"Global Economic Collapse"

by Ambrose Evans-Pritchard via fleet - Telegraph UK *Thursday, Nov 19 2009, 6:45pm*
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2010, right on schedule

> Société Générale has advised clients to be ready for a possible "global economic collapse" over the next two years, mapping a strategy of defensive investments to avoid wealth destruction.

In a report titled "Worst-case debt scenario", the bank's asset team said state rescue packages over the last year have merely transferred private liabilities onto sagging sovereign shoulders, creating a fresh set of problems.

Overall debt is still far too high in almost all rich economies as a share of GDP (350pc in the US), whether public or private. It must be reduced by the hard slog of "deleveraging", for years.

"As yet, nobody can say with any certainty whether we have in fact escaped the prospect of a global economic collapse," said the 68-page report, headed by asset chief Daniel Fermon. It is an exploration of the dangers, not a forecast.

Under the French bank's "Bear Case" scenario (the gloomiest of three possible outcomes), the dollar would slide further and global equities would retest the March lows. Property prices would tumble again. Oil would fall back to $50 in 2010.

Governments have already shot their fiscal bolts. Even without fresh spending, public debt would explode within two years to 105pc of GDP in the UK, 125pc in the US and the eurozone, and 270pc in Japan. Worldwide state debt would reach $45 trillion, up two-and-a-half times in a decade.

(UK figures look low because debt started from a low base. Mr Ferman said the UK would converge with Europe at 130pc of GDP by 2015 under the bear case).

The underlying debt burden is greater than it was after the Second World War, when nominal levels looked similar. Ageing populations will make it harder to erode debt through growth. "High public debt looks entirely unsustainable in the long run. We have almost reached a point of no return for government debt," it said.

Inflating debt away might be seen by some governments as a lesser of evils.

If so, gold would go "up, and up, and up" as the only safe haven from fiat paper money. Private debt is also crippling. Even if the US savings rate stabilises at 7pc, and all of it is used to pay down debt, it will still take nine years for households to reduce debt/income ratios to the safe levels of the 1980s.

The bank said the current crisis displays "compelling similarities" with Japan during its Lost Decade (or two), with a big difference: Japan was able to stay afloat by exporting into a robust global economy and by letting the yen fall. It is not possible for half the world to pursue this strategy at the same time.

SocGen advises bears to sell the dollar and to "short" cyclical equities such as technology, auto, and travel to avoid being caught in the "inherent deflationary spiral". Emerging markets would not be spared. Paradoxically, they are more leveraged to the US growth than Wall Street itself. Farm commodities would hold up well, led by sugar.

Mr Fermon said junk bonds would lose 31pc of their value in 2010 alone. However, sovereign bonds would "generate turbo-charged returns" mimicking the secular slide in yields seen in Japan as the slump ground on. At one point Japan's 10-year yield dropped to 0.40pc. The Fed would hold down yields by purchasing more bonds. The European Central Bank would do less, for political reasons.

SocGen's case for buying sovereign bonds is controversial. A number of funds doubt whether the Japan scenario will be repeated, not least because Tokyo itself may be on the cusp of a debt compound crisis.

Mr Fermon said his report had electrified clients on both sides of the Atlantic. "Everybody wants to know what the impact will be. A lot of hedge funds and bankers are worried," he said.

Bill To Audit Federal Reserve Passes Key Hurdle
by Ryan Grim

In an unprecedented defeat for the Federal Reserve, an amendment to audit the multi-trillion dollar institution was approved by the House Finance Committee with an overwhelming and bipartisan 43-26 vote on Thursday afternoon despite harried last-minute lobbying from top Fed officials and the surprise opposition of Chairman Barney Frank (D-Mass.), who had previously been a supporter.

The measure, cosponsored by Reps. Ron Paul (R-Texas) and Alan Grayson (D-Fla.), authorizes the Government Accountability Office to conduct a wide-ranging audit of the Fed's opaque deals with foreign central banks and major U.S. financial institutions. The Fed has never had a real audit in its history and little is known of what it does with the trillions of dollars at its disposal.

The amendment expressly blocks Congress from interfering with the independence of monetary policy decision-making, but opponents of the measure said that the political pressure would inevitably follow.

A desperate, last-minute attempt to thwart the move came in the form of an amendment championed by Rep. Mel Watt (D-N.C.) and described by its supporters as more reasonable. On Tuesday, however, the Huffington Post reported that, on a close reading, his amendment would in fact decrease transparency at the Fed by adding additional restrictions.

Backers of the Watt amendment pressed their case on Wednesday by sending a letter from a "political cross section of prominent economists" backing a measure like Watt's. HuffPost reported, however, that those economists might well have be prominent, but they certainly aren't a "political cross section." Seven of the eight economists in question have extensive connections to the Fed -- and half of them are currently on the Fed payroll. Those affiliations were not noted in the letter.

The playbook in Washington often goes like this: When a measure that threatens the establishment builds enough momentum that it must be dealt with, it is labeled as "unserious." The Washington Post editorial board, true to the script, called Paul's measure "an unserious answer to a serious question."

And it particularly rankles the center that a pair of "wingnuts" are behind a successful effort to challenge the prevailing order.

Step Two is for a "serious" compromise to be offered. In this case, it was Watt's amendment. But by the time the vote was called Thursday afternoon, committee members had seen through his measure, recognizing that it was not a compromise effort to bring real transparency to the Fed but an attempt to further shut the the doors.

"The Watt amendment will fully obliterate everything 1207" -- Paul's measure -- "is intended to do," said Paul during Thursday's debate.

For anyone remaining confused, the debate was further clarified by the central bank itself: Federal Reserve Vice Chair Don Cohn and General Counsel Scott Alvarez spent much of the day calling committee members, urging them to oppose the Paul-Grayson amendment in favor of Watt's, a member of Congress who asked for confidentiality told HuffPost.

Paul's opponents also placed a letter from former Fed chairmen Alan Greenspan and Paul Volcker on the seats of every committee member. Such a move is in violation of House rules and Grayson was able to have the letters removed.

As the day wore on and support held for the Paul-Grayson side, the Fed still could hope that both would pass. Watt's amendment, which included additional restriction, would then trump Paul's.

To counter that possibility, the Paul-Grayson side moved to fully replace Watt's amendment with theirs, leaving only one amendment to vote on. The motion carried and the amendment passed in a landslide.

The GOP broadly backed the amendment, though Frank chided them for finding their love of Fed transparency only after they lost power, noting that Paul has been introducing some version of the measure since 1983.

Frank said he was opposing the Paul amendment because it could be perceived as influencing monetary policy, which can have inflationary pressure. "Perception is very important in monetary policy," said Frank.

He urged a no vote, yet 15 Democrats bucked him, voting with Paul. Key to winning Democratic support was a letter posted early Thursday from labor leaders and progressive economists. The letter, organized by the liberal blog FireDogLake.com, called for a rejection of the Watt substitute and support for Paul.

Grayson was able to show Democratic colleagues that the liberal base was behind them.

"Today was Waterloo for Fed secrecy," a victorious Grayson said afterwards.

The Five Stages of Collapse -- Dmitry Orlov
Surviving the Cataclysm -- Webster G Tarpley

http://tinyurl.com/ybs4qhl
