Doomsday Scenario

Consider this doomsday scenario:

Catastrophic impacts felt by every American.

A broad range of government payments stopped, limited, or delayed, including military salaries, Social Security, and Medicare payments, interest on debt, unemployment benefits, and tax refunds.

Sharply higher interest rates and borrowing costs, declining home values, and reduced retirement savings for Americans.

In sum, a financial crisis more severe than the crisis from which we are only now starting to recover.

My words? Not a single one!

They are all taken directly from a widely distributed Treasury Department letter dated exactly one week ago.

The letter is addressed to Speaker of the House John Boehner.

Sincerely,

Timothy F. Geithner

The signer is Treasury Secretary Tim Geithner.

And his single purpose is absolutely clear:

To implore Congress to act urgently — to raise the nation’s debt limit and let the federal government continue borrowing to its heart’s content. As long as Congress can agree to that one piece of legislation, goes the appeal, the United States can avoid the doomsday scenario with no further ado.
However, his letter fails to address two facts of extreme relevance and significance …

**Fact #1.** Mr. Geithner is not the first Treasury Secretary in recent years to pull the doomsday card in order to persuade Congress to act urgently.

In November 2008, his predecessor used the same tactic but with the addition of some body language:

*With Wall Street on the verge of a total meltdown, former Treasury Secretary Henry Paulson literally bent down on one knee and pleaded with House Speaker Nancy Pelosi not to blow up the financial system by withdrawing her party’s support for the largest bank bailout of all time.*

What’s the connection between Paulson’s plea two and a half years ago and Geithner’s plea last week?

Mike Larson and I provided the answer a few weeks before Paulson’s plea to Pelosi — in our white paper to Congress on September 25, 2008.

In it …

We demonstrated precisely how and why government bailouts to end the private-sector debt crisis on *Wall Street* would inevitably lead to an even larger debt government crisis in *Washington*.

We later warned that even the most carefully crafted federal bailouts would *backfire* in other insidious ways as well — in the form of surging prices for food and energy, inflation, higher interest rates.

Further, we warned that, despite all those unintended consequences, we would still have no significant recovery from the housing bust where the debt crisis first blew up.
Now, here we are, some two years later — and each of these disasters is upon us:

We have a debt crisis in Washington of unprecedented dimensions.

We have one of the worst price surges in food and energy costs of our lifetime, spreading inflation and rising interest rates in most major economies of the world.

Yet the U.S. housing depression — where this entire crisis began — never ended. In fact, U.S. home values are now back down to within a hair of the deeply depressed nadir they reached in early 2009!

**Fact #2.** Also not mentioned in Mr. Geithner’s letter last week is the threatening future scenario that no act of Congress could ever prevent:

An avalanche of Treasury securities dumped on the market by foreign central banks and investors … a dramatic surge in interest rates … followed by a sovereign debt crisis that makes those of Greece and Ireland pale by comparison.

Why? Because Greece and Ireland are small enough to be rescued by Europe and the International Monetary Fund (IMF). But there’s no one on the planet rich enough to rescue the United States of America.

Indeed, the U.S. government now owes foreign governments and investors an unfathomable, unthinkable sum of $4.47 trillion, according to the latest tally of [Major Foreign Holders of Treasury Securities](#).

It’s no secret that the U.S. government’s largest creditor is China, holding $1.15 trillion in U.S. Treasuries.

Nor should it come as a surprise that Japan, the UK, and OPEC nations also hold huge amounts — $890.3 billion, $295.5 billion, and $218.8 billion, respectively.

But what many people don’t realize is that the United States now owes very substantial sums to a total of 31 different sovereign nations, two confederations, and one territory.
Nor have most observers stopped to think what might happen in the event of political upheavals or policy shifts in those nations.

Egypt alone holds $14.9 billion in U.S. Treasuries, more than the total deficit of the United States of yesteryear.

Colombia has $20.1 billion … Italy, $24.3 billion … and Turkey, $34.3 billion. Even Ireland, which is still just a bailout away from bankruptcy, holds $42 billion in U.S. Treasuries.

With so much owed to so many different countries, this is NOT a situation that can be controlled by Tim Geithner, Ben Bernanke, or any official. It can easily become a free-for-all melee of selling that begets more selling.

The problem: Those foreign countries are our creditors. When they sell Treasuries, it’s the equivalent of your banker calling back your loans. And it means those loans America has been counting on to keep it afloat are withdrawn. The only replacement: Paper money from the Fed’s printing presses, driving our cost of living through the roof.

What’s the worst-case scenario? Similar to those described by Paulson and Geithner, except for one major difference: There’s no act of Congress that could stop it.

This great debt crisis is potentially the game-changer of our lifetime. You must not make another investment decision without exploring its full implications, raising serious questions about what it means for you, and getting practical answers that you can act upon promptly.

Join Mike Larson and me on Wednesday and we will do precisely that. We’ll be online with an emergency briefing plus Q&A session at noon Eastern Time (9 AM Pacific, 5 PM GMT).

That’s just a bit over 48 hours from now! If you’ve already secured your free registration, great! If not, click here. Just remember, tomorrow is your last day to do so.

Good luck and God bless!

Martin