The Front Lines of Crisis

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The more they do, the worse it gets, and world headlines confirm it. Recent ones include:

—The New York Times, February 17: "After Manhattan's Office Boom, a Hard Fall;"

—Washington Post, February 17: "Obama signs $787 billion stimulus bill; Dow Jones industrial average drops nearly 300 points;"

Dow theorist, Richard Russell, called it "one of the damnedest closes I've ever seen," within one point of the November 20 low, and added: "I thought President Obama outlawed torture in the US. Wall Street is not listening."

The next day both the Dow and Transportation averages hit new bear market lows. For Dow theorists like Russell and others, it's confirmation of lower ones to come.

—The Financial Times (FT):

February 17: "California dream turns into nightmare" given the housing collapse, slumping economy, and return of "widespread poverty;"

February 18: "Taiwan's GDP plunges more than 8%;" earlier, Japan reported a 12.7% annualized decline, its steepest drop in 35 years;

February 18: ILO says "Asia's jobless may hit 23.3m in 2009," three times last month's 7.2m estimate as regional woes deepen;

—Wall Street Journal:

February 18: "GM Seeks $16.6 Billion More in US Aid; Plans to Slash 47,000 Jobs;" may need $100 billion or more if forced into bankruptcy; "Chrysler Mentions Bankruptcy Option for First Time;" asks $5 billion more in aid:

February 18: "Banks Reel on Eastern Europe's Bad News" of a full-blown "economic crash." February 20: "Market Hits New Crisis Low; Analysts Warn They See Few Signs of a Bottom." Market Watch:

February 20: "GM's market capitalization dips below $1 billion....touching levels not seen in 71 years."

February 20: "Citigroup, Bank of America spiral further downward.... to all-time (intra-day) lows....the KBW Banking ETF, which tracks the banking industry, also reached all-time (intra-day) lows."

February 19: for the week ending February 14, first-time jobless claims were unchanged at 627,000; continuing ones jumped 170,000 to 4.98 million in the week ending February 7, a 27-year high; the four-week continuing claims average rose 92,500 to 4.83 million, also a 27-year high as job losses keep mounting; according to economist John Williams, true unemployment is 18% when discouraged and part-time workers are included. According to Williams and economist Jack Rasmus, around 800,000-1,000,000 monthly job losses have occurred since November with no signs of setup in sight.

Deepening gloom has even Republians thinking the unthinkable—nationalizing in solvent banks with Senator LIndsey Grahan or Fehm vs.

"This idea of nationalizing banks is not comfortable. But I think we've got so many toxic assets spread throughout the banking and financial community, throughout the world, that we're going to have to do something that no one envisioned a year ago (and) no one likes....I'm very much afraid any program to salvage the banks is going to require the government....I would not (rule out) the idea of nationalizing the banks."

In the *Chicago Tribune* on the same day, writer Frank James headlined: "Nationalizing banks gains GOP steam? What's....astonishing is for a (conservative) Republican....like Lindsey Graham (to suggest it). And he wasn't alone. Rep. Peter King (R, NY) also allowed for this possibility."

Then on February 18, the FT headlined: "Greenspan backs bank nationalisation....on a temporary basis to fix the financial system....facilitate an orderly restructuring (and) restore the flow of credit....I understand that once in a hundred years this is what you do." At the same time, he wants bailouts for senior debt holders to "anchor" the financial system.

This from the maestro of misery:

—free-market capitalism's high priest;

—responsible for engineering the 1990s and post-2000 bubbles and greatest ever wealth transfer from the public to the rich until Paulson, Geithner, Bernanke, and Summers bettered him or at least aim to;

—the man who just weeks before the 2000 market peak claimed: "the American economy was experiencing a once-in-a-century acceleration of innovation, which propelled forward productivity, output, corporate profits and stock prices at a pace not seen in generations, if ever;"

—who enriched Wall Street while tripling US debt on his watch;

—who takes no responsibility for today's turmoil and claimed he never saw it coming in spite of providing generous liquidity and no restraints to curb it;

—who still derides critics and champions deregulation;

—he's the Fed's second longest ever serving chairman who'll be remembered as its worst unless the current incumbent outdoes him.

In his latest February 17 column, the FT's Martin Wolf highlights the fallout by comparing Japan's "lost decade" and early 1980s America to today. He calls similarities with the latter misguided:

—in 1981, US credit market debt was 123% of GDP; by third quarter 2008, it was 290% and is now around 350% or double its 1929 level; 2007 household debt equalled GDP compared to 48% of it in 1981 and interest rates were mirror opposite - 20% then, zero now.

As rates in the 1980s dropped, borrowing and economic activity rose. Chances of a surge in borrowing now are nil.

As for Japan, it had a "lost decade" but no depression. America may not be as lucky given the importance of its financial system, how it affects the overall economy, the fact that huge debt accumulations were by households and the FIRE sector, not non-financial corporations. Today's crisis is global and growing, and proposals out of Washington "look hopeless."

"It is, for this reason, fanciful to imagine a swift and strong return to global growth. Where is the demand to come from? From over-indebted western consumers? Hardly. From emerging country consumers? Unlikely. From fiscal expansion? Up to a point. But this still looks too weak and too unbalanced, with much coming from the US. China is helping, but the eurozone and Japan seem paralyzed, while most emerging economies (are so troubled that they) cannot now risk aggressive action."

"Last year marked the end of a hopeful era." More likely it was early 2000. "Today, it is impossible to rule out a lost decade for the world economy." Some economists are even gloomier given the depth and breath of world crisis, the dearth of credible policies to combat it, and ones being implemented doing more harm than good.

Financial expert and investor safety advocate Martin Weiss believes that post-2007 policies "have failed." Over $9 trillion and counting "were designed to stimulate the economy, avoid a housing bust, restore public confidence, contain the credit crunch, reduce the danger of a global debt collapse, and shore up sinking banks."

So far, "every single (measure) is an outright, unambiguous, proven failure." will crush us.

Today's crisis is global, and America's problems far exceed Japan's in the 1990s. They're getting worse, not better "with deeper deflation, bigger debt collapses, and far larger financial losses." Japan is a creditor nation with 1980s and early 1990s personal savings at around 14% - at the time, the highest of any major industrial nation in the world.

In contrast, America is the world's largest debtor with personal savings at minus 0.5% unit it rose to 2.9% just recently. Japan pursued bad policy and failed. Its economy today is in, a shambles. America's on the same path. Throwing good money after bad with failed policies, not sound ones, assures painful fallout coming, higher costs in the long run, an economy heading for ruin, and dragging most others down with it.

Great Depression II?

So it seems because of what Martin Weiss calls "The Great Credit Crunch and Real Estate Crash of 2009." Its fallout hits everywhere and in some places disastrously. On The Global Research News Hour (February 16) and in his latest Global Research.ca February 18 article, F. William Engdahl headlined an example:

"Next Wave of Banking Crisis to come from Eastern Europe (with) an entirely new wave of losses in coming months not yet calculated in any government bank rescue aid to date." They're from "massive" 2002 - 2007 Western European risky bank loans to Eastern European countries, now in big trouble "with unpayable loan debts."

"The dimension (of the problem) pales anything yet realized. It will force a radical new look (at nationalizing troubled banks) in coming weeks." According to Engdahl's "well-informed City of London sources, (these concerns) will define the next wave of the global financial crisis (with impact) more devastating than the US sub-prime securitization collapse which triggered the entire crisis of confidence."

The risk amounts are "staggering" for banks in Italy, Austria, Switzerland, Sweden, Greece," and likely Germany. Other troubled countries include Ireland, Spain and Portugal as pain heads everywhere across the continent and beyond. "Perhaps most alarming is that the EU institutions don't have any framework for dealing with this. The day they decide not to save (one country, it will) trigger....a massive crisis with contagion spreading into the EU."

—slumping oil prices exacerbated trouble as UK North Sea foreign exchange earnings have plunged;

—British banks are in crisis with Northern Rock nationalized last February and Royal Bank of Scotland RBS) and Lloyds Banking Group PLC last October classified "public-sector entities," meaning their liabilities are included in public finances;

—last September's "shot-gun wedding between HBOS and Lloyds TSB....is increasingly blowing up in Lloyds face;"

—as in America, nationalizations loom as the only viable solution;

—on February 22, after Walayat's article, the UK's *Sunday Times* reported that RBS will be "split into a 'good bank' and 'bad bank' in a dramatic restructuring in which assets worth several hundred billion pounds will be put up for sale." RBS will also "place at least 200 billion pounds of toxic assets into the government's asset-protection scheme, a controversial insurance scheme designed to protect banks against further losses." RBS' losses and job cuts were reported earlier. The "bad bank" idea is similar to the insurance plan for Citigroup and B of A, although both banks so far remain whole.

—further UK evidence shows in sharply rising unemployment, slumping retail sales and housing, commercial real estate in trouble, and so is the entire financial sector in a crisis-ridden country like most others.

It's why economist Michael Hudson calls the "financial 'wealth creation' game....over....The economy has hit a debt wall and is falling into Negative Equity....A quarter to a third of US real estate (is) in Negative Equity." It will stay there "for as far as the eye can see until there is a debt write-down....debt deflation threatens to keep the economy in depression until a radical shift in policy occurs - a shift to save the 'real' economy, not just the financial sector and the wealthiest 10% of American families." Obama's "recovery" plan is ruinous by adding mountains of new debt and ignoring "the need for a write-down."

World markets may agree as a February 20 Wall Street Journal online headlines: "Wave of Selling Spans Globe....prolonging a market swoon that has dragged major averages down to levels not seen in years."

Bellweather General Electric is around 85% off its valuation high and year to date down around 43% in less than two months. At the same time, gold touched $1000 an ounce before pulling back intra-day. Spot gold reached $1030.80 last March with analysts predicting much higher prices going forward given strong physical demand and investors seeking the traditional safe haven in troubled times.

It's why financial expert and consumer advocate Catherine Austin Fitts recommends: ~ "Vote with your feet;"

—take your money out of "big money-center, tapeworm banks and financial institutions and put it in local credit unions, thrift institutions, savings banks and state chartered banks;"

—control your own retirement savings in troubled times, and above all:

—"Bail out of Wall Street" and "nationalize" the Fed. In other words, drop the fiction that it's a government agency. Expose its status as a private for-profit cartel, abolish it.

Today's crisis should bury the myth about "free market" fundamentalism as the best of all possible worlds. History proves otherwise by clearly showing that it fails the many to advantage the few because it's arranged that way. □□□

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