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MEANS: U.S. economy on schedule to crash March 2014

America's fall will take global economies with it

By Grady Means

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Those wild and crazy Mayans put down their marker that the end of the world would occur on Dec. 21, 2012 — about two months from now. There is, of course, some small chance that they might be right. On the other hand, there is a very large probability that the real end of the world will occur around March 4, 2014.

The doomsday clock will ring then because the U.S. economy may fully crash around that date, which will, in turn, bring down all world economies and all hope of any recovery for the foreseeable future — certainly over the course of most of our lifetimes. Interest rates will skyrocket, businesses will fail, unemployment will go to record levels, material and food shortages will be rampant, and there could be major social unrest. Any wishful thinking that America is in a “recovery” and that “things are getting better” is an illusion.

The problem is not [Medicare](#), which won't quit on us for another six or seven years. Nor is it Social Security, which will not be fully bankrupt for another 15 years or so. The crisis is much more immediate and much more serious.

The central problem is that America is the bank of the world. What this means, simply, is that the dollar is the world's currency (often termed the “reserve currency”). Throughout the world, nearly all traded goods, oil, major commodities, real estate, etc., are denominated in dollars. The world needs dollars, and the U.S. provides them and provides confidence that the dollar is the “safest” currency in the world. Countries get dollars by trading with us on attractive terms, which enables Americans to live very well. Countries support this system and cover their risk by investing in dollars through T-bill auctions and other mechanisms, which enables us to run budget deficits — up to a point.

The central issue is confidence in America, and the world is losing confidence quickly. At a certain point, soon, the United States will reach a level of deficit spending and debt at which the countries of the world will lose faith in America and begin to withdraw their investments. Many

leading economists and bankers think another trillion dollars or so may do it. A run on the bank will start suddenly, build quickly and snowball.

At that point, we will need to finance our own deficit, and we will not be able to do so. We will raise bond rates to re-attract foreign investment, interest rates will go up, and businesses will fail. Unemployment will skyrocket. The rest of the world will fully crash along with us. Europe will continue to decline, and the euro will not replace the dollar. Russia will see a collapse in oil prices as market demand softens, and Russia will collapse along with it. China will find nowhere to export and also will collapse. The Russian and Chinese governments, which see all this coming and have been stockpiling gold to hedge against such a dollar collapse, will find that you cannot eat gold. There will be uprisings — think of the streets in Spain and Greece today — everywhere. Technological advances that traditionally drive productivity increases and economic growth will not be able to keep up with this collapse.

When might this all happen? Paul Volker indicates we might face a mess like this in the next year and a half. David Walker, former U.S. comptroller, i.e., the former chief accountant of the U.S. government, has suggested similar time frames for economic catastrophe. Most agree that the budget sequestration approach won't work from either economic or political perspectives, and mindless across-the-board cuts in spending will only exacerbate a mess. The Federal Reserve's third round of quantitative easing, in which we print money to buy our own bonds in order to goose economic and employment numbers, means we are floating our own debt, a good formula for sudden hyperinflation.

The next president will have about six months to fix this problem before it is too late. He must be fully prepared, able and willing to work with Congress and move quickly and decisively. During the election, the most important question to ask is, who understands all this and is prepared to prevent it? Everything else is noise.

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