

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE
ECONOMIC WINTER



Turning and Turning in the Widening Gyre

The title for this 'Economic Winter' comes from the first line of William Butler Yeats' poem, The Second Coming, which he wrote in 1919 using imagery regarding the Apocalypse and the second coming of Christ as an allegory to describe the atmosphere in Europe following World War 1.

I had thought of entitling this piece 'Looking into the Abyss', but I see that many other writers have chosen such a title to describe the ongoing financial calamity. Here is the first stanza of Yeats' poem and you can just sense in reading it the utter desolation he envisages. This parallels my own anticipation of our immediate future.

Turning and turning in the widening gyre

The falcon cannot hear the falconer;

Things fall apart; the centre cannot hold;

Mere anarchy is loosed upon the world,

The blood-dimmed tide is loosed, and everywhere

The ceremony of innocence is drowned;

The best lack all conviction, while the worst

Are full of passionate intensity.

I know that many of you think that I am the epitome of doom and gloom, but I consider myself a realist, whose job it is to advise my readers on the most likely course of events on the ongoing monetary, financial and economic travails and how best they might prepare themselves in the likely event that it all blows up. I know from my study of the Long Wave Cycle that winter is the season when debt is expunged from the economy and that process has always been very destructive. The powers that be are vainly trying to forestall the debt destruction process. We confidently predict that their efforts will fail and the result of that failure will be significantly more tumultuous than if the debt bubble had been allowed to collapse without their interference.

It is surprising to me that so many people can't see the grave danger that is now threatening to take us all down. Either they are naive or simply ignorant of the growing financial and economic maelstrom. Maybe they just trust those in power to right the ship; do they hear the soothing words of the politicians that tell them "don't worry; we have everything under control?" And just like little children are they comforted and convinced that nothing bad can happen, because 'big brother' says so? But let me tell you, it is 'big brother' that is responsible for the mess in which we now find ourselves. And let me add the problems are now so acute that there is no solution. Everything must be destroyed before a new financial and economic system can evolve. This new system will be based on honest money - gold and silver; it will be brought to fruition by honest politicians, who will consciously act in the best interests of the citizens who they represent.

The current economic and financial system is thoroughly dishonest. It is based upon paper/fiat money and is led by a coterie of corrupt politicians and fraudulent bankers.

Paper money is debt money. It is overwhelming debt that is now threatening to engulf us.

The focus of attention at this time is the crisis in the euro, which conveniently draws attention away from the pound and the dollar which are in similar dire straits.

"In simple terms, today we are facing a Crisis that is far, far worse than 2008. Before it ends, it is quite possible that we will see the entire Western Financial System collapse and a new system put into place."

"This will mean:

1. Many major banks disappearing, as well as numerous potentially lengthy bank holidays (think Argentina in 2001)
2. Multiple sovereign defaults as well as broad economic contractions and their commensurate unemployment/civil unrest/erasure of retirement accounts/pensions (this process has already begun in some U.S. municipalities, e.g. San Bernardino, and Stockton, California as well as Harrisburg, Pennsylvania).
3. Possibly new currencies being introduced, or a rollback of existing currencies (conceivably, one new unit being worth 1,000 of the old one)
4. Massive wealth destruction to the tune of tens of trillions of Dollars (think MF Global i.e. the money is gone....only systemically....in fact, we just witnessed another such instance with Peregrine Financial)
5. A global economic contraction (Depression) that will result in new political/power structures being implemented as well as the break-up of various countries/unions.
6. Very serious trade wars to begin (see Obama's recent attack on China) and very possibly a real war." Summers , Graham. [Private Wealth Advisory](#), July 11, 2012

Allow me to address Mr. Summers' points:

1. To all intents and purposes a majority of European banks are already on life support. The Spanish banks are soon to receive a 100 billion euro bailout, but this will only provide a temporary solution; much more than that will be required to make the Spanish banks whole. Spain's central bank has identified about 300 billion euros in problem loans in the nation's banks. (You can bet that this is understated). Anyway, this bailout will be in the form of a loan to Spain and not directly to the Spanish banks; therefore "This fails to sever the fatal link between banks and vulnerable states, each pulling the other down." Ambrose Evans-Pritchard, [Telegraph. Co. U.K.](#) July 23, 2012.

"If Spain can't contain the problems in the banking system itself it could spread across the entire European financial sector hitting weaker banking systems such as Italy first and eventually impacting major banks in healthier countries like Germany and France." Isidore, Chris. [CNNMoney/Invest](#), May 25, 2012

Fear of European banking failures has led to significant withdrawals from bank accounts in crisis-hit countries. Over the past year, Greek savers have withdrawn about 50 billion euros from their banks. Now Spanish 'cajas' are experiencing similar bank runs. Once in progress, a bank run is very difficult to stop. It's all a question of confidence and right now confidence in banks in Greece, Italy, Spain and Portugal is rapidly eroding.

One of the major asset classes on European banks' balance sheets is European sovereign debt, which in total amounts to approximately 1.2 trillion euros. Respectively, Greek, Spanish and Irish debt is largely held by these countries' banking institutions. A substantial amount of outstanding Italian debt is primarily held in Germany, France and Belgium and by Italian banks. In September 2011, the then Deutsche Bank CEO, Josef Ackermann said, "It is an open secret that numerous European banks would not survive having to revalue sovereign debt held on the banking book at market levels." So, it's a vicious circle, European banks are in jeopardy because, besides bad loans, they own lots of bad sovereign debt, and vulnerable European countries are threatened by the perilous state of their banks.

2. Mr. Summers raises several different issues in his second point, but let's address each of them in turn.

Several European countries, including Greece, Spain, Portugal, Ireland and Italy (probably in that order) are close to default at this time. That they haven't yet defaulted is the manic desire on the part of the wealthier EU nations to keep the European Monetary Union in one piece, not only to save face, but also because sovereign defaults would lead to massive banking failures.

Economic contraction is already apparent in most euro nations, particularly in those countries cited above, which have been forced to impose austerity measures in return for financial bailouts. Austerity cannot produce economic growth, which is what these countries require in order to reduce their debt and deficits. A recently leaked document stated "Even under the most optimistic scenario, the austerity measures being imposed on Athens risk a recession so deep that Greece will not be able to climb out of the debt hole." The Daily Telegraph. This undoubtedly means that Greece will need more bailouts. Austerity has contributed to high unemployment. The latest official unemployment numbers are: Greece 22.6%, Spain 24.3%, Portugal 15.2%, Ireland 14.9% and Italy 10.2%. In Greece and Spain youth unemployment exceeds 50%.

This is clearly leading to civil unrest. On Friday, June 15th. thousands of Spanish civil servants clashed with police over the government's plan to reduce their pay and earlier in that week Spanish coal miners marched on Madrid after the government determined to reduce mine subsidies. Here is how one Spanish respondent to a Daily Telegraph Blog summarized his/her feelings- "I live in Spain and I can tell you that the Spanish that I live amongst are far from impressed by this propaganda spouting fascist bastard (Mariano Rajoy, Spanish PM). His speech today at lunchtime spent more time espousing the euro and the EU than it did just how throwing money at the banks will help the man/woman in the street who are out of work, some almost starving." "Anyone who listened to his speech must have cringed at the disgusting bile-inducing propaganda about the bailout being a 'success for the euro.' I truly feel nothing but contempt for these people, bail out the rich and let the poor starve. Politicians need to be hunted down and tried for crimes against the people; Rajoy, Cameron, Blair, Barosso, Van Rompuy, Lagarde, Merkel, Clegg and the list goes on." [Daily Telegraph Blog](#), June 10, 2012.

This anger and determination to fight back against authority is demonstrated in this picture.



Photo by Eloy Alonso/Reuters

"Coal miners fire a homemade rocket during a clash with Spanish national riot police in the surroundings of the 'El Soton' coal mine in El Entrego, near Oviedo, northern Spain, June 15, 2012."

Civil unrest is rising to dangerous levels in Italy. According to Infowars, "the Italian Government had assigned bodyguards to 550 individuals and has increased security at about 14,000 locations in response to recent violence related to the economic crisis."

3. Although governments are desperately trying to prolong the lives of their respective paper currencies, we believe that their deaths are imminent. We have written several times, citing John Law's paper money scheme and the French Revolution Assignat, that when distrust in paper/ fiat money grows to the point where people seek alternative money, usually gold or silver, to effect transactions, the government always tries to keep the system going by massively increasing the supply of paper money. They believe this is the means to return the economy to where it once was, stable and reasonably prosperous. It has never worked, because the economy is already saturated with debt. Once this failure is recognized, any remaining confidence in paper money simply disappears. We are now at the stage of excessive money printing. The euro masters are printing copious amounts of the currency in an effort to save a flawed currency. The same is true in the United States, where the Federal Reserve has created trillions of paper dollars since 2008 in a failed effort to revitalize the depressed American economy.

Once these efforts to perpetuate fraudulent paper money are no longer successful, governments will be forced, as they have been in the past, to return to precious metals as a backing for their respective currencies. "Paper is poverty. It is only the ghost of money and not money itself." Thomas Jefferson, 1788.

I believe that China will be the initiator of a new gold standard monetary system. Such a move would destroy the dollar's reserve currency status and propel the renminbi into that exalted role.

4. I agree with Mr. Summers on this point. We are already witnessing large scale wealth reduction in many countries as debt deflation unfolds. In the United States, the collapse in housing prices since 2006 has resulted in many Americans losing their homes and many more who owe more on their mortgage than their house is now worth. But every American has probably experienced a major loss in the value of his real estate holdings.

In the European-crisis countries housing values are plummeting, as are stock prices. Spanish stock prices have fallen by more than 50% since January 2010. Wages and pensions are being reduced in these countries, which in many cases forces people to live off their savings.

However, we are at the very beginning of this debt implosion. Governments are attempting to forestall the inevitable, which is worldwide debt destruction. When that occurs, the value of most assets will plummet and that can only mean as Mr. Summers writes, "Massive wealth destruction to the tune of tens of trillions of dollars."

5. When I first started writing *The Long Wave Analyst* in 1998, I anticipated the onset of the fourth long wave winter, which would commence with the autumn stock bull market price peak. That peak in stock prices occurred between January and March 2000. The long wave winter is always characterized by an economic depression caused by the bursting of the debt bubble. I am convinced that this depression is going to be far more severe than the previous three winter depressions for the simple reason that this winter debt is much larger, more pervasive and more international in scope than the previous winters.

The economic situation is likely to become so dire that governments will not be able to respond in any meaningful way to provide for the plight of their citizens. Most governments are bankrupt. That fact is only being concealed by the issuance of huge amounts of paper currency, which only serves to add to their already non-repayable debt burden. The failure of governments to alleviate the suffering of their hapless citizens will lead to massive social unrest and as Mr. Summers states "the possible dismemberment of various countries and unions."

Certainly the European Union is most unlikely to survive the debt cataclysm and the collapse of the common euro currency.

Scotland is already moving to seek independence from Great Britain and such a move would likely be hastened by an English debt collapse. In such an event, Wales would almost certainly follow Scotland in seeking independence.

The United States could splinter into several self-governing entities. Before you jump all over me on this one, let me remind you that this is economic and financial Armageddon (I don't use the word Armageddon lightly). I see this as a battle between good and evil and the likely scenario during this particular Long Wave winter. Most probably, the U.S. experience is going to be devastating. The country, in short order, is going to move from a 'have' to a 'have not' nation, which is controlled by many corrupt politicians in the pay of fraudulent bankers. There is a growing political divide between liberal America, which is a growing faction and those Americans who espouse the values proclaimed by the Founding Fathers. I don't see Mitt Romney in the latter camp. Ron Paul certainly is, but he has been sidelined by the Republican machine, because it believes that he would be unelectable. Anyway, it appears to me, a foreigner, that the Republican party in the main has moved away from its traditional quasi-libertarian values to the centre where it is able to court votes.

In an article published in *The Washington Times* on March 25, 2010, entitled "Will America break up," Jeffrey Kuhner writes, "President Obama is splintering America. The passage of Obama care was a historic victory for liberal governance. Yet, its true cost may be that it triggers the eventual breakup of the country."

All of these issues make for a very dangerous situation, in which all States are going to do what is in the best interests of their people. One option that these States might consider is to opt out of the Republic and align with States with similar political values and contiguous borders.

In 2008, a Russian political analyst, Professor Igor Panarin, predicted that the economic and financial turmoil in the United States will lead the country to collapse and divide into six separate parts—"The Pacific coast, with its growing Chinese population; the South with its Hispanics; Texas, where independence movements are on the rise; the Atlantic coast, with its distinct and separate mentality; five of the poorer central states, with their large native American populations; and the northern states, where the influence of Canada is strong."



6. When any country's economy seriously contracts it will often resort to increasing the price of its imports by leveling duties on foreign goods in order to favour its manufacturing sector.

Over the past few years, while ostensibly extolling the virtues of free trade, the United States has embarked on surreptitious trade warfare in order to favour her manufacturers. The import duty imposed on Canadian lumber is one example, as is the duty set on Chinese tire imports. The younger George Bush set duties on steel imports from many countries to protect the U.S. steel industry. These duties were lifted prior to their becoming the focus of an enquiry by the WTO.

"Slowly but surely, protectionism is on the march once again. High Western unemployment, and renewed economic weakness, means lawmakers are bowing to vested interests and restricting international trade. Such barriers come in all sorts of complex forms and are difficult to quantify. But last month, Pascal Lamay, Director General of the World Trade Organization, said the recent rise to protectionism is 'alarming'. The EU then issued a study, barely reported, which referred to the 'staggering' rate at which trade barriers are increasing." Liam Halligan, *The Telegraph*, July 21, 2012.

At the onset of the last Long Wave winter, in June 1930, President Hoover signed the Smoot- Hawley Tariff Act. This act raised U.S. tariffs in 2,000 imported goods to record levels. Naturally, U.S. trading partners imposed retaliatory tariffs on U.S. goods. While this act was by itself not responsible for the huge downturn in world trade, the world-wide economic depression itself was much more of a contributing factor, nevertheless, world trade between 1929 and 1933 contracted by about 70%. Just think on this number for a moment and picture the huge contraction in nations' economies that must have been the result - little being either imported or exported.

Here in Canada, there exists an unbelievable complacency. Supposedly, our bankers are too smart to indulge in derivatives trading and make bad loans. Our national government is apparently fiscally prudent and our consumers collectively now enjoy a higher net worth than their American cousins. However, our consumer debt is every bit as high as was American consumer debt before the collapse of their housing bubble. In the first quarter of this year, Canadian personal debt reached a record 152% of disposable income. Since 2009 and with increasing urgency in the past year, The Bank of Canada Governor, Mark Carney, has been warning that Canadians' debt is out of control. Most Canadians simply believe that we are immune to the debt carnage now beginning to overwhelm many countries. When the financial storm hits, it will hit particularly hard here in Canada.

These are desperate times that we face. As I have written, I cannot see any solution to this looming economic and financial disaster. Western governments are frantically trying to stave off this pending catastrophe by creating huge amounts of paper money. However, paper money is what got us into this hopeless mess and creating even more of it will only serve to compound the problem.

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“Those who cannot remember the past are condemned to repeat it.” Santayana