

Unprecedented signals

Iran, Israel, the Eurozone crisis, Palestinian statehood and the outlook for 2012
(by John Jones)

11-11-2011

Three potent issues that have been steadily grumbling along for years now appear to be coming to a head; pretty much all at once. These are:

1. The Iranian nuclear programme and threats of military action to halt it
2. The debt crisis in the Eurozone, US and beyond
3. Israel and the Palestinians bid for statehood

And all of these issues are unfolding as the “The Arab Spring” continues to dramatically alter the Middle East political landscape. Suddenly there is real cause to wonder just where world events are heading, and what 2012 will look like.

“Future casting” can easily be the occupation of fools since events have an amazing ability to prove everyone wrong. However there are moments in history where those who have their eyes open can discern the times and seasons and be prepared. Right now there are unprecedented signals indicating the paths along which key world leaders are taking us; in particular with regards to the Iranian nuclear programme.

The Iranian nuclear programme

After Israel’s 2006 war with Hezbollah (in Lebanon), Israel appointed a general¹ to the “Iran Front”. It was about this time that speculation started growing that Israel, the US or a combination of the two would launch air, and probably missile, strikes aimed at halting the Iranian nuclear programme. Since then the actual path taken, at least so far, has just been to impose various rounds of sanctions. Predictably, while these have created hardship for the Iranian people, they have had little effect on slowing down Iran’s nuclear programme. Given that those involved in bringing sanctions to pass are by no means fools, what then is the purpose of these sanctions? The least alarming answer is that they are aimed at putting grass-roots pressure on the Iranian regime in the hope that the Iranian people will topple it and install a more western friendly government. A more alarming perspective would be to see sanctions as the modern equivalent to the ancient practice of placing a city under siege in order to weaken it prior to attack. For instance, Iraq was under sanctions for over twelve years² before the US invaded it in 2003, and was a much weaker target as a result. The unprecedentedly strong signal now coming through the media can be seen in the statement that Iran is only six months away from having a nuclear weapon³. Given that we’ve also been told repeatedly that Israel will not accept a nuclear capable Iran this sets the maximum timeframe in which we should expect some kind of military strike by Israel, and possibly the US, against Iran. The case for this, as well as the likely consequences, have been repeated

over and over through the media since 2006. I'm not stating the rights or wrongs here, or where the truth lies in the whole debate, but simply what the predominant message has been. Simply put, it is that Iran is developing nuclear weapons and that, while Israel is really concerned about the possible consequences of attacking Iran, it views a nuclear armed Iran as an existential threat and thus will ultimately act to prevent Iran from achieving nuclear weapons capability. And this message has also periodically been given along with a kind of countdown. Two years, one year, six months... And the consequences of an attack? As pretty much everyone concedes, Iran would certainly respond and at the very least Hezbollah (if not Syria and others also) would support Iran by attacking Israel, and possibly US positions in the region too. Overall most commentators believe an attack on Iran would trigger a significant war in the Middle East resulting in huge increases in oil prices which, even if there were no other global consequences, would have far reaching economic implications. At this stage it would seem that the only path towards avoiding war would be the internal toppling of the Iranian regime, however while the regime is unpopular with many Iranians its power is also very entrenched due to fervent support from the conservative Islamic sector of Iranian society; so this doesn't seem overly hopeful.

The debt crisis

The financial crisis that started in 2008 has had many different stages and is by its very nature extremely complicated. However, in very simple terms it could be compared to the situation of a person living beyond their means for many years while their mortgage got bigger and bigger, who then suddenly arrived at their mortgage limit and were confronted by the reality of having to tighten their belt. Only, in this case two other factors came into play. One was that rising food, energy and accommodation costs were also hitting that person's budget. The other is that at the point where they were about to be plunged into real hardship they found someone willing to give them a new credit card with a really large credit limit on it, thus putting off the worst of the problem for a few years (but obviously setting themselves up for it to return with a vengeance later). This in a nutshell describes most western economies today. The answer to the debt crisis has been to borrow more money in order to hold up their economies until the "recovery" comes. This has often been described as "kicking the can down the road". It's worse than that though; what it means that the worst case scenario has gone from severe belt tightening to outright debt default and IMF intervention (with the associated likelihood of reduced social services and increased corporate access to buying up public resources). This is the big picture, but in terms of where we stand right now the focus is obviously on the Eurozone crisis, in particular the unravelling of Greece and the possible beginning of a similar process in the much larger economy of Italy⁴. What are the signals we are getting on the Eurozone crisis? If you listen hard through all the noise and talk of the potential breakup of the Eurozone what you'll hear are repeated messages about the more strategically significant measures that need to be taken to tackle this crisis. Things like appointing an EU finance minister and

“limited treaty change⁵”. Despite wondering at times if European leaders are losing control of the debt crisis I just can’t bring myself to believe that the huge investment into creating the Eurozone over so many decades will be allowed to unravel so easily. I’m not saying that the crisis may not become severe, but only that the more severe it becomes the greater the scale of eventual changes that will be implemented to solve it. What seems most likely to be the ultimate result is not the unravelling of the Eurozone but what people sometimes call “more Europe”. In other words, greater centralisation of power towards the EU government and the European Central Bank (ECB), and therefore a reciprocal lessening of the power of individual nation states.

Now, while we are all focused on Europe right now we should also not forget the precarious state of the US economy, which will no doubt be further exacerbated by the knock-on effect of the Eurozone crisis. With a total debt of over 14 trillion dollars⁶ and over 40% of current government spending now coming from borrowing, the US is genuinely heading towards the financial abyss. What makes it even worse is the role the US currency has played as the world’s reserve currency; a role which has allowed the US to print money beyond what any other country could ever have imagined doing. This is OK as long as the US dollar continues to be used as a global default trading currency, however if the US economy faces a serious debt crisis this previous massive advantage could turn against the US as other countries try to dump their US dollars, resulting in a massive over-supply of the currency and thus a collapse in its value. China alone holds over a trillion US dollars that it would probably try to shed if there was immediate danger that it could lose most of its value. The big question is, how would the US respond to such a massive financial crisis?

Palestinian statehood

One might well ask how the bid for statehood by a tiny region in one of the smallest countries on earth could have any significant effects on the world scene at all. The reason I include this issue here is mainly due to its potential impact on the Israel-Iran situation. What are the signals we’re receiving on the push for Palestinian statehood? Again, through the noise the thing we keep hearing over and over is that Israel is becoming more isolated⁷. In other words, while the western world has a degree of sympathy with the dilemma Israel faces over Iran, when it comes to the Palestinians Israel is increasingly being seen as a pariah state. At a time when the Arab spring is changing the status quo in the Middle East, most significantly nullifying Israel’s fifteen year allegiance with Egypt, Israel is also being backed into a corner on the international stage. It is surrounded by enemies geographically and is also under increasing international pressure to grant the Palestinians their own state. This is an intensely difficult situation since, whatever the rights or wrongs of it, a Palestinian state would provide a very close point of potential military build-up right inside Israel and therefore could eventually pose a very real threat to the Jewish state. Even Israel’s nuclear deterrent would be useless against an enemy attacking right on the border of its own

population areas. So, I think it's reasonable to suggest that being under pressure to make decisions that would compromise its own future makes Israel somewhat desperate; and thus even more likely to risk attacking Iran and creating a war in the region. Israel may ultimately calculate that a regional war (which would certainly draw in the US due to its strong military presence in the area), would result in dramatic military weakening of surrounding powers.

The convergence

While the signals coming through about the direction of each of these three world issues are fairly clear, how they might converge is more speculative. I'm going to suggest a possible scenario, but it's only a theory; kind of a worst case scenario. Let's say that the financial crisis in Europe and the rest of the world continues to slowly snowball over the next six months to the point that people start to fear real collapse of the economic system and the onset of a terrible depression. Unemployment, social unrest and fear all provide a good climate for war and a reason for politicians to get involved in an external crisis that everyone can pull together around. In these conditions the likelihood of an attack on Iran becomes overwhelming. The ensuing war would no doubt push oil prices through the roof effectively destroying the consumer economy; however the economies of western nations might instead be put on a war footing where they became focused on military related production. This could stave-off financial failure, but even financial woes could be dealt with in severe and uncompromising ways in the middle of a war. But, economics aside, what would the likely military outcome of a Middle East war be? While the quagmires of Iraq and Afghanistan have made the US look weak, it is worth remembering that the US (and Israel) are at their strongest in conventional war; it's guerrilla war that wears them down. The US still basically maintains a potential capability of fighting two large-theatre wars at the same time (as it had to in WWII). Although it would be nasty, the US, UK, other western powers and Israel would almost certainly defeat a block of countries such as Iran, Syria, Egypt & Lebanon, even without resorting to nuclear weapons. Ultimately though, with nuclear weapons behind them, they can only lose if they chose to withdraw rather than going nuclear. Based on past history, after a war in which the western powers were victorious the focus would probably be on setting up moderate democracies in the conquered countries. Peace would presumably include terms suited to the ongoing existence of Israel as a nation; though it could also include provisions that Israel wouldn't at present accept (such as a Palestinian state and / or UN control of Jerusalem). However, despite terms probably offering the Jews "peace and safety", much of the world would be likely to hold a residual loathing of Israel; seeing Israel's initial attack on Iran as the cause of the war and their subsequent hardships. Thus Israel may have achieved a temporary physical security, but at a terrible price that could come back to haunt them later.

Of course I admit that this is all speculation. Instead it may be that political and economic events continue to unfold much more slowly, following the slow motion crisis-response pattern we've seen so far (both with Iran and in the financial crisis). Either way, I'm starting to see a new signal coming through. Whereas in the past commentators have always had the default expectation of the west returning to economic growth, something new is starting to be repeated on the airwaves. This is, put one way or another, the idea that things might never be quite as they were again⁸. It's amazing really that this has taken so long to dawn on most economic commentators since anyone who looks seriously at the challenges of a growing global population, and the associated competition for diminishing resources, should understand straight away that, whatever the up's and down's along the way, overall the outlook pretty much has to be "tougher times ahead". Be prepared.⁹

1. Maj. Gen. Elyezer Shkedy
2. Sanctions started from August 6, 1990. Iraq war started March 20, 2003
3. <http://articles.latimes.com/2011/nov/07/world/la-fg-iran-nuclear-report-20111108>
4. <http://www.bbc.co.uk/news/world-europe-15668772>
5. <http://www.brodies.com/knowledge/details/?id=1396>
6. http://en.wikipedia.org/wiki/United_States_debt-ceiling_crisis
7. http://www.huffingtonpost.com/2011/10/02/panetta-warns-israel-becomes_n_991473.html
8. <http://www.publicserviceeurope.com/editor-blog/114/will-high-economic-growth-ever-return>
9. Avoid debt and fixed financial commitments. If you have cash savings convert some to precious metals. Most importantly, get yourself a bible and pray.