaming the Europeans for not following in Washington's footsteps. Taking their lead from people like Paul Krugman for instance, these « very good friends » of Europe, who like it so much that they think they know better than Europe what is best for it (and what it should become, as indeed the same experts usually advocate its extension to Turkey, see Israel and Central Asia), whereas they would be best giving some quality advice to their own party and their new President to prevent their own country from collapsing, as this is what is really at stake

today. It is beyond belief that a panel of experts, who, in all these years, sang the praises of a system which is today collapsing under everyone's nose, still dares give lessons to the rest of the world. Basis decency suggests only one course of conduct worldwide: silence. In Europe, this position, despite the fact that it still enjoys its usual academic and media support, is too outdated to be accepted. LEAP/E2020 believes it is necessary and legitimate to cast a critical eye on the EU, its leaders and its policies; but doing so on the sole criteria of its conformity or otherwise with Washington's (or London's) stance is no longer acceptable. In the same way as financiers and business leaders obviously failed to understand that times had changed regarding their stock-options and "golden parachutes", a number of intellectuals and politicians have not yet fully understood that their points of reference, values and theories now belong to the past. They should think of the elites of the Soviet bloc and they would understand how and how fast a thought system can become obsolete.

(10) Besides collapsing tax revenues, a protest movement has started in the US against using taxes to save Wall Street and against further deficits, blaming the country's entire leading class. Sources: USAToday, 04/13/2009; MarketWatch, 04/16/2009

(11) Sources: USAToday, 04/11/2009; MarketWatch, 04/10/2009

(12) In California for instance, the first days of April suggested revenues far lesser than the worse forecasts, likely to result in multiplying two-fold California's debt anticipated a few months ago. A similar trend is under way at the federal level, making it possible to imagine that the annual federal deficit reaches above USD 3,500 billion, i.e. 20 percent of US GDP. Source : CaliforniaCapitol, 04/08/2009

(13) Some towns, like Auburn near Seattle for instance, are compelled to ban trucks from their major freight routes by lack of maintenance financial means. Source: SeattleBusinessJournal, 04/10/2009

(14)Thus enabling to anticipate upcoming trends.

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