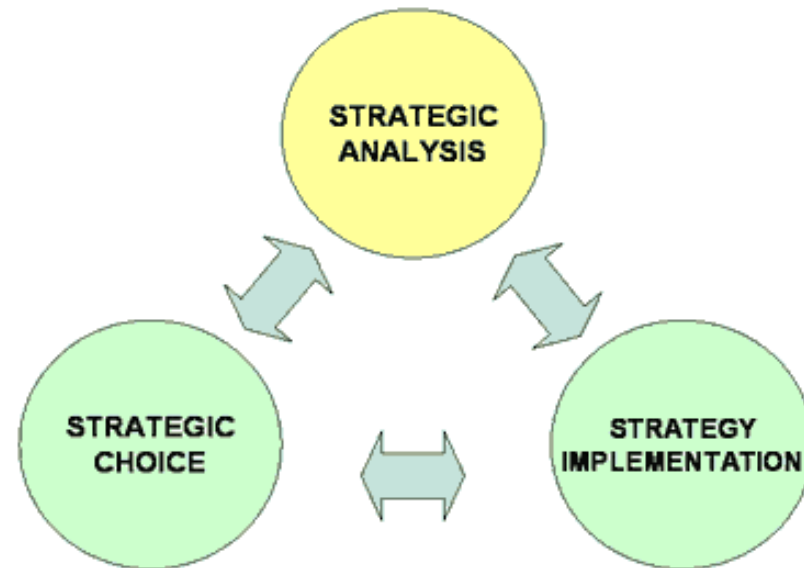


# Anticipating Emerging WMD Threats



By Todd Hathaway

August 3, 2013

# 3-3-3 Transition Process Timeline

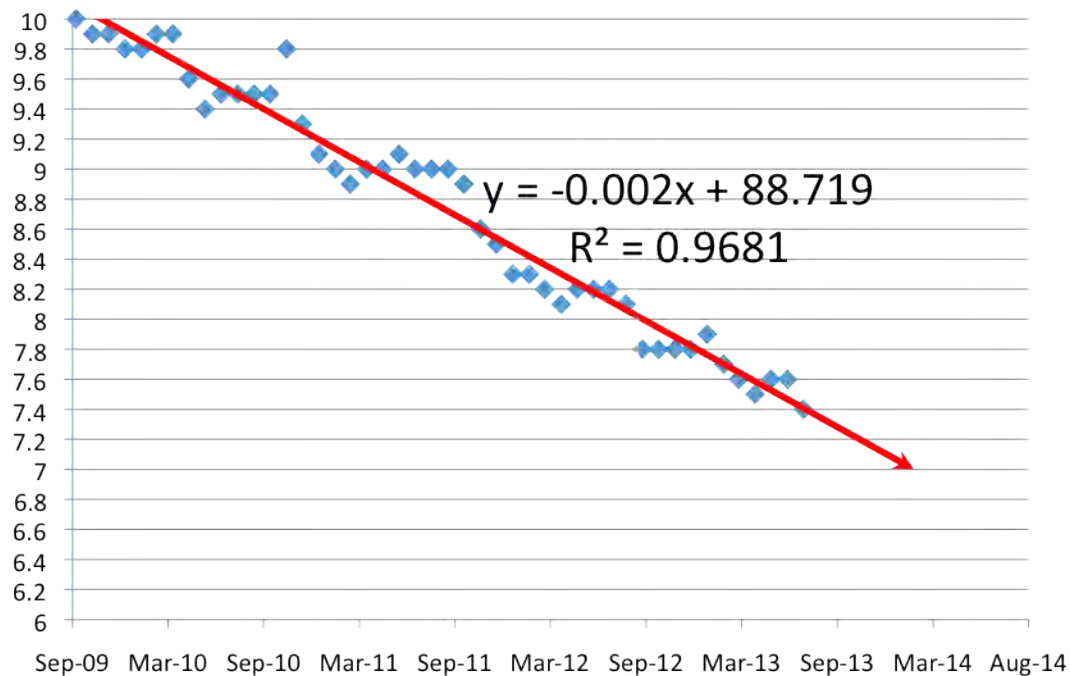


- 3 month period – August thru October 2013
  - Preparations for a 3-year “devolutionary fiscal environment”
- 3 year period – November 2013 thru October 2016
  - Implement a strategic dynamic decision modeling process through the 2016 election season
  - “Soft launch” crisis management plan during this period
  - Establish greater collaboration throughout one’s network
- 3 decade period – FY 2017 thru FY 2046
  - Reconstruction of the geopolitical and economic infrastructure
  - Help establish/maintain a stable multi-polar world dynamic

# Step One: Follow the Money



- \* The Federal Reserve stated most recently that 7% unemployment is the benchmark to target an end to quantitative easing, and 6.5% unemployment would be a general guideline for when the Fed begins hiking interest rates.
- \* The Federal Reserve is using the Bureau of Labor Statistics (BLS) unemployment data (below) to make this determination, and will vote in September for quantitative easing at revised levels below \$85 billion/month.
- \* Federal Reserve Chairman, Ben Bernanke, will formally announce the beginning of tapering of asset purchases by the Federal Reserve by Dec 2013.



# U.S. Debt rising as GDP remains stagnant

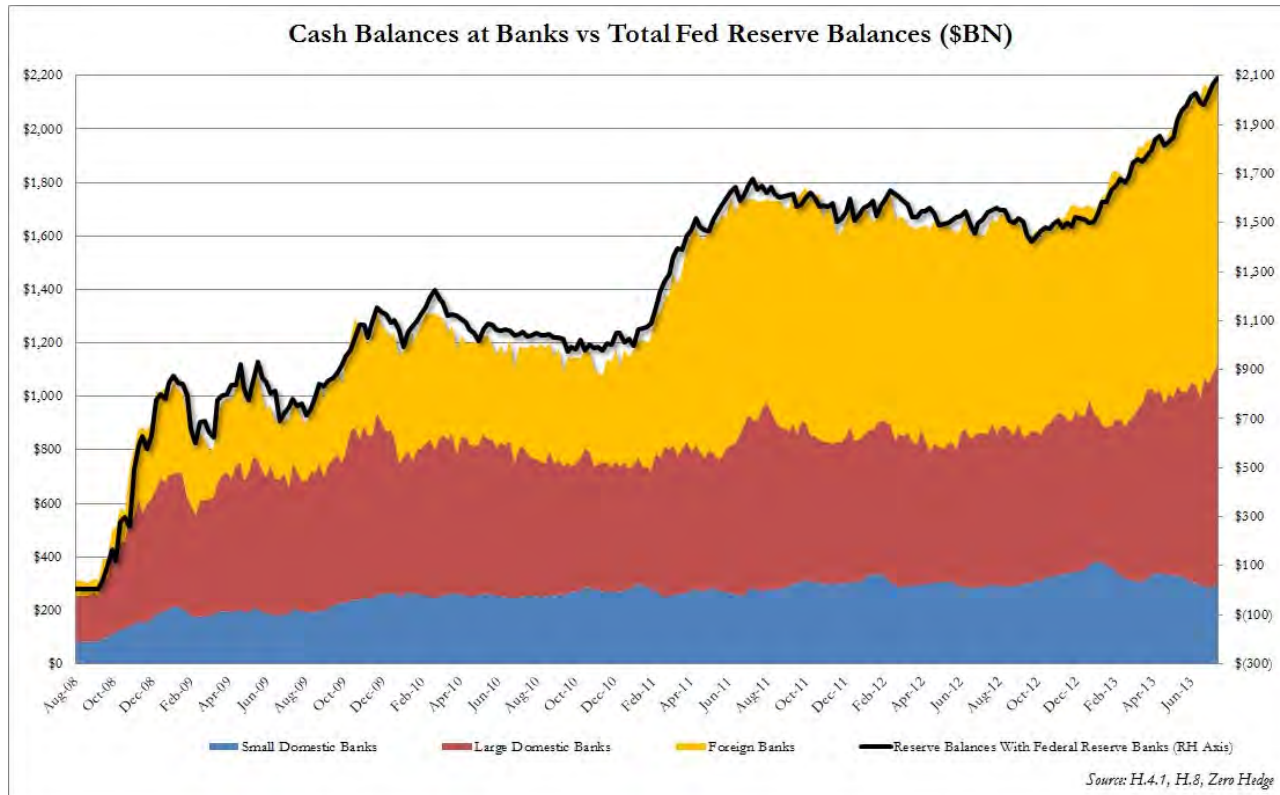
- At the end of 2012, nearly \$70.1 trillion (bottom, right) was owed in off-balance-sheet liabilities, in addition to the 'official' federal debts totaling \$16.7 trillion as of May 2013
- For every job created, two Americans enroll in food stamps
- Disposable income is declining as liabilities continue to rise

Table 5. Treasury debt held by the public and combined federal off-balance sheet liabilities

	2006	2008	2010	2012
1. Treasury debt held by public	4,867	5,837	9,052	11,299
2. Housing-related commitments	6,386	8,036	7,594	7,520
3. Student and other loan guarantees	468	547	419	325
4. FDIC	4,154	4,975	6,575	7,406
5. Federal Reserve	(773)	360	(1,136)	(1,128)
6. Social security	16,500	18,700	21,400	26,500
7. Medicare	28,500	33,200	24,900	27,600
8. Other government trust funds	1,308	1,487	1,646	1,862
<b>9. Total off-balance-sheet commitments</b>	<b>56,544</b>	<b>67,305</b>	<b>61,398</b>	<b>70,085</b>

- \* Central banks have created an unsustainable level of fiscal imbalance that cannot be corrected by reducing asset purchases without destabilizing the global derivatives market in the process. Japan bonds are the weakest link in the chain.
- \* Exotic debt instruments are being utilized throughout the global financial marketplace to maintain historically low interest and mortgage rates, while nations importing U.S. debt and engaging in their own currency carry trade practices continue to struggle with the fallout from increasing levels of quantitative easing (devaluation) of their own currencies.
- \* Once the Federal Reserve agrees to reduce levels of quantitative easing below the \$85 billion monthly injections into the global economy, gov't bond rates around the world will begin to escalate and capital controls will be implemented.

- \* Future announcements by the Federal Reserve to reduce quantitative easing will have an immediate ripple effect in bond markets around the world (beginning with Japanese gov't bonds) as international investors recognize that the current distribution of quantitative easing allocated to foreign banks exceeds U.S. bank holdings
- \* Global liquidity will precipitously decline as the Federal Reserve ends dollar carry trade practices, resulting in declining GDP around the world



\* In 2011, the Financial Stability Board (FSB) released a list of 29 “too big to fail” corporations currently operating around the world.

\* According to the FSB, these institutions are considered to be “systemically important financial institutions,” and a failure of any one of these corporations could result in “financial systemic failure.”

\* 17 are headquartered in Europe, 8 are in the U.S., and 4 are in Asia:

[Bank of America](#)

[Deutsche Bank](#)

[Morgan Stanley](#)

[Bank of China](#)

[Goldman Sachs](#)

[Nordea](#)

[Bank of New York Mellon](#)

[Group Crédit Agricole](#)

[Royal Bank of Scotland](#)

[Banque Populaire CdE](#)

[HSBC](#)

[Santander](#)

[Barclays](#)

[ING Bank](#)

[Société Générale](#)

[BNP Paribas](#)

[JPMorgan Chase](#)

[State Street](#)

[Citigroup](#)

[Lloyds Banking Group](#)

[Sumitomo Mitsui FG](#)

[Commerzbank](#)

[Mitsubishi UFJ FG](#)

[UBS](#)

[Credit Suisse](#)

[Mizuho FG](#)

[Unicredit Group](#)

[Wells Fargo](#)



\* A sufficient fraction of both domestic and foreign interest rate swap derivatives contracts held by these large banks will turn toxic as interest rates increase, compromising the bottom line of all big banks currently holding *trillions* of dollars each in interest rate swap derivatives contracts.

\* A failure of any one of the “too big to fail” banking institutions would result in electronic bank runs, further eroding the ability of banks to provide liquidity and increasing the likelihood of extended bank holidays.

\* What is most likely to create a bank holiday scenario is a derivatives market failure when bond rates escalate. According to the Controller of Currency and National Banks, below are the asset and derivatives exposure statistics for the following banks as of September 2012:

<b>BANK / INVESTMENT FIRM</b>	<b>TOTAL ASSETS</b>	<b>TOTAL DERIVATIVES</b>
<b>JPMorgan Chase</b>	\$1.85 trillion	\$71.07 trillion
<b>Citibank</b>	\$1.365 trillion	\$55.51 trillion
<b>Bank Of America</b>	\$1.448 trillion	\$43.79 trillion
<b>Goldman Sachs</b>	\$120.43 billion	\$41,23 trillion

# Why are derivatives important?



Data sources: Bloomberg, Federal Reserve

Benn Steil and Dinah Walker  
[blogs.cfr.org/geographics](http://blogs.cfr.org/geographics)

- \* Once interest rates on government bonds and/or mortgages rise to a threshold level, a sufficient quantity of interest rate swap derivatives contracts will compromise the bottom lines of “too big to fail” banks.
- \* Without a bailout at least 1-2 orders of magnitude greater than the 2008 bank bailouts, the entire global banking system will become insolvent within a matter of weeks following the collapse of the “too big to fails” once tens of trillions of dollars’ worth of swaps turn toxic.
- \* Instability within the \$1+ quadrillion derivatives market will force banking institutions to close their doors until a new currency is made available for daily transactions as a medium of exchange, in lieu of U.S. dollars and other fiat currencies currently in use around the world.
- \* Congress and the American people will elect to allow the big banks and investment firms that gambled away their bottom lines to go belly up by withholding the tens of trillions of dollars in required bailouts, until it is too late to resurrect the insolvent global banking system.
- \* As a result, bank holidays will remain in effect for an extended period of time (weeks to months) until a new financial system is implemented.

# Normalcy Bias



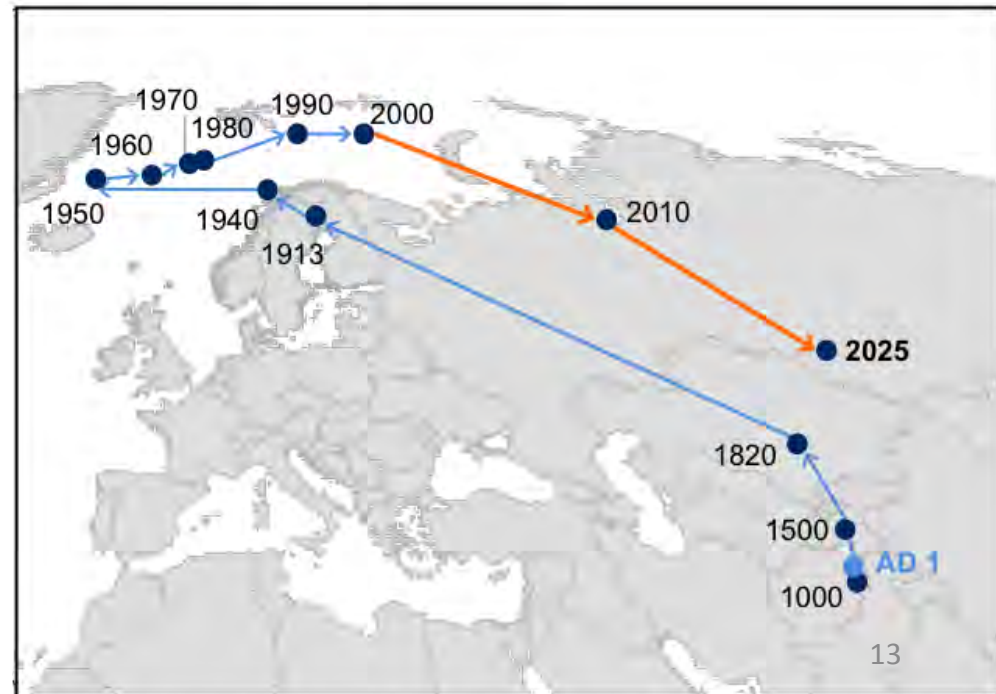
- \* Normalcy bias refers to a mental state people enter when facing a disaster. It causes people to underestimate both the possibility of a disaster occurring and its possible effects.
- \* This often results in situations where people fail to adequately prepare for a disaster, and on a larger scale, the failure of governments to include the populace in its disaster preparations.
- \* The assumption that is made in the case of normalcy bias is that since a disaster never has occurred then it never will occur. It also results in the inability of people to cope with a disaster once it occurs.
- \* People with normalcy bias have difficulties reacting to something they have not experienced before. People also tend to interpret warnings in the most optimistic way possible, seizing on any ambiguities to infer a less serious situation.

\* By 2025, 14 of the world's megacities will be in Asia. Only four of them – New York, London, Los Angeles and Paris – will be in North America or Europe, with the remaining seven in Africa and Latin America.

\* The world's center of gravity is moving “south and decisively east”. The top seven cities by population – Tokyo, Mumbai, Shanghai, Beijing, Delhi, Calcutta and Dhaka – will all be in Asia.

**By far the most rapid shift in the world's economic center of gravity happened in 2000–10, reversing previous decades of development**

Evolution of the earth's economic center of gravity<sup>1</sup>  
AD 1 to 2025

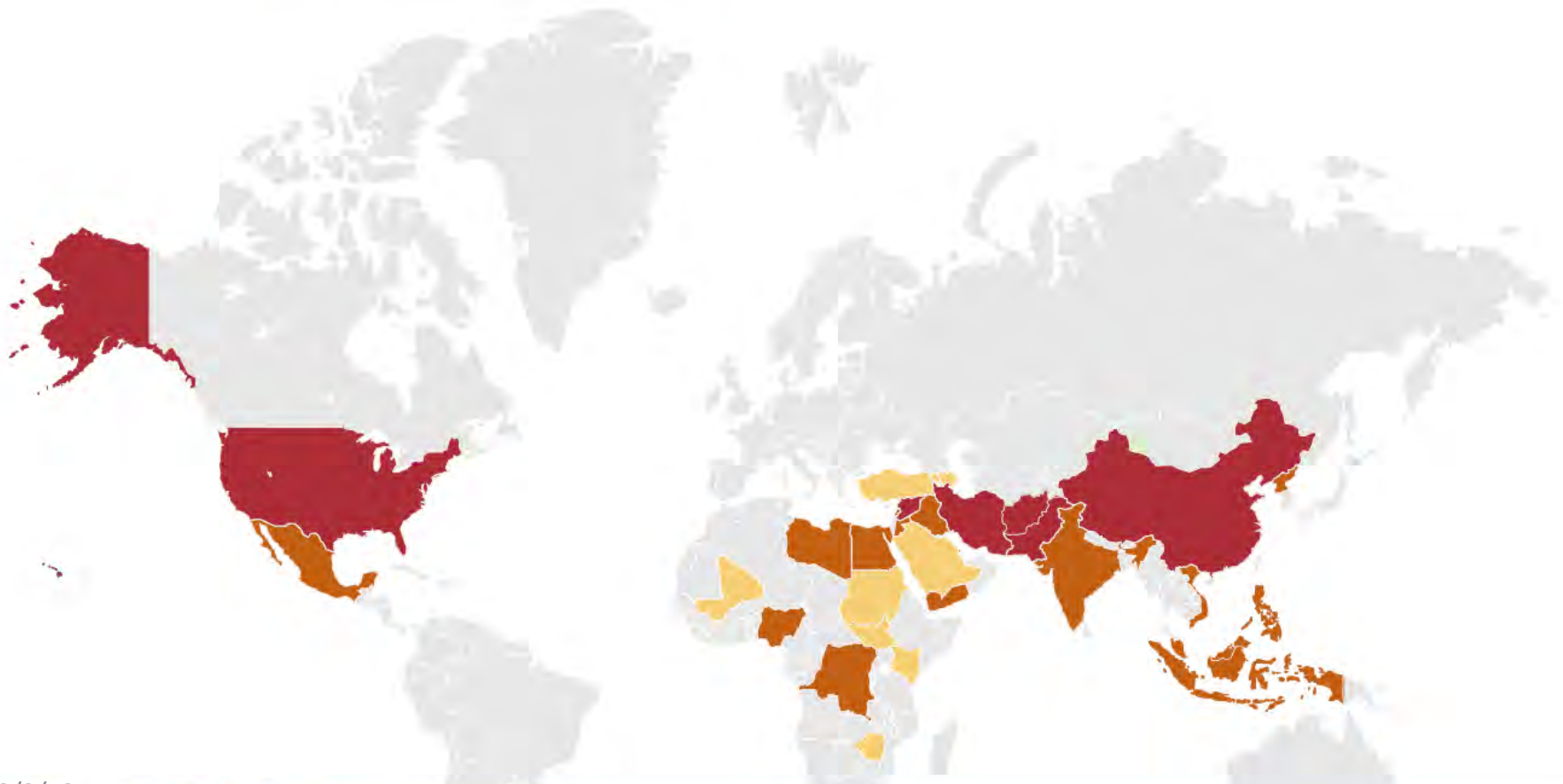




## Step Two: Determine Probable Ground Zero Locations and Methods of WMD Attack



The Center for Preventive Action's annual Preventive Priorities Survey (PPS) evaluates ongoing and potential violent conflicts based on the impact they could have on U.S. interests and their likelihood of occurring in the coming year. Policymakers have limited time and resources for preventive action and thus have to focus on a select number of potentially harmful contingencies from a myriad of possibilities. The PPS polls experts in the field and aims to help the U.S. policy community prioritize these competing conflict prevention and mitigation demands.



## Tier I

Contingencies judged high preventive priorities for U.S. policymakers

*IMPACT: HIGH  
LIKELIHOOD: LIKELY*

- intensification of Syria's civil war, including possible limited external intervention

*IMPACT: HIGH  
LIKELIHOOD: PLAUSIBLE*

- an Iranian nuclear crisis such as a surprise advance in Iran's nuclear weapons/delivery capability followed by an Israeli response
- a major military incident with China involving U.S. or allied forces such as a Sino-Japanese clash over the Senkaku/Diaoyu Islands
- a mass casualty attack on the U.S. homeland or on a treaty ally
- nonstate actors acquire biological or chemical weapons from stockpiles in Syria
- severe internal instability in Pakistan, triggered by a civil-military crisis or terror attacks
- a highly disruptive cyberattack on U.S. critical infrastructure

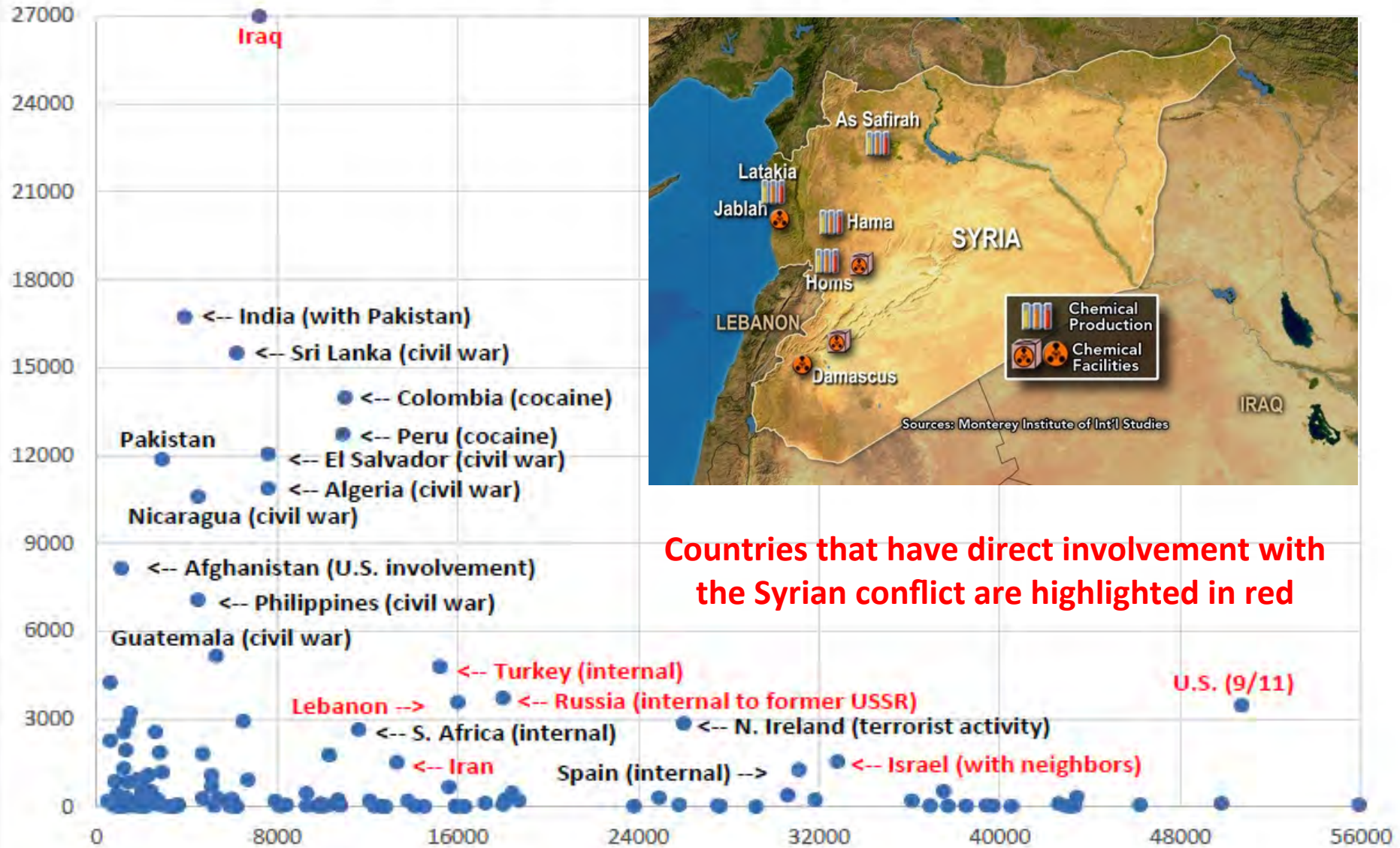
*IMPACT: MODERATE  
LIKELIHOOD: LIKELY*

- a major erosion of security in Afghanistan resulting from coalition drawdown





## Total # Killed in Terrorist Attacks vs. Per Capita GDP



**Countries that have direct involvement with the Syrian conflict are highlighted in red**

# FBI: 100 Percent Chance of WMD Attack

- The probability that the U.S. will be hit with a weapons of mass destruction attack at some point is 100 percent, Dr. Vahid Majidi, the FBI's assistant director in charge of the FBI's Weapons of Mass Destruction Directorate, stated in 2011.
- Such an attack could be launched by foreign terrorists, lone wolves who are terrorists, or even by criminal elements, Majidi says. It would most likely employ chemical, biological, or radiological weapons rather than a nuclear device.



# Shipping Containers & Hidden Dangers



- According to the Customs and Border Patrol, *agency officials scanned only 473,380 – about 4.1 percent of the approximately 11.5 million containers shipped into U.S. ports in 2012* – with X-ray or gamma-ray machines, and some shipments getting only a cursory paperwork review.
- The low percentage of scanned cargo is officially rationalized as a “layered risk-based approach” to cargo scanning and focuses primarily on specific cargo considered to be “high risk” – how that term is defined and bestowed is not always clear.

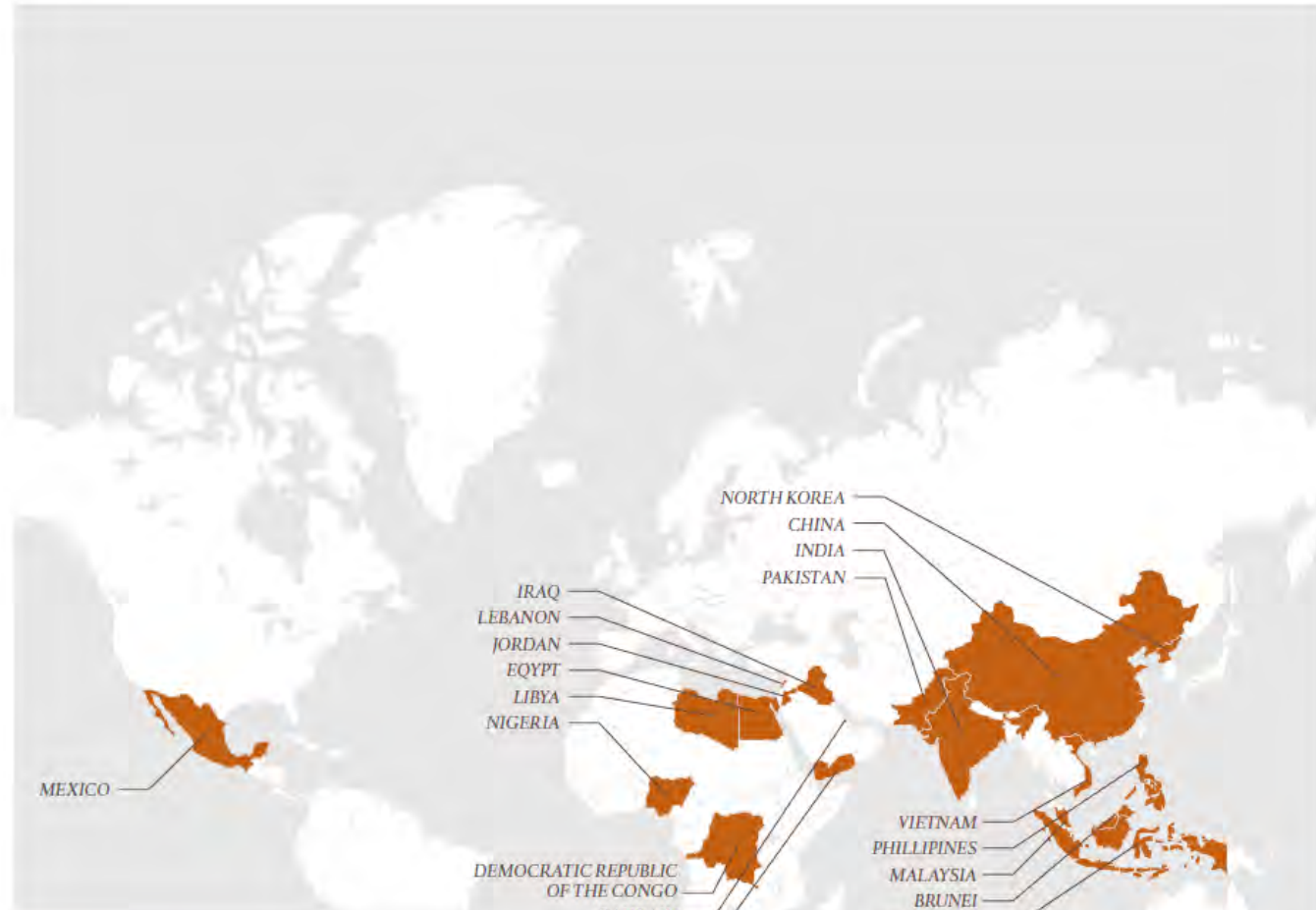


## Tier II

Contingencies judged mid-level preventive priorities for U.S. policymakers

*IMPACT: MODERATE  
LIKELIHOOD: PLAUSIBLE*

- a severe Indo-Pakistan crisis that carries risk of military escalation, triggered by a major terror attack
- a severe North Korean crisis caused by another military provocation, internal political instability, or threatening nuclear weapons/ICBM-related activities
- a significant increase in drug trafficking violence in Mexico that spills over into the United States
- a South China Sea armed confrontation over competing territorial claims
- continuing political instability and emergence of a terrorist safe haven in Libya
- further deterioration of security and/or backlash against counterterrorism operations expands al-Qaeda in the Arabian Peninsula safe haven in Yemen
- growing instability in Bahrain that spurs violent government reprisals or further Saudi and/or Iranian military action
- increasing sectarian violence and heightened political instability in Nigeria
- renewed sectarian violence in Lebanon due to spillover from the conflict in Syria
- rising sectarian violence and growing secessionist pressures in Iraq
- widespread popular protests in Jordan triggered by dissatisfaction with the pace of political reform
- unrest in Egypt over pace of reforms and deteriorating economic conditions



*IMPACT: HIGH  
LIKELIHOOD: UNLIKELY*

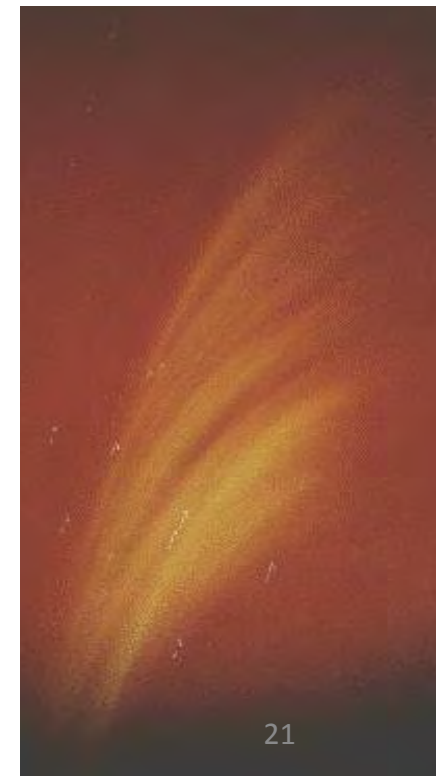
- a U.S.-Pakistan military confrontation, triggered by a terror attack or U.S. counterterror operations

*IMPACT: LOW  
LIKELIHOOD: LIKELY*

- a deepening of violence in the eastern Democratic Republic of the Congo that involves military intervention from its neighbors

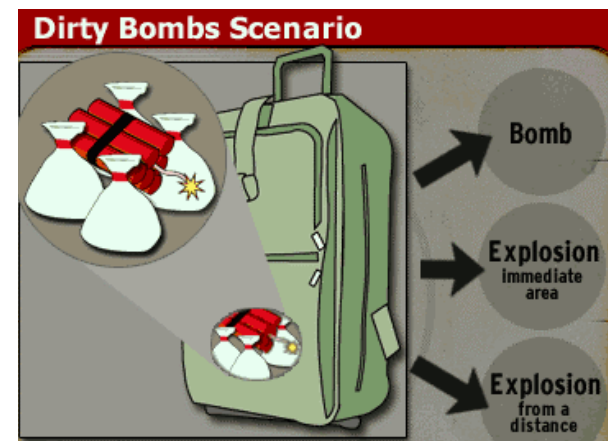
# How North Korea or Iran Could Cripple the U.S.

- An EMP attack would collapse the electric grid and other infrastructure that depends on it—communications, transportation, banking and finance, food and water—necessary to sustain modern civilization and the lives of 300 million Americans.
- EMP effects can be made more powerful and more catastrophic by using an Enhanced Radiation Warhead. This is a low-yield nuclear weapon designed not to create a devastating explosion, but to emit large amounts of radiation, including the gamma rays that generate the EMP effect that fries electronics.
- EMP Commission warns that, "Certain types of relatively low-yield nuclear weapons can be employed to generate potentially catastrophic EMP effects over wide geographic areas, and designs for variants of such weapons may have been illicitly trafficked for a quarter-century." An EMP attack could plunge our electricity-powered civilization into a blackout.



# The New Threat: The New Poor

- In 2011, the census snapshot showed 12.6 percent of adults in their prime working-age years of 25-60 lived in poverty. But measured in terms of a person's lifetime risk, a much higher number — 4 in 10 adults — falls into poverty for at least a year of their lives.
- Higher recent rates of unemployment mean the lifetime risk of experiencing economic insecurity now runs even higher: 79 percent, or 4 in 5 adults, by the time they turn 60.
- The “new poor” in the U.S. will pose a threat by sympathizing with nefarious domestic and overseas anti-American groups that blame the government for their suffering/shame





## Tier III

Contingencies judged low preventive priorities for U.S. policymakers

*IMPACT: LOW*

*LIKELIHOOD: PLAUSIBLE*

- growing popular unrest and political instability in Sudan
- military conflict between Sudan and South Sudan
- renewed ethnic violence in Kenya surrounding March 2013 presidential election
- widespread unrest in Zimbabwe surrounding the electoral process and/or the death of Robert Mugabe

*IMPACT: MODERATE*

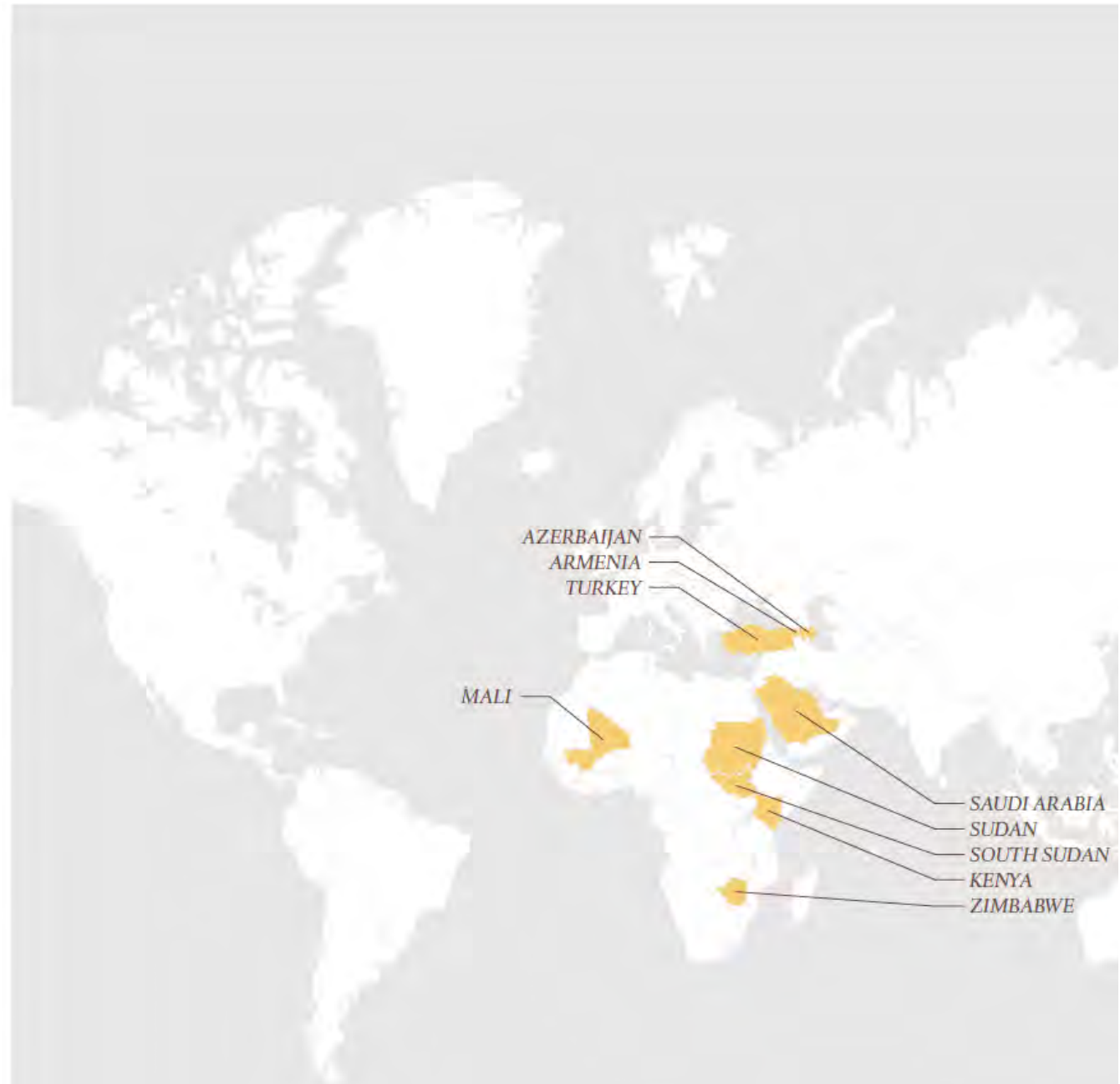
*LIKELIHOOD: UNLIKELY*

- political instability in Saudi Arabia that endangers global oil supplies
- renewed unrest in the Kurdish-dominated regions of Turkey and the Middle East

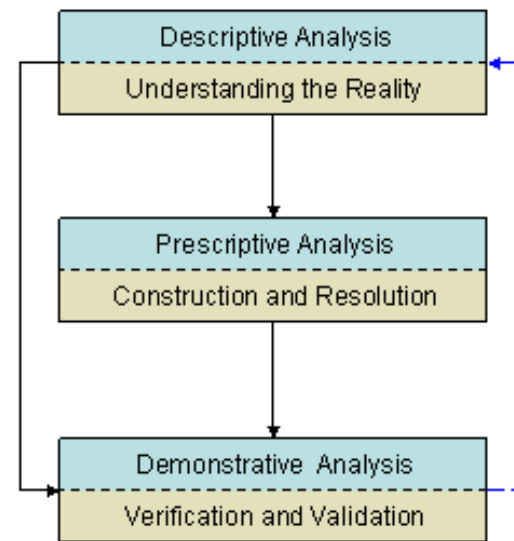
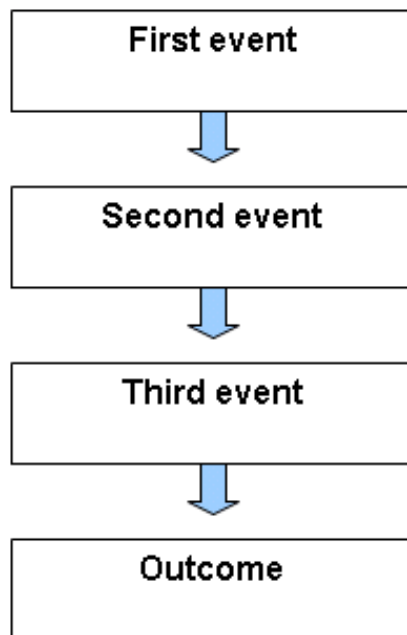
*IMPACT: LOW*

*LIKELIHOOD: UNLIKELY*

- an outbreak of military conflict between Armenia and Azerbaijan, possibly over Nagorno-Karabakh
- failure of a multilateral intervention to push out Islamist groups from Mali's north



# Step Three: Develop your Strategic Plan Around the Most Likely Chains of Events Resulting in a WMD Attack



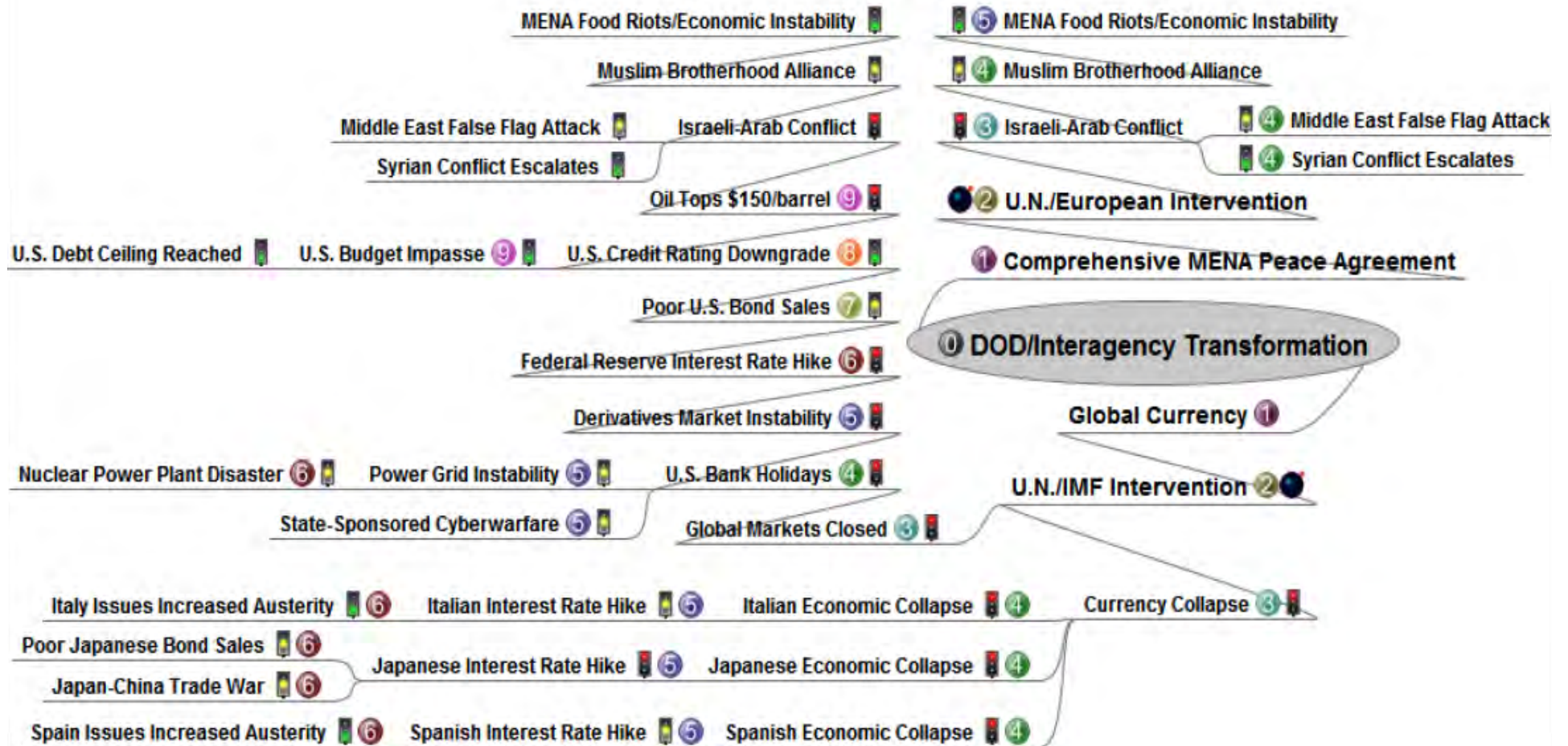
Fact-based **Analysis** / **Synthesis** in  
The Strategic **Dynamic** Decision Modeling



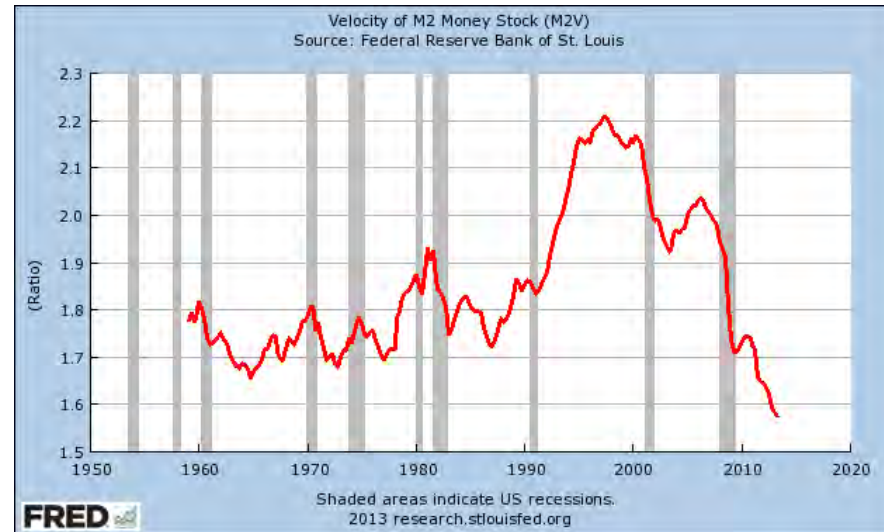


# Global Economic Security Tabletop Exercise

- In progress or inevitable
- Tipping point
- Fallout from tipping point



We are in the second act of a five act play



- Act One: September 15, 2008: \$550 billion electronic run on U.S. banks within 2 hours, initiating a multi-trillion dollar debt bubble
- Act Two: FY13-FY14: Sequestration/Austerity implemented in an attempt to reestablish a stable fiscal baseline; declining M2V
- Act Three: FY14-FY15: Global financial instability and extended bank holidays; COMEX implodes; persistent geopolitical instability
- Act Four: FY15-FY16: The creation of new financial institutions; geopolitical instability continues through the 2016 U.S. elections
- Act Five: Resolution on both the geopolitical and economic fronts as a stable multi-polar world dynamic is established

# Consider the GEAB's view and timeline:

## ***Global European Anticipation Bulletin, leap2020.eu***

*-- end 2013, financial impact: collapse of financial markets especially in the US and Japan. Banks can no longer be saved by the states and BAIL-Ins are put in place;*

*-- end 2013 / 2014 spreading to the real economy: The financial impasse causes / reveals a major world recession and the reduction of international trade;*

*-- 2014, social impact: The economic deterioration causes unemployment to explode, in the United States the dollar's decline lowers the standard of living, riots mushroom everywhere;*

*-- 2014 political crisis: the governments of the most affected countries are under fire for their handling of the crisis, forced resignations and early elections are expected, if not coups;*

*-- 2014-2015, international management of the crisis: together Euroland and the BRICS impose a new international monetary system and lay down the basis of new global governance;*

*-- 2015: The least affected regions have exited the crisis definitively;*

*-- 2018: It will take the United States, the United Kingdom and Japan five years to purge themselves of the crisis with, ultimately, a greatly reduced standard of living and a considerable loss of global influence (resulting from their refusal to participate in the re-casting of global governance on new bases)."*

During his speech at the Import-Export Bank Conference on April 5, 2013, Vice President Joe Biden outlined the following economic agenda of the Obama Administration:

1. The creation of a “***new world order***”
2. The creation of ***new financial institutions***
3. Update the global “rules of the road” to allow for ***sustainable economic growth***
4. ***Level the playing field*** to allow for the export of American products



# Guerrilla Economist – “The Plan” March 23, 2013 recording (~5 mins)



*“It must be considered that there is nothing more difficult to carry out nor more doubtful of success nor more dangerous to handle than to initiate a new order of things; for the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order.”*

Nicolo Machiavelli