



A “Cauldron of Anxiety”.

by Joe Average.

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“.....many Americans worry that the Chinese dragon will be a fire-breather. There is a cauldron of anxiety about China”.

U.S. Deputy Secretary of State Robert Zoellick.

Anxiety about China.

These unambiguous comments were made by the U.S. Deputy Secretary of State in a speech to the National Committee on U.S.-China Relations on Sept. 21, 2005.

Mr. Zoellick’s blunt comments surprised the pro-China audience and met with a cool reception. There was, however, no doubting that he was merely expressing what has become a **deep and widening concern** about the **decreasing competitiveness of American manufacturers**.

China, an export-reliant economy, **ships some 40 per cent of its exports to the U.S. (its biggest market) and is heavily reliant on the American consumer**. A retrenchment by U.S. consumers would impact heavily on the Chinese economy. **However, 3 million U.S. manufacturing jobs have been lost since 2000**. Manufacturing employment is down to **one in nine Americans today, down from one in three in 1950**.

The crisis in U.S. manufacturing moved to centre stage with the announcement that **the world’s largest automotive parts manufacturer Delphi was filing for bankruptcy**. In filing for Chapter 11 Delphi conceded that it was saddled with an impossibly high cost structure, and set alarm bells ringing about whether this was an omen about the future of the big three U.S. auto manufacturers---General Motors, Ford and Chrysler.

General Motors (which spun Delphi off in 1999) saw its **shares drop 10 percent** after the announcement since it still retained responsibility for some of Delphi’s pension, health and retirement benefits. Thus far **GM has fallen over 70% over the past five and a half years**. One industry analyst went so far as to **raise the chances of General Motors also filing for bankruptcy to 40 percent**.

Banc of America’s securities analyst Ron Tadross estimated GM might be lumbered with an extra \$11 billion in liabilities to its former employees, and promptly slashed his 12 month target price for GM from \$32 to \$18. **Standard & Poor’s responded by downgrading GM’s credit rating from ‘BB’ to ‘BB-’**.

Delphi’s survival strategy to avoid bankruptcy is to **slash worker’s wages** from \$27 to \$12 per hour or less (excluding **pension and healthcare benefits** which would also **be sharply cut** under any restructuring agreement). The prospect that American worker rights to a well paid job and a secure retirement were in jeopardy brought howls of protest:

“What happens when the ladder to the middle class is broken? What happens when you can’t find a job at \$27 an hour with health care and pensions and must accept a job at \$10 an hour without health care and without a pension? What happens to the dream, to America?”

Jesse Jackson.

“How do US firms compete in the global economy? If the only way to compete is \$10 wages, we have a problem that is much larger than Delphi. We’re looking at a society where people exit rather than enter the middle class.”

Harley Shaiken, Economist University of California at Berkeley in *The New York Times*.

While **globalisation threatens to further undermine American manufacturing competitiveness**, the **prediction that the US would counteract this** by holding the high ground and **controlling Information Technology and knowledge is also looking precarious**.

Harvard economics Professor Richard Freeman warns that **China and India are rapidly catching up in science and technology**. The US global share of Science PhD’s is projected to fall to 15 percent by 2010 (down from 50 percent in 1975). **China graduated an amazing 700,000 engineers in 2003 while the US could manage only 60,000**. This past decade the Chinese have increased their output of university graduates an amazing five-fold. Even more astounding and worrying is that they are now feverishly beginning to build new laboratories and biotech research centres for 1/10th the cost of American facilities.

Meanwhile, cries for China to revalue the Yuan substantially will continue to fall on deaf ears. Needing to find over 200 million jobs for the rural workers who are looking to move to an industrialised world, China has no option for now but to continue to export its cheap labour services (and deflation) to the world.

Signs are that China is already beginning to move up the food chain and away from being merely a source of cheap manufacturing labour. Motorola, which once contracted out manufacturing to companies like The Ningbo Bird Company, soon found this former supplier had become a serious rival in the Chinese handset market. **That’s why America (and the Western world) really do need to “worry that the Chinese dragon will be a fire-breather”**.



Graph courtesy Elliott Wave International www.elliottwave.com

Anxiety at Wal-Mart.

“The film that’s got Wal-Mart off its trolley”.

*“With the release of his latest film exposing myriad corporate ills at America’s biggest company, Wal-Mart, and following the success last year of **Outfoxed** (the documentary exposing bias at Rupert Murdoch’s **Fox News**), 60-year-old Greenwald is again being called the new Michael Moore.*

...Greenwald uses his 95 minutes to steadily and carefully amass a mind-boggling array of facts and figures on Wal-Mart’s less than exemplary employment, health and environmental policies and practices.

To name a few: systemic non-payment of overtime, senior executives turning a blind eye to sweatshop conditions in third-world contract companies, and company health insurance policies so costly as to be out of reach for the majority of Wal-Mart employees, forcing them onto Medicaid.... Wal-Mart is the world’s largest retailer by sales, with \$US 285 billion last year.

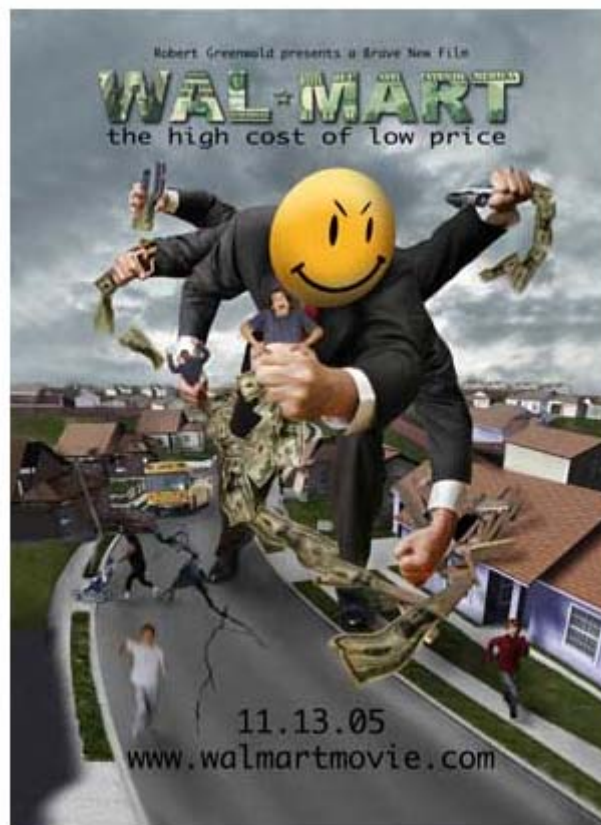
Wal-Mart’s response to the film...has been to amass a “war room” full of political operatives to counter accusations raised in the film and elsewhere.

*Earlier this month, in one of a series of extensive and unflattering stories about Wal-Mart, **The New York Times** reported that the retailer’s new public relations “war room” was staffed by veteran’s of the 2004 Bush and Kerry presidential campaigns, as well as Ronald Reagan’s image guru, and one of Bill Clinton’s media consultants”.*

Emily Carr, Los Angeles, AFR Nov. 12-13, 2005.

www.afr.com

Meanwhile, anti Wal-Mart group (Walmartwatch.com), a Washington based coalition of community, labor and environmental groups, has urged religious leaders to raise the issue in sermons from their pulpits, while at the same time organising over a 1,000 screenings of the movie.



www.walmartmovie.com

Anxiety about the Greenspan Put.

The concept of “**The Greenspan Put**” centred on investor belief that Federal Reserve chairman Alan Greenspan had the power and the will to do “whatever it takes” to prevent a devastating fall in financial markets. The concept was explained perfectly in a quote by the late Rudi Dornbusch, Professor of Economics, M.I.T. Cambridge MA:

“This expansion will run forever...(the American economy will) not see a recession for years to come... We don’t want one, we don’t need one, and, as we have the tools to keep the current expansion going, we won’t have one...Fortunately, we have the monetary and fiscal resources to keep that from happening, as well as a policy team that won’t hesitate to use them for continued expansion”.

The “**Greenspan Put**” gave traders the confidence to bid equity values up to unprecedented heights in defiance of the customary economic cycles. Now, after eighteen years, the curtain is about to come down on the Alan Greenspan era. Some are already lauding him:

“He has a legitimate claim to being the greatest central banker who ever lived”!

Princeton University economist Alan Blinder.

Greenspan detractors, on the other hand, dub him “**the worst Fed chief ever**” and point out that **this Fed chairman has created more credit than all the previous Fed chairmen combined**, and is responsible for allowing a **series of “bubbles”** to develop on his watch (oil and real estate in the late ‘80’s...stocks in the late ‘90’s...and real estate again this decade). On top of this he leaves behind a **record current account deficit** and **insane levels of corporate and personal debt**.

The fear now, however, is that Greenspan’s understudy and replacement Ben Bernanke (famous for his remarks...“**the U.S. government has a technology called a printing press**” and “**helicopter money**”) may not be entrusted with the same overwhelming confidence and respect.

Stephen Roach (Morgan Stanley) is concerned that “**the history of recent Fed leadership transitions does not read well in the financial markets**”. All eyes will now remain focused squarely on the new man filling Alan Greenspan’s shoes...the shoes of a man who was **arguably the second most powerful public official in the world**.

Financial markets around the globe will watch with bated breath to see if Ben Bernanke can quickly establish the same confidence in the “**Bernanke Put**”.

Anxiety about the “Invisible Hand”.



Meanwhile, the anxiety level of some Fed watchers has also jumped sharply with the U.S. Federal Reserve announcement (November 10, 2005) that “**on March 23, 2006, the Board of Governors of the Federal Reserve System will cease publication of the M3 monetary aggregate.**”

Why the concern? Toni Straka (www.prudentinvestor.blogspot.com) explains it well;

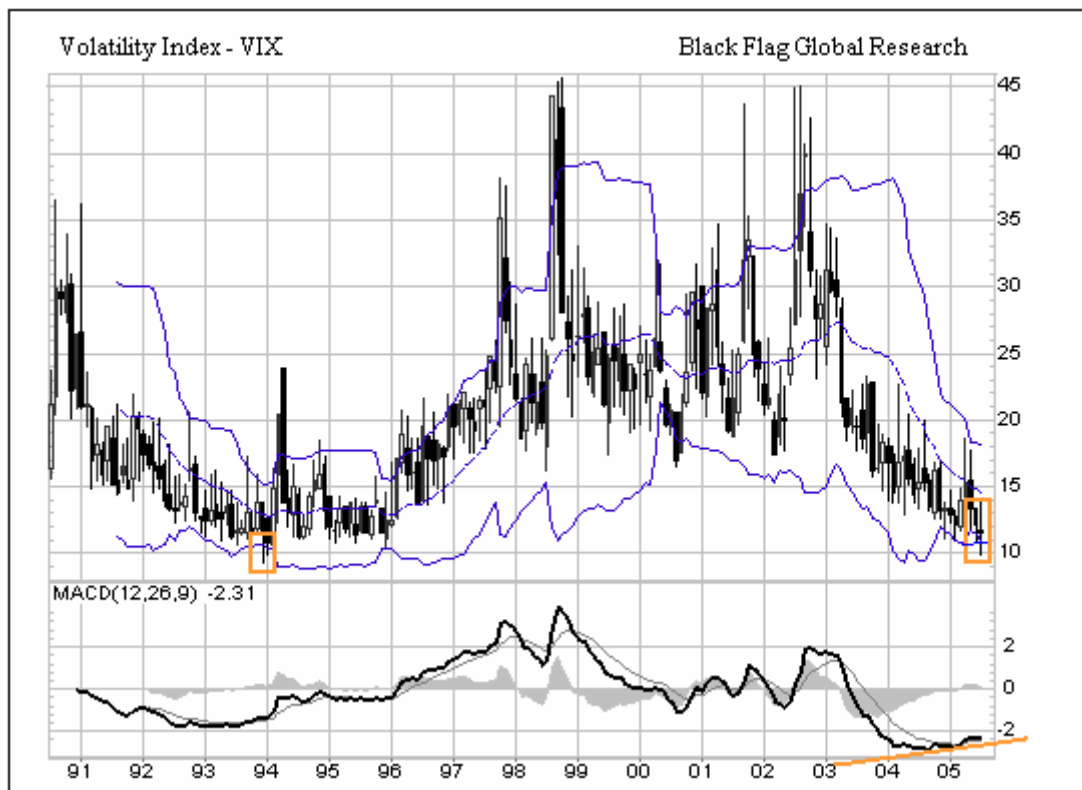
“M3 is the most important money aggregate for economists, analysts and Fed watchers to get an idea at what speed the (electronic) printing press is running. The European Central Bank (ECB) honors this set of data with a special press release every month... Since Bush took office money supply M3 has risen 39.2%. The Fed prints it and the government spends it...”

Robert McHugh (www.technicalindicatorindex.com) worries that it is “**so that the Plunge Protection Team can hide its market manipulative, equity buying activities...Does Greenspan have an all-encompassing, overriding desire to ensure his legacy by seeing the Dow Industrials at an all-time high when he retires in January?**”

More analysts are starting to worry that the Fed is using “smoke and mirrors” to massage inflation and unemployment figures, and about an increasing lack of central bank transparency. With the coming change of command at the Fed it is more critical than ever that US Federal Reserve integrity be seen to be beyond reproach.

Anxiety about Stocks?

It would appear not just yet!



Graph courtesy Jes Black, Black Flag Capital Partners, www.fxmoneytrends.com

The **Volatility Index (VIX)** measures the level of complacency or anxiety in the markets. The lower VIX, the more complacency there is in the market. A rapid spike up (to the 40's) indicates panic in the market place.

The **VIX** has recently been **bumping along the bottom of its range** indicating extreme levels of complacency in the markets possibly due to **investors' faith that Wall Street and the Fed (and the Plunge Protection Team) will not allow the Dow Jones Industrials to drop below the psychologically vital 10,000 (where it appears the line has been drawn in the sand)**. It's almost as if investors have been lulled into a sense of security believing in a perpetual boom. Trouble is ... the MACD is turning up from extreme lows warning that **turbulent times may lie directly ahead**.

Anxiety at Republican Headquarters.

"US President George Bush has suffered a disastrous slump in his personal image with just 33 per cent of Americans now regarding him as honest and straightforward, according to an NBC/Wall Street Journal poll (from November 4 to 7).

Equally worrying for the White House, in the midst of cumulative scandals about exaggerated pre-war intelligence, was that 57 per cent of those polled believe that the President deliberately misled people to make a case for war.

The poll also coincided with the 2000th US fatality in Iraq, which refocused attention on the debacle".

Tony Walker, Washington, AFR Nov. 12-13, 2005.

“(Arnold) Schwarzenegger, whose approval rating is hovering around 30 per cent, which makes him even less popular than Bush, will be lucky to survive if he chooses to recontest the governorship.

Charlie Cook, a non-partisan political analyst, noted in a recent column that Republican operatives had “both arms around the toilet bowl”, such was their concern about a rout in 2006.

...Bush must also contend with other widening ripples of disaffection, including his dispute with Senator John McCain over whether to remove the weapons of torture in Central Intelligence Agency-administered prisons. McCain, a victim of torture in Vietnam, would seem to exert unique moral authority on this issue.

To date, 44 prisoners have died in US custody in Iraq and Afghanistan, many under circumstances consistent with torture, according to recently declassified army reports”.

Tony Walker, Washington, AFR Nov. 11 2005.

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*“(Richard) Engelhardt (writer for **Salon**) also makes the perceptive journalistic point that the clearest possible sign of a politician in trouble comes with the way in which newspaper headlines and lead paragraphs frame the story...Thus Bush and the administration are more frequently depicted as “embattled” or “beleaguered”...”lashing out”.*

*Richard Cohen, a **Washington Post** columnist who supported the (Iraq) war but is now a critic, wrote a scathing piece this week under the headline: ‘**Did Bush Lie?**’*

Cohen concluded that it was not clear whether Bush lied or was simply the “useful idiot” of those, like Cheney, who alchemised the case for war. Either way, he bears responsibility for a “blunder without peer in American history”.

“What is both amazing and appalling about Bush is that he seems not to care,” Cohen writes. “The way things look now, he will go down in history as an amiable dunce - Clark Clifford’s scathing and misapplied characterisation of Ronald Reagan – who took his country to war for reasons that did not exist.”

Tony Walker, Washington, AFR Nov. 25 2005.

www.afr.com

Anxiety in Europe.

The recent explosion of violence and arson across France has shocked Europe and highlighted how dramatically **globalisation was exerting pressure on industrialised countries. Globalisation has opened the flood gates** to the global labour market as 3 billion people from the developing world strive to modernise their economies.

The riots on the streets of Paris are in large part due to the fact that, while unemployment in France is almost 10 per cent, **among under 25 year-olds it hits 24 per cent.** Of greater concern, **in some of the high rise satellite suburbs which house many of France’s 5 million African and Arab Muslim minorities, the unemployment rate is a horrendous 50 per cent!** Decades ago immigration programs brought “guest workers” to Europe and to these areas which were then sited near factories and industrial plants. Back then, work was plentiful for low skilled immigrants willing to do the laborious jobs the locals didn’t what to do. **Now, many of those jobs have vanished off shore to low-wage, developing countries in Asia or in Central and Eastern Europe.**

Germany faces similar problems with **unemployment among its Turkish immigrants estimated to be around 25 per cent.** Meanwhile, **youth unemployment in Italy, Spain and Belgium is over 20 per cent,** and **among British Muslims hovers around 15 per cent.**

It would appear that religious and racial tension that have long been simmering away during the past decades are rapidly reaching boiling point as the pressures of globalisation turn up the heat.

Other Ingredients in the Bubbling Pot.

A few other ingredients might be added to U.S. Deputy Secretary of State Robert Zoellick’s **“cauldron of anxiety”** as well as China.

How about:

- The affect of **rising oil prices,**
- The possibility that **real estate prices may stop rising or even fall,**
- The Fed will keep pushing **up interest rates,**
- A deadly **bird flu pandemic,**

- Perhaps you can add a few more?



Cheers, Joe (aka Dr. William R. Swagell).
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