

Systemic Crisis of the World Economy: Global Geopolitical Dislocation

Four Single Points of Failure: Strategic, Financial, Economic and Social Convulsions

By [Global Research](#)

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Each day the news confirm the extent to which the global systemic crisis has now entered into the phase of global geopolitical dislocation, even if the media only timidly begin to interpret the historic upheavals which unfold before our own eyes. For LEAP/E2020, the second half of 2010 will thus correspond to a new step in the global geopolitical dislocation, characterized by an acceleration in the process of strategic, financial, economic and social convulsions centered on four single points of failure (1) of the international system analyzed in this GEAB issue.

The general context is that which has been outlined in previous GEAB reports, that's to say a recovery ... of the world economic crisis after a temporary freeze due to stimulation measures. But before entering into the detail of these anticipations on the unfolding of the economic and financial crisis in the second half of 2010, let's take note that the beginning of June 2010 provides two particularly striking examples of the accelerated collapse of the global system of these past decades: one in terms of global economic governance, the other concerning the ability of the United States to control its own allies (see GEAB N°46).

Having put recent events, symptomatic of the acceleration of world geopolitical dislocation, into perspective, the four individual points of failure in the second half of 2010 (2), according to LEAP/E2020, are as follows:

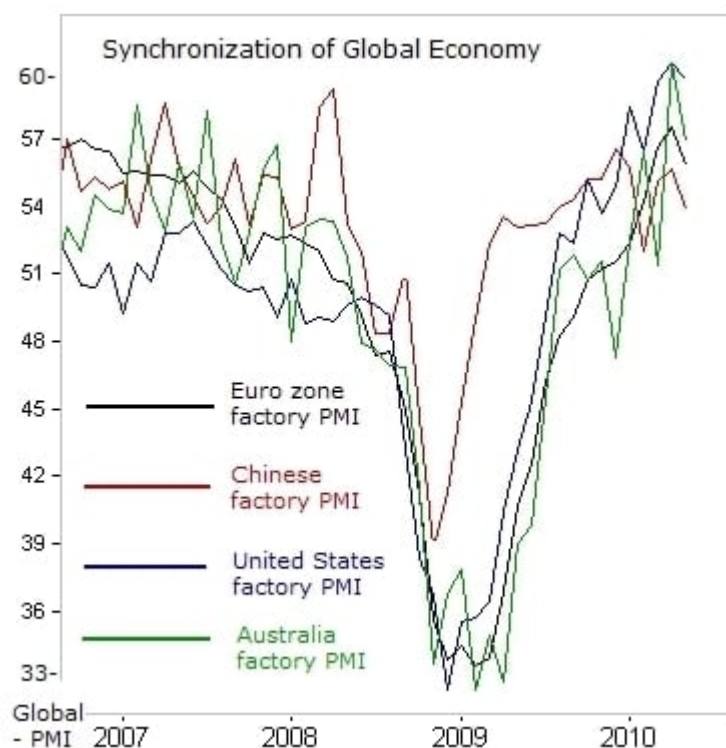
- Western public debt: when insolvency becomes intolerable
- European austerity: when contextual growth is abandoned in favour of structural stability
- Chinese inflation: when China is going to begin to export its inflation
- US contraction: from « hidden mass austerity » to « imposed Federal austerity »

Each one will be affected by a major shock during the course of the second half of 2010, leading to a sectorial, regional or global crisis.

In this public announcement of GEAB N°46, our team chose to present its anticipation regarding the fourth single point of failure of the second half of 2010: US contraction. In the rest of this issue of the GEAB, subscribers will discover a second excerpt of the manual of political anticipation, concerned this time about the question of research teams and sources, as well as some information on the new political anticipation training cycle for 2010-2011 (only for GEAB subscribers). Finally, we give the detail of our recommendations in terms of US municipal bonds, financial markets, currencies and real estate in particular, aimed at

helping face the shocks of the second half of 2010.

In terms of global economic governance, let's remember that only a year ago the G20 aspired to establish a new world governance and the United States believed it would be able to organise this new system around its own priorities (3). Well, on 3rd and 4th June this year, not only Finance Ministers of the G20 countries, meeting at Busan in South Korea, couldn't agree to the putting in place of a worldwide bank tax (an idea supported by Washington, London and Euroland), but they refused the US proposal (on its own this time) to support new plans of economic stimulation (4), passing the buck by « deciding » to let each country to do what it could, or would, taking into account the means at its disposal. We are far from the official statements of a year ago on a G20 as the new central instrument of world governance and we are, on the contrary, fully in a state of « every man for himself » that our team had anticipated in case the world leaders failed to question the US Dollar as the world's reserve currency. In fact, no one wants to play the global game under US rules (5) anymore. Lacking a new « common game », international solidarity disintegrates before our very eyes. This situation is only going to get worse in the coming months, leading to more than an uncoupling, a real political, social and budgetary desynchronization of the major economic powers of the planet leading to, in particular, tragic consequences for the players and the markets which depend on the « proper functioning » of the international system. If there really is a new phase of the synchronized economic recession (as the chart below shows), the context for each major power is now so different that there can no longer be a common response, even less so since the United States is no longer capable of imposing its leadership.



Synchronization of the rise and fall of world industrial output (PMI index) (in black, Eurozone / in red, China / in blue, USA / in green, Australia) – Source: SirCharlot, 05/2010

US contraction: From « hidden mass austerity » to « imposed Federal austerity »

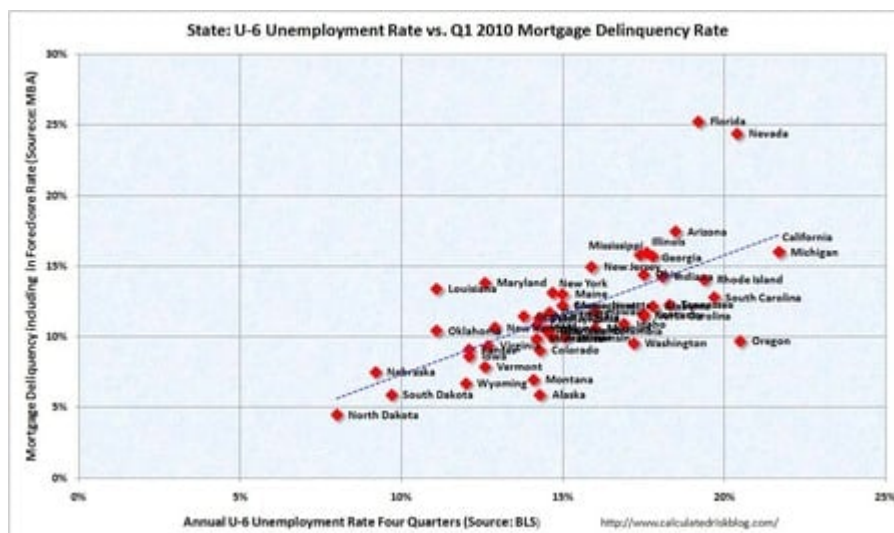
The November 2010 mid-term elections will be the first electoral test of a United States in crisis. Indeed the 2008 presidential election took place with a backdrop of a Wall Street

collapse (which drove the Barack Obama vote) but without the whole of the US population yet having a clear view of the scope of the economic and social damage that it was going to lead to. Then, in a context of an ongoing oil spill in the Gulf of Mexico and widespread disillusion over the ability of the Obama administration to reverse the negative trends at work in the country (deindustrialization (6), a collapse of the middle class into the disadvantaged class, real estate foreclosures, unemployment, excess of household, local authority and state indebtedness, growing worry on the increasing size of Federal deficits, unending wars in Iraq and Afghanistan (7)...), the electoral situation is particularly explosive, as we have already analysed in the last issue, with the rise in power of the new secessionists and the « Tea Party » movement. We won't return to these analyses here.

On the other hand, we think it necessary to underline the growing state of decay of the socio-economic climate for a large majority of US citizens, and for two reasons:

. on the one hand because, to us, it is a determining factor in anticipating how a large number of Americans will vote in November 2010

. on the other hand, because it is a fact which is covered anecdotally by most of US mainstream media, and which is almost ignored by leading foreign media, especially Western (8).



U-6 unemployment rate vs Q1 2010 mortgage delinquency rate – Source : Bureau of Labor Statistics / CalculatedRiskBlog, 05/2010

This local authority and state crisis is overshadowed by the problems of Federal deficits. However, it is the other side of the same coin. And a side which will appear during the second half of 2010 and which has a doubly explosive character: electoral, as the elections will show, and financial which the consequences of the next market crisis in « [Munis](#) – US local authority bonds » will prove (see the section containing Recommendations in this issue).

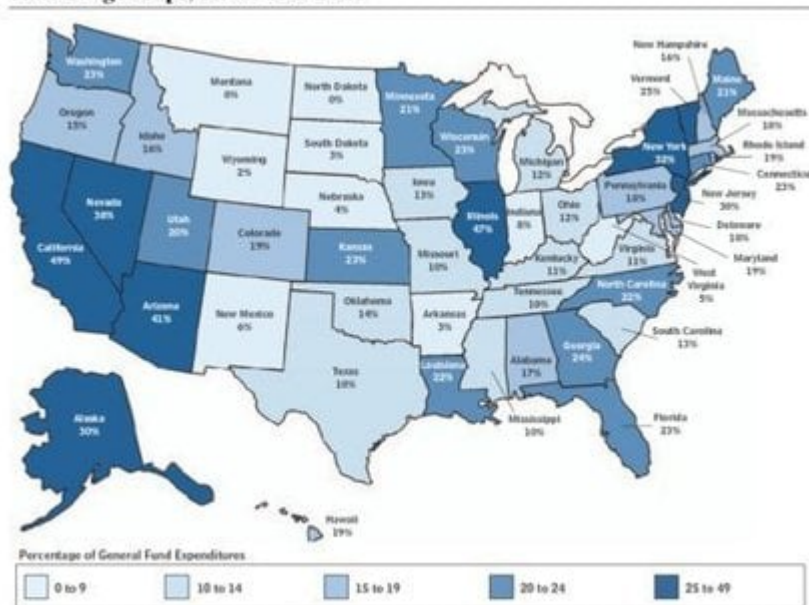
However, for LEAP/E2020, the situation is clear: the immediate environment of the vast majority of US citizens has not stopped worsening since 2008 whatever the statistics and Federal experts may say (9). The true rate of unemployment is at least between 15% and 20% (10) and reaches 30% to 40% in the towns and regions which are the most badly affected by the crisis (11). Never have so many Americans been dependant on Federal Government food stamps which now contribute, to an unprecedented extent, to US

households' income (12). The states are also obliged to increase their budget cuts (13) and to abolish all types of social services, increasing unemployment in the same stroke (14). And these events unfold whilst the impact of the Obama administration's economic stimulation plan is deemed to be at its maximum (15)!

There is nothing surprising in learning that household consumption is not taking off, even falling as May retail sales show; and that the real estate market continues its descent into hell (16). As a matter of fact, the most reliable advanced indicators show that the US economy will start to contract in the second half of this year (17). Far from the 3.5% growth announced by Ben Bernanke for 2010, the country will be really lucky according to our team if it records a number above zero for the current year.

Because, contrary to the statements coming out of Washington and Wall Street, austerity is already here for the vast majority of US citizens who haven't any more work, and/or no more homes, and/or debts exceeding their assets, and who can no longer pay their childrens' university fees, their outing or their holidays, without even discussing day-to-day living costs. In addition, in numerous localities (18), there is no longer regular rubbish collection (or else they must pay higher taxes), Saturday mail deliveries have been stopped (19), they are less well protected due to a lack of police, they must queue endlessly at state and government offices following the firing of civil servants, and their children have fewer teachers in the schools which provide fewer services (canteen, school buses...). In general terms, it is the local authorities and the states which, de facto, have been putting in place a policy of austerity hidden from the world for many months now, and which is accelerating.

State Budget Gaps, Fiscal Year 2010



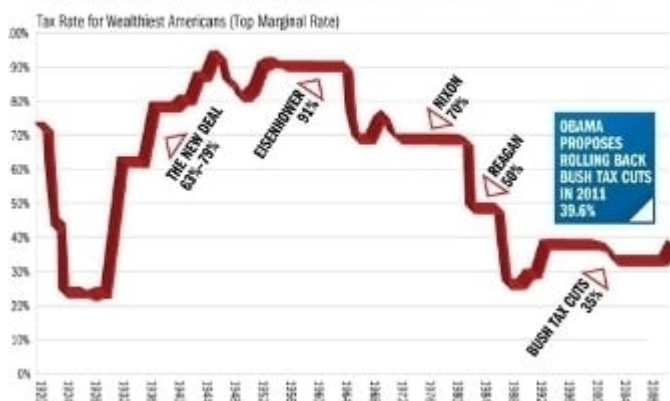
State budget deficits, Fiscal year 2010 (percentage of general expenditure) – Source: Freerisk, 04/2010

It is what LEAP/E2020 calls « rampant mass austerity ». It has been the main component of the real US economy and society for two years and is that which embodies the end of the « US consumer » which we have anticipated since the end of 2006, due to insolvency. This insolvency has steadily progressed upwards, towards players in the real estate market, towards the banks, towards car manufacturers. And now, at the end of an economic stimulus, it affects the states, the banks once again and at last the Federal State because,

following the successful media staging of the « Greek crisis », the fear of sovereign bankruptcy has led the Eurozone and the rest of the G20 to favour the re-establishment of structural balanced budgets and, then, to ban the pursuit of Western public indebtedness (20). But without growing public indebtedness, the US economy is condemned to suffer a major crisis because, for the last two or three decades, it has only produced one thing, debt, and that it only exports the latter. The US Dollar is nothing more than a credit letter on a fully indebted economy.

Thus, in deciding not to accede to the request of the US Treasury Secretary, Timothy Geithner, to begin a further round of debt-based economic stimulus, the G20 has condemned Washington to have to face the unthinkable for world markets: announce an era of Federal budget austerity. Irony of history, this negative step by the G20 (in letting each one do what it could, the other G20 members didn't dare be explicit on the necessity for US austerity) is directly connected to the likely consequences of the November 2010 elections which will see US voters deal some severe blows to the Washington system and to its two big bets (see previous GEAB issues), making such a « mental revolution » not only possible, but necessary for the Democrats and the Republicans if they want to have a chance of winning the 2010 Presidential Elections. For our team, US domestic socio-political constraints thus meet with external economic-financial pressures during the second half of 2010, making inevitable the implementation of the first major US austerity budget plan for over sixty years combined with the sharpest rise in fiscal pressure for fifty years.

► UNDER OBAMA'S PLAN, THE WEALTHIEST AMERICANS STILL PAY FAR LESS IN TAXES THAN UNDER REAGAN OR NIXON



Fiscal pressure on the richest Americans (1920 - 2010) – Sources: CBO / EconIm, 05.2010

The consequences of such a (r)evolution on the US economy, trade, world financial markets, Dollar denominated assets (at the forefront of which are US Treasury Bonds) and the Dollar itself, are huge. We will come back to this in the recommendations section of this issue. Nevertheless, one should bear in mind that, since 1945 (and perhaps even the 1930's), the world economy and finance has been based on the myth of an irresistible US growth engine which, whilst suffering short periods of loss of speed, remained reliable under all trials. If the weakness of the social net has always required that the United States have strong growth in order to avoid millions of Americans being crushed by poverty, doubtless it is even worse for the world financial and monetary system which enjoys no safety net at all. If Greek or Spanish austerity measures provoke such disorder, imagine what will come about because of US austerity which necessitates budgetary cuts of at least one trillion USD over a three to five year period (21). This sort of news will provoke a radical reconsideration of the principal myth on which international markets and the economic and financial system of these last

few decades were based, guaranteeing it a place at the forefront amongst the four single points of failure for the global system during the next half year.

Notes

(1) A [single point of failure](#) (SPOF) is a point in a computer network on which the whole of the IT system depends and a breakdown of which leads to the whole system coming to a stop. The main characteristic of the single point of failure is that it is not protected (redundant). There is, then, a risk to the whole system. In the definition of « Single Point of Failure », the word « Single » is the most important and underlines the unique character, and thus the fragility, of the « component ». The idea of individual point of failure is directly related to that of service, in the sense that a problem affecting the point concerned causes a breakdown in service. According to LEAP/E2020, the deepening of the crisis and the passing of a further step of the global systemic crisis in the second half of 2010 will be evidence of very serious problems in terms of four separate points of failure at the core of the current international system. The consequences, as in the case to an IT system, will be a denial of service, that's to say, major crises in the areas, regions and sectors concerned.

(2) Our readers will note that, compared to mainstream Anglo-Saxon media and those who « copy, cut and paste » them elsewhere, we haven't summarized the coming world risks as having two causes only: Greece and the Euro. We even consider that they are no part of the single points of failure of the international system: Greece because it is on the margin and has no key-role in the system, the Euro because it has never been at risk of collapse and because, in two months, Euroland has put measures in place which for a decade it has refused to do and, moreover, of which austerity measures are a part. And it is this austerity which, according to our team, will be a part of the four points of failure of the world system.

(3) LEAP/E2020 has invested considerable effort and expense (including a full page "open letter" in the Financial Times) to underline that the G20 couldn't be an alternative solution to the collapse of global governance inherited from the Second World War, unless a proposal for a new world reserve currency was put on the table, in order to ensure that all the G20 players would have an interest in cooperating in the medium and long term (see the GEAB reports for the first half of 2009). Well, Washington didn't want to hear about it and the Europeans have been incapable of taking on the responsibility for proposing such a new currency, thus adding their weight to that of the Chinese, Russians, Indians and Brazilians. The result one year on: « Every man for himself » rules and Washington is no longer capable of having its proposals adopted by the G20 which, de facto, transforms itself into a meeting which increasingly fails to hide a growing state of world dissention.

(4) Source: [GlobalEconomicAnalysis](#), 06/05/2010

(5) Source: [Alphaville](#), 06/05/2010

(6) Last April, firings have first been in the manufacturing sector, refuting any discussion on an export and industrially led recovery. Source: [Reuters](#), 05/21/2010

(7) The [New York Times](#) of 06/04/2010 even spoke of an air of chaos in the country.

(8) It is indeed always surprising to see the media repeatedly make headlines over a demonstration of 7,000 people in Athens with a view to show a rallying of the population against austerity measures (here is one of many examples of this sort of article on [CNBC](#) of 03/05/2010), whilst none of them mention the fact that the Governor of New York State announced a state of widespread chaos in the state due to heavy cuts in police, justice, health personnel... in a context of regular demonstrations of thousands of state workers. Source: [NYDailyNews](#), 06/10/2010; [New York Times](#), 06/09/2010

(9) The new \$2 menus at Taco Bell clearly show the trend towards general poverty. Source: [USAToday](#), 05/14/2010

- (10) As regards unemployment, it is worthwhile consulting the list of the fifteen US companies which have fired the most employees these last few months in order to understand the suicidal logic behind their profitability. Sources: [CNNMoney/Fortune](#), 05/13/2010; [Gallup](#), 03/19/2010
- (11) Sources: [MarketWatch](#), 06/08/2010; [CNNMoney](#), 06/05/2010
- (12) Source: [USAToday](#), 05/26/2010
- (13) Half a dozen of them even haven't the means any longer to repay tax credits to households and businesses and 32 states will have to borrow nearly 40 billion USD in 2010/2011 in order to pay unemployment benefit. Sources: [New York Times](#), 06/02/2010; [GlobalEconomicAnalysis](#), 05/21/2010
- (14) The May 2010 report on the subject, published by the [National League of Cities](#), reveals the size of the problem.
- (15) These last few months, more than one million Americans have stopped looking for work given the lack of opportunities, which enables the Federal Government to produce statistics claiming a fall in the unemployment rate.... whereas fewer and fewer Americans are in work. Source: [CNBC](#), 06/07/2010
- (16) A look at the ten chart on this subject by [DrHousingBubble](#) of 06/10/2010 speaks volumes.
- (17) For those who still believe that American US will happen sometime during these next quarters, it is very enlightening to read the 25 questions one should ask oneself on this subject listed by [PrisonPlanet](#) on 05/25/2010, or even consult the 20 pointers suggested by [EconomicCollapse](#) on 06/02/2010
- (18) Sources: [CNNMoney](#), 06/01/2010; [SeekingAlpha](#), 06/11/2010; [USAToday](#), 06/12/2010
- (19) The US Postal Service only delivers mail on five days a week instead of six previously. Source: [Washington Post](#), 03/24/2010
- (20) All that is taking place in a context of a rise in numerous central banks' interest rates such as [Canada](#), [India](#), [Australia](#), [Brazil](#)... rendering the ability to sell US Treasury Bonds at a loss, as is currently happening, more and more unlikely, except by increasing the « coups » like Greece every quarter. But, in Europe, like in Asia, the country candidates for this type of « coup » are Japan, France, Italy, the United Kingdom... i.e. targets too close or too dangerous due to their ability to cause trouble.
- (21) A low estimate by our team, using a reasoned comparison with other Western countries, with the defence and social programme budgets being the worst affected.

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