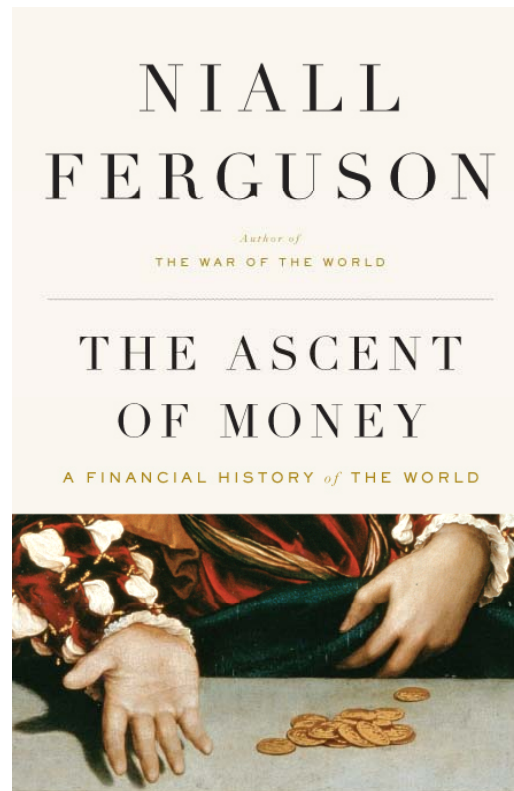


American Power and the Descent of Money



Museum of American Finance, December 10, 2008

The “post-American world”?

- “One thing seems probable to me. The U.S. will lose its status as the superpower of the global financial system.” – Peer Steinbrück, German finance minister
- “A Power That May Not Stay So Super” – *NYT*
- “A Shattering Moment in America’s Fall From Power” – *Guardian*
- “The End of Hubris” – *Der Spiegel*



The end of empire?

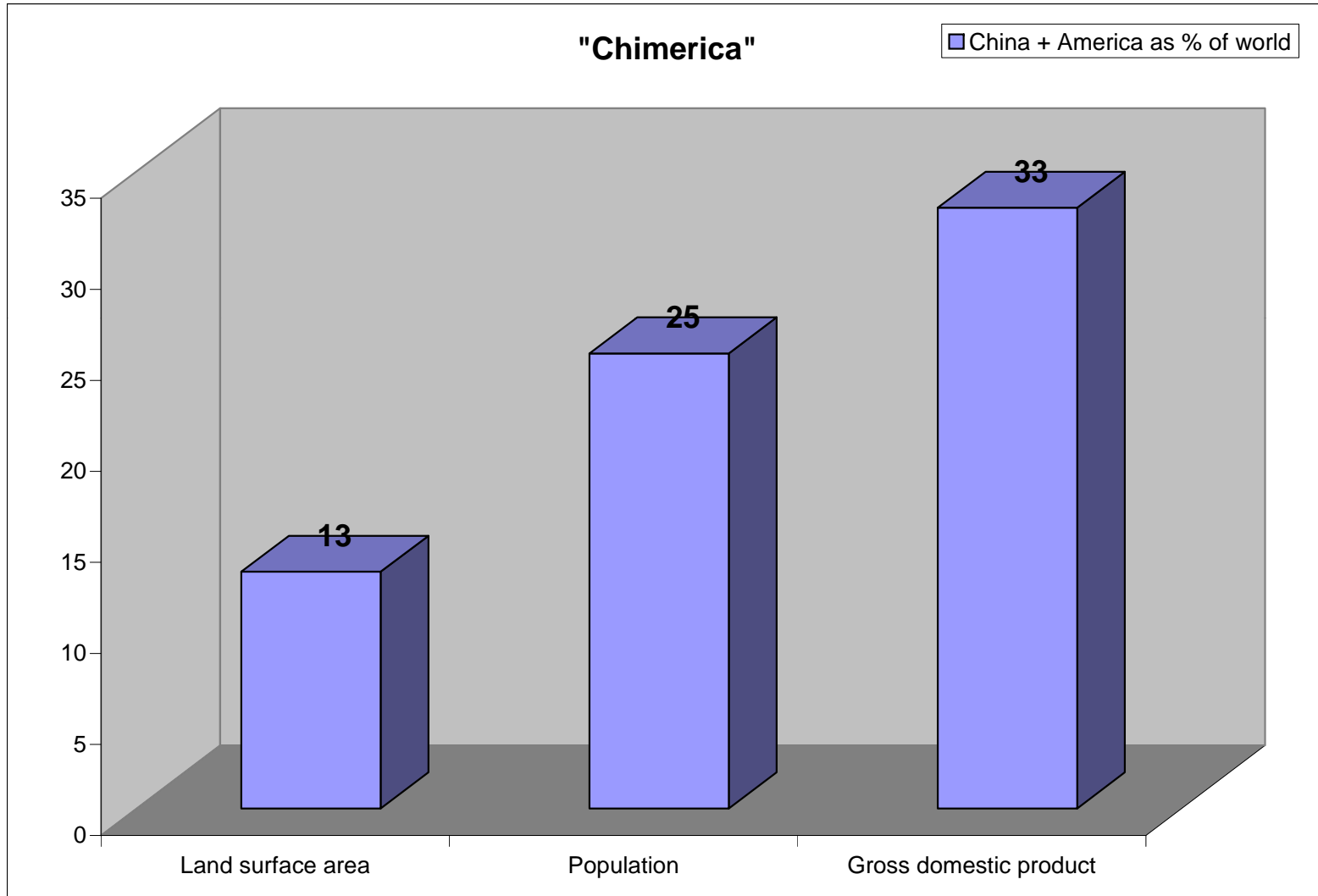
- “There is one pattern that comes very close to being a law of history: in the long run, the rise and fall of great nations is driven primarily by their economic strength. Rome, imperial China, Venice, France, the Netherlands, Portugal, the United Kingdom – all had their day, and their international decline followed inexorably from their economic decline.” – Richard Holbrooke in *Foreign Affairs*
- The legacy of Paul Kennedy’s *Rise and Fall of the Great Powers* ...

The end of ...?



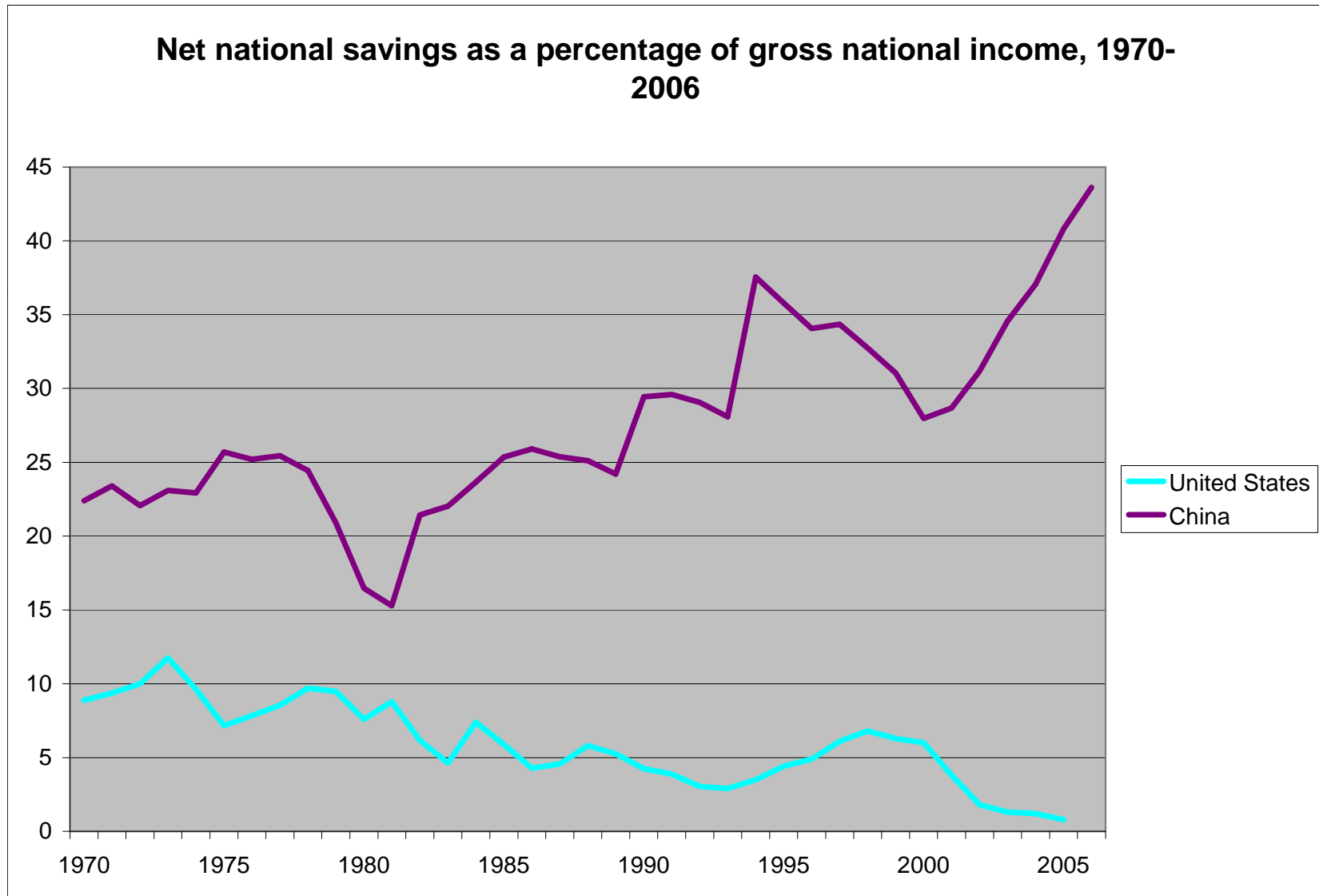
Chad Crowe

“Chimerica” defined



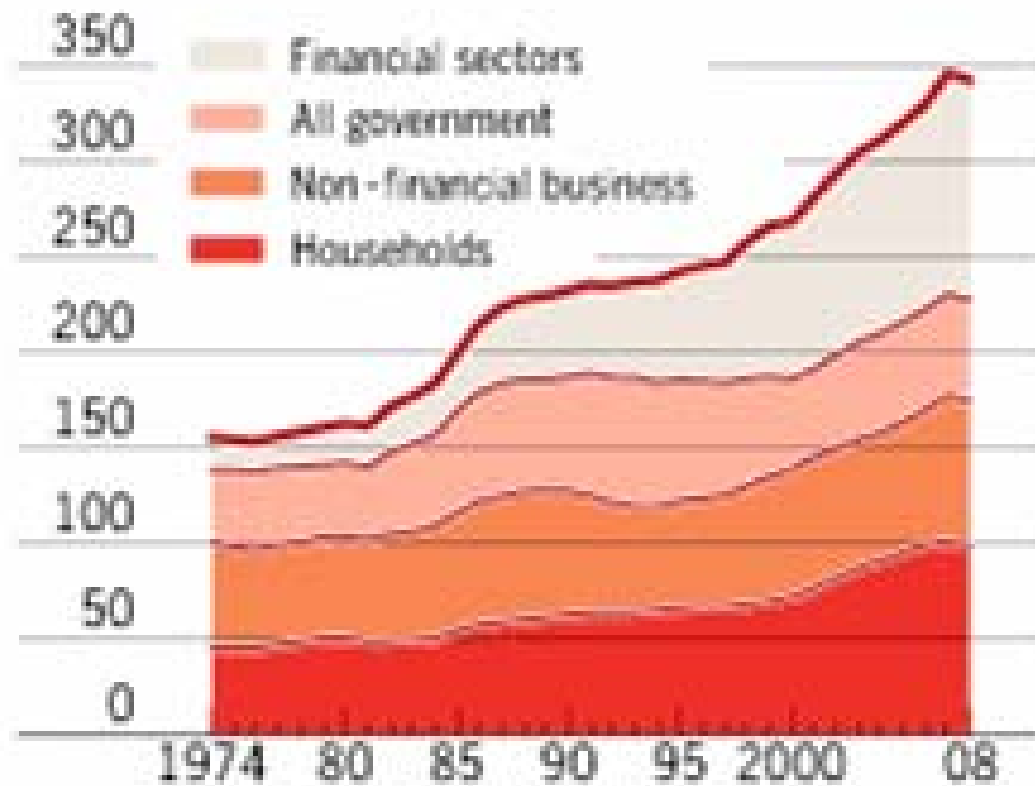
... not forgetting almost 50% of world's carbon emissions

It seemed like the perfect marriage

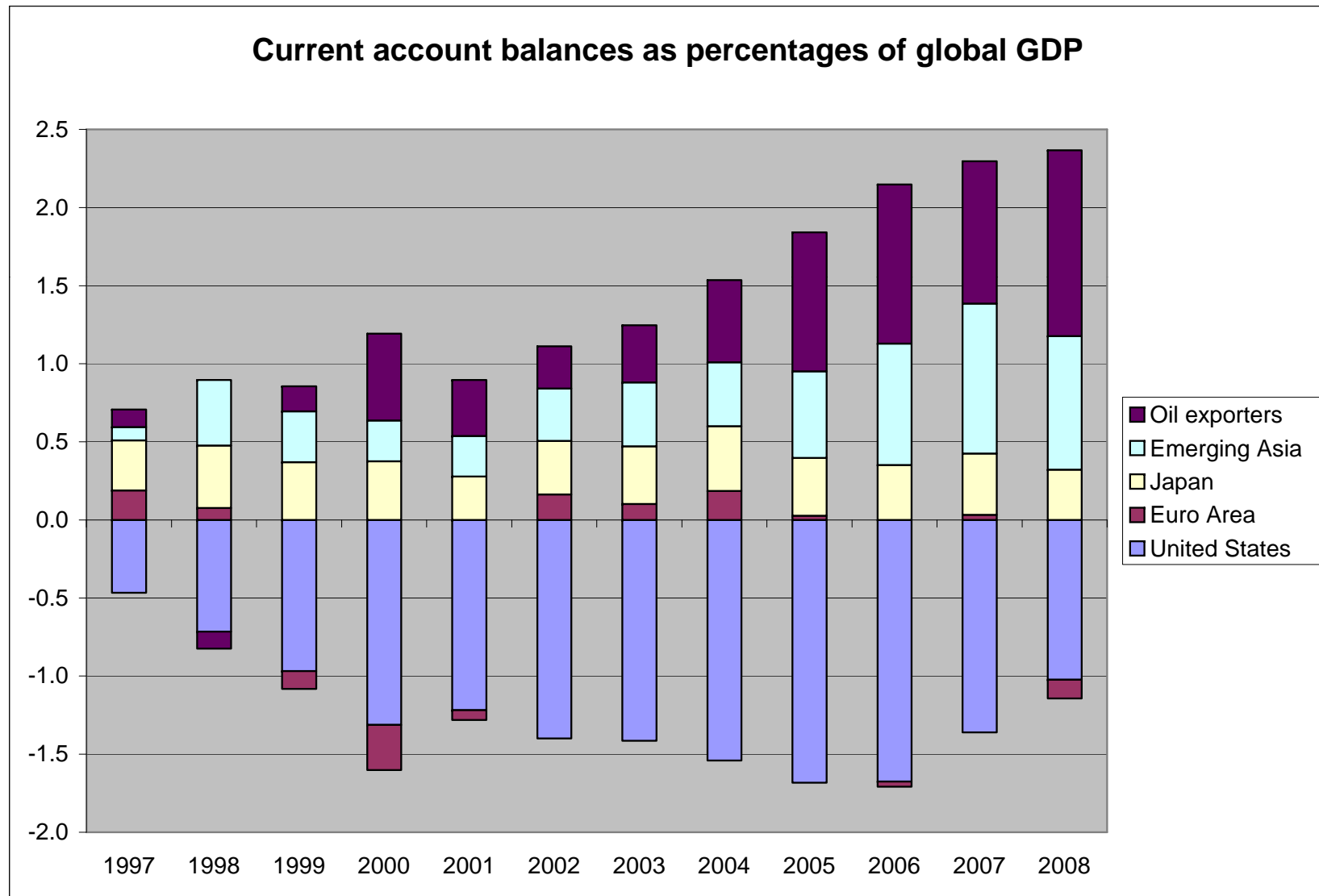


Asia saved, U.S. borrowed

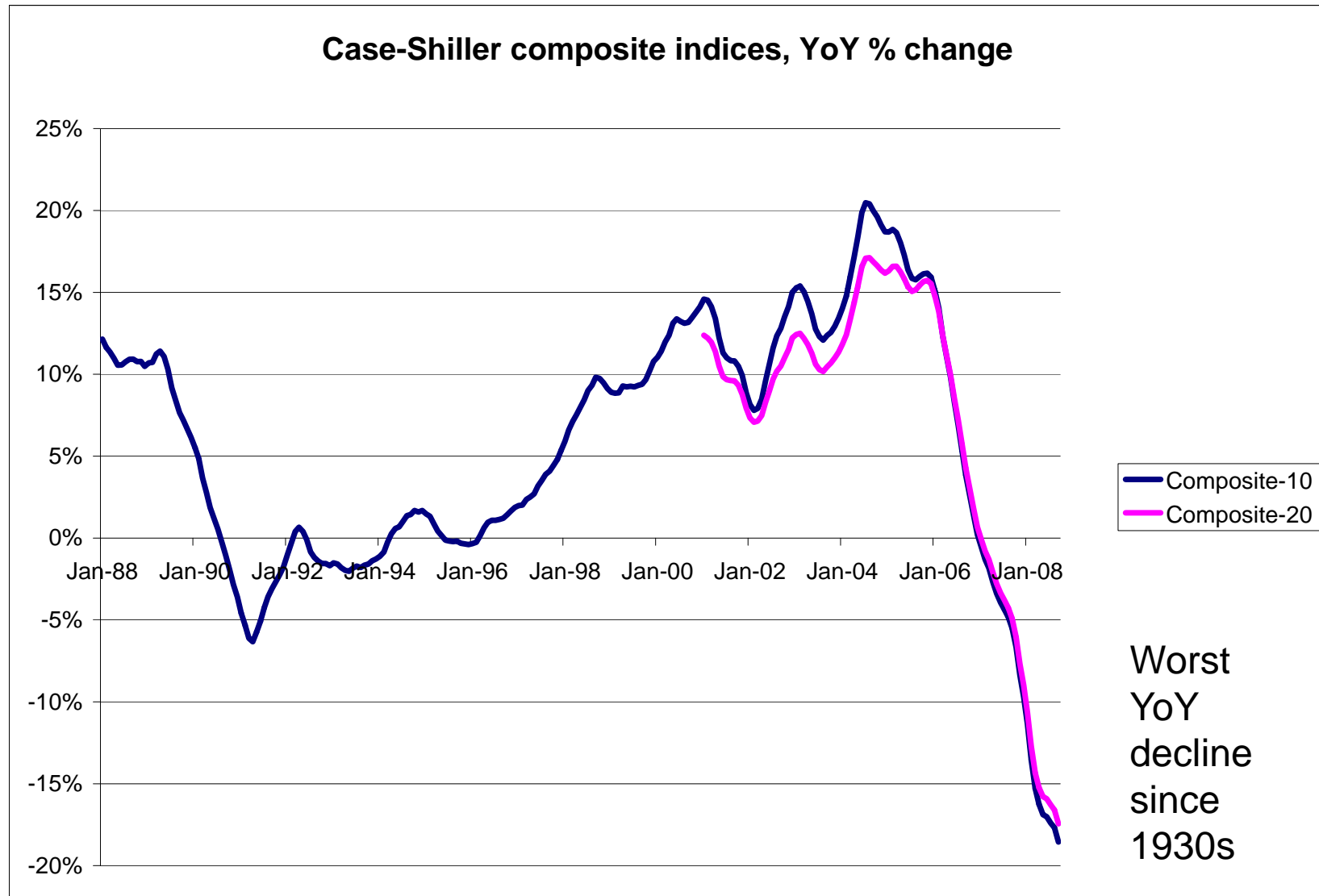
Sectoral contribution to debt
% of GDP



They called it “stable disequilibrium”

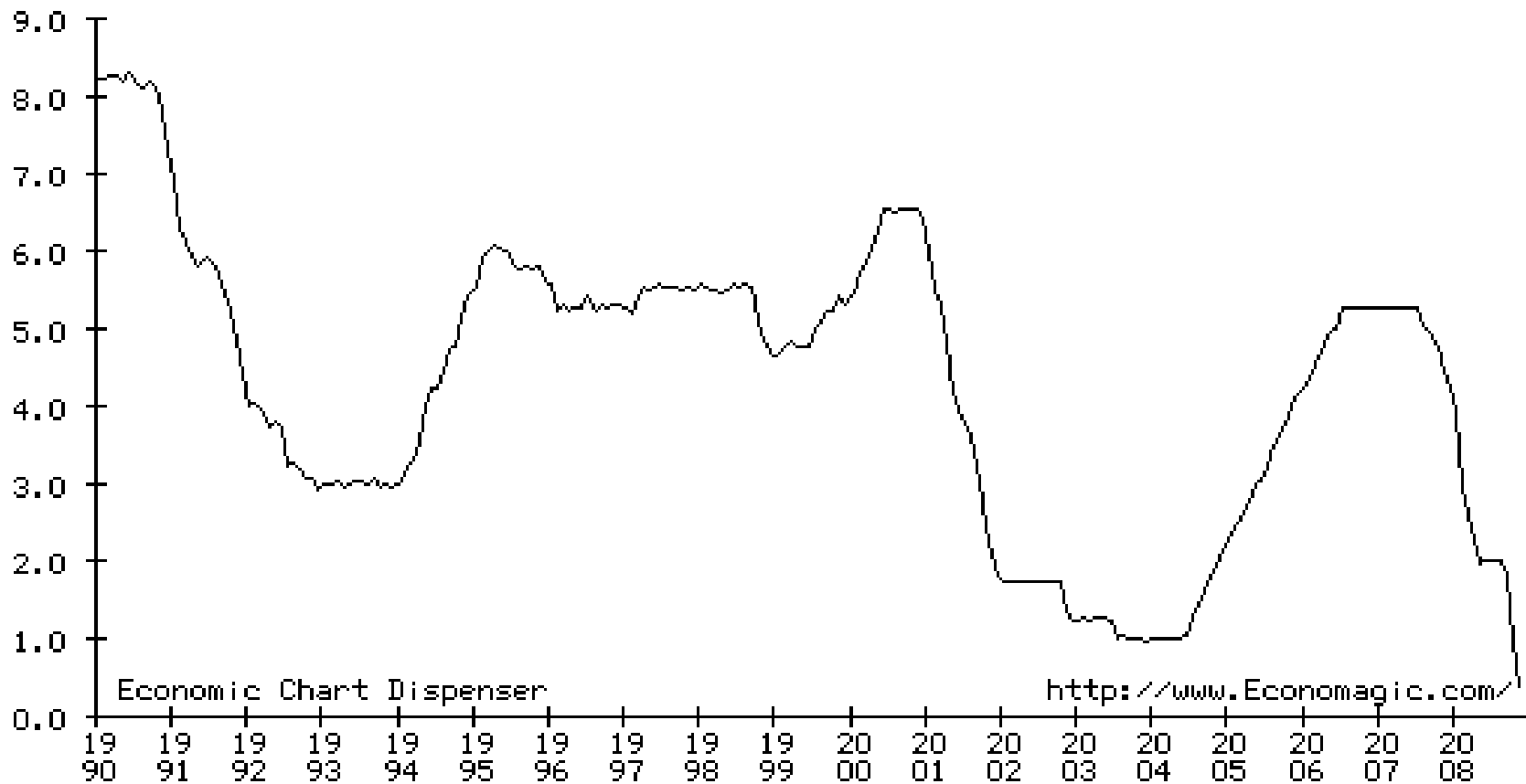


Then the bubble burst ...



... which forced the Fed to ease

Effective Federal Funds Rate: Percent



And pump liquidity into Wall Street

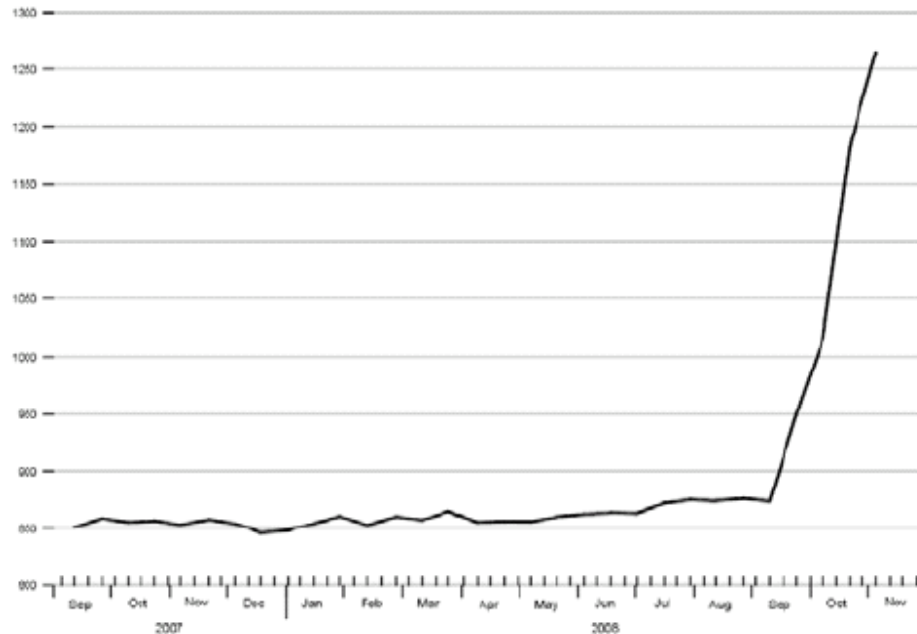
updated through
11/06/08

U.S. Financial Data

Adjusted Monetary Base

Averages of Daily Figures, Seasonally Adjusted

Billions of dollars

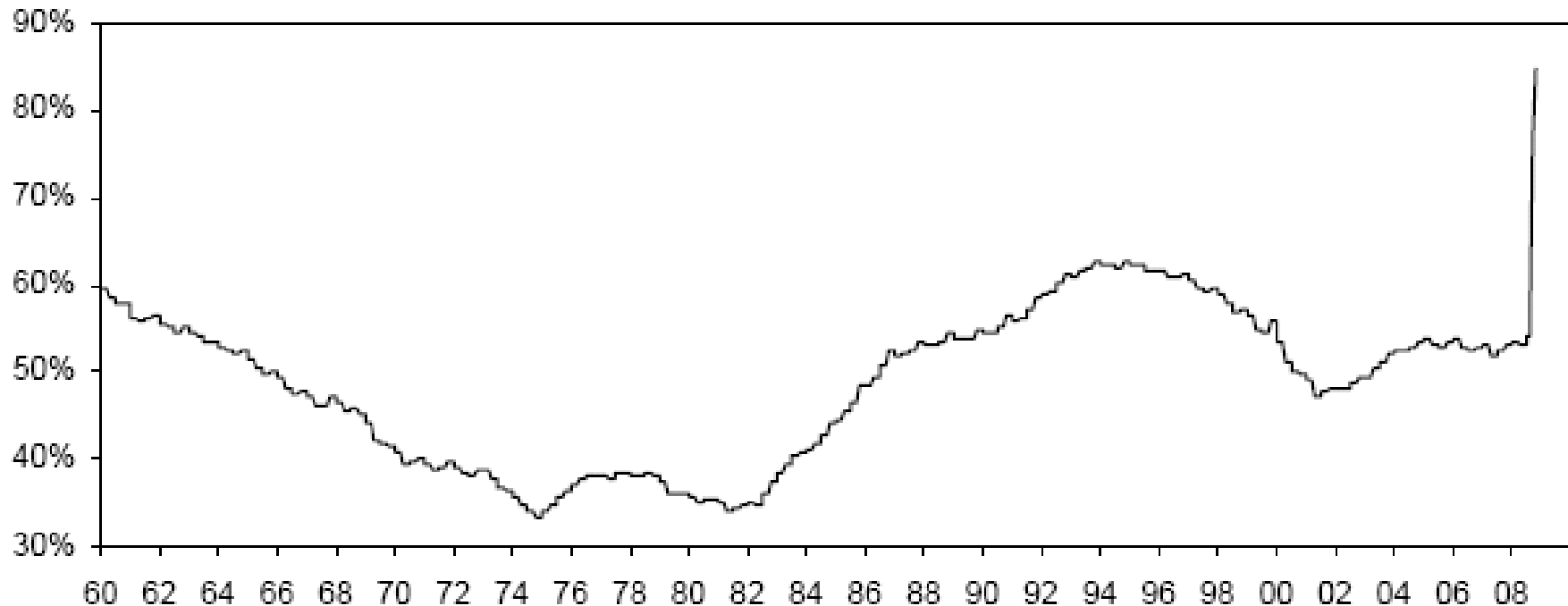


<http://research.stlouisfed.org/publications/usfd/page3.pdf>

- Nov 6: Fed's balance sheet is \$2.95 trn; capital is \$39.859 bn (74 to 1 leverage)

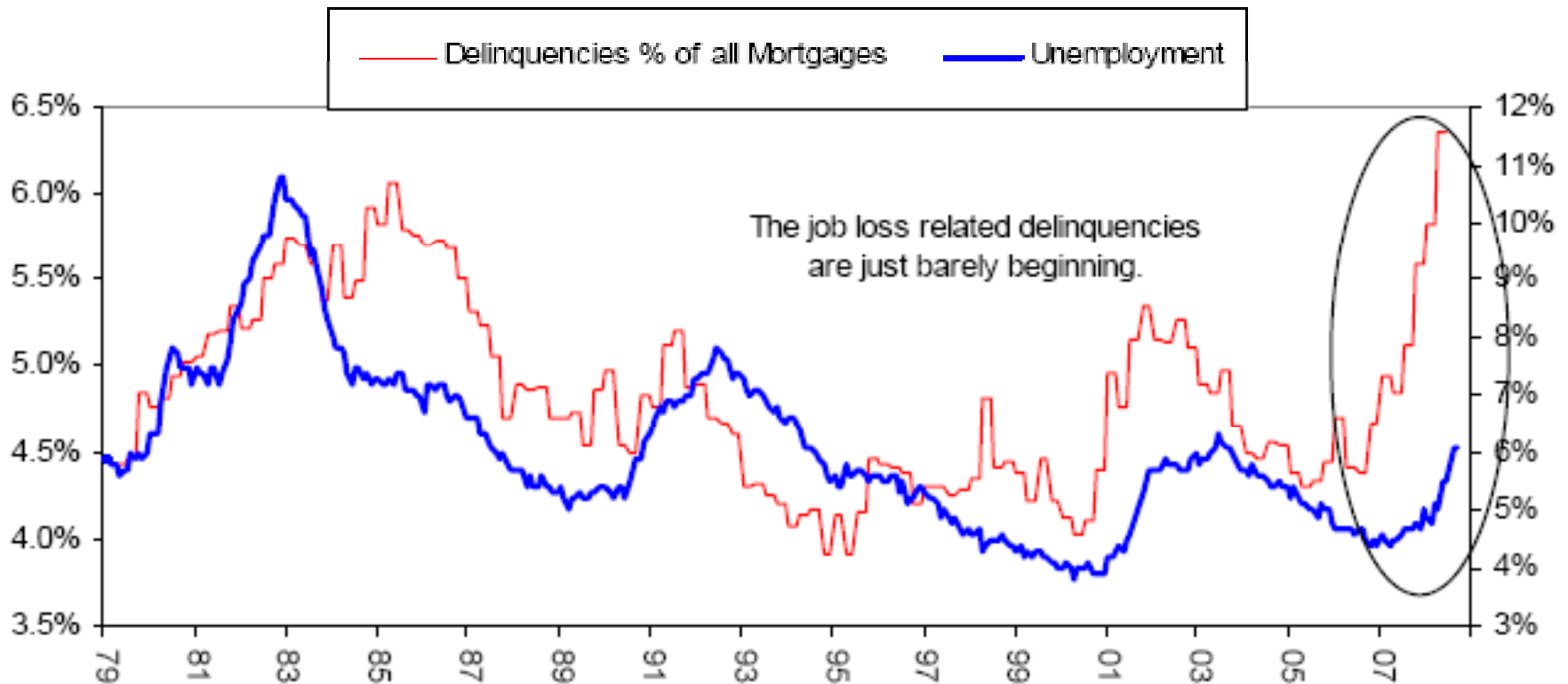
Then the Treasury had to step in

Government + Federal Reserve Liabilities as % GDP



Treasury will issue roughly \$2.2 trillion in debt over the coming year. Only \$800 billion will go toward spending while \$500 billion will go toward cyclical revenue shortfalls and \$900 billion will go toward asset purchases and covering asset losses.

No Great Depression



2.25 million foreclosure proceedings this year; 15% to 20% mortgages may be "under water" (Bernanke). 1 in 10 American homeowners with a mortgage were either at least a month behind on their payments or in foreclosure at the end of September.

More like a Great Depression

Tracking the Bailout

The government has pledged trillions of dollars to end the financial crisis. Although there are risks, including inflation, some investments may prove profitable.

LOANS

\$1.7 trillion

Companies are borrowing from the government, using hard-to-sell securities as collateral.

INVESTMENTS

\$3.0 trillion

The government has bought stock and corporate debt and will buy mortgages.

GUARANTEES

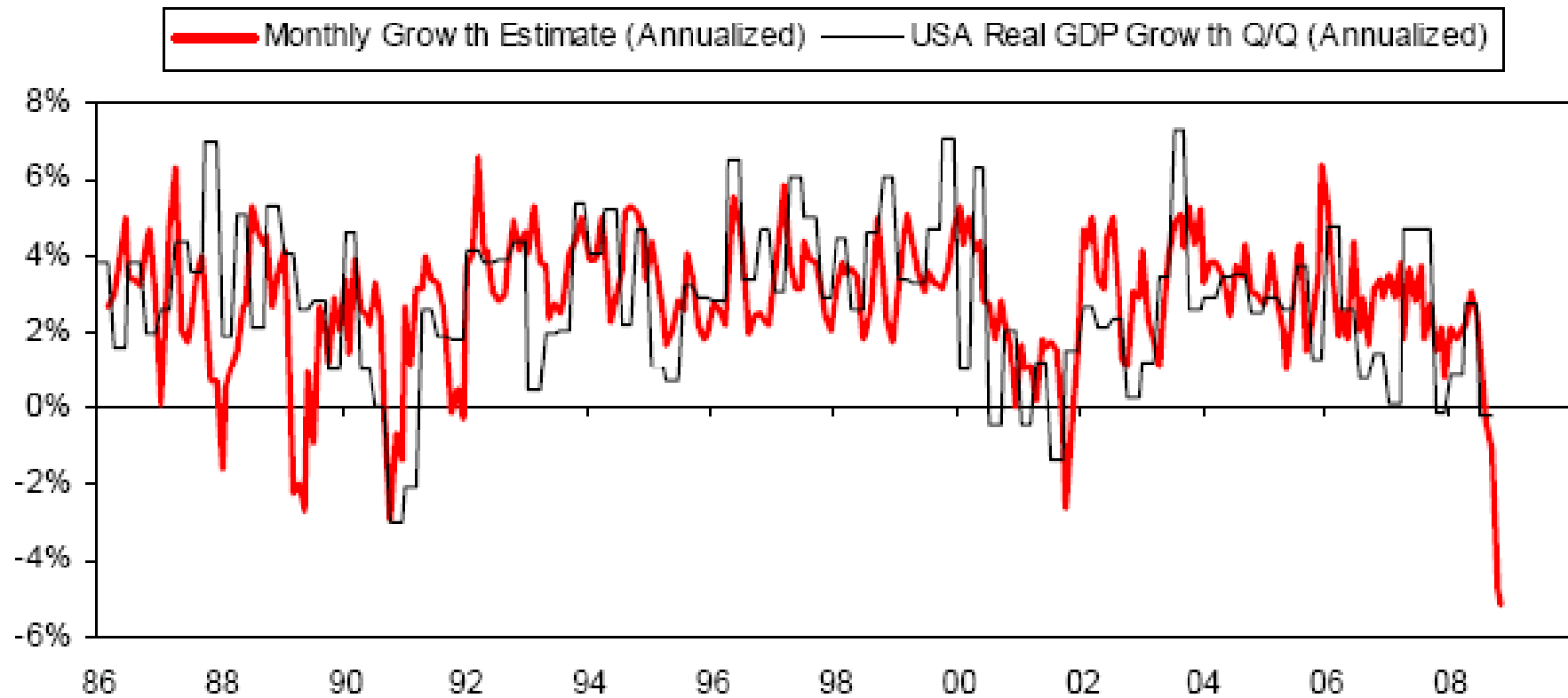
\$3.1 trillion

The government is guaranteeing corporate bonds, money market funds and money in some deposit accounts.

Total so far: \$7.8 trillion

Government consumption set to rise from below 20% of GDP to above 25%

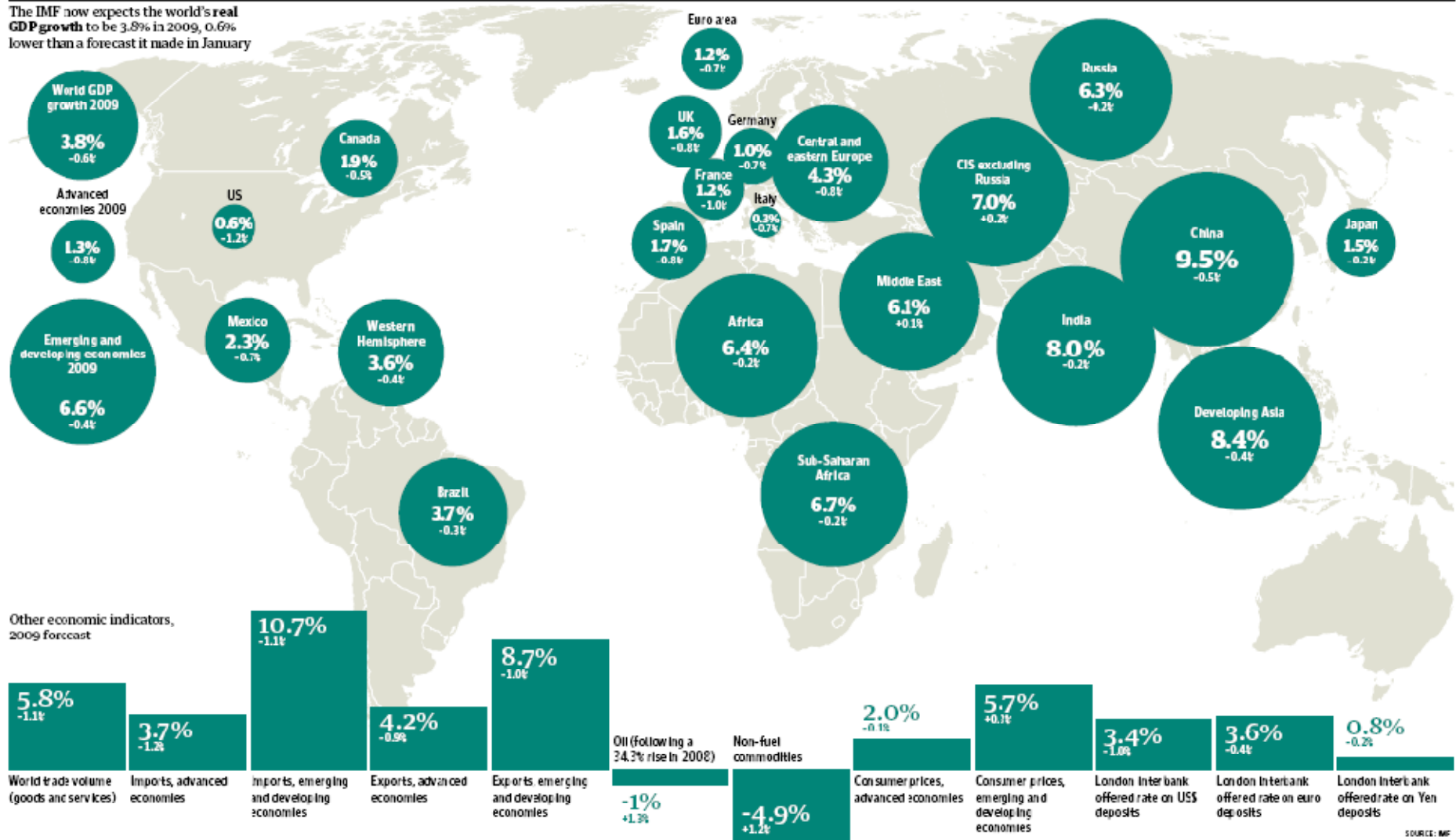
But still a Big Recession



Geopolitical implications?

Global economic prospects for 2009

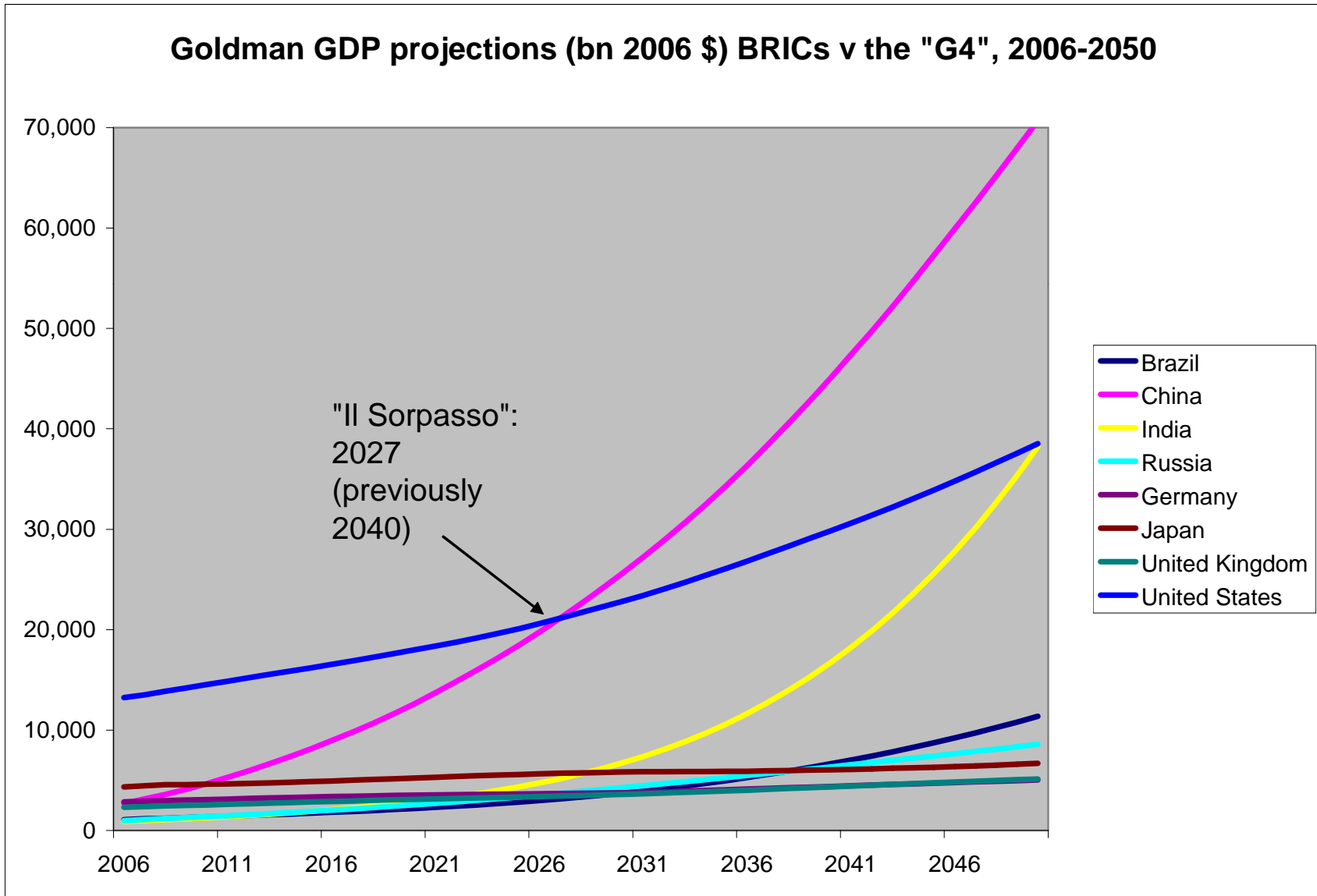
The IMF now expects the world's real GDP growth to be 3.8% in 2009, 0.6% lower than a forecast it made in January



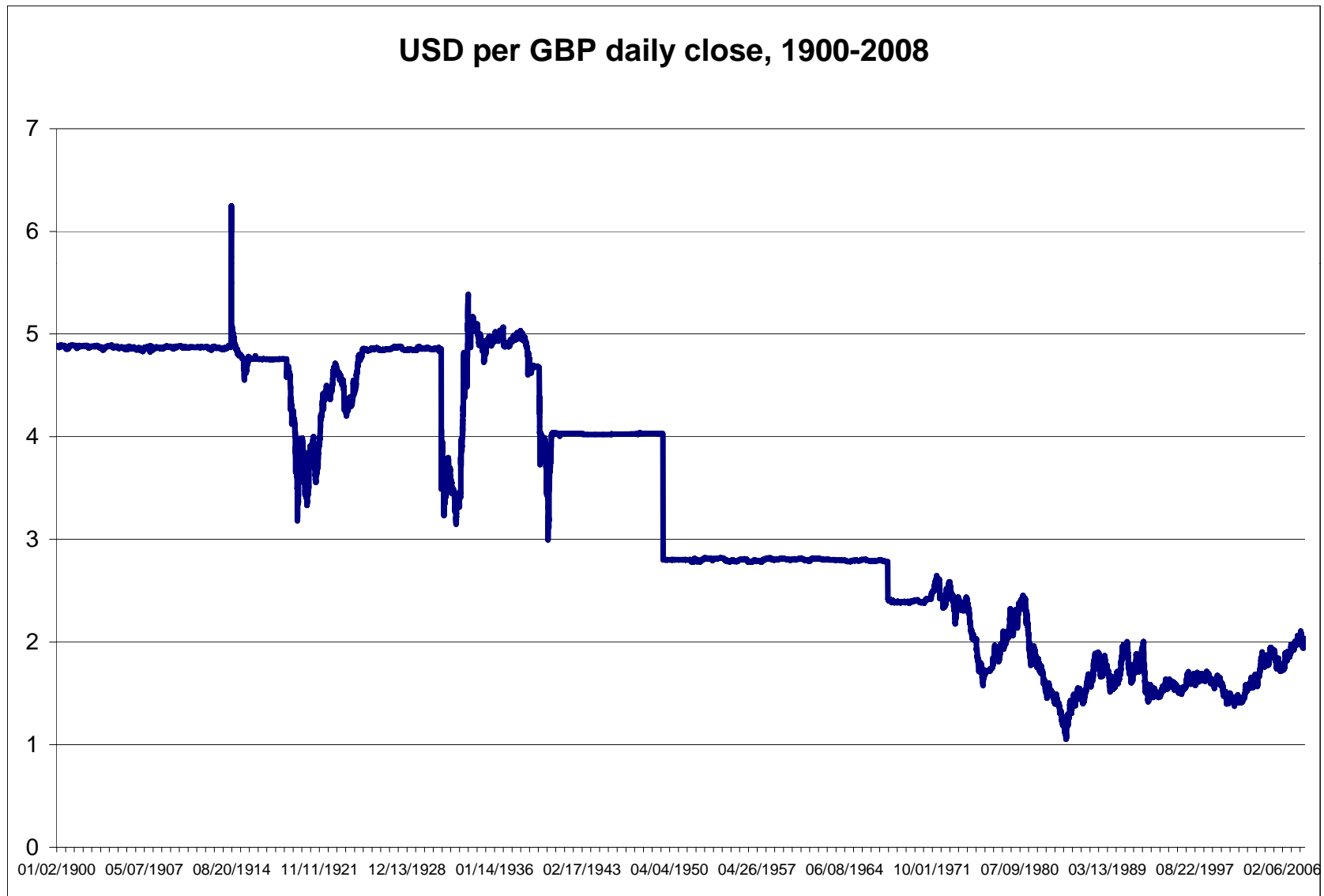
1. The end of American credibility?



2. Even faster reconvergence?



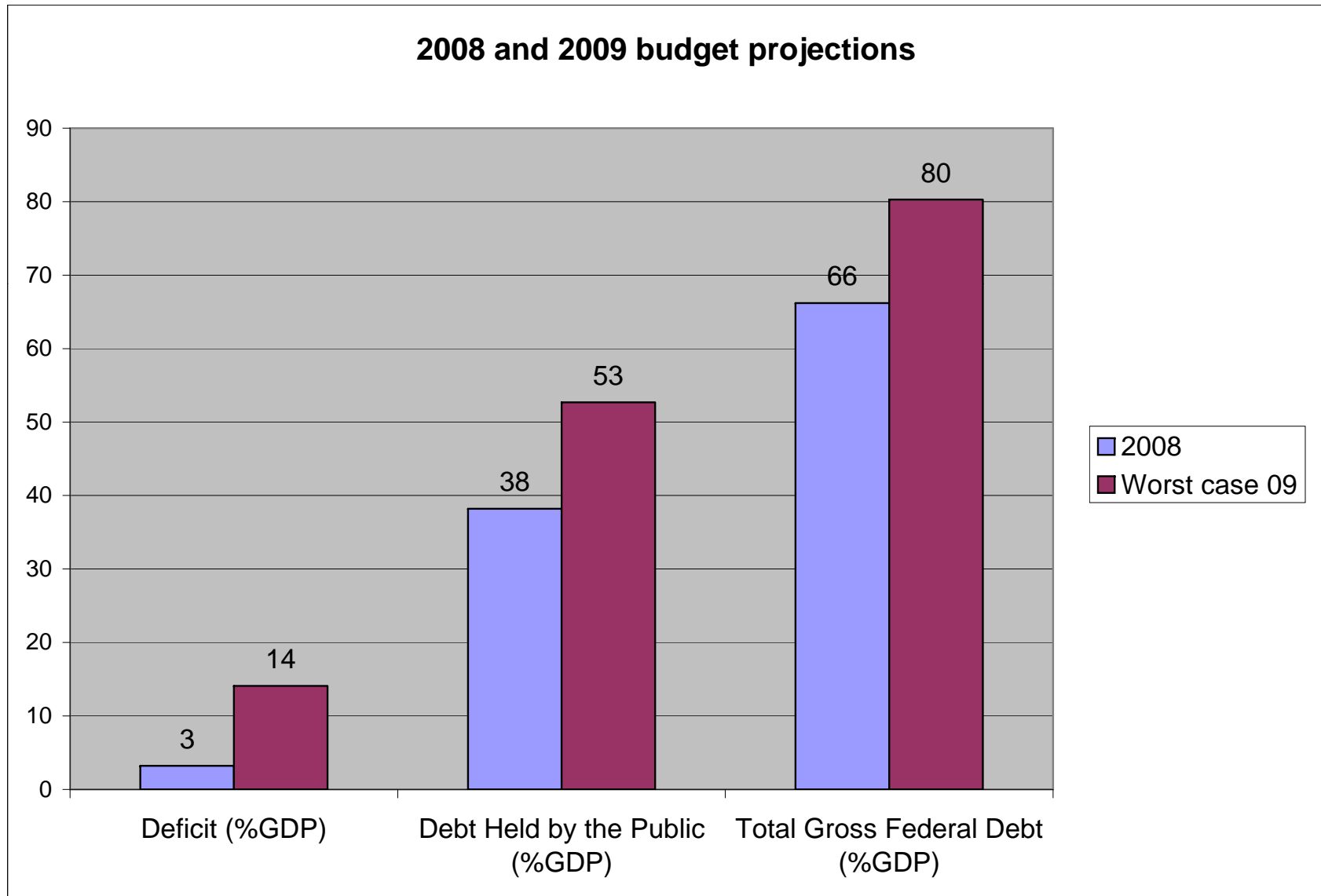
3. Like £, \$ may lose reserve status



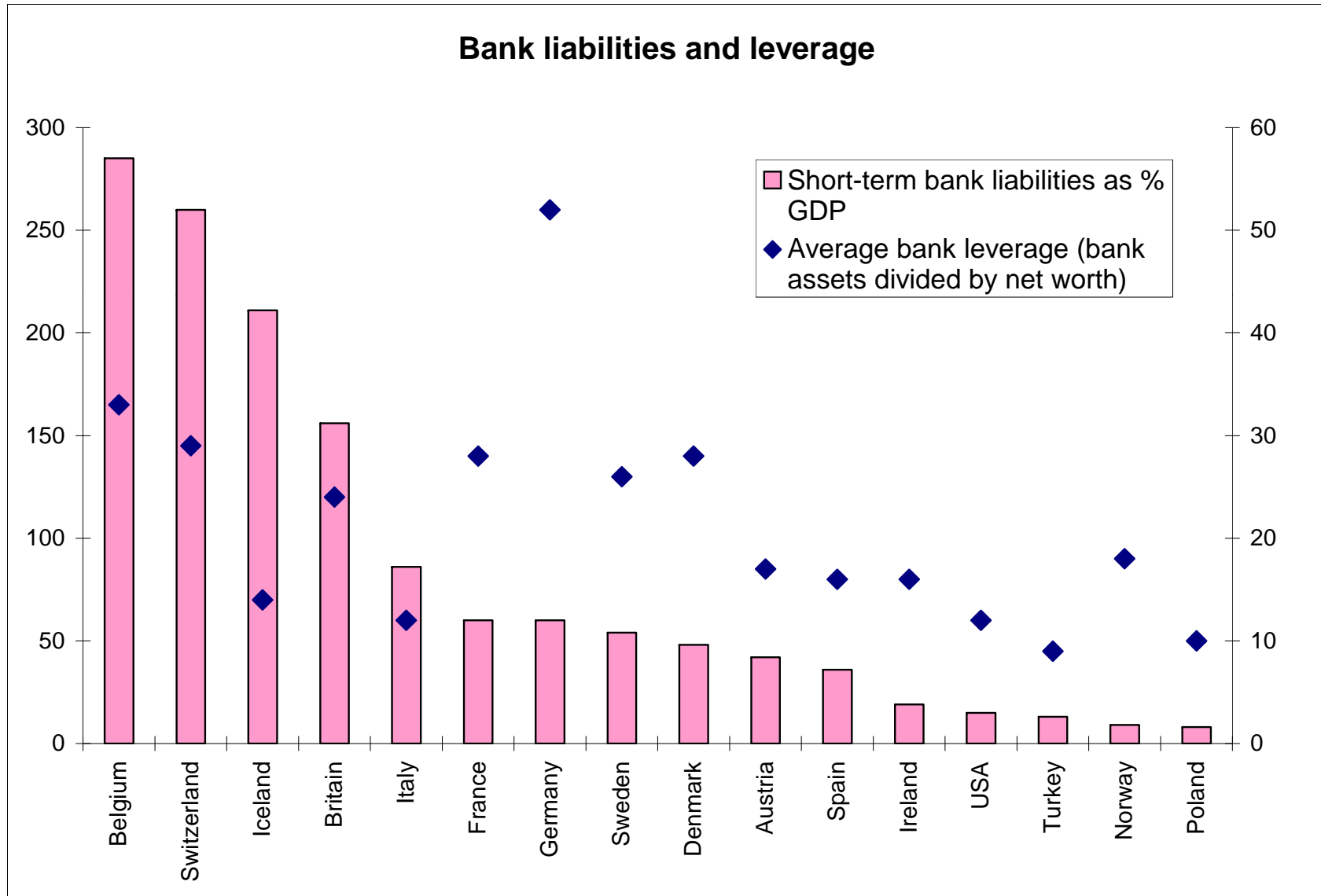
BUT 6 arguments against suicide



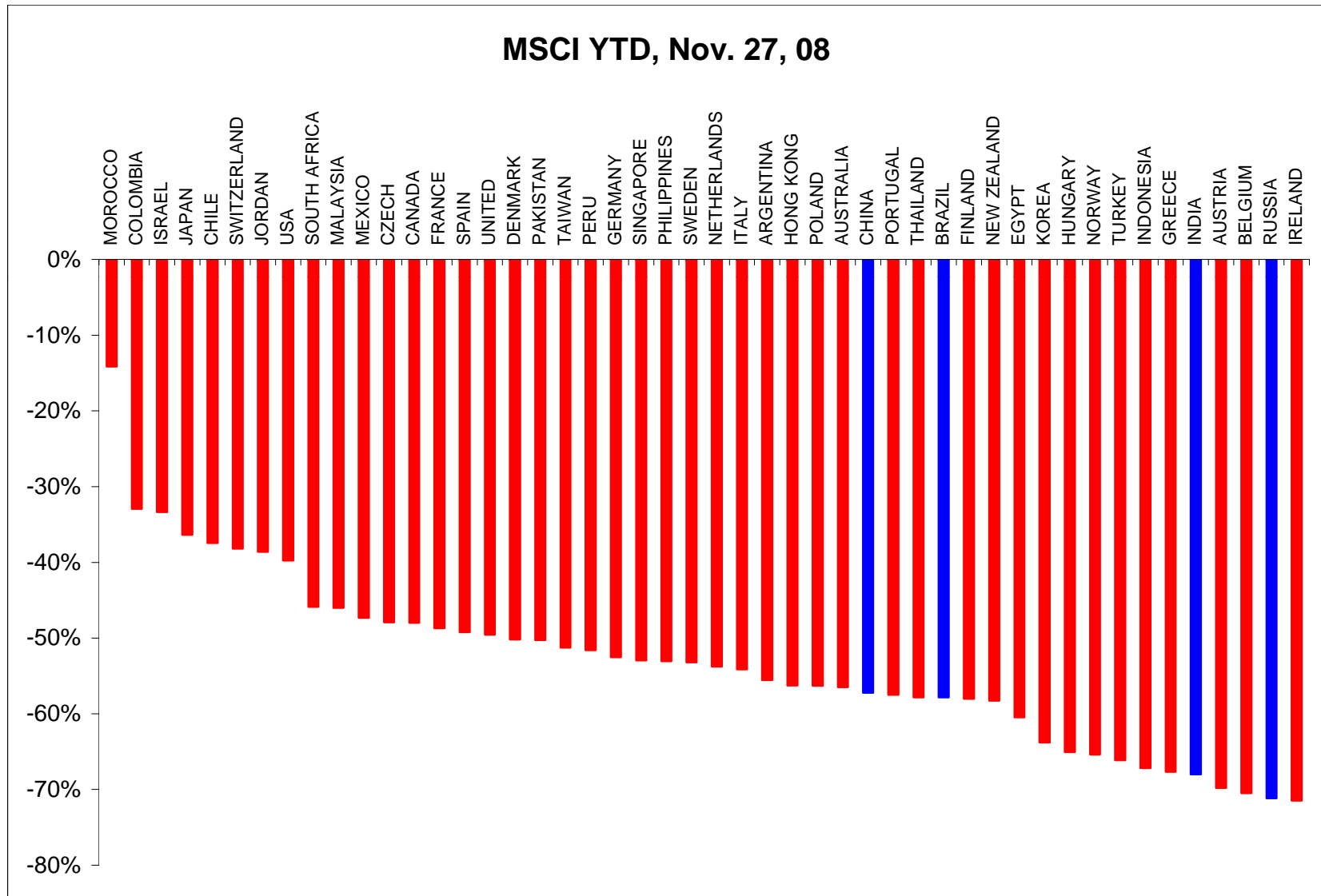
1. It's fiscally possible



2. It's worse for Europe

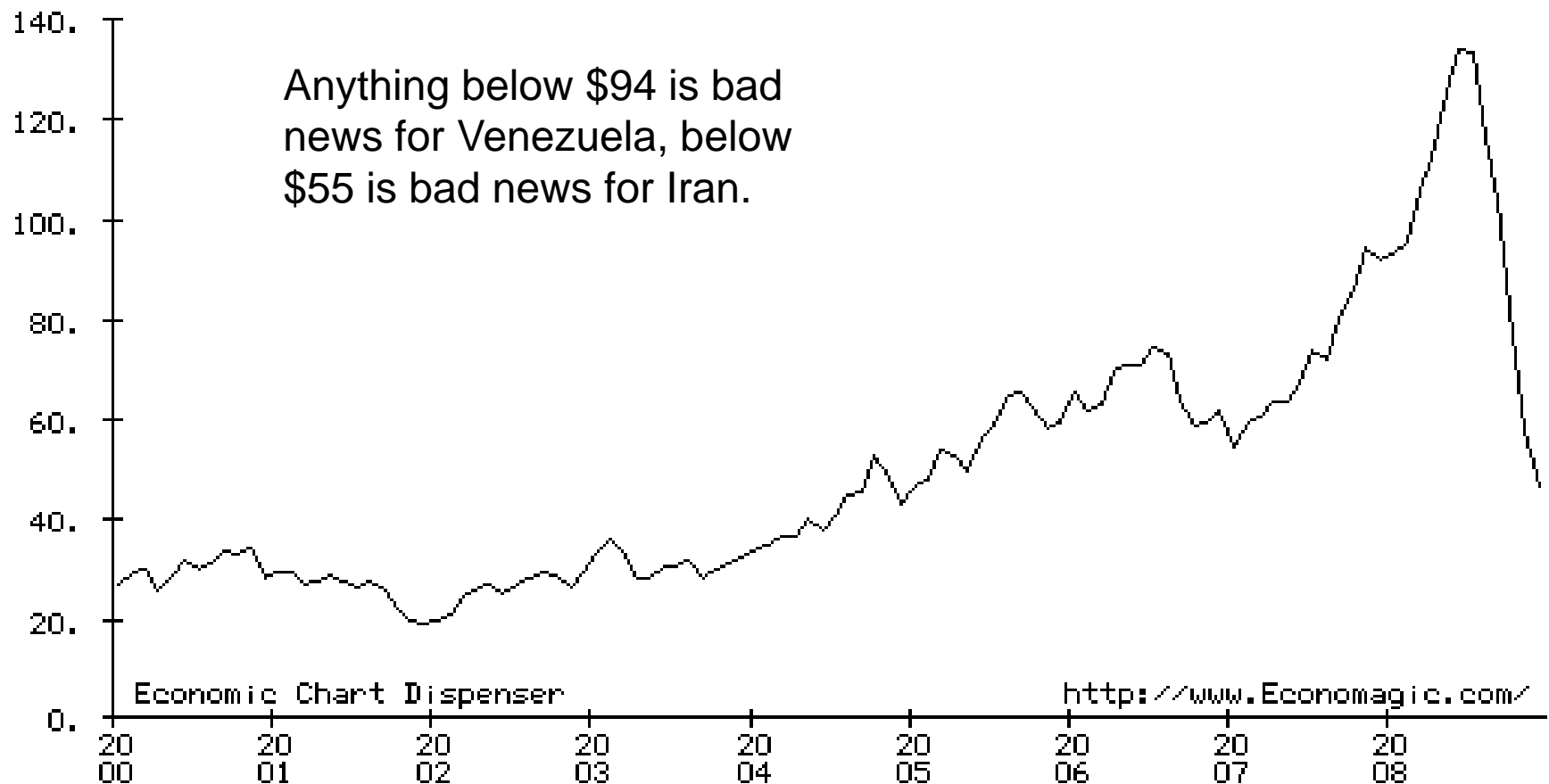


3. The BRICs are dropping



4. And so are the petro-states

Price of West Texas Intermediate Crude; Monthly NSA, Dollars Per Barrel



5. The Mid East is improving

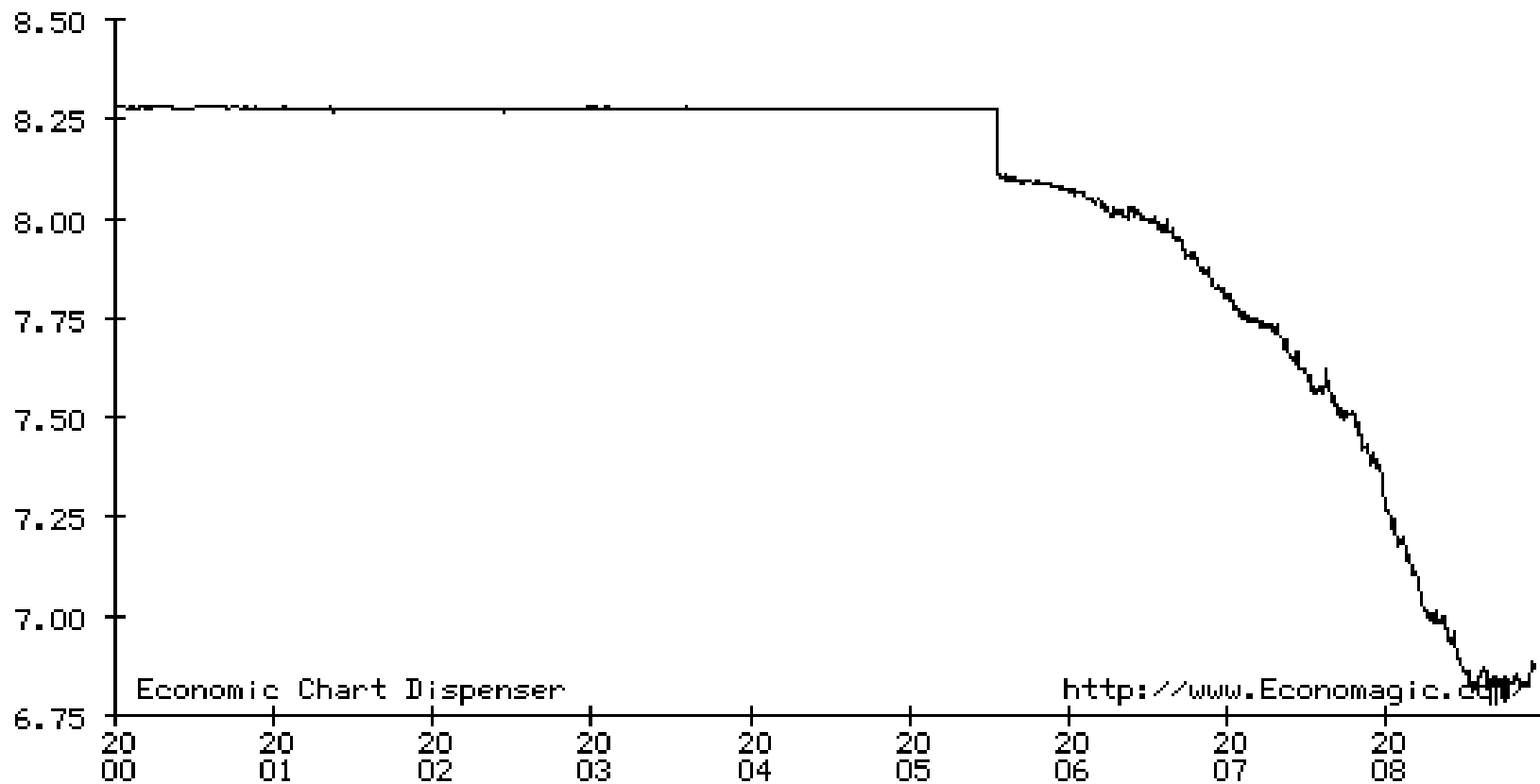
- Progress of Annapolis process
 - Arab League willing to accept peace on June 4, 1967, borders
 - Syria talking to Israel
- Opportunity to wind down U.S. presence in Iraq (Maliki/SOFA)
- The Kissinger case for negotiating with Iran without preconditions
 - Political division: Pragmatists (Rafsanjani) v Conservatives (Khamenei) v Hardliners (Larijani) v “Neocons” (Ahmadinejad)
 - Economic disarray: Oil production falling, 30% unemployment, 20% inflation

6. And Chimerica lives on

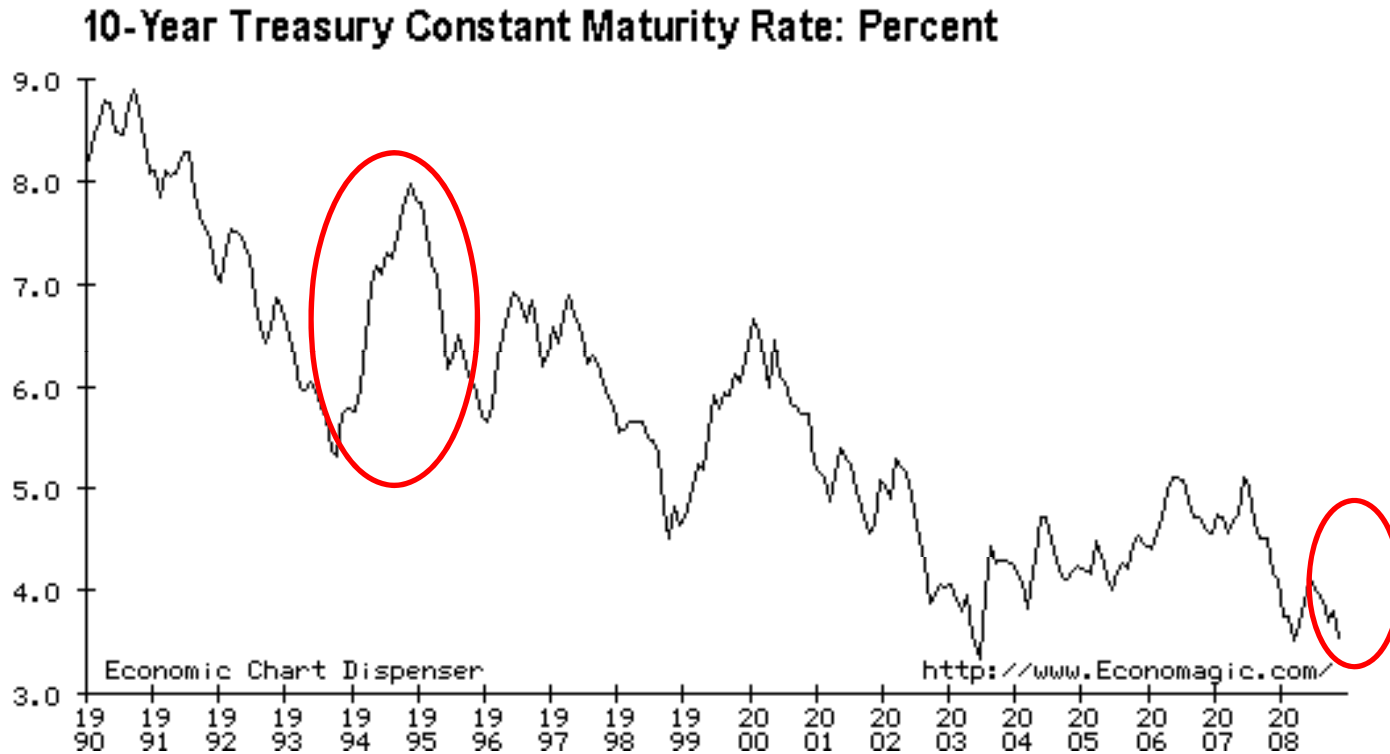
- Communist Party's annual meeting, Oct 12: "Most importantly, China needs to handle its own affairs well."
- \$586 bn stimulus package aimed at domestic demand
- *But* China already holds a fifth of its currency reserves in Fannie Mae and Freddie Mac debt
- China now owns more US Treasuries than Japan (last month bought \$43.6bn while Japan sold \$12.8bn)
- There's no incentive for the Chinese to dump the dollar; they need to avoid export meltdown

A new floor at 6.87?

Chinese Yuan to one U.S. Dollar



Why Obama isn't Clinton (yet)



“I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everybody.” (James Carville, February 1993)

Conclusion: Chimerica redux



Part lion, part unicorn, and having wings, the chimera is
believed to have evil-averting and
chimera is an imaginary