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HAS THE HONEYMOON OF EUROPEAN UNITY GONE KAPUT?

Has the wedding thought to be made in Heaven really been one forged in hell?

Do you remember when Margaret Thatcher stopped referring to the European Union and began to champion an 'Atlantic Union'? While the U.S. borders on the Atlantic Ocean, the U.S. is definitely not European in geographical terms (although increasingly resembling the E.U. in economic terms, an apparent goal of the current administration in the White House).

Thatcher calls for Atlantic union in marking 50th anniversary of Churchill's 'Iron Curtain address':

The Victoria Advocate, March 10, 1996
http://news.google.com/newspapers?nid=861&dat=19960310&id=DLRjAAAAIBAJ&sjid=ToEMAAAAIBAJ&pg=3402,4243933

"The audience gave Thatcher standing ovations at the opening and the end of her speech. They also punctuated her address with laughter, such as when Thatcher said the European Union had not done enough to encourage new democracies' economies because "it was too busy contemplating its own navel.""

50th Anniversary of Winston Churchill's Iron Curtain Speech

March 9, 1996
http://www.c-spanvideo.org/program/70412-1

From Minute 40 and onward: Atlantic Alliance with U.S. as the dominant partner in the West...Atlantic Initiative and Transatlantic Free Trade.

To make it crystal clear, the U.K. refused to give up monetary sovereignty and replace the Pound Sterling with the Euro. Others like Germany, Greece, France, Ireland, etc., willingly it seemed at the time, dropped their national currencies in favor of the Euro, thus surrendering monetary sovereignty to Brussels. Was such a consolidation of monetary sovereignty premature or was it to prove a never achievable goal, a so-called “Bridge Too Far”, another Arnhem, Netherlands in WWII.

Dependency on government programs to redistribute income and wealth is a hallmark of many members of the E.U., but not all. Such a heavy dependence on these programs causes a slowing of economic growth and eventual fiscal difficulties for such governments. Beggars, often very affluent beggars akin to our investment banking community, significantly outnumber those who want to be self-sufficient. Such politically expedient government programs promoting dependency on government tend to grow more rapidly than the economy and its tax base in such nations. That spells trouble right here in River City, and ‘it ain’t from playing pool’ as in the Music Man.

From 1991-2004, eighty-some nations defaulted on the debt of their central government’s, rather than face the fury of the dependents losing their doles in various forms.

Lest you take sovereign risk lightly and the increased probability of the central governments defaulting on their national debt, here is a list of over eighty actual defaults as published by the International Monetary Fund (IMF).

http://www.palgrave-journals.com/imfsp/journal/v56/n4/fig_tab/imfsp200921t14.html

International Monetary Fund TABLE A1
FROM: The Costs of Sovereign Default

Eduardo Borensztein, and Ugo Panizza

Table A1. Private Lending to Sovereign: Default and Rescheduling

Region	Country	Standard and Poor's (1824–2004) Foreign currency Beginning of period	Foreign currency End of period	Foreign currency Beginning of period	Foreign currency End of period
Africa	Angola			1985	2004
Africa	Central African Rep.			1983	2004
Africa	Congo			1983	2004
Africa	Congo, Dem. Rep.			1976	2004
Africa	Gabon			1999	2004
Africa	Kenya			1994	2004
Africa	Liberia			1987	2004
Africa	Sudan			1979	2004
Africa	Tanzania			1984	2004
Africa	Zimbabwe			2000	2004
Africa	Cameroon			1985	2003
Africa	Madagascar			1981	2002
Africa	Seychelles			2000	2002
Africa	Ethiopia			1991	1999
Africa	Côte d'Ivoire			1983	1998
Africa	Guinea			1991	1998
Africa	Togo			1991	1997
Africa	Algeria			1991	1996
Africa	Burkina Faso			1983	1996
Africa	Cape Verde			1981	1996
Africa	Guinea-Bissau			1983	1996
Africa	Mauritania			1992	1996
Africa	Senegal			1992	1996
Africa	Sierra Leone			1986	1995
Africa	Gabon			1986	1994
Africa	São Tomé and Principe			1987	1994
Africa	Zambia			1983	1994
Africa	Uganda			1980	1993
Africa	Mozambique			1983	1992
Africa	Nigeria	1992		1982	1992
Africa	Niger			1983	1991
Africa	Côte d'Ivoire	2000	2004		
Africa	Nigeria	2002			

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Asia	Korea, Dem. Rep.			1974	2004
Asia	Myanmar			1997	2004
Asia	Yemen			1985	2001
Asia	Indonesia			1998	1999
Asia	Pakistan	1999		1998	1999
Asia	Vietnam			1985	1998
Asia	Iran			1978	1995
Asia	Jordan			1989	1993
Asia	Philippines			1983	1992
Asia	Indonesia			2000	
Asia	Indonesia			2002	
Europe	Serbia and Montenegro			1992	2004
Europe	Bosnia & Herzegovina			1992	1997
Europe	Macedonia			1992	1997
Europe	Russia/USSR			1991	1997
Europe	Croatia			1992	1996
Europe	Slovenia			1992	1996
Europe	Albania			1991	1995
Europe	Bulgaria			1990	1994
Europe	Poland			1981	1994
Europe	Yugoslavia	1992		1983	1991
Europe	Moldova	1998			
Europe	Moldova	2002			
Europe	Russia/USSR	1998	2000		
Europe	Ukraine	1998	2000		
Latin America	Antigua and Barbuda			1996	2004

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		Beginning of period	End of period	Beginning of period	End of period
Asia	Korea, Dem. Rep.			1974	2004
Asia	Myanmar			1997	2004
Asia	Yemen			1985	2001
Asia	Indonesia			1998	1999
Asia	Pakistan	1999		1998	1999
Asia	Vietnam			1985	1998
Asia	Iran			1978	1995
Asia	Jordan			1989	1993
Asia	Philippines			1983	1992
Asia	Indonesia			2000	
Asia	Indonesia			2002	
Europe	Serbia and Montenegro			1992	2004
Europe	Bosnia & Herzegovina			1992	1997
Europe	Macedonia			1992	1997
Europe	Russia/USSR			1991	1997
Europe	Croatia			1992	1996
Europe	Slovenia			1992	1996
Europe	Albania			1991	1995
Europe	Bulgaria			1990	1994
Europe	Poland			1981	1994
Europe	Yugoslavia	1992		1983	1991
Europe	Moldova	1998			
Europe	Moldova	2002			
Europe	Russia/USSR	1998	2000		
Europe	Ukraine	1998	2000		
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Region	Country	Standard and Poor's (1824–2004) Foreign currency Beginning of period	End of period	Foreign currency Beginning of period	End of period
Latin America	Cuba			1982	2004
Latin America	Dominica			2003	2004
Latin America	Guyana			1982	2004
Latin America	Honduras			1981	2004
Latin America	Nicaragua			1979	2004
Latin America	Peru			1984	1997
Latin America	Panama	1987	1994	1983	1996
Latin America	Ecuador			1982	1995
Latin America	Brazil			1983	1994
Latin America	Dominican Rep.			1982	1994
Latin America	Haiti			1982	1994
Latin America	Argentina	1989		1982	1993
Latin America	Bolivia	1989	1997	1986	1993
Latin America	Jamaica			1987	1993
Latin America	Paraguay			1986	1992
Latin America	Uruguay			1990	1991
Latin America	Ecuador	1999	2000		
Latin America	Paraguay	2003	2004		
Latin America	Uruguay	2003			
Latin America	Venezuela	1995	1997		

Standard and Poors (Publication date: 23-Feb-2011)
http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245302231824

Sovereign Defaults And Rating Transition Data, 2010 Update
Table 2 -Sovereign Foreign-Currency Selective Defaults

Country	Selective default date	Emergence date	Time in selective default	Rating one year before selective default	Rating at emergence from selective default
Russia	Jan. 27, 1999	Dec. 8, 2000	22 months	BB-	B-
Pakistan	Jan. 29, 1999	Dec. 21, 1999	11 months	B+	B-
Indonesia	March 30, 1999	March 31, 1999	One day	B-	CCC+
Indonesia	April 17, 2000	Oct. 2, 2000	Six months	CCC+	B-
Argentina	Nov. 6, 2001	June 1, 2005	54 months	BB	B-
Indonesia	April 23, 2002	Sept. 5, 2002	Four months	B-	CCC+

Table 2 Sovereign Foreign-Currency Selective Defaults

Country	Selective default date	Emergence date	Time in selective default	Rating one year before selective default	Rating at emergence from selective default
Paraguay	Feb. 13, 2003	July 26, 2004	18 months	B	B-
Uruguay	May 16, 2003	June 2, 2003	One month	BB-	B-
Grenada	Dec. 30, 2004	Nov. 18, 2005	11 months	BB-	B-
Venezuela	Jan. 18, 2005	March 3, 2005	One month	B-	B
Dominican Republic	Feb. 1, 2005	June 29, 2005	Five months	CCC	B
Belize	Dec. 7, 2006	Feb. 20, 2007	Three months	CCC-	B
Seychelles	Aug. 7, 2008	N/A		B	NR
Ecuador	Dec. 15, 2008	June 15, 2009	Six months	B-	CCC+
Jamaica	Jan. 14, 2010	Feb. 24, 2010	One month	B	B-

Having one's own independent currency and remaining independent of membership in a currency bloc, can provide a method of virtually defaulting without formally doing so. Let your currency depreciate or actively intervene in foreign exchange markets and cause it to depreciate is a kind of dumping or more technically, *increasing its supply and putting downward pressure on its price* in terms of other nations' currencies.

Even if your nation's currency was part of a currency bloc, you could arrange a devaluation of your currency. Either way, this will increase the price of your imports and reduce the price to the rest of the world for your exports of goods and services. It would effectively both reduce the real burden of your national debt as well as stimulating that nation's aggregate demand by increasing the surplus (or reducing the deficit) in its trade balance.

All that is needed are trading partners that are willing to let it happen. The US of A, despite all of its internal and external critics, has nearly always been an obliging 'patsy', so to speak. Why no gatherings of support for such

U.S. policies in New York City's Central Park, or the Boston Commons, or the numerous places of sit-ins on the West Coast? The ongoing equivocations of the E.U., the IMF (International Monetary Fund), the World Bank, etc is the grand stall tactic until the much criticized U.S. bails them out as we did with the victors and vanquished after WWII (Bretton Woods IMF Fixed Exchange Rate System, Marshall Plan and similar programs in Asia), and more recently China (yes, China), and soon to be the E.U. As my dear old daddy would say, facts are facts and bull blips are bull blips.

Much of the so-called Chinese economic miracle is due to this technique of keeping the price of the Chinese Yuan below its equilibrium level and hence the price of other nation's currencies (especially the U.S. dollar) above their equilibrium levels, rather than the brilliance of the central planners and the population police keeping birth rates below the level needed to maintain or increase their population.

The Chinese Miracle...
http://www.econnewsletter.com/84101/3564.html

China exports goods and the U.S. exports dollars

The U.S. imports goods and China imports jobs

Now let us look at the so called Chinese miracle and the arguments of the naysayers who are counting out the U.S. of A. More than twenty years ago in 1989, the Communist government of mainland China was busy in places like Tiananmen Square battling and sometimes killing young Chinese students. Chinese youth is just like youth everywhere, if they are not kept busy, they will raise hell. If it is really jobs they want, "give them jobs", and at reasonable wages for the time, became the Chinese government's answer.

(1984)
Problem: Who will buy the goods thus produced??
Solution: The over-consuming Americans will, of course.

Problem: At $0.50 U.S. for one (¥) (CNY) Yuan or Renminbi, a television imported from China was too expensive even to U.S consumers.

Solution: Go into foreign exchange markets and buy Dollars and sell Yuan until the price of a Yuan fell 75% to $0.125. Peg the exchange rate there by continued intervention. Then exports from China into the U.S. would be a bargain at 75% less than previously. At that pegged rate resulting in the Yuan price of the Dollar rising from 2 to 8 Yuan, Chinese imports from the U.S. would be four times as expensive. Within 10 years, from January 1984 to January 1994, the Yuan went from $0.488 per Yuan to $0.115 per Yuan.

In past newsletters, we have referred to such an exchange rate policy as neo-mercantilism – that is, bringing about a trade surplus as did the mercantilist nations of years back [including the French variation of Colbertism (not the Comedy Central Report) and the German variation of Kameralism].

http://www.econnewsletter.com/90301.html

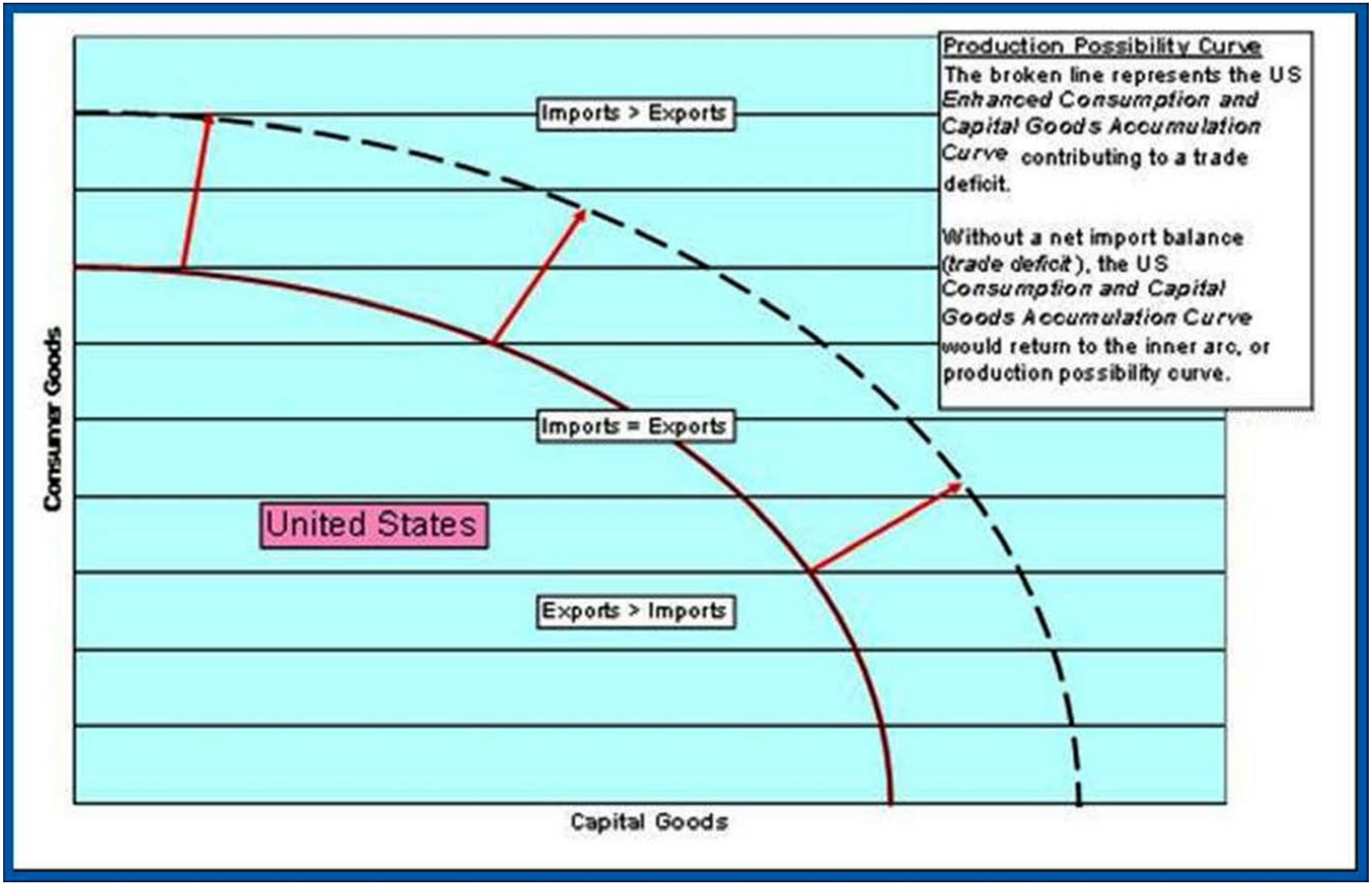
"Over several centuries, as small political units were combining into nations, an economic doctrine developed in conjunction with nation building. It was called mercantilism in England. In France a similar doctrine was called Colbertism and in Germany, Cameralism. A surplus in the trade or merchandise and services balance in those days was called a favorable trade balance. The excess of exports over imports often meant that gold or gold coins were the means of settling the balance with the gold flowing into the nation with the surplus. This was a means of financing the building up of the strength of the budding nation as it could buy mercenaries, such as Hessians for England as they conquered and occupied colonial America.

Today, a similar modernized doctrine version of these policies exists in nations like China and Korea as well as Japan and Germany in the post-WWII era. For want of a better name it is usually referred to as Neo-mercantilism. The goal is to keep a taught economy at home and export any surpluses products not consumed domestically. China has done this by pegging their currency well below the equilibrium level. In the Post WWII era, *the IMF fixed exchange rate system, included pegs for the Japanese Yen and German Mark at dollar prices well below their equilibrium levels. The resulting trade surpluses of Japan and Germany with the U.S. were a major cause of the "miracles" of returning these economies to peacetime expansion."*

As we have argued, the post-World War II economic miracles of Germany and Japan were more a result of pegging these nations' currencies below their otherwise equilibrium level especially with the U.S. than the brilliance of Douglas McArthur or Conrad Adenauer. The costs to the U.S. for pursuing this enlightened policy were persistent and mildly depressing trade and current account deficits. The benefit was to enable the U.S. to achieve aggregate consumption (both private and collective) and capital accumulation (both private and collective) possibilities beyond our production possibilities.

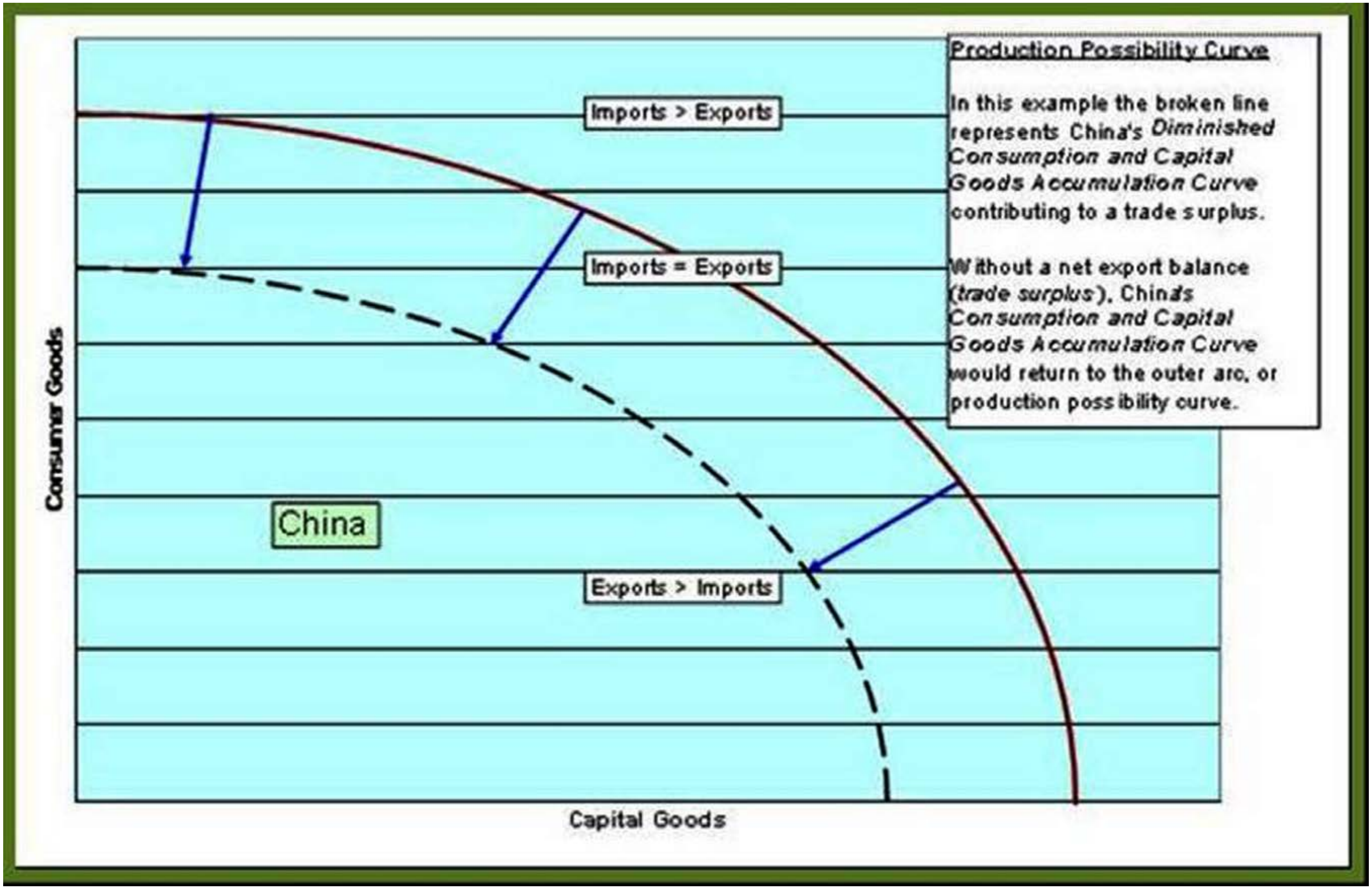
THE CHINESE MIRACLE; OR IS IT REALLY A U.S. POLICY DEBACLE?

http://econnewsletter.com/111801.html


Production Possibility Curve
The broken line represents the US *Enhanced Consumption and Capital Goods Accumulation Curve* contributing to a trade deficit.
Without a net import balance (*trade deficit*), the US *Consumption and Capital Goods Accumulation Curve* would return to the inner arc, or production possibility curve.
Imports > Exports
Imports = Exports
Exports > Imports
United States
Consumer Goods
Capital Goods

US Production Possibility Curve

The broken line represents the Enhanced Consumption and Capital Goods Accumulation Curve contributing to a trade deficit. Without a net import balance (trade deficit), the US Consumption and Capital Goods Accumulation Curve would return to the inner arc, or production possibility curve.


Production Possibility Curve
In this example the broken line represents China's *Diminished Consumption and Capital Goods Accumulation Curve* contributing to a trade surplus.
Without a net export balance (*trade surplus*), China's *Consumption and Capital Goods Accumulation Curve* would return to the outer arc, or production possibility curve.
Imports > Exports
Imports = Exports
Exports > Imports
China
Consumer Goods
Capital Goods

Chinese Production Possibility Curve

In this example, the broken line represents China's DIMINISHED Consumption and Capital Goods Accumulation Curve contributing to a trade surplus.

Without a net EXPORT balance (trade SURPLUS), China's Consumption and Capital Goods Accumulation Curve would return to the OUTER arc, or production possibility curve.

Brazil had a long standing policy of creeping devaluation of its currency, primarily to offset their inability or refusal to control inflation partly arising from the pressure of collective consumption and investment.

http://en.wikipedia.org/wiki/Brazilian_real

> *The modern real was introduced in 1994 as part of the Plano Real, a substantial monetary reform package that aimed to put an end to three decades of rampant inflation. At the time it was meant to have approximately fixed 1:1 exchange rate with the United States dollar. It suffered a sudden devaluation to a rate of about 2:1 in 1999, reached almost 4:1 in 2002, then partly recovered and has been approximately 2:1 since 2006. The exchange rate as of January 22, 2012 is BRL 1.75 to USD 1.00.*

The U.K. pursued persistent devaluation policies as did other nations that were members of the IMF Bretton Woods fixed exchange rate system dominant after WW II until the very early 1970s when that system collapsed (such as Italy and pre-de Gaulle France).

To paraphrase Winnie the Pooh, *What to do? What to do?*

First of all, start limiting the federal budgetary expenditures to a level equal to or less than expected tax revenues. Stop squandering the margin we have left in our federal debt to GDP ratio. We are moving quickly to the margin where sovereign risk in respect to the U.S. national debt becomes serious.

Secondly, focus on growing the economy and not increasing dependency on government. Do this via tax reductions as pioneered by Secretary of the Treasury, Andrew Mellon during the term of President Calvin Coolidge. Put a stop to tax increases, including those related to the very unpopular and potentially catastrophic Obama health care legislation passed during his first year in office.

Thirdly, enforce existing anti-trust legislation that seems to have withered on the vine with the moribund batch of bureaucrats in the Justice Department and the Federal Trade Commission, our legally designated protectors against the monopoly power of excessively large firms as in the oil industry. High oil and refined petroleum product prices such as those of gasoline and jet fuel are a major cause of our current economic stagnation and high unemployment rates with all their attendant problems.

This would include keeping oil and natural gas production in the shale regions (Marcellus, Bakken, Eagle Ford, Monterey, etc.) out of the clutches of the big oil companies!

Fourthly, let the high rollers know we mean business when we say 'read my lips' means no more bail outs! If so called hedge funds and investment bankers want to play risky games with financial derivatives like CDSs, when the risks materialize, they will not be bailed out as has been the case in the last decade beginning with the Black-Scholles Bailout (Long Term Capital Management) in 1998.

There are other things needed to get our economy back on track. Stay tuned and we will examine them in future newsletters.

Let's stop trying to become more European…look where it is taking them.