

## *Delta Paradigm.....changing times, changing reference!*

June 21, 2011

A personal opinion newsletter.  
By Ernest 'Rus' Chisena

*You shall lend to many nations, but you shall not borrow, and you shall rule over many nations, but they shall not rule over you:* Source: [www.usc.edu](http://www.usc.edu) Dead Sea Scrolls. Third Century B.C.E.

As much as things change, principals do stay the same. It is only our frame of reference as to how we perceive things that actually changes. That was sage advice from 3,000 years ago, but has become so blasé to follow over the last several decades. Now our paradigm is shifting back to what the reality of excessive debt can mean to an individual, a municipality, a state or sovereign government.

A look around the world quickly demonstrates the stress and unrest excessive debt has created. As of this writing, Greek citizens are demonstrating against their own government for the austerity programs imposed upon them, as required from the European Central Bank (ECB) and the International Monetary Fund (IMF), to bail them out. Cuts in government spending, trying to shrink their deficits, are placing more people out of work, higher costs in food, heat and fuel, and a caustically, a further decline in their own economy.

It is not isolated to just Greece. Ireland and the United Kingdom both are suffering from too much debt, slowing economies, higher inflation and unemployment. The Irish feel that they have had their lives indentured to the ECB to pay off loans extended to their government to resolve the insolvency of their financial institutions. Add to this, the concerns over Portugal, Spain, Italy and this weak France, as they struggle to meet debt payments, slow growth, mounting debt and rising interest rates.

Once you owe someone money, you are now working for them. In the case of Europe, it is quickly becoming the ECB and the IMF, two entities whose bureaucrats were never elected by the citizens over which they have financial oversight. Once you have control over a country's finances, you also have

control over their government, their economy and industry, their discretionary money, and their lives.

The situation is similar in many other parts of the world, most industrialized nations, and here in the USA as well. Although we do not have a “world” organization overseeing our economy, our debt levels and deficit spending are proportionate to our Gross Domestic Product (GDP) as the unfortunate countries that have reached the precipice of losing sovereignty.

For the US, three significant debt related issues will be coming to a climax soon. The end of June marks the fiscal year end for many states budgets and a time in which they must have a budget approved for the upcoming fiscal year. There will be more layoffs, cutbacks, tax increase and additional news about the difficult choices elected officials are making or avoiding.

The next big event will occur at the same time, but probably with less fanfare. It is the end to the Federal Reserve’s Quantitative Easing (QEII) program in which they actively purchased between \$600-900 Billion of US Treasury Debt since last November, effectively adding an equal amount to our money supply, as the US Treasury funds the Federal Governments anticipated \$1.5 Trillion deficit for the year 2011. The difference between the US and a European country on the ropes, because we can print our own money, is that we get a doubled edged sword: more debt and more currency inflation.

The last event is scheduled to come to fruition as of August 2, which is an agreement from congress as to raising the debt ceiling, from \$14.3 Trillion to \$17.0 Trillion, taking us just past the 2012 elections, by the time our deficits push that limit higher again.

Whom do we owe all this money to? The Federal Reserve is the largest holder of our government debt, predominantly from QE I and QEII. What this means is that the Federal Reserve has devalued our currency to the extent that the US Dollar has declined in purchasing power compared to other currencies and the price of goods we import from other countries. Currency inflation leads to price inflation as the increase in money supply works its way through the system.

The next two largest holder of our debt are China, #2 and Japan, #3. China is experiencing inflation of their own, as well as a real estate bubble, food inflation, water shortages and spreading civil unrest. They have started to find alternative currencies to use, other than the US Dollar, for trading with other nations and holding their excess reserves, such as in commodities, gold and other non-US currencies.

Japan is dealing with a projected \$300 Billion cleanup cost after their earthquake and tsunami, a further decline in their trade surplus, a slowing economy, and an aging population that is hitting their government social programs. Their existing debt to GDP ratio is 200%, the highest in the world. This means that #1, #2, and #3 purchasers of our debt are or will be curtailing their financing.

These three events: state and local budgets, end of QEII and the rising of the debt ceiling will demonstrate to citizens, investors and our creditors around the world whether we as a nation will address our burgeoning debt crisis in a responsible manner or if we will continue to feed our borrowing needs through printing money or indebting ourselves to others.

As seen through the experience of the European countries, [austerity](#) reduces economic activity, displaces workers, families and industries and promotes civil unrest. Or, [more debt](#) means higher interest rates, [inflation](#) and also a slower economy, after growth has been adjusted by inflation. Both choices will become harsh realities in the not too distant future, as they are the only two paths from which to choose.

One path will be represented by [deflation](#), the other by high [inflation](#). Or, we might experience a hybrid bi-furcation between “Living Expense” inflation and “asset” deflation. Obviously, how we address this crisis as a nation will determine how we might prepare to best preserve our living standard through this difficult transitional phase.

I believe that when QE II ends at the end of this month, the Fed will have a back- up plan for the purchase the bonds funding our deficits for several months, but at a deteriorating bid to cover ratio. The dollar will strengthen

initially, but then devalue relative to gold and silver. All other fiat currencies will decline as well as reality sets in. This will coincide with the debt ceiling being raised, but with insufficient deficit reductions, resulting in more uncertainty, higher interest rates and creeping inflation. This is when the Fed steps back in as a last gasp of a hope and sends us into hyperinflation with money printing by the boat loads.

Debt is an obligation. As was known thousands of years ago and now becoming more recognized to us today, debt is the antithesis of freedom. There is now more debt in the world than ever before, not just in nominal terms, but also as a percentage of our wealth. The debt needs to either be paid back ([austerity](#)) or to default through devaluing our currency ([inflation](#)). Either way, the magnitude of the issue is too big to be ignored or to just go away. You can prosper if you prepare.

## *Rus*

Ernest (Rus) Chisena, III

## *Bibliography:*

April 4, 2011, Market Watch- Scary Chart: Interest Burden on Federal Debt

April 27, 2011, The Telegraph- Central Banks pump 3 Trillion pounds into world economy

April 28, 2011, The Telegraph- UK has third biggest budget deficit in Europe

May 8, 2011, CNBC- UK Economy will need Bailout soon Jim Rogers

May 9, 2011, Reuters- Volker warns of danger from US deficits

May 12, 2011, Forbes- Pataki predicts economic meltdown

May 12, 2011, Zero Hedge Fund –List of holdings Central Banks Purchase 127 Tons of Gold in Q1

May 17, 2011, CNBC –Euro Zone Debt Crisis- Italy next to seek EU Bailout

May 17, 2011, Money News.com – Pimco’s El-Erian\_ Financial Repression, Higher Inflation to hit US

May 18, 2011, CNN.com –China Forced to ration electricity

May 18, 2011 Money News.com -Meredith Whitney: Muni Bond Holders Should expect pain.

May 18, 2011, Bloomberg-JPMorgan Says Crude Oil, Gold to Drive Rebound in Commodities on Shortages

May 19, 2011, Associated Press –Utah\_ Gold Silver Depository

June 3, 2011, NY Times.com –Plans for China’s water Crisis Spurs Concern

June 7, 2011, Casey Research \_China, US Treasuries and the US Dollar seen as the most likely candidates for the next bubble

June 8, 2011, CNNMoney.com –State, Local governments set to see record job cuts

June 8, 2011, USA Today.com –US Funding for future promises lags by Trillions

June 9, 2011, The Telegraph –Gas and electricity price shock shows government measure of inflation is meaningless

June 11, 2011, Market Watch –Fed passes China to become largest US creditor

June 16, 2011, NY Times –Hiring slowdown seen for small business

June 17, 2011, Reuters –Moody’s puts French banks on review for downgrade over Greece

June 17, 2011, CNBC.com –Why your money market could be hit by Greek default

June 17, 2011, Spiegel Online International –The World from Berlin\_The Greek situation has reached a dead end.