Worldwide Political and Financial Tensions, Spiralling Debt Crisis in America

By Global Europe Anticipation Bulletin (GEAB)
Global Research, January 17, 2013
Global Europe Anticipation Bulletin (GEAB N°71)

Region: USA
Theme: Global Economy

Until now the course of the crisis has been accurately described according to the five phases identified by our team from May 2006 (GEAB n°5) and completed in February 2009 (GEAB n°32): release, acceleration, impact, decanting and global geopolitical dislocation, the last two stages developing simultaneously. In the last issues and in particular the GEAB n°70 (December 2012), we commented extensively on the ongoing processes of the two last phases, a decantation from which the world-after painfully emerges on the rubble of world geopolitical dislocation.

But we had underestimated the decanting period's duration which we have gone through for more than four years, a period during which all the crisis' players have worked to a common goal, to gain time: the United States, whilst making every effort to prevent the appearance of alternative solutions to the dollar, in spite of the catastrophic situation of all its systemic fundamentals, to prevent its creditors from abandoning it (discrediting other currencies including the Yen from now on, tenacity against the attempts to disconnect oil from the dollar, etc…); the rest of the world, in setting up skilful strategies consisting of maintaining its assistance towards the United States to avoid a sudden collapse from which it would be the first to suffer, and at the same time constructing alternative and of decoupling solutions.At the end of this long period of the system's apparent "anaesthesia", we consider it necessary to add a sixth phase to our description of the crisis: the last impact phase which will occur in 2013.

The United States certainly believed that the rest of the world would have an interest in keeping its economy on artificial respiratory assistance ad infinitum but it is likely that they don't believe it any more today. As regards the rest of the world, the final chapters of the US crisis (major political crisis, decisional paralysis, near miss of the fiscal cliff, perspective of a payment default in March, and always the incapacity to implement the least structural solution) convinced it of the imminence of a collapse, and all the players are on the look-out for the least sign of a swing to extricate themselves, conscious that by doing so they will precipitate the final collapse.

Our team considers that in the context of the extreme tensions – both domestic political and world financial tensions – induced by the next raising of the US debt ceiling in March 2013, the signs will not be lacking to cause the disappearance of US treasury bonds' last purchasers, a disappearance which the Fed will no longer be able to compensate for, resulting in an increase in interest rates which will propel American indebtedness to astronomical levels, leaving no hope of ever being repaid to creditors who will prefer to throw in the towel and let the dollar collapse… a collapse of the dollar which will de facto correspond to the first genuine solution, painful certainly but real, for US indebtedness.

It's for this reason also that our team anticipates that 2013, the first year of the World-Afterwards, will see a setting up of this "purifying" of US and world accounts. All the players are tending towards this step whose consequences are very difficult to predict but which is also an unavoidable solution to the crisis taking into account the United States structural incapacity to set up genuine debt-reduction strategies.But in order to take the measure of the causes and consequences of this last impact phase, let's reconsider the reasons for which the system lasted for so long. Our team will then analyze the reasons for which the shock will take place in 2013 afterwards.

Saving time: When the world rejoices at the US status-quo

Since 2009 and the temporary measures to save the global economy, the world has been waiting for the famous "double dip", the relapse, as the situation continues to worsen day by day for the United States: breathtakingly high national debt, mass unemployment and poverty, political paralysis, loss of influence, etc. However, this relapse still hasn't arrived. Admittedly, the "exceptional measures" of assistance to the economy (lowest interest rates, public expenditure, debt repurchase, etc.) are still in force. But against all expectations and contrary to any objective and rational judgment, the markets still seem to have confidence in the United States.

Actually, the system isn't based on confidence any more but on calculating the best moment to extricate themselves and the means of hanging on until then.The time has passed when China challenged the United States to implement a second round of quantitative easing (1): the world seems to have adapted itself to the fact that this country is still growing its debt and is inescapably turning towards a payment default, provided that it's still standing and doesn't make too many waves again. Why don't the other countries press the United States to reduce its deficit, but on the contrary are delighted (2) when agreement on the fiscal cliff keeps the status-quo? However nobody is fooled, the situation cannot last indefinitely, and the world economy's main problem is really the United States and its dollar (3).

Countries' public debt by the number of months tax receipts (4) – Source: LEAP / European Commission, ONS, FRB

According to the LEAP/E2020 team, the various players are seeking to gain time. For the markets, it is a question of gaining maximum benefit from the Fed and the US government's largesse in order to make easy money; for the foreign countries, it's a question of extracting their economies to the maximum from that of the United States in order to be able to shelter themselves at the time of the coming shock. Thus, for example, it's how Euroland makes the most of it in order to strengthen itself and China takes advantage of it to sink its dollars in foreign infrastructures (5) which will always be better value than dollars when that currency is on the floor.

Acceleration of the tempo and a build-up of challenges

But this period of complicit leniency is coming to an end because of intense pressures. It is interesting to note that the pressures don't really come from abroad, confirming our analysis above; those are rather of two sorts, internal and financial-economic.On the one hand, it's the internal political battle which threatens the house of cards. If Obama appears to be traversing a period of political grace facing a seemingly subjugated republican camp, the battle will begin again even more violently than ever starting from March. Indeed, if the republican representatives will be undoubtedly obliged to vote the increase in the debt ceiling, they will make Obama pay dearly for this "capitulation", pushed here by their electoral base half of which in fact wants a US default considered by them as the only solution to free them from the country's pathological debt (6). The republicans thus hope to do battle on the many issues and challenges which are shaping up: on the social side, firearms regulation (7), taking a new look at immigration and the legalization of 11 million illegal immigrants (8), health care reform, and more generally questioning the Federal state's role; on the economic side, lowering expenditure, debt settlement (9), fiscal cliff « redux » (10), etc… All these issues are on the next few months' agenda and the least hitch can prove to be fatal. Given the republicans' pugnacity and their supporters' even more so, it's rather the hope that there is no hitch which is utopian.On the other hand, it's the international markets, Wall Street at the forefront, which threaten not to extend their confidence in the US economy. Since Hurricane Sandy and especially since the episode of the fiscal cliff which hasn't fixed any problems, the pessimistic analyses and doubts are becoming increasingly strong (11). It's necessary to keep in mind that the stock markets are stateless and, even domiciled in New York, have only one goal, profits. In 2013, the world is sufficiently extensive so that investors and their capital, just like a flight of sparrows, slip away to other skies on the slightest warning (12).Whereas agreement on the debt ceiling in 2011 settled the question for 18 months (13), that on the fiscal cliff defers the problem for only two months. Whilst one felt the effects of QE1 for a year, QE3 had an effect for only a few weeks (14). Besides, with a diary loaded with negotiations to come, one sees the tempo accelerate significantly, a sign that the abyss is approaching and players' nervousness along with it.

S&P performance during each quantitative easing action – Source: ZeroHedge/SocGen

March-June 2013, extreme tension: the least spark lights the blue touch-paper

In addition to these US challenges, the whole world also has many tests to pass, here again its economic challenges above all. In particular it's Japan and the United Kingdom, key elements in the US sphere of influence, which are fighting for their survival, both in recession, with insupportable debts, household savings on the deck and with no prospect of a short-term solution. We will examine these two countries in detail later in this issue. But it's also a Brazilian economy which is just ticking over (15); difficulty to manage inflation rates in the emerging powers; the deflation of the Canadian, Chinese and European real estate bubbles (16), etc…

The challenges are also of a geopolitical nature: to quote only three examples, African conflicts among which of course France's intervention in Mali, conflicts and indirect confrontation of the Middle Eastern powers around Syria, Israel and Iran, as well as the territorial tensions around China which we will examine during our following analysis on Japan.All these factors, economic, geopolitical, American, global, are coming together at the same moment in time: the second quarter of 2013.

Our team has identified the period running from March to June 2013 as being explosive, in particular at the conclusion of the negotiations in the United States on the debt ceiling and the fiscal cliff. The least spark will light the blue touch-paper, unleashing the second impact phase of the global systemic crisis. \

And there are many opportunities to create sparks, as we have seen.So what are the consequences of and the calendar for this second impact phase? On the markets initially, a significant fall will spread out until the end of 2013. All economies being inter-connected, the impact will spread throughout the whole planet and will drag the global economy into recession. Nevertheless, thanks to other countries' decoupling which we mentioned previously, all countries won't be affected in the same way. Because, more so than in 2008, opportunities exist for capital in Asia, Europe and Latin America, in particular.

In addition to the United States, the countries the most affected will be those in the US sphere, namely the United Kingdom and Japan primarily. And, while these countries will still struggle in 2014 with the social and political consequences of the impact, the other regions, BRICS and Euroland at the forefront, will finally see the end of the tunnel at that time.In order to understand the formation of this second impact phase, we next review the "suicidal tendencies" of four powers of the world before: the United States, the United Kingdom, Japan and Israel.

Then we will present the traditional January "Ups & Downs", rising and falling trends for 2013, also serving as recommendations for this New Year. Finally, as in each month, our readers will also find the GlobalEurometre.

Notes:

(1) One can refresh one's memory here (Wall Street Journal, 18/10/2010) or here (US News, 29/10/2010).

(2) « Relief after the happy epilogue of the fiscal cliff » headline ForexPros.fr (02/01/2013); « Relief at fiscal cliff crisis deal » headline BBC (03/01/2013)…

(3) As identified by LEAP/E2020 since 2006 from the GEAB n°2.

(4) The banks' public reflation is included in the United Kingdom's debt.

(5) The Chinese being very active in this arena; one has numerous examples such as the port of Piraeus in Greece, Heathrow airport in the UK, in Africa, but also the takeover of industrial jewels (Volvo for example) etc. See, for example Emerging Money (China to invest in Western infrastructure, 28/11/2011).

(6) Read, for example, ZeroHedge, 14/01/2013.

(7) Source: Fox News, 30/12/2012.

(8) Source: New York Times, 12/01/2013.

(9) Source: New York Times, 15/01/2013.

(10) The budgetary cuts debate has simply been pushed back two months. Source: New Statesman, 02/01/2013.

(11) Like here (CNBC, 11/01/2013), here (MarketWatch, 14/01/2013) or here (CNBC, 08/01/2013).

(12) The United States will in their turn taste the irony of history: the financial market deregulation and globalisation which they promoted so much is going to turn round dramatically against them.

(13) It's as at this point in time that the automatic cuts of 01/01/2013 were enacted to force a bipartisan agreement. Source: CNN Money (02/08/2011) or Wikipedia.

(14) For a reminder on these quantitative easing operations, one can refer to BankRate.com, Financial crisis timeline.

(15) Source: Les Échos, 05/12/2012.(16) See previous GEAB issues.

The original source of this article is Global Europe Anticipation Bulletin (GEAB N°71)

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Global Europe Anticipation Bulletin (GEAB)