ANALYSIS

Bush's Chernobyl economy; hard times are on the way

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Nov 9, 2006, 01:24

In the next few months, a financial crisis will arise somewhere in the world which will jolt the American economy and trigger a swift and precipitous decline in the value of the dollar.

This is not speculation; it will happen and there is nothing that the Bush administration can do to stop it.

All of the traditional supports for the dollar have been removed by a shrinking economy, a massive $800 billion account deficit, dramatic increases in the money supply, and the reckless manipulation of interest rates.

Now, the noose is tightening. Our foreign trading partners can see that we are bobbing in an ocean of red ink and are refusing to buy back our debt in the form of US Treasuries. This is a death sentence for the dollar. It means that in a matter of months the once-mighty greenback will crash through the floor and free-fall through open space.

Mike Swanson of the WallStreetWindow explains the worrisome details related to last month's trade deficit, "Just a few days ago the US Treasury reported that the net capital inflows from the rest of the world into the US fell for a 6th month in a row. Private from abroad fell to $34.7 billion in August and from $72.9 billion in July. Asian central banks made up for the shortfall. If they hadn't the current account deficit would have exploded. The NY Times quoted Ashraf Laidi, a currency analyst at MG Financial Group as saying, 'foreign central banks saved the dollar from disaster. The stability of the bond market is at thee mercy of Asian purchases of US Treasuries.'"

Swanson poses an interesting theory, but it can't be verified since the Fed stopped printing the M-3 that would provide the relevant facts about the current cash inflows.

Jim Willie of GoldenJackass.com, offers an entirely different theory in his recent article "Spent Dollar Momentum."

Willie opines, "Behind the scenes are the many illicit London-based firms busily buying US Treasury Bonds with freshly-printed money from the Dept of the Treasury. Their tracks are covered by the blackout on the money supply statistic. (M-3) An isolated US government with a well-oiled printing press as the primary support device makes for a dangerous currency situation."

Willie's theory jives nicely with the US Treasury's figures on the "Foreign Financing of US Government Debt" (June 2006) Surprisingly, between 2005 and 2006, our friends in the United Kingdom purchased another $142 billion of USD bringing their stockpile of dollars to 201.4 billion.

Why?

Why would UK investors suddenly stock up on dollar assets when everyone else in the currency market is moaning about the greenback's systemic problems?

Could it be that banks in the UK are just hiding the paper trail for friends in America who wanted to forestall a collapse in the dollar until after the election?

Of course there is another explanation for the irregular activity in cash inflows, (purchase of US Treasuries) that is, that we're still living in a "faith-based" Wonderland where foreign trading partners are only too happy to buy an endless supply of worthless paper from a well-meaning giant who is busy spreading democracy to the "great unwashed" in developing world.

Of course, that is an utter fiction. The world is backing away from the dollar and dollar-based assets while the Federal Reserve attempts to conceal the details until we get through the election-cycle. It's that simple.

There is nothing accidental about the crisis we'll soon be facing. The officials at the Federal Reserve and the US Treasury are fully aware of the devastating effects of massive trade deficits, increasing the money supply, and interest rates. They have set the country on the path to ruin as part of a broader scheme for remaking the global system according to well-known precedents. In truth, the plan to modify the present system has a long history; going back to the 1980s when many of the same actors in government today were in positions of power in the Reagan administration. For the last six years they have been patching together their strategy; producing record deficits, unfunded tax cuts, mammoth government expansion, and doubling the money supply.

Who can possibly argue that they did not understand the implications of their actions?

Did Greenspan know that by lowering interest rates in 2001 to 1.5 percent that he would sluice trillions of dollars into the real estate market, producing the largest equity bubble in history? And, if he didn't know, then how is it that the Fed provides the statistics which actually tell how large the housing bubble is?

Can’t Greenspan read the charts and graphs his own organization puts out?

And why did Alan Greenspan support the “no down payment,” “interest-only” loans and adjustable rate mortgages (ARMs), which allowed “high risk” people to qualify for mortgages when the Fed knew, according to their own figures, that if interest rates went up, foreclosures would skyrocket?

Of course he knew; they all knew. How could they NOT know? They produce the facts and figures themselves! It’s all part of a madcap scheme to shift wealth to the top 1 percent and drive a wooden stake into the heart of the middle class. When Greenspan saw that doomsday was approaching, he got “cold feet” and bailed out. Now the scholarly Ben Bernanke is left to supervise the economic meltdown and face the public scorn.

Trouble Ahead

Currently, the U.S. economy is held together by the slimmest of threads; literally duct-taped together by massaging all the crucial economic numbers, pumping as much cheap fiat-currency into the system, and by "increasingly suspicious" maneuverings in the futures markets. With the elections over, there will be no reason to conceal the rot at the heart of the system. After all, we are not facing an unforeseen catastrophe, but a planned demolition intended to increase the disparity between rich and poor to such an extent that democracy, as we know it, will no longer be possible.

Nothing is more repugnant to America’s ruling elite than the notion that every man, however broke and insignificant, can participate in our system of government.

The Federal Reserve's bloody fingerprints are all over our present dilemma. The privately-owned Fed has never operated in the public interest. By doubling the money supply in the last seven years and keeping interest rates artificially low, the Fed has generated a $10 trillion housing bubble while, at the same time, ignoring a $800 billion trade deficit which is sucking up American assets and crushing American industry at an unprecedented rate.

This massive expansion of debt has increased the likelihood that an unexpected event, like a bank failure or a teetering hedge fund, will cause a major disruption in the markets, sending tremors through the global system. Even if nothing explosive happens, the faltering real estate market will continue to swoon, consumer spending will dry up, and the fragile economy will crash to earth. In fact, this is taking place right now; retail sales are anemic, residential housing dropped a whopping 17 percent in the last three months, and economic growth shrunk to a measly 1.6 percent in the third quarter. The only thing keeping the economy from collapsing entirely is the sudden drop in oil prices that “conveniently” coincided with the midterm balloting.

This won’t last. According to industry analyst Matthew Simmons the world production of oil may have already peaked, setting the stage for a leveling-off period before the inevitable decline. Simmons has data to show that “world supply of oil has declined to 83.98 million barrels per day in the second quarter after hitting 84.35 million bpd in the forth quarter of 2005.” Oil production is going backwards not forwards.

No one believes the price of oil is going down any time soon. As energy prices rise and the housing market falls; consumer spending, which added $825 billion from home equity into last year’s economy, will continue shrivel. Thus, the Fed will have to make the tough choice of whether to loosen the purse strings and lower interest rates to keep the economy sputtering along or ratchet up rates to attract more foreign investment. (Keep in mind that the real estate market is already in retreat, even though the full force of the Fed’s interest rate increases won’t be felt for up to six to 12 months after they have been raised. The worst is yet to come)

Most economists believe that Fed Chairman Bernancke will be forced to lower rates sometime in 2007 to try to stimulate the economy and to affect a “soft landing” in the housing market, but don’t count on it.

I believe the Fed is more likely to either keep rates the same or raise them to outpace the anticipated increases in Europe and Asia. The reason for this is simple: it presently takes nearly $2.5 billion per day to maintain our current account deficit. To continue to attract foreign capital, US Treasuries must offer a higher rate of return than their foreign competitors. Now that the economies in Europe and Asia are growing, their interest rates are going up accordingly (to slow inflation). That means that the only way that America can continue to expand its debt, through the exchange of fiat currency for resources and manufactured goods, is by raising the return on Treasuries. And, that is probably what Bernanke will do, even though it will skewer the struggling American worker and the US economy at the same time.

The secret to running the global economic system is to control the issuance of currency and thereby be in a position to expand one’s own debt as one sees fit. The Federal Reserve must preserve its “dollar hegemony” if it wants to maintain the greenback as the world’s “reserve currency.” To accomplish that, the dollar must stay one step ahead of its competitors (higher rates) and prove that it is on solid financial footing. This is impossible now that the US economy is contracting, so Washington has decided to do the next best thing; corner the oil market. By controlling Middle East oil, US policy-makers believe that they can force foreign nations to accept the debt-plagued greenback regardless of the faltering US economy. It is no different than any other extortion racket.

If the plan succeeds the dollar will remain the de facto international currency. But it is a difficult task and the escalating violence in Iraq suggests that the results are far from certain.

Corporate Colonization

“Free Trade” is the Holy Grail of neoliberalism. It is essentially a public relations scam intended to disguise the shifting of wealth, jobs and resources from either the middle class or the public sector to the corporate and banking establishments.’ Despite the zealous cheerleading of Thomas Friedman and his ilk; the basic facts have been thoroughly examined and are not in dispute. Free trade has been a dead loss for everyone except the people for whom it was originally designed; the wealthiest and most powerful men on the planet. It has served them quite well.

For example, “since NAFTA went into effect in 1994, the US has lost over $4 trillion to foreigners through its trade deficit” . . ."During that 11.5 year period , foreign ownership of US assets skyrocketed an amazing 400 percent from $3 trillion to over $12 trillion” . . ."Foreign interests now own 46 percent of US Treasury debt, 26 percent of corporate bonds, and 13 percent of US corporate equities. Now nearly 100 percent of ongoing borrowings by the government are funded by foreign interests.” . . ."Foreign interests also control a majority of US domestic industries such as movies, music, publishing, metal ore mining, cement production, engine and power plant production, rubber and plastics and are major owners of US industries such as pharmaceuticals, chemical manufacturing, industrial machinery manufacturing, motor vehicles, and electronic equipment and components . . . In addition, the US has lost 3 million manufacturing jobs over the last decade, real wage growth after inflation has been essentially zero,” and personal debt has never been higher. (Data from Thomas Heffner EconomyInCrisis.org)

Since 1980, 13,730 major companies have been sold to foreign corporations. We no longer produce what we need to sustain ourselves.

These facts may have a mind-numbing affect on the reader, but they make a point that is simple and unavoidable. The country is being colonized by corporate predators and its main assets are being sold off to the highest bidder. This rampant carpetbagging is taking place in full view of the American public that still clings to the spurious idea that “free trade” is generally beneficial for all. It is not, and we are about to experience its full-effects as America’s “straw house” economy topples from its loss of manufacturing-capacity and its staggering account imbalances.

“Foreign investors now own 46 percent of US Treasury debt” over $3 trillion dollars! The Federal Reserve and its corporate wolves are planning to prolong the hemorrhaging of US wealth as long as possible, extracting every last farthing from the prostrate corpse of the waning republic.

Now, we are at the brink. Energy prices will go higher after the elections, manufacturing will continue to flag, and the housing Zeppelin is drifting towards the high-tension wires. To make matters worse, the American consumer; the “engine for global economic growth,” is drowning in a sea of personal debt.

There’s no place to go but down.

Every part of this bleak picture was anticipated by its architects. That’s why they hastily slapped together the requisite legislation for a modern day police state. After passing the Military Commissions Act of 2006 (which allows the president the arrest whomever he chooses without charges) and overturning the Posse Comitatus Act (the president is now free to deploy the military within America against US citizens), the Bush administration is as ready as they can be. Apparently, they feel like they can manage the public shock and outrage with detention camps and water cannons.

We’ll see.

In any event, the trap has been set and any minor disruption in the hedge funds or derivatives markets will put the economy into a violent tailspin forcing our "Decider” president to activate his plans for the new world order.

Battle Stations, Battle Stations

Last week an article by Ambrose Evans-Pritchard appeared in the UK Telegraph, where he stated: “[Treasury Secretary] Paulson re-activated the secretive support team to prevent markets meltdown. Judging by their body language, the US authorities believe that the roaring bull-market is just a sucker’s rally before the inevitable storm hits. . . . the plunge protection team is a shadowy body with powers to support stock-index, currency, and credit futures in a crash. Otherwise known as the working group on financial markets, it was created by Ronald Reagan to prevent a repeat of the Wall Street meltdown in October 1987.” . . . Paulson has set up “a command center at the US Treasury that will track global markets and serve as an operations base in the next crisis.” (Members include the heads at Treasury, Federal Reserve and Securities and Exchange Commission)

Evans-Pritchard adds: “Mr. Paulson has asked the team to examine ‘systemic risk posed by hedge funds and derivatives, and the government’s ability to respond to a financial crisis . . . We need to be vigilant and make sure we are thinking through all of the various risks and that we are being very careful here. Do we have enough liquidity in the system?’”

And, finally, Evans-Pritchard asks, "[Do] Mr. Paulson and Mr. Cox [SEC] know something that we do not: whether other hedge funds are in the same sinking boat as Amaranth Advisors and Vega Management, keel-hauled by bets on natural gas and bonds? Or whether currency traders with record short positions on the Japanese Yen and Swiss Franc are about to learn the perils of the Carry Trade, a highstakes game of chicken where you bet against fundamentals with high leverage to make a quick profit. Everybody knows it will blow up if the dollar goes into free fall."

So what is Paulson anticipating?

Gabriel Kolko offers us a clue in a CounterPunch article, "Why a Global Economic Deluge Looms," "The entire global financial structure is becoming uncontrollable in crucial ways its nominal leaders never expected. Instability is its hallmark . . . Contradictions now wrack the world's financial system, and if we are to believe the institutions and personalities who have been in the forefront of the defense of capitalism, it may well be on the verge of serious crisis."

Deregulation and reduced market transparency have created a plethora of financial instruments that are relatively untested and extraordinarily volatile. By eliminating the rules of the game, market savvy investors have raked in the profits but reshaped the economic landscape in a way that no one can predict what the ultimate outcome will be. Hedge funds are now loaded with over-leveraged debt instruments that promise a generous return in an up tempo market, but certain doom in an economic downturn. Now, that all the arrows are pointed towards recession, the devastating effects of this new "liberalized" system will be felt throughout the global economy.

No one knows what is in store for these high-risk hedge funds which have only been in existence for a short time and into which Americans have dumped trillions of their hard-earned savings. As Kolko says, "The credit derivative market was almost non-existent in 2001, grew fairly slowly until 2004, and went into the stratosphere, reaching $17.3 trillion by the end of 2005."

Is it any wonder why the main players at the Fed, the Treasury and the SEC are feeling a bit jittery?

Any shock to the markets could set off a system-wide catastrophe. Just this week, for example, Taiwan was bracing for a stock market crash following the surprise indictment of first-lady Wu Shu-chen. Even relatively small incidents like this on the other side of the world create the potential for contagion that can spread rapidly in this new world of globalized markets. The danger is even greater when those markets are built on foundations of sand.

Hank Paulson was doubtless selected as Treasury secretary as the best possible "industry-insider" to oversee the unwinding of America's humongous account imbalances and flimsy "deregulated" markets. His job is to ensure that, at the end of the day, US banking giants, the Federal Reserve, and western elites still control the global economic system and that the dollar reigns supreme. Whatever happens to the American middle class in the process is of no consequence.

But Paulson faces an insurmountable task from this point on; fudging the numbers only works for so long. So far, the greenback has benefited from the manipulation of oil prices, but that will soon end. (Better "fill 'er up" now) The US economy is a shriveled shadow of its former self; housing and manufacturing are in a shambles and growth depends entirely on the expansion of debt. As GDP begins to nosedive, foreign investment will dry up, capital will flee to more promising markets in Asia and Europe, and the American people will totter into a barren world of soaring unemployment, hyperinflation, and 1930s type deprivation.

Unsurprisingly, the Bush administration still believes that their plan to remake the world's strongest economy into a corporate fiefdom is a prudent way to meet the exigencies of the new century. Their foolishness defies description.

The country is now facing a Chernobyl-type meltdown and there's nothing we can do to stop it. The foundation blocks for sound economic growth and prosperity have been replaced by a misguided faith in military adventurism and police state repression. The results are plain to see.

We are now more vulnerable to a seismic economic event than anytime since the Great Depression. The corporatists and the money-enders have absconded with the nation's wealth; gutting the manufacturing sector, creating enormous equity bubbles, and raffling off our vital industries to foreign predators. Their unchecked avarice has left the country teetering on the verge of ruin. At the same time, the Bush administration has sown dragon's teeth across the world; leaving the US with precious few friends who will throw us a lifeline when the ship starts listing.

Hard times are on the way; only this time it'll be detention centers instead of soup kitchens.

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