

### AMERICAN POWER IN ECLIPSE (PART THREE)

There will be occasions in **WAM** when you might argue that the repetition has gone on a bit too much. Do I regret this? I confess that I do not. I am actually overjoyed when I feel strong enough about something that I turn to repetition. I have often been writing that the United States is collapsing, along with its economy. Yes, the authorities have printed and borrowed extraordinary sums, in an attempt to stave off the monstrous deflation in asset prices. And this has bought us some time – at a high cost. Not long ago an acquaintance of mine, a British journalist named Robert Fisk, argued in the British newspaper *The Independent* that the Arabs, the Chinese, the Japanese and the Russians were planning – secretly – to move away from the dollar. They wish to price petroleum in euros. This is obviously going to mean the end of the American/Israeli (or let's call it the Zionist-American Empire) in the not too distant future. After all, the United States is nearly bankrupt, that is, it is cash-poor. Its enemies, or potential enemies, are cash-rich, most notably the Chinese and Russians. I wrote these words in April 2009 in **WAM**:

I had a keen understanding back in the mid-1980s that the United States would suffer greatly once it moved from net creditor to net debtor in the world economy. This is indeed what has happened. The clock began ticking in the mid-1980s – net debtor status – and I figured we would have about 25-30 years or so before “the shit hit the fan.” I was right. I still think we have a little time left, but not much. The money printing is going to speed up our approach to total collapse. The theory in Washington is that the money printing will help us – this is bullshit, ignorant bullshit. We will soon find out how much bullshit it really is.

## **BIGGEST HOLDERS OF US GOVERNMENT DEBT**

As the US government spends an unprecedented amount of money to fix the nation's economy, there is an equally great need to raise the cash to pay for it. This is accomplished through borrowing, whereby Uncle Sam sells Treasury securities of varying maturity.

For investors, the government bills, notes and bonds are considered a safe financial product because they have a guaranteed rate of return, based on faith in future US tax revenues. The government has been partially funding operations via Treasury securities for decades. This borrowing adds to the national debt, which has climbed above \$11 trillion and is rising every day. Much of that debt is held by private sector, but about 40 percent is held by public entities, including parts of the government. Here's who owns the most.

By Paul Toscano - CNBC

Updated 27 Aug 2009

### **1. Federal Reserve and US Intragovernmental Holdings**

That's right, the biggest holder of US government debt is actually inside the United States. The Federal Reserve system of banks and other US intragovernmental holdings account for a stunning \$4.785 trillion in US Treasury debt. This is the most recent number available (March 2009), which is down from the all-time high of \$4.806 trillion in December 2008. However, this does not account for additional Federal Reserve investments occurring in the summer of 2009. About a decade ago, the total government holdings were "only" \$2.5 trillion.

### **2. Mutual Funds**

According to the Federal Reserve, mutual funds hold the second largest amount of US debt compared to any other group. Including money market funds, mutual funds and closed-end funds, this group of investments manages approximately \$769.1 billion of US Treasury securities.

### **3. China (Mainland)**

The buzz word in the market for US debt is China. The world's most populous country is also the largest and most important international buyer of US debt. From June 2008 to its all-time high in May 2009 of \$801.5 billion, China had raised its stake in US debt by over \$266 billion. Receding back to \$776.4 billion in June, China's holdings were still up \$241.3 billion from a year earlier. Hong Kong, which is not included in China's total, holds an additional \$99.8 billion.

### **4. Japan**

Another major US trade partner, Japan holds a huge amount of the country's debt, with a stunning \$711.8 billion. As recently as August 2008, Japan held the more US debt than any other country, but currently holds the #2 spot, as far as foreign governments are concerned.

### **5. Other Investors**

Although the most recent numbers for this category are from December 2008, this extremely diverse group includes individuals, government-sponsored enterprises, brokers and dealers, bank personal trusts, estates, corporate and non-corporate businesses for a total of \$629.7 billion. Interestingly, the level of investment from "Other" investors has more than doubled from June 2008-December 2008, the largest 6 month swing for this group in the past 10 years.

### **6. State and Local Governments**

US state and local governments have over a half-trillion dollars invested in American debt, according to the Federal Reserve. The level of investment has remained very stable over the past three years, moving within the range of \$516.9 billion and \$550.3 billion from 2006 to 2009.

## **7. Pension Funds**

Pension funds control large amounts of money, reserved for personal retirements, and thus are obligated to make relatively safe investments. This group includes both private and local government pension funds, totaling \$456.4 billion. The private pension fund category also includes US Treasury securities held by the Federal Employees Retirement System Thrift Savings Plan "G Fund."

## **8. United Kingdom**

Britain currently holds \$214 billion in US debt, but the country's investment has fluctuated dramatically throughout the past 2 years, ranging from as much as \$271.2 billion in May 2008, but to as low as \$55 billion in June 2008.

## **9. Oil Exporters**

Big oil means big money... and big investment into US debt. Included in the group of oil exporters are Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria. The group combines for a total of \$191 billion, up from \$159.5 billion one year earlier.

## **10. Caribbean Banking Centers**

The US Treasury identifies this group as institutions in the Bahamas, Bermuda, the Cayman Islands, Netherlands Antilles, Panama and the British Virgin Islands. Holdings are currently listed at \$189.7 billion, up from \$106.6 billion in June 2008, but off the group's high of \$213.6 billion in March.

## **11. Brazil**

The South American economic giant has \$139.8.5 billion in holdings, according to the Treasury. Brazil's investment into US debt has been fluctuating slightly over the past year, with a high of \$158 billion in June 2008, and a low of \$126 billion in March.

## **12. Insurance Companies**

According to the Federal Reserve Board of Governors, insurance companies hold \$126.4 billion in Treasury securities. This group includes property-casualty and life insurance firms.

## **13. Russia**

Russia's investment in US debt grew over 393 percent between January 2008 and March 2009 (from \$35.2 billion to \$138.4 billion), but the country's investment in US debt has receded since, and is listed at \$119.9 billion as of June 2009. This is approximately at the same level it was in January 2009.

## **14. Depository Institutions**

As of the fourth quarter of 2008 (the most recent numbers currently available), the Federal Reserve Board of Governors lists depository institutions as holding approximately \$107.3 billion in US debt. This group includes commercial banks, savings banks and credit unions.

## **15. Luxembourg**

A country slightly smaller than Rhode Island currently holds \$104.2 billion in US government debt. Over the past 12 months, Luxembourg's holdings have ranged between \$87.2 billion and \$104.7 billion.

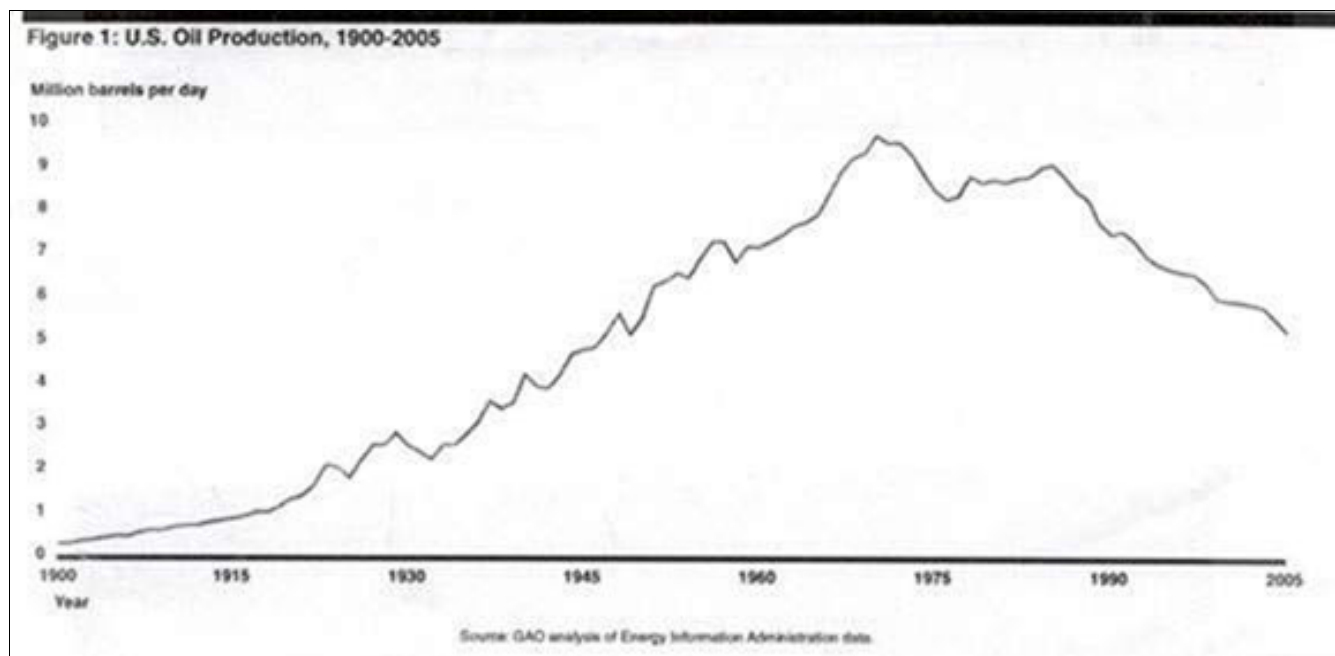
The title: AMERICAN POWER IN ECLIPSE (PART TWO)

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The power of the world is moving back to the Eastern Hemisphere after resting in the Western Hemisphere for a century or so. My grandfather came over to New York City from Korca, Albania in 1920. I will be leaving the United States in due course, and for the precise reason that he left Albania and came over to the United States.



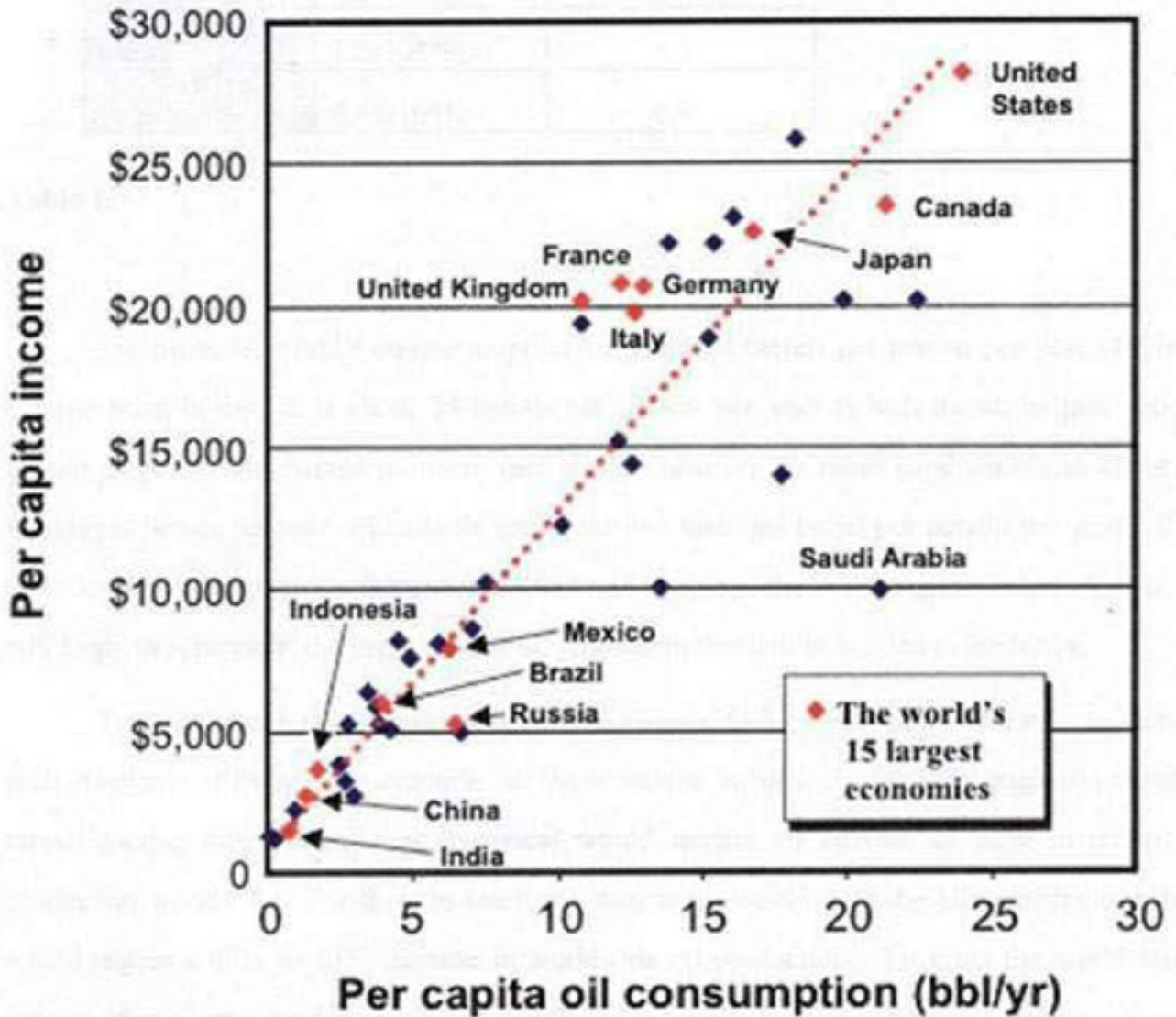


Fig. 1. Oil consumption as a real indicator of the wealth of nations (from Egonomides & Oligney, 2000).

There was nothing but poverty in Albania, and the United States was rapidly expanding, economically and otherwise, so he packed his bags and abandoned the Eastern Hemisphere. America's power is in eclipse, and it is time to leave the United States – and to stay away for (at least) a good 15 years or so. I published these words in January 2009 in **WAM**:

American power is based, I would argue, on two fundamental elements – the projection of global financial power (the dollar) and the projection of global military power (petroleum). It is fair to say that both of these powers are now in the beginning stages of collapse. We have seen the financial collapse on Wall Street get under way, and now we can wait for the military collapse. I assure the visitors of **WAM** that it is coming. What is most interesting about this dual collapse – monetary and military power – is that because the United States had so much power it was not really necessary to have leaders with any intelligence and knowledge. Yes, the United States could actually afford to have morons as leaders. I am not saying that this was avoidable, because I do not think it was. When things are good, and when you have no competition, then you do not worry about strategy and leadership. You just keep pulling in the cash and profits. Your business, the enterprise called the United States, just runs fine, on autopilot.

What must we do with our savings and capital? In January 2009 I conceived an investment strategy and I publish it below:

20% **GOLD** (own physical gold or ETF)

20% **CAR** (Canada, Australia, Russia)

20% **HPG** (listed or unlisted firms with high potential growth)

20% **RM** (robust multinationals)

20% **SHORT** (short selling)

Bailing out of the United States at this moment would be a very shrewd move. Relocate to either Canada, Australia or Russia – or somewhere in Europe. Keep most of your assets in the currencies of the CAR nations. America's power to attract capital is now diminishing, and perhaps even at a frightfully fast rate. I published these words in **WAM** in November 2008:

The overwhelming reality of America has been to attract capital – capital in the form of finance as well as capital in the form of the human brain and human talent. This has powered the economic development of the United States. And we could argue that this is also why much of the world has for so long been relatively undeveloped: they did not have the power to attract capital.

To compensate for this diminishing power (to attract capital), what the United States has done is increase the size of government, federal, state and local government. The George Bush Jr. White House was notable for two things: criminality and increasing the size and power of the federal government. The result of having a large government is obvious, or should be obvious. I wrote these words in **WAM** in May 2008:

Governments and authorities do not create wealth – private enterprise creates wealth. Government and authorities are merely parasites, sucking the wealth from the enterprising men who take the risks to achieve their goals. So, it should be clear why the political authorities would assume a generally hostile attitude towards business. They see private enterprise as a threat to their authority and power. And they are right.

I recently called up (for the second time) Ian Gordon to get an update on his views of the world and the markets. He is the president of the Long Wave Group in Vancouver, Canada. I do think Gordon is correct that we are moving into an economic depression, and in fact I have recently called this depression (inspired by Saddam Hussein) “the mother of all economic depressions.” I believe, as I have explained on many occasions in **WAM**, that we are facing serious deterioration in the three fundamental sources of economic development and growth (my theory).

**ENERGY** for **POWER**

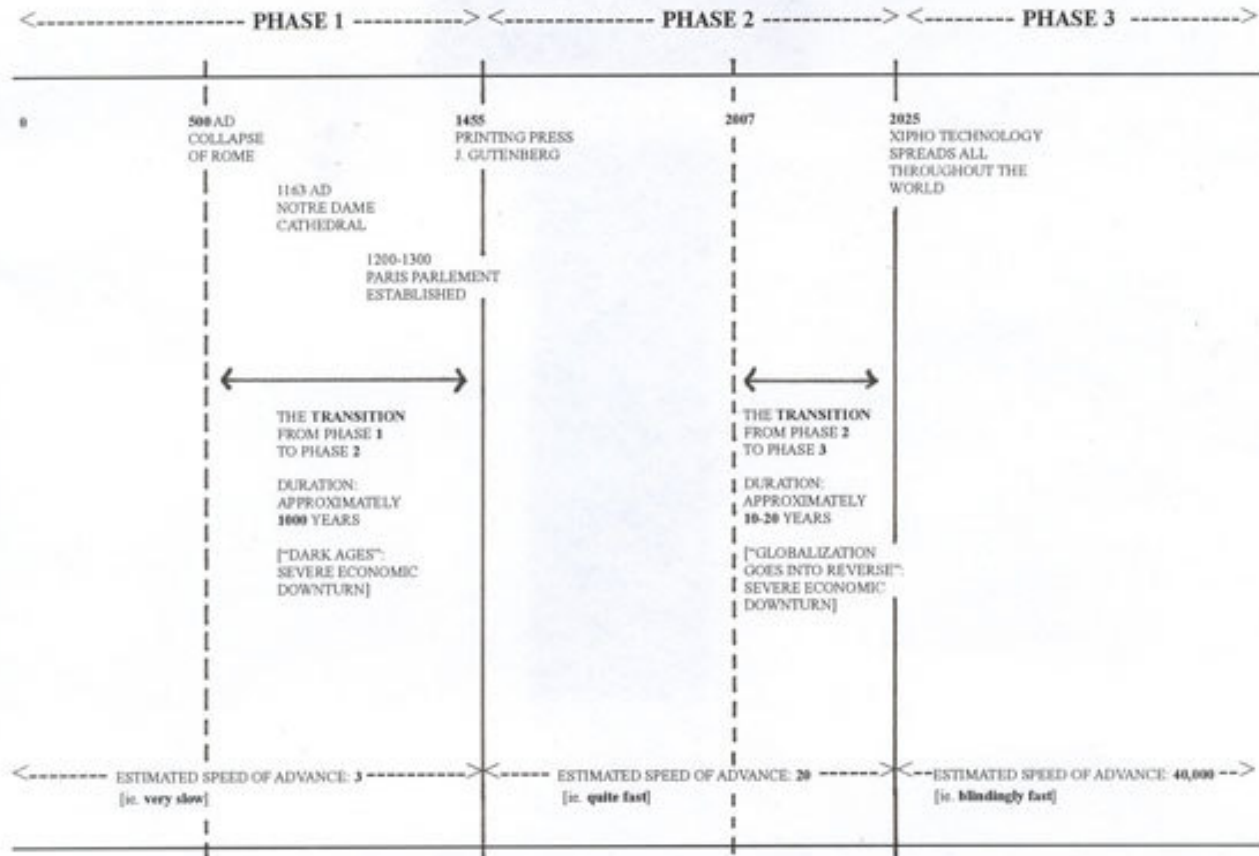
**IDEAS/KNOWLEDGE/TECHNOLOGY** for **EFFICIENCY**

**CYCLE** for **ADAPTATION**

In April 2009 I developed and broadened further my thinking about economics. It has been several years since I first started thinking of human history as being divided into three phases. In the diagram below you should begin to appreciate just what my argument is and what it means.

## THE THREE PHASES OF HUMAN HISTORY

"THE SUPREME POWER ON EARTH IS THE MOBILITY OF IDEAS, AND THE SPEED, THE COST, AND BREADTH OF THIS MOBILITY ARE THE THREE CORE VARIABLES WE WILL WANT TO MEASURE"



PLEASE NOTE: The estimated speeds of advance, which are given as averages for each of the three phases of history, are plotted against the rate of human population growth.

I do think that this economic depression will be a fierce one, and it will be global, totally global. I do not see us bottoming out until 2025 or so, and perhaps, if we are lucky, as early 2020. Ian Gordon is a powerful thinker, and I do respect his efforts to understand what we are facing. I tend to believe that inflation will gain more power than deflation, and I hold this view mostly because I assume it will become imperative that we inflate our debts away (shrink them via monetary inflation). If we have deflation our massive debts will become even more massive – can we “afford” this? Just by asking this question we answer it. The confrontation between the powers of the Eastern Hemisphere – Russia and China – will soon be with us, perhaps in 5-10 years. A cash-poor Empire will not be able to pay its bills, and so the Empire will and must contract. American global economic power, which became so great and impressive in the 20th century, will shrink considerably in the coming 10-20 years, during the transition to Phase 3 of human history. [Click here](#) or on the audio icon above to listen to the editor of **World Affairs Monthly** interview Ian A. Gordon. The Long Wave Group can be found on the net at [www.longwavegroup.com](http://www.longwavegroup.com).

Thus, the United States and its markets will be moving back to pre-1982, when only some 12% of

American households owned stocks and bonds. Please consult my series of articles on this, the last of which appeared in **WAM** in September 2009.

The title: HOW FAST WILL WALL STREET BE RETURNING TO PRE-1982? (PART FIVE)

The URL: <http://worldaffairsmoonthly.com/printfriendlybyid.php?id=1312>

Gordon and I discussed what the world of the future will look like. We agreed that there will be three trading blocs, three power blocs: the Western Hemisphere, Europe and Russia, and China and Asia. I have written of this as well, the most recent article appearing in **WAM** in May 2008.

The title: THE THREE ANTAGONISTIC TRADE BLOCS OF THE FUTURE

The URL: <http://worldaffairsmoonthly.com/printfriendlybyid.php?id=968>

Gordon shared with **WAM** one of his recent papers, and I publish it below (in PDF).

[Click here](#) to read “Winter Warning: All That Glitters is Gold” (October 19, 2009)

His attempt to survey the human condition is impressive. Thanks so much Ian for the fascinating talk, and of course I will be calling you up for periodic updates. I do not think that I need to wish you good luck in Canada, because I believe the CAR nations will have clearly proven to be star outperformers by 2020.

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