

The Coming US Bankruptcy

The Bankruptcy of the United States Is Now Certain

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By Porter Stansberry

Note from Pastor Kevin Lea: Please consider the following warnings from God as you read this article:

Deut 28:15 "But it shall come to pass, if you do not obey the voice of the LORD your God, to observe carefully all His commandments and His statutes which I command you today, that all these curses will come upon you and overtake you: --- 25 "The LORD will cause you to be defeated before your enemies; you shall go out one way against them and flee seven ways before them; and you shall become troublesome to all the kingdoms of the earth. --- 37 "And you shall become an astonishment, a proverb, and a byword among all nations where the LORD will drive you. --- 43 "The alien who is among you shall rise higher and higher above you, and you shall come down lower and lower. 44 "He shall lend to you, but you shall not lend to him; he shall be the head, and you shall be the tail. 45 "Moreover all these curses shall come upon you and pursue and overtake you, until you are destroyed, because you did not obey the voice of the LORD your God, to keep His commandments and His statutes which He commanded you.

It's one of those numbers that's so unbelievable you have to actually think about it for a while... Within the next 12 months, the U.S. Treasury will have to refinance \$2 trillion in short-term debt. And that's not counting any additional deficit spending, which is estimated to be around \$1.5 trillion. Put the two numbers together. Then ask yourself, how in the world can the Treasury borrow \$3.5 trillion in only one year? That's an amount equal to nearly 30% of our entire GDP. And we're the world's biggest economy. Where will the money come from?

How did we end up with so much short-term debt? Like most entities that have far too much debt - whether sub-prime borrowers, GM, Fannie, or GE - the U.S. Treasury has tried to minimize its interest burden by borrowing for short durations and then "rolling over" the loans when they come due. As they say on Wall Street, "a rolling debt collects no moss." What they mean is, as long as you can extend the debt, you have no problem. Unfortunately, that leads folks to take on ever greater amounts of debt... at ever shorter durations... at ever lower interest rates. Sooner or later, the creditors wake up and ask themselves: What are the chances I will ever actually be repaid? And that's when the trouble starts. Interest rates go up dramatically. Funding costs soar. The party is over. Bankruptcy is next.

When governments go bankrupt it's called "a default." Currency speculators figured out how to accurately predict when a country would default. Two well-known economists - Alan Greenspan and Pablo Guidotti - published the secret formula in a 1999 academic paper. That's why the formula is called the Greenspan-Guidotti rule. The rule states: To avoid a default, countries should maintain hard currency reserves equal to at least 100% of their short-term foreign debt maturities. The world's largest money management firm, PIMCO, explains the rule this way: "The minimum benchmark of reserves equal to at least 100% of short-term external debt is known as the Greenspan-Guidotti rule. Greenspan-Guidotti is perhaps the single concept of reserve adequacy that has the most adherents and empirical support."

The principle behind the rule is simple. If you can't pay off all of your foreign debts in the next 12

months, you're a terrible credit risk. Speculators are going to target your bonds and your currency, making it impossible to refinance your debts. A default is assured.

So how does America rank on the Greenspan-Guidotti scale? It's a guaranteed default. The U.S. holds gold, oil, and foreign currency in reserve. The U.S. has 8,133.5 metric tonnes of gold (it is the world's largest holder). That's 16,267,000 pounds. At current dollar values, it's worth around \$300 billion. The U.S. strategic petroleum reserve shows a current total position of 725 million barrels. At current dollar prices, that's roughly \$58 billion worth of oil. And according to the IMF, the U.S. has \$136 billion in foreign currency reserves. So altogether... that's around \$500 billion of reserves. Our short-term foreign debts are far bigger.

According to the U.S. Treasury, \$2 trillion worth of debt will mature in the next 12 months. So looking only at short-term debt, we know the Treasury will have to finance at least \$2 trillion worth of maturing debt in the next 12 months. That might not cause a crisis if we were still funding our national debt internally. But since 1985, we've been a net debtor to the world. Today, foreigners own 44% of all our debts, which means we owe foreign creditors at least \$880 billion in the next 12 months - an amount far larger than our reserves.

Keep in mind; this only covers our existing debts. The Office of Management and Budget is predicting a \$1.5 trillion budget deficit over the next year. That puts our total funding requirements on the order of \$3.5 trillion over the next 12 months.

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