

Global systemic crisis – States faced with three brutal options in 2010: inflation, high taxation or default

- Public announcement GEAB N°39 (November 16, 2009) -

As anticipated by LEAP/E2020 last February, in the absence of major reappraisal of the international monetary order, the world is now entering the phase of geopolitical dislocation of the global systemic crisis. In 2010, as protectionism and the economic and social depression will gain momentum, a large number of States will be compelled to choose between three brutal options: inflation, high taxation or defaulting on their debt. A growing number of countries (USA, United Kingdom, Euroland (1), Japan, China (2),...) have used all their budgetary and monetary cartridges in the 2008/2009 financial crisis and are now left with no other alternative. Nevertheless, out of ideological reflex or in an attempt to avoid by any means having to make such painful choices, they will try to launch new stimulus plans (under different names) even though it is now clear that the huge public effort made in the past months to boost the economy is having no impact on the private sector. Indeed the consumer-as-we-knew-him in the past decades is dead, with no hope of resurrection (3). Knowing that nearly 30 percent of Western countries' economies are now made of « economic zombies » (financial institutions, companies and even states, whose signs of life are only due to central banks' liquidity injections), it is possible to confirm the inevitability of the "impossible recovery" (4). The international and social (within each country) « everyman for himself » rule is beginning to prevail, as well as a general impoverishment of the ex-Western world, United States in the first place. In fact the West is being scuttled by leaders unable to face the reality of a post-crisis world, who keep resorting to methods from yesterday's world despite their proved inefficiency.

In this 39th issue of the GEAB, our team has therefore chosen to develop anticipations on general developments in 2010, a year when key states will see their choices be restricted to three brutal options, inflation, high taxation or default, which they will struggle to escape from in vain.

Knowing that one of the reasons why stimulus plans are doomed to fail is that the consumer-as-we-knew-him in the past thirty years is dead, we analyze this phenomenon in this issue of the GEAB, as well as fallout for companies, and for the marketing and advertising businesses. In the field of geopolitics, we present a number of LEAP/E2020 anticipations regarding Turkey by 2015 with regards to both NATO and the EU. Of course, we also present our usual monthly recommendations, as well as the results of the last GlobalEurometre survey.

Evolution of German federal budget (1991 – 2010) (estimates in 2009 and 2010 do not include Angela Merkel's recently announced tax cut plan) - Source: Financial Times / Thomson Reuters, 11/02/2009

Yesterday's recipes have no effect on the global systemic crisis

The only chance for the states to escape those three brutal options would be that either consumption resumes or the private sector starts investing again. But in the absence of one or the other positive dynamic, States will have no other alternative in 2010 than raise taxes to match their huge public deficits, let inflation soar to diminish the relative weight of their debt, or else file for bankruptcy. Some of these countries (the US, UK, Ireland, Argentina, Latvia, or even Spain, Turkey, Dubai or Japan) could be confronted to two, see all three, options at the same time.

But trends regarding consumption and investment are extremely negative. The consumer is incited to save money, pay back his debt and, more generally, reject (willingly or not) the Western model of consumption of the past thirty years (5) due to which growth, in the US and UK in particular, became nearly entirely dependent on him (6). Meanwhile, companies, due to their lack of visibility (to be positive) or to their negative forecasts, are cutting on investment, a situation emphasized by banking credit restrictions (7). Public investment also is reaching limits: it will be impossible to significantly extend or renew previous stimulus plans without excessively increasing public deficits and then being faced, at the end of 2010, to at least two of the three brutal options (8). The states are indeed exposed to increasing pressure (general public, supervisory bodies, private investors) (9) to balance their bad, see dangerous, budgets. In other words, public investment in 2010/2011 is doomed to shrink away.

Foreign demand is completely soaked: everyone wants to export in order to find abroad the greedy consumer or the investing company that is no longer to be found at home. The great myth being that Asia, and China in particular, will provide for this « new Western-style consumer ». Besides the fact that many will be called but few will be chosen among non-Chinese or non-Asian to enjoy the region's market, it would be an underestimation of the systemic nature of the global crisis to imagine that this new consumer will be as greedy as the now moribund Western consumer. The luxury industry and its current woes in Asia clearly illustrate this situation.

Comparative evolution of UK GDP during each recession since the 1930s crisis (in months, from official start of each recession) - Source –

So what's left?

« Zombie-economy » now accounts for a considerable part of the global economy

Central banks continue to supply financial markets with liquidity, hoping that at some point their huge quantitative effort will result in some qualitative surge in the real economy. In the US and UK particularly, as they continue to pretend that the crisis does not reflect a general problem of insolvency (of banks, consumers, public organizations and companies), they “wait for Godot” and create the conditions for soaring inflation, and collapsing currencies and public money.

States unflinchingly continue to bear the consequences of banks' mistakes, nevertheless still listening to bankers' advice. Thus they built up a debt of first unreasonable and then intolerable proportion, and now they are on the verge of drastically cutting public spending (10) and of significantly increasing taxes in an attempt to avoid bankruptcy (11).

« Economic zombies» (12), private and public ones, now account for a large part of Western and Chinese economies: objectively defaulting states (like the UK or US) which no one dares technically declare as such; bankrupt companies still allowed to run by fear of increasing unemployment (13); insolvent banks (14) whose accounting rules are modified, artificially swollen to hide the worthlessness of their assets, to postpone their inevitable implosion (15).

Financial markets are going up thanks to liquidity graciously offered by central banks (16) eager to give back to the consumer/grant-holder a felling of wealth in the hope that he will start being himself again and consume, when in fact all categories of assets (17), such as gold for instance, are also going up (even faster in most cases), clearly indicating that inflation has in fact returned.

Unemployed people are piling up in dozens of millions in and out of official figures, suggesting that 2010 will be a tough year socially-speaking, placed under the sign of protectionism to save jobs (by means of tariff, environmental or sanitary barriers, or by means of simple competitive devaluations), while governments wonder how much longer they can take the global cost of so much unemployment when no recovery is in sight (18).

Evolution of unemployment rate in the Euroland and in the US (1991 – 2009) - Sources: Eurostat, Bureau of Labour statistics, Morgan Stanley

LEAP/E2020 wrote in February and March 2009 that, if the international monetary system was not completely reconsidered before summer 2009, the world would inevitably move towards a situation of global geopolitical dislocation, some sort of a worldwide “very great depression”, centered on the collapse of yesterday's world's pillar, the US. That's where we are now (19). Even tampered figures (20) can no longer hide the level of deterioration of the global economic and social situation nor the descent to hell of the US economy and society. This reality is clearly appearing and will be obvious to everyone by the beginning of the second quarter of 2010. In this GEAB N°39, like every month, our team tries to anticipate the main trends so that everyone, personally or professionally, can get ready for a difficult year in 2010, a year when yesterday's recipes will prove their inefficiency in curbing the global systemic crisis.

Notes:

(1) Among these key countries, only Angela Merkel's Germany can still do it, and it will: indeed, the German chancellor has decided to launch a new stimulus plan based on ... tax cuts. It is difficult to be more ideological and disconnected from the reality of the crisis! Germany must therefore now expect a substantial deterioration of its fiscal situation by the end of 2010... as well as significant tax increases to alleviate the fiscal debacle. According to our team, today's ideological blindness of Western leaders in tax matters is equal to that of communist leaders in the early months of 1989: no understanding whatsoever of the fact that past recipes no longer work. Just like the “good communist subject” was no longer willing to obey passively, the « good Western consumer » is no longer willing to consume actively. But no one ever said that Angela Merkel, Nicolas Sarkozy or Barack Obama understood anything to the economy.

(2) China can still afford a stimulus plan, but the Chinese problem, as already analyzed by LEAP/E2020, is the time needed for a sufficient domestic demand to emerge and make up for collapsed exports. In this case, no stimulus plan in the world can « buy » this missing time, this decade, that the Chinese need in order to develop a significant domestic demand. In 2010, once the smoke-screen generated by artificially stimulated production will be dissipated, everyone will see that this production was not sold... by lack of buyers.

(3) This [video-clip](#) perfectly illustrates, with a lot of humour, the radical change in consumer ways currently taking place in the US.

(4) See GEAB N°37

(5) We shall develop this analysis in another chapter of this GEAB N°39.

(6) In 2008, household consumption accounted for 70 percent of US GDP and 64 percent of UK GDP, versus 56 percent of German GDP and 36 percent of Chinese GDP.

(7) Sources: [MarketWatch](#), 11/09/2009; [IrishTimes](#), 10/27/2009

(8) According to LEAP/E2020, the bitter irony of the situation lies in the fact states currently refusing to face the perspective of the three brutal options which would enable them to make their way at best amidst the three options, condemn themselves to suffer at least two of them at the same time at the end of 2010. "Taking a step back for a worst jump" so to speak...

(9) Because it is so unpopular, the « second » US stimulus plan (in fact the third, if we take into consideration G. W. Bush's tax cut plan in 2008) is being prepared under an "undetectable" form. It will consist of a disparate set of measures that the Obama administration will avoid to present as a unique plan in order to hide its real nature. In the same category, we also find the French government's « big national loan » which Nicolas Sarkozy pretends to be a long-term investment, but which Brussels will add to the French debt as a simple short-term economic stimulus plan. From assumed inefficient policies to hidden inefficient policies... what a victory over the crisis! Sources: [TheKatyCapsule](#), 10/22/2009

(10) The OECD is clear on that: to get over it, Western countries will have to proceed to drastic cuts in education, health, social programmes... Ireland, ultimate model for the same OECD, EU or IMF two years ago, is about to lead the dance: the first in its frenzy of ultra-liberal consumption, it will also be the first in applying ultra-liberal austerity. No wonder then that large demonstrations have started filling streets of the country's big cities. Sources: [FinancialTimes](#), 09/22/2009; [RTE News](#), 06/11/2009

(11) Sources: [EUObserver](#), 11/10/2009

(12) It is worth reading the detailed definition of a « zombie economy » as proposed by [PA Consulting Group](#) on 11/10/2009.

(13) Walking around North-American and European cities is a good way to realize that, though many brands are still shining to attract buyers, they are in fact the deceptive appearances of bankrupt companies kept artificially alive by means of public money or uncertain restructuring, as in the case of CIT, GM, Chrysler, Saab, Opel, Karstad, Quelle, Iberia, Alitalia, ... Apparently, things move normally, but in fact a disease is striking deeper and deeper the corporate fabric, filled with true zombies. In China, the zombies are made of all the factories that keep running not thanks to customers but to state subventions. All those "economic living deads » are the result of the gradual injection into the real economy of the USD 20,000 to 30,000 billions in ghost-assets, previously described in the GEAB.

http://www.leap2020.eu/GEAB-N-39-is-available!-Global-systemic-crisis-States-faced-with-three-brutal-options-in-2010-inflation,-high-taxation_a3995.html