

# “The U.S. as seen by the World”

Dallas Association of Financial Professionals  
September 15, 2011

# A Harvard Professor's Words of Wisdom.

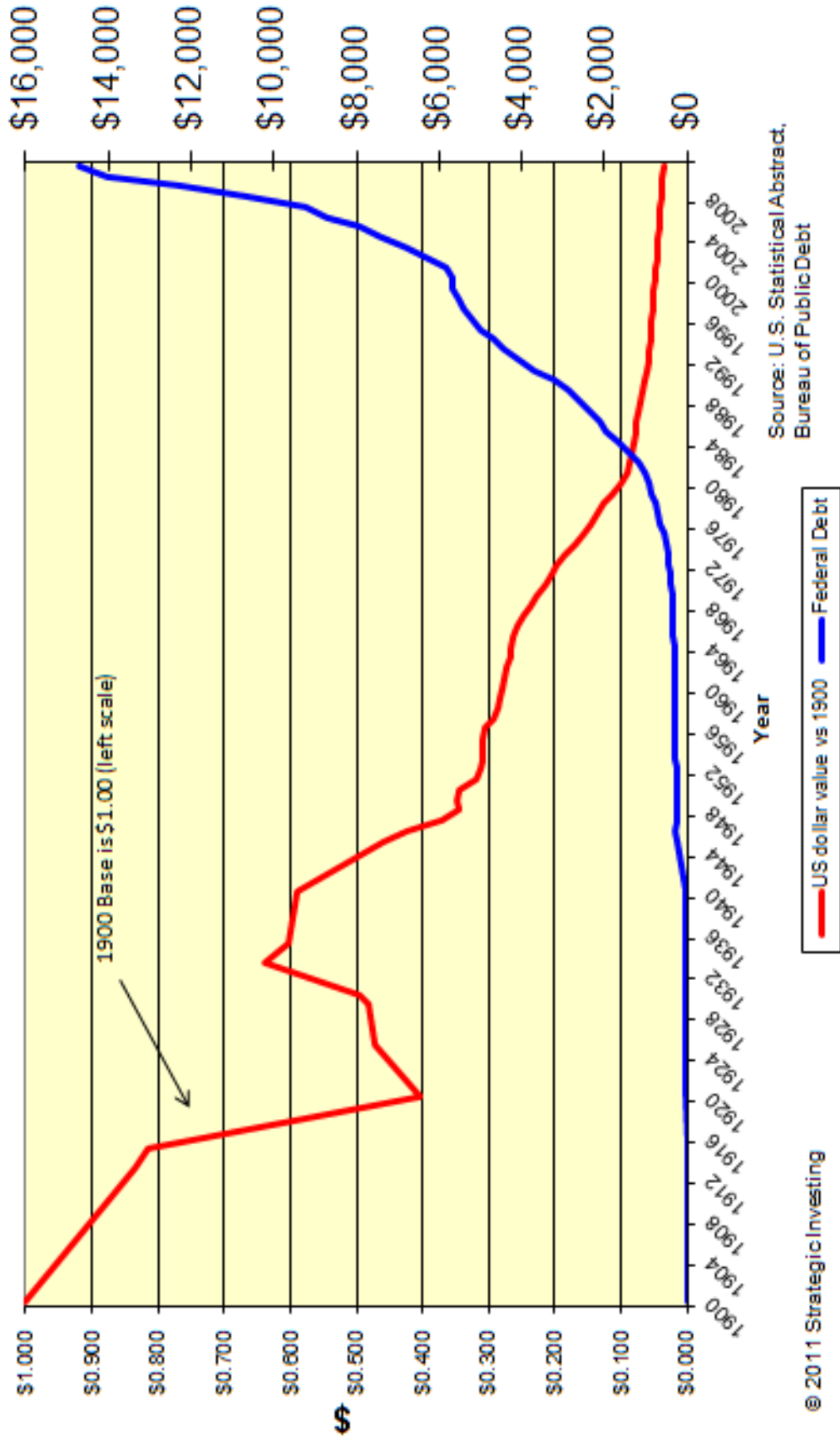
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- ▶ You can not believe anything you read in the
- ▶ New York Times
- ▶ And
- ▶ The Wall Street Journal

▶ **They all lie!**

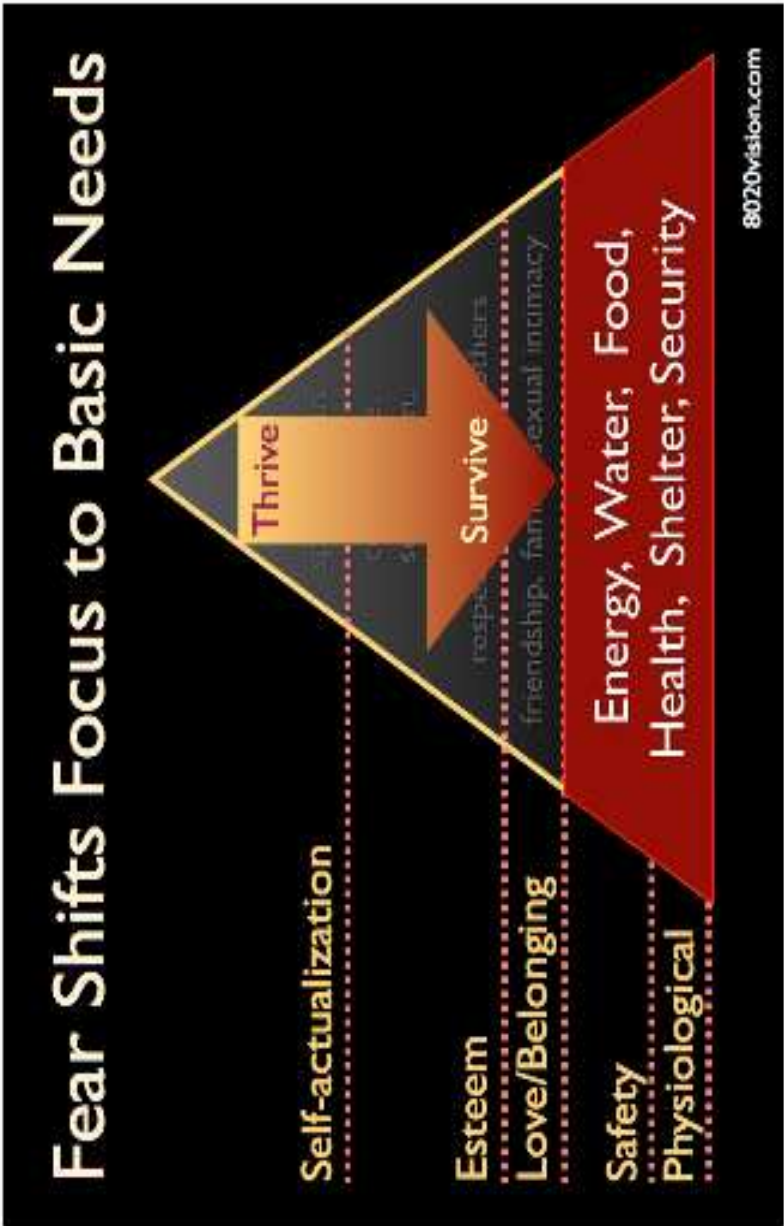
▶ William A. Sahlman, Professor, HBS

## US \$ Currency Value and Outstanding US Federal Debt (\$ Trillions)



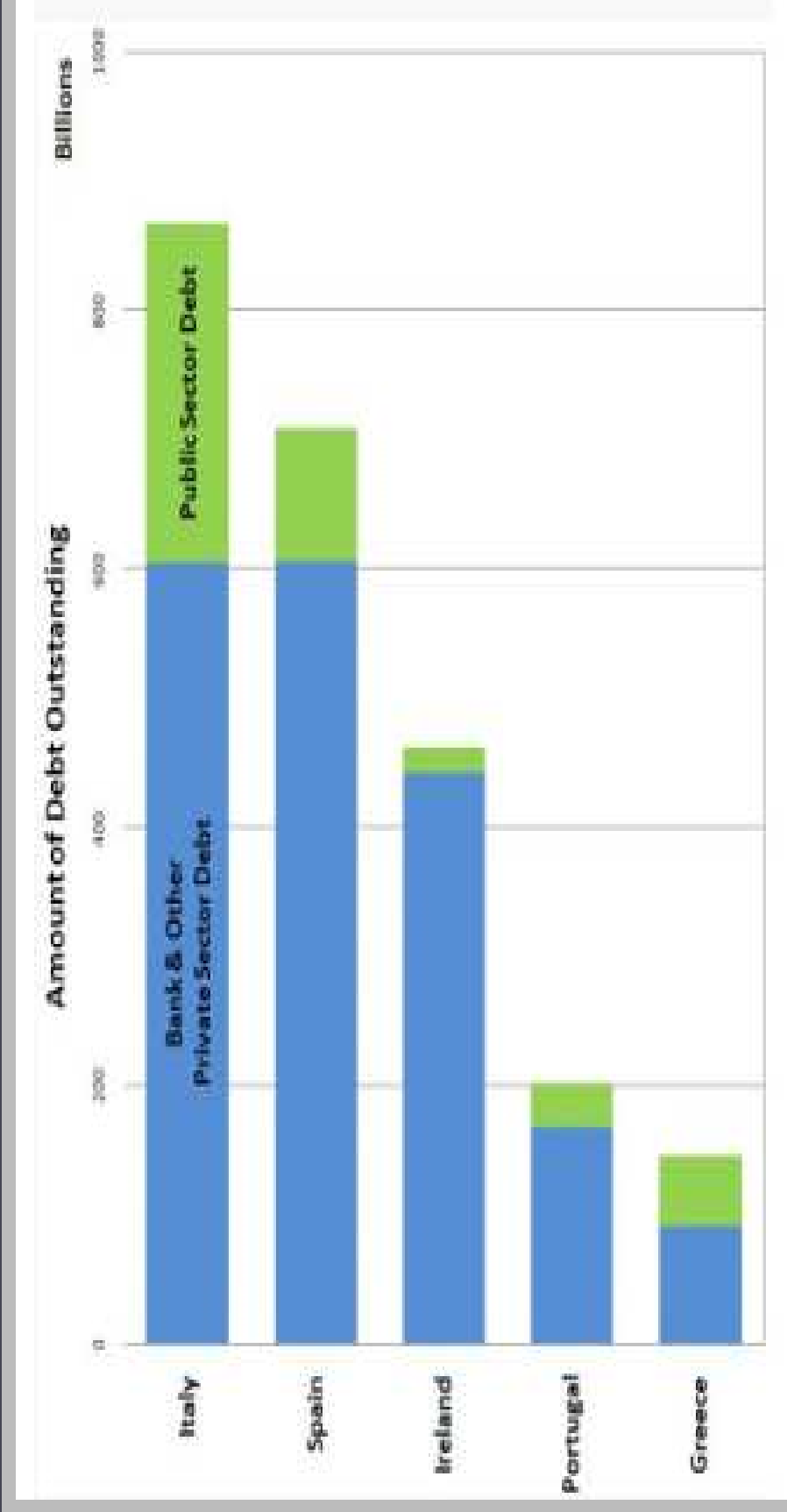
**The real problem  
is that there is  
simply  
too much debt!**

# DELEVERAGING



# Total PIIGS Country Debt Outstanding - as of 12/31/2010

Source: Kathy Lien.com



## Why Greece or the PIIGS matter?

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- ▶ 70% of PIIGS sovereign debt owned by German and French banks
- ▶ 50% of PIIGS sovereign debt covered by CDS issued by U.S. “TBTF” banks
- ▶ Based upon FASB 157, “mark to fantasy” accounting the “TBTF” banks are solvent. In actuality, they are bankrupt!

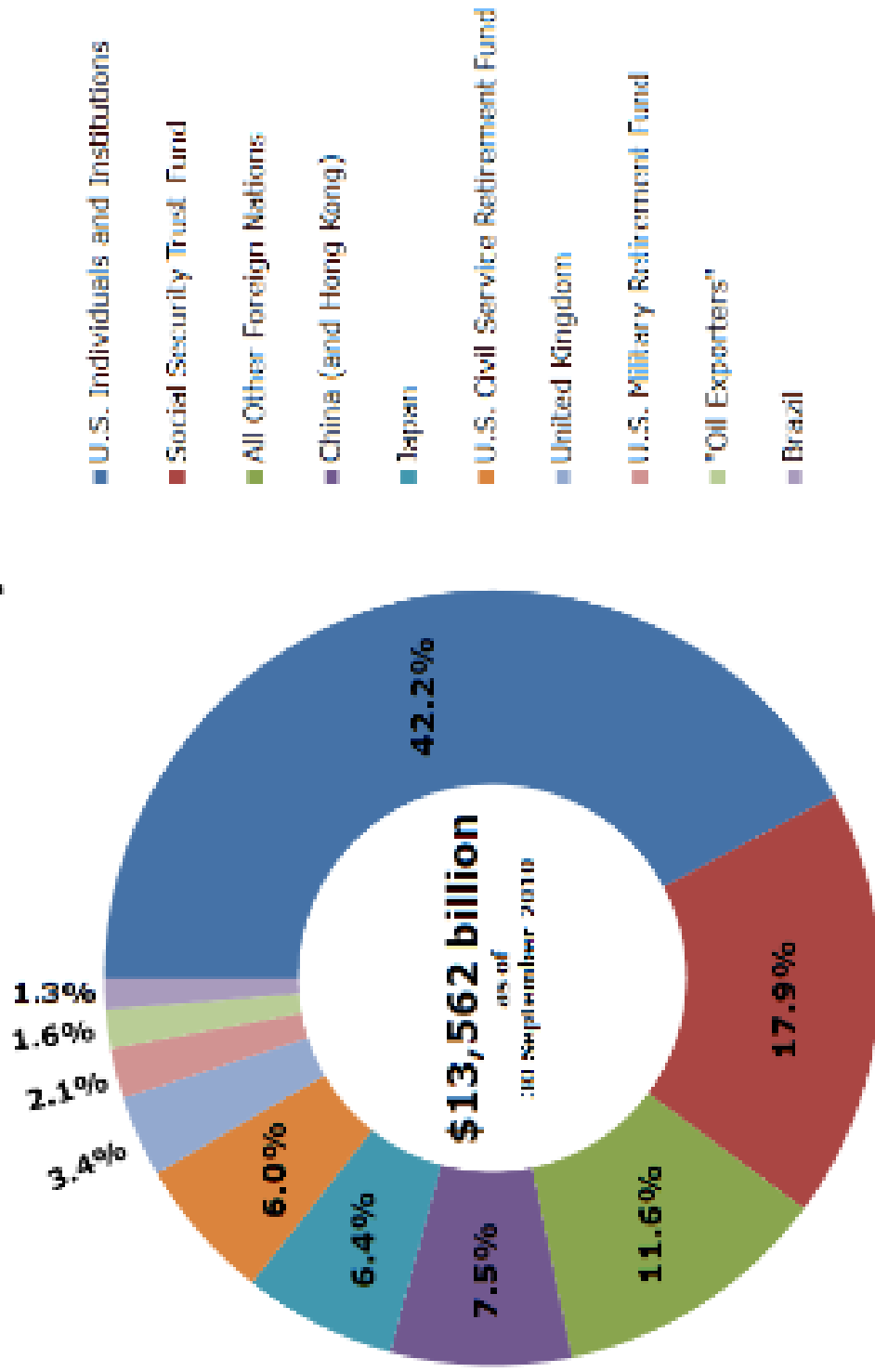
## Public Perception vs. Reality

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- ▶ GDP \$15 TRILLION ▶ **GDP \$15 T - \$ 3.6T**
- ▶ DeFiCIt \$1.4 TRILLION ▶ **DeFiCIt \$5.0 T**
- ▶ Debt \$14.7 TRILLION ▶ **Debt \$70 T-\$250 T**
- ▶ INFLation 1 – 2% ▶ **INFLation 10- 12%**
- ▶ UNEMPLOYment 9.1% ▶ **UNEMPLOYment 23%**
- ▶ Debt LiMit NoW \$15.2 TRILLION



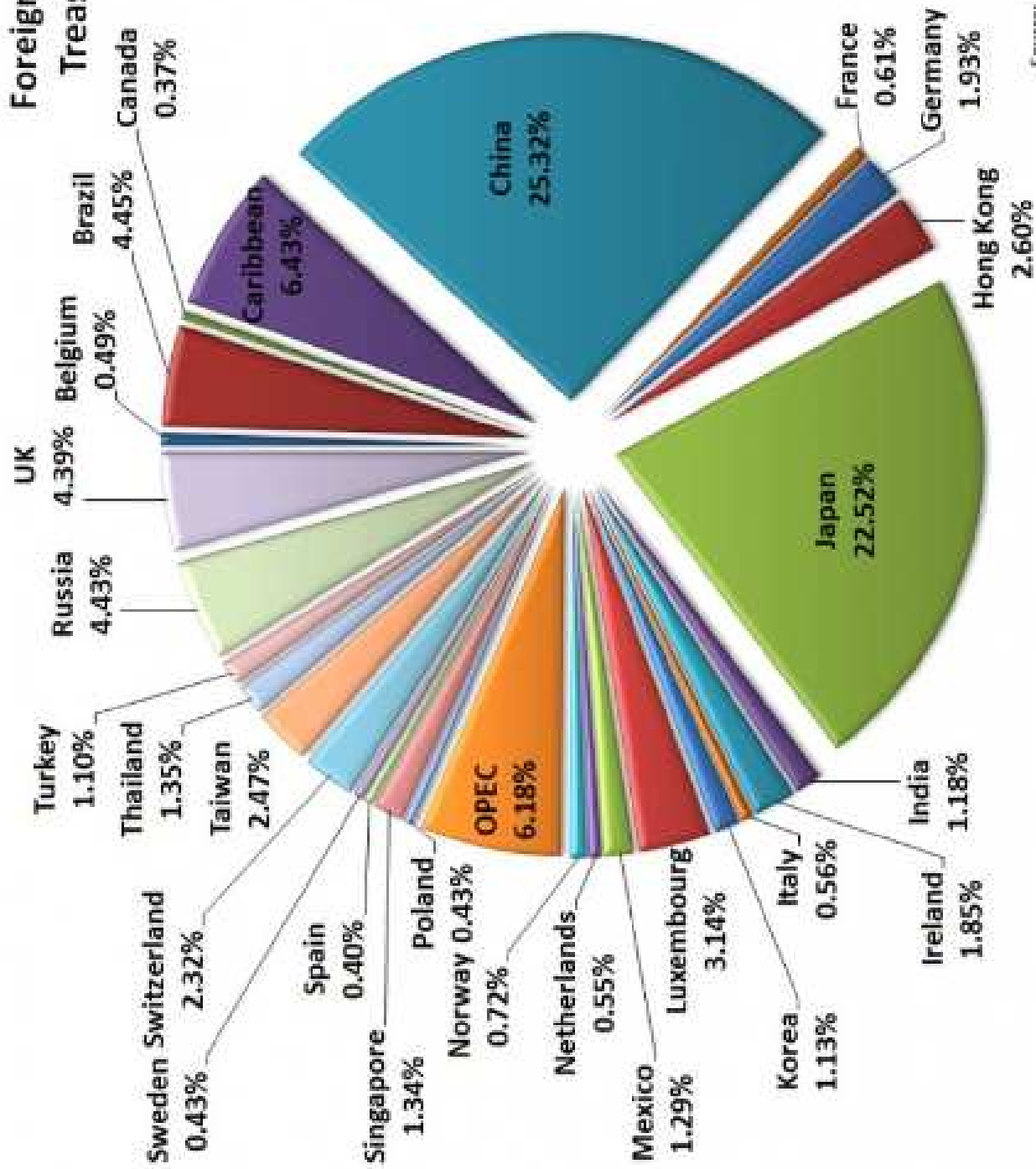
# To Whom Does the U.S. Government Owe Money?



Source: U.S. Treasury Department

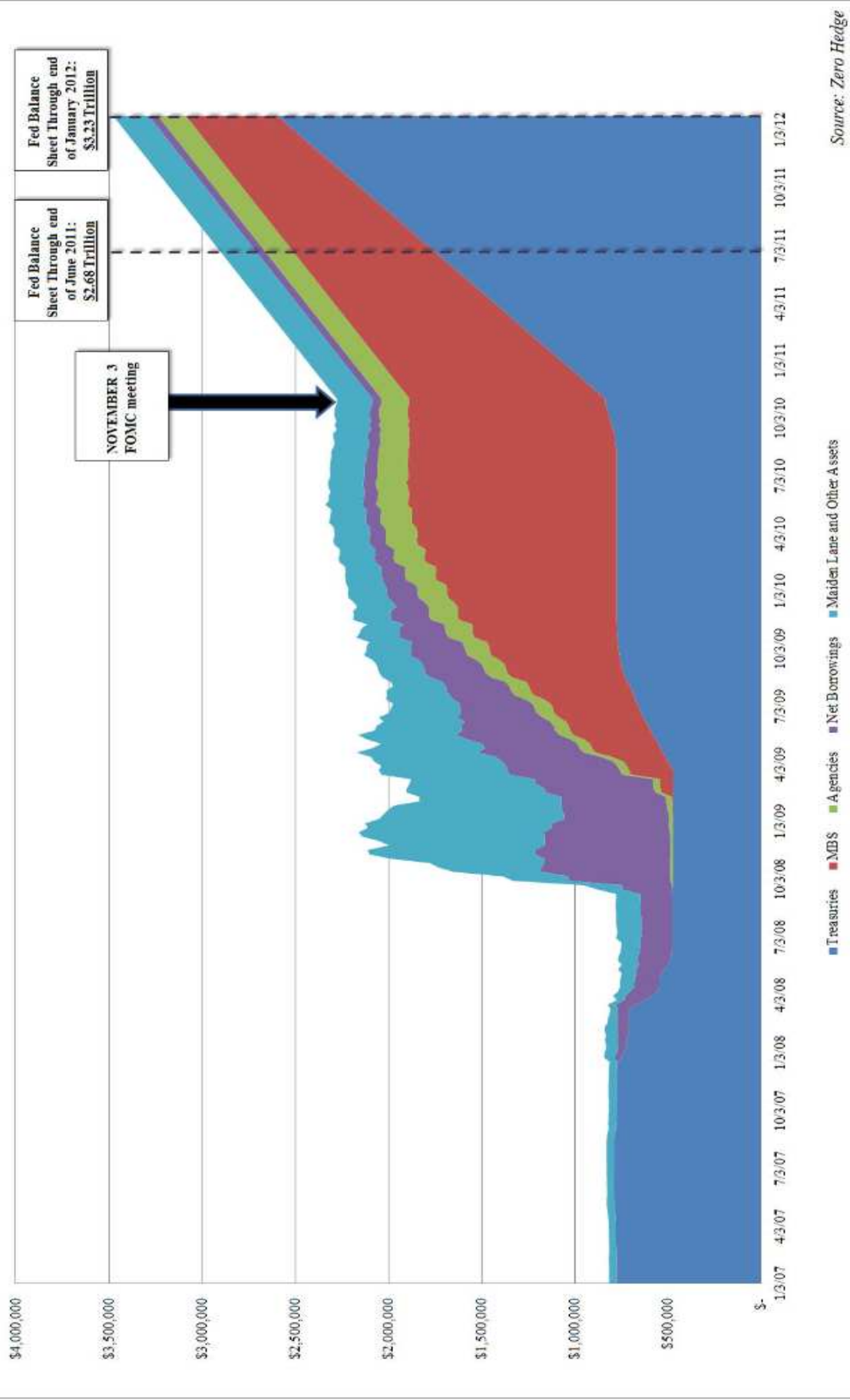
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# Foreign Holders of U.S. Treasury Securities



Source: Bloomberg/Horowitz & Company

# Projected Federal Reserve Balance Sheet - Including Impact Of QE2



Imports Jan-May 2007 in billions \$. Total=770.9

Legend  
 Click to select,  
 Ctrl-Click: multiple  
 Shift-Click: range

Canada	128
China	121
Mexico	82.9
Japan	59.8
Germany	37.9
United Kingdom	22.4
Korea, South	20.3
France	16.4
Taiwan	15.2
Venezuela	14
Italy	13.6
Malaysia	13.4
Ireland	13.2
Saudi Arabia	12.1
Nigeria	11.6
Other	189.1

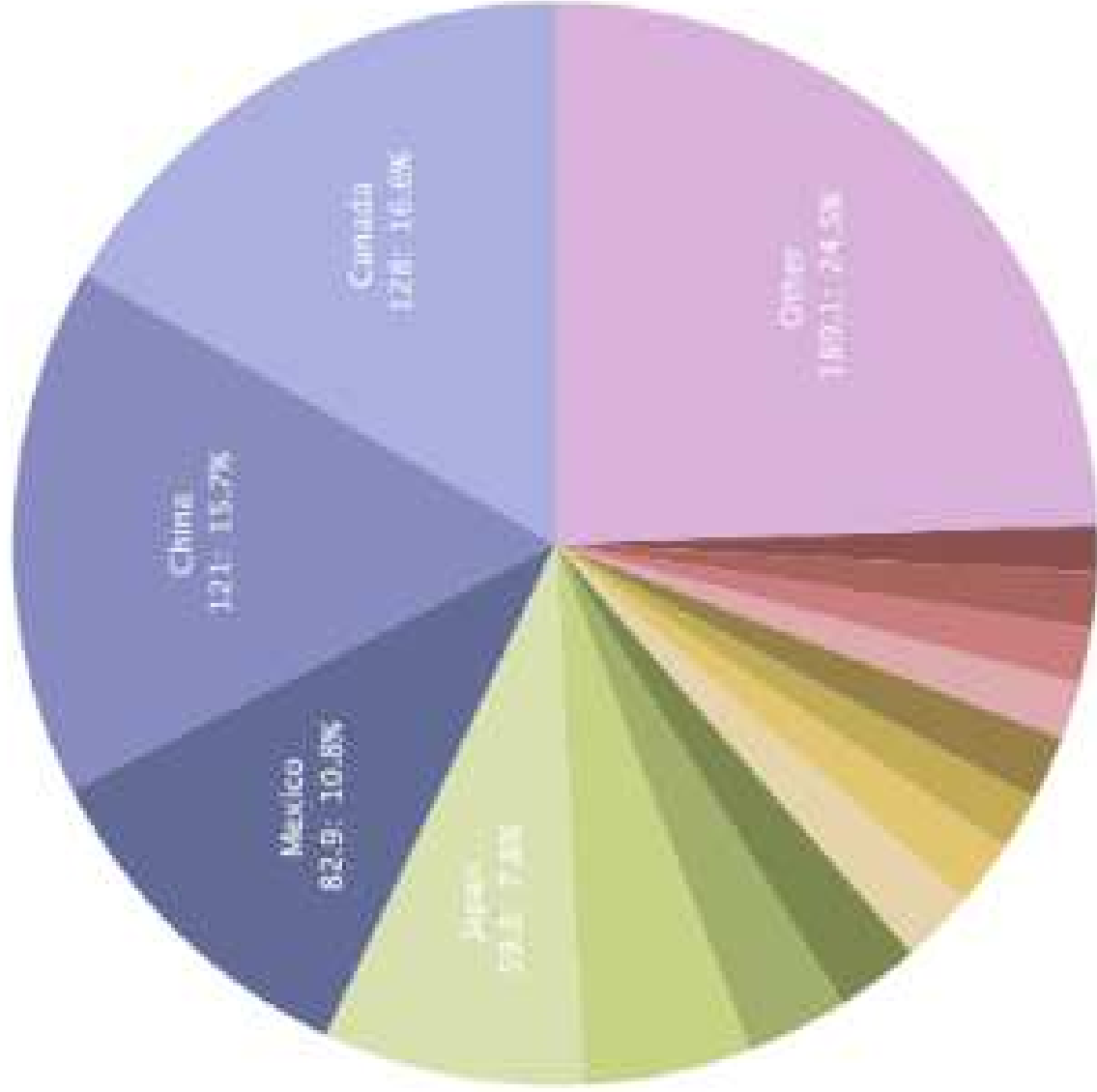
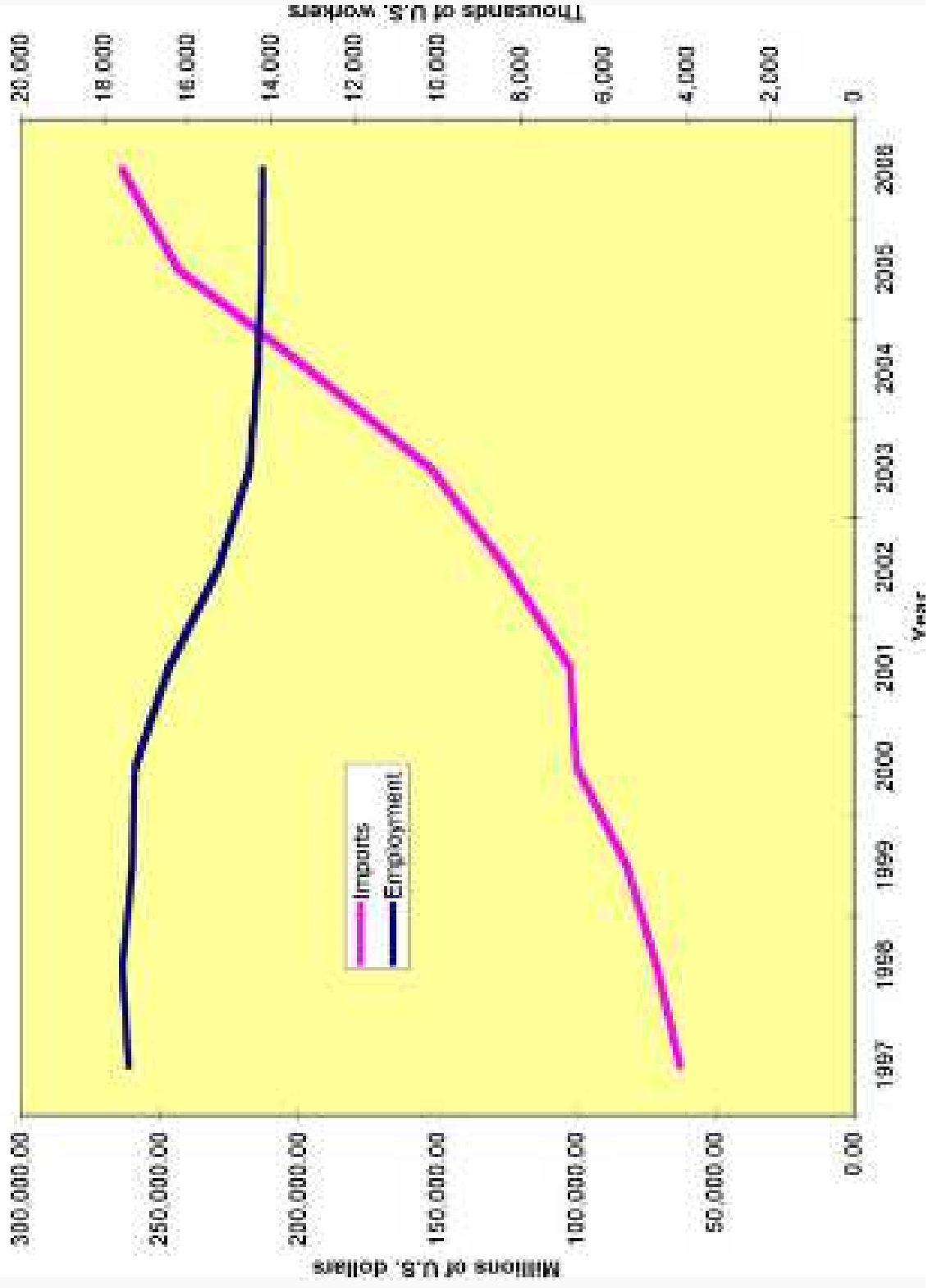


Chart 2: Imports from China and U.S. Manufacturing Employment, 1997-2006



# The View is Changing



The filter is different



## Remember

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- ▶ Hunger creates Chaos
- ▶ Foreign and Military Aid Grants
- ▶ Export/Import Bank Infrastructure Loans
- ▶ Political differences
- ▶ Religious differences
- ▶ Sources of Raw Materials and Energy
- ▶ Globalization



## Foreign Concerns

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- ▶ Imposition of our values on their societies
- ▶ Waning Military Super Power
- ▶ Addicted to Debt – World's largest debtor!
- ▶ Unable to Address Corruption – Lack of Political Will
- ▶ Immigration
- ▶ Education losing ground
- ▶ Losing Reserve Currency Status
- ▶ Safe Haven Status questionable!

Trigger Point – Mohamed Bouazizi  
December 17, 2010



# Trigger Point for Arab Spring

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- ▶ Tunisia
- ▶ Egypt
- ▶ Libya
- ▶ Syria
- ▶ Yemen
- ▶ Shia influence increasing
- ▶ Arab/Israeli tensions escalating

## Fallout from 2007 Financial Crisis

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- ▶ Trust in Wall Street destroyed
- ▶ Chairman Bernanke's policies are increasingly viewed with skepticism
- ▶ China and Japan begin to reduce holdings of U.S. Treasury instruments
- ▶ Efforts to develop a new reserve currency increase.
- ▶ Stimulus packages and added debt increase worldwide
- ▶ Central Bank options now limited
- ▶  $GDP = C + I + E + GS$
- ▶ Keynes vs. von Mises

**What is the trigger point  
for a U.S. debt default?**

**No one knows!**



U.S. today .....





U.S. after default!



## Sources of Information

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- ▶ South China Morning Post
- ▶ Straits Times – Singapore
- ▶ Asahi News
- ▶ Radio Free Europe
- ▶ Interfax Information Services – Russia
- ▶ St. Petersburg Times
- ▶ Financial Times – London
- ▶ International Herald Tribune – Paris
- ▶ Australian News Network
- ▶ Buenos Aires Herald



Any Questions?

Thank you for listening!