The State of the US Economy, September 2007: Quotes, Analyses & Expectations (Unfinished draft--Time sensitive)

Introduction

Extraordinary times of economic crises are upon us and—as the rate of change of historical processes is exponentially increasing and the global economy becomes more and more interdependent—these crises are coming sooner and harder and more system-wide than most would anticipate, especially citizens of goodwill for whom this report is intended. The present crisis is fueled, as is the case in most of recorded history, by the still unresolved collective psychological phenomena of ignorance-based greed, fear and ambition, which emotions have been craftily amplified and manipulated by corporations, the international financial-monetary complex, think tanks and semi-secret organizations into individual actions and national policies that for most people and nations are self-defeating in the long-term, but very profitable for the small layer of the international power elite and its cadre of corrupt politicians, Orwellian intellectuals, economic hitmen and other agents of deception and enforcement.

This little report intends to give 1) a sense of the precarious state of the international economy and informed speculation of what is to come, 2) some advise for personal preparedness, 3) warnings about the way the power elite will use the ensuing economic and political distress to further its own dangerous agenda, which same agenda brought about the crisis in the first place, and 4) inspiration for some clear-headed thinking about possible solutions by dipping into the mind and spirit that originally moved the founding fathers of the Swiss, Dutch and American republics into political action and revolution. Crises, besides being quite painful, are also opportunities to address and correct underlying structural imbalances.

Quotes

For a sense of the economic dangers we are in, just read the following recent quotes from reputable sources, starting with some warnings from financial analysts for the possible crises that are now upon us.

"Housing bubbles heavily entangle banks and the whole financial system as lenders. For this reason, as a matter of fact, property bubbles have historically been the regular main cause of major financial crises." The Richebacher Letter (June 2005) [http://www.richebacher.com/index.html]

"The implosion of subprime will only be the beginning of the process. We don’t even believe the fallout will be contained in the mortgage lending market, let alone subprime. Risks pervade the entire financial system." Markets at a Glance (March 2007) [http://www.beearly.com/pdfFiles/Sprott03-2007.pdf]

"The Bank for International Settlements, the world's most prestigious financial body, has warned that years of loose monetary policy has fuelled a dangerous credit bubble, leaving the global economy more vulnerable to another 1930s-style slump than generally understood."
"Ameriquest Mortgage Co., once the nation's largest subprime lender, will close with barely a whimper, after the other assets of its parent company were sold Friday to Citigroup Inc." Associated Press 9/1/07

"At current rates so far this year, RealtyTrac expects foreclosure filings to hit two million in 2007, or roughly one per 62 American households — a rate approaching heights not seen since the Great Depression." New York Times 9/1/07

"The belief that Europe would somehow be insulated has been tested over the last two weeks. Two German banks have required bail-outs on subprime bets – Sachsen LB for Eu 17.3bn [$23.400.000.000], IKB for Eu 8.1bn." The Sunday Telegraph (UK) 8/23/07

"The current turmoil in the financial markets has all the characteristics of a classic banking crisis, but one that is taking place outside the traditional banking sector, Axel Weber, president of the Bundesbank, said at the weekend [of the Fed's yearly meeting at Jackson Hole, Wyoming]. … Some Federal Reserve policymakers also privately see comparisons between the current distress in credit markets and the bank runs of the 19th century, in which savers lost confidence in banks and demanded their money back, creating a spiraling liquidity crisis for institutions that had invested this money in longer-term assets." Financial Times 9/2/07

"We are at an end of an era, living through the worst financial panic in many decades. Now begins global financial instability. It is impossible to speculate how long today's turmoil will last—but there now exists an uncertainty and lack of confidence that has been unparalleled since the 1930s—and this ignorance and fear is itself a crucial factor. The moment of reckoning for bankers and bosses has arrived." Gabriel Kolko, 8/29/07

"Running through this whole drama is a larger theme, one that nobody is talking about and that can't be cured by fiddling with interest rates or throwing liquidity at banks making too-risky loans. The reason the modern central banking system is prone to periodic crises and market failures is that it is a Ponzi scheme, one that is basically a fraud on the people. Like all Ponzi schemes, it can go on only so long before it reaches its mathematical limits; and there is good evidence that we are there now." Ellen Brown 9/3/07

What is to come?

Well, look for other imbalances in the economy and figure out how they might suddenly adjust. In other words, look for bubbles and expect them to pop in their own peculiar way. For example many of the high-risk hedge funds--the preferred unregulated investment vehicles of the super-rich--are going belly up left and right as they have been investing in
asset bubbles that are popping. With them might go the 415 trillion dollars derivatives market, which is probably the biggest and most dangerous bubble of all, for it is at least 8 times the entire world economy. For understanding the workings and dangers of this market the following metaphor might be very apt:

But, the real answer to what a derivative is, is to look at it in terms of a dog and fleas. During the 1980s, you had the creation of a huge financial bubble. This was the miracle, the Reagan-Bush economic miracle. And, you could look at that as fleas who set up a trading empire on a dog. And they're trading more and more -- they build up their trading empire. They start pumping more and more blood out of the dog to support their trading, and then at a certain point, the amount of blood that they're trading exceeds what they can pump from the dog, without killing the dog. The dog begins to get very sick. So being clever little critters, what they do, is they switch to trading in blood futures. And since there's no connection -- they break the connection between the blood available and the amount you can trade, then you can have a real explosion of trading, and that's what the derivatives market represents.

And so now you've had this explosion of trading in blood futures which is going right up to the point that now the dog is on the verge of dying. And that's essentially what the derivatives market is. It's the last gasp of a financial bubble. [Interview of John Hoefle, "Hedge Fund Rescue, and What to Do with the Blow Out of the Bubble?," EIR Talks (October 2, 1998)]

http://www.geocities.com/Eureka/Concourse/8751/riwa/hedge02.htm

Besides the housing bubble, derivatives bubble and hedge-fund bubble there are some more that are ripe to pop. For example the overvalued dollar--overvalued because of the chronic U.S. trade deficit, which in 2006 was $758 billion--might decline to yet unanticipated depths in order to adjust the enormous import-export imbalance. This might be good for the US economy in the medium term, for it has to manufacture again the items that are now made in foreign countries. But for the short term it will mean that returning dollars will be used for purchasing US assets and it might trigger a sharp decline in consumption, because prices of imported goods have gone up too high and domestically manufactured substitutes are not yet available. The other bubble to pop is the "carry trade" bubble, in which massive amounts of money are borrowed at low short-term rates (mostly Japanese currency) to fund higher yielding long-term investments (mostly US bonds). If the short-term rates go up, as is happening, the yield will go down, and, in the end, the investors will have to liquidate their long-term positions.

The trigger for the unraveling of this unsustainable speculative frenzy in these different bubbles might be in the way the USA futures and options markets influence the stock markets worldwide during the so-called quadruple-witching-hour when many of these bets on stocks expire every third Friday of March, June, September and December. When preceded by a period of erratic fluctuations (like in September-October 1987) and now increasing uncertainties about the real value of assets like houses, stocks, the dollar and all derivative contracts derived from their, now very uncertain, underlying value, we might see on the third Friday of this September, the 21st, stock prices going downhill in rapid tempo and have another crash on our hands. If this scenario will play out is anybody's guess as the most important factor will be the unpredictable psychology of big and small investors. Will they panic or will government agencies and central banks--the lenders of last resort--reassure them again, when they step in to bail out the overstretched players? If the latter be the case inflation will increase and new bubbles will appear and the system will be saved for another season till the new bubbles go pop. If the market crashes we'll have to see how far and deep the crisis might develop with possible runs on banks, stores and large-scale disruptions in the economy.
Again, this is only a highly plausible scenario. Other events might pull the trigger too, like another false flag terrorist attack, or an other financial time bomb that might go off like the recently identified one in the European short-term money market.


Individual Preparedness

Given the above facts and possibilities, and mixed with a good dose of caution and healthy paranoia, the following advise is pretty common sense.

1) Have three weeks of food provisions at hand, because severe disruptions at the level of grocery retailers might happen when financial instruments regulating the flow of goods might get temporarily in disarray, or if, besides runs on the banks, there might also be runs on stores, which will take time for them to recover from.

2) Withdraw a good amount of cash from your bank accounts. Dollars at home are to keep financing daily purchases, pay bills or even pay rent or mortgage in case banks close down (which will be only temporarily, though not sure for how long). In case banks close, immediately re-negotiate rent or mortgages to a minimum. Keep some money in the bank to keep paying bills etc. in usual way when banks stay open, and to convince creditors, in case of bank closure, that you do have money, but that you can't get at it.

3) Transfer some of that money into gold and silver. This to park money in real wealth as a hedge against inflation, which is already happening at a higher rate then the massaged government numbers are telling us. Silver, especially small coins (pre-1964), is also good for smaller transactions when the crisis deepens and gold and silver will become more acceptable as ways of payment.

4) Change investment-portfolio into an ultra-conservative one and maybe get out of the stock market altogether.

5) Be very careful about taking out home-equity loans. With house prices falling you might end up without any equity in your home. Have a lawyer also read over the contract carefully, because, apparently, those who have taken out such loans have less protection against re-possessors than those who didn't and only owe a traditional mortgage.


7) Meanwhile pray for the following:
   - The best possible course of deflation of the speculative housing bubble, stock market bubble, derivatives bubble and all other imbalances in the economy
   - The protection of responsible home-owners from foreclosure
   - The protection of responsible community banks from bankruptcy

Opportunities for the Powers That Be

When the situation worsens count on the fact that government commissions, think tanks and intellectuals of all stripes will offer their solutions to the crises. Expect more government intervention and more cheap money to solve the problems, like Bush's recent offer to help the sub-prime mess by having Freddie Mac and Fannie Mae step in with their
own lines of credit and by suspending certain tax liabilities. For many homeowners and investors this might be a welcome, though temporary, relief, but for the economy in general it will mean more inflation, a larger federal deficit and another delay in the necessary structural overhaul of the basics of the economy and banking system. Sure, Bush wants some reform of the mortgage market by proposing more transparency, accountability and education, but these measures are calibrated more for the benefit of the system itself than to have people start thinking about its questionable fundamentals and demand a real structural change.

Other policies that might be promoted by the power elite when an economic downturn happens are the following:

- From the left we might expect the revival of New Deal policies like public credit and infrastructure projects, maybe also "a citizens’ basic income guarantee and a National Dividend" as proposed by Richard Cook in an article at globalresearch.com. [http://www.globalresearch.ca/index.php?context=va&aid=6750](http://www.globalresearch.ca/index.php?context=va&aid=6750)
- From the right, expect policy proposals that will fork over money from taxpayers to bail out the irresponsible lenders and borrowers and their devalued assets.
- Internationalists will promote the IMF to step in to stabilize the dollar and solve the US trade deficit. This "help" will come with conditions that will place many aspects of the US economy under the control of this international ministry of economic affairs.
- A more far-fetched, but not implausible, scenario would be the further promotion of a North American Union of the United States, Canada and Mexico with its own currency, the Amero. Many steps have been taken into that direction already under the Security and Prosperity Partnership organization.

Of course, collectivist policies will have a chance of success as long as people don't start thinking for themselves and demand federal and state government to intervene.

**Opportunities for and by the People**

Though the power elite might be better positioned to take advantage of the crisis and promote its own agenda, at the same time there will be also a great opportunity for the people to wake up, educate itself and develop sound proposals for an economy that is for, by and of the people and not its nemesis, the international financial-monetary complex. As the battle over monetary policies between theconstitutionalist faction and the oligarchic faction has a deep and not very well known history it will be good to start with some history lessons, before we, as the proverb goes, repeat history's mistakes. In that light it would be advantageous to have studied the following material:

- *The War on Gold: How to Profit from the Gold Crisis* by Anthony C. Sutton
Based on the above research the following investigations and policy proposals will hopefully make some sense:

- Further investigation of the Federal Reserve System and those financial institutions devising and trading exotic loans and derivatives
- The development and implementation of sound monetary policies by the US Congress
- Calling for an in-depth audit, structural reformation or possible closing down of the Federal Reserve System by the US Congress on behalf of the American people
- Possible re-instatement of an asset-based currency like the gold standard, but not before a thorough reformation of the banking business and the retiring of the national debt through an act of Congress.
- Outlawing hedge-funds and exotic lending practices
- Congressional investigation of the mega-foundations and think-tanks, especially the Council of Foreign Relations and the groups for which it is doing most of the heavy work in long-term policy planning, like the Bilderberg conferences and the Trilateral Commission.

Much more could be added to refine and underpin this report, but for now, being confident that a clear enough picture has been presented, educate yourself, prepare, communicate with fellow citizens, pray, sit tight, don't panic and contemplate political action.

**Articles and Sources**

The Daily Reckoning
Daily perceptions of the economy by a bunch of skeptics
http://www.dailyreckoning.com/

The Richebächer Letter
Foremost analyst of the libertarian Austrian school of economics
http://www.richebacher.com/index.html
(Unfortunately Dr. Kurt Richebächer just deceased. The letter will continue and hopefully his book will be finished and published soon. For an in-depth, but shorter analysis of the American economy read his "Doomsday for the Dollar: Why the Dollar Will Crash and How You Can Profit" at http://www.alpheus.org/html/Economy/DollarCrash.pdf

The August Review / Global Elite Research Centre
Web site of Patrick Wood, former co-worker of the late Anthony C. Sutton
http://www.augustreview.com/

The London Bullion Market Association
Daily statistics on the prices of gold and silver
http://www.lbma.org.uk/statistics_current.htm
Universal Currency Converter
Easy computation of currency values
http://www.xe.com/ucc/

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Article: Credit turmoil ‘has hallmarks of bank run’

Author: Krishna Guha

Source: Financial Times, 9/2/05

URL: http://www.ft.com/cms/s/0/d79548f2-5984-11dc-aef5-0000779fd2ac.html

Excerpt: The current turmoil in the financial markets has all the characteristics of a classic banking crisis, but one that is taking place outside the traditional banking sector, Axel Weber, president of the Bundesbank, said at the weekend. “What we are seeing is basically what we see underlying all banking crises,” said Mr Weber, one of the most influential members of the governing council of the European Central Bank. The comments mark the first time that a top central banker has endorsed the notion that the non-bank financial system is seeing an old-style bank run. Some Federal Reserve policymakers also privately see comparisons between the current distress in credit markets and the bank runs of the 19th century, in which savers lost confidence in banks and demanded their money back, creating a spiralling liquidity crisis for institutions that had invested this money in longer-term assets.

Article: The Relationship Between Liberty And Economy

Author: Gary Jacobucci

Source: Rense.com 9/3/07

URL: http://www.rense.com/general78/liberty.htm

Excerpt: The founding fathers wrote a great deal of the importance in keeping the control of our currency in the hands of the Republic. There are hundreds of critical thoughts that must be absorbed before trying to grasp the relationship of a sovereign monetary system to national sovereignty and personal liberty.

Article: Brace yourself for the insolvency crunch

Author: Ambrose Evans-Pritchard

Source: Ambrose Evans-Pritchard blog, The Telegraph, UK 8/23/07
Excerpt: Ben Bernanke is looking hawkish to me, given the shock of what happened on Monday when yields on 3-month US Treasury notes plunged at the fastest pace ever recorded, a panic flight to safety that no living trader had ever seen before. Why? Because trust had collapsed to such a degree that players with a lot of cash no longer believed it safe to leave wealth in bank accounts, or the money market funds of brokerage companies - (exposed as they are to short-term commercial paper and subprime CDOs). This did not occur after 9/11, or in the heat of the October 1987 crash. Nor did was there such a banking panic in October 1929. (it hit in August 1931). If you think this is of no importance, or that this will pass swiftly, you have a strong nerve. ........ The belief that Europe would somehow be insulated has been tested over the last two weeks. Two German banks have required bail-outs on subprime bets – Sachsen LB for Eu 17.3bn [$23.4bn!], IKB for Eu 8.1bn. [$10.9bn!]"

Article: The Predicted Financial Storm Has Arrived

Author: By Gabriel Kolko

Source: Znet, 8/29/07

URL: http://www.zmag.org/sustainers/content/2007-08/29kolko.cfm

Excerpt: We are at an end of an era, living through the worst financial panic in many decades. Now begins global financial instability. It is impossible to speculate how long today's turmoil will last-but there now exists an uncertainty and lack of confidence that has been unparalleled since the 1930s-and this ignorance and fear is itself a crucial factor. The moment of reckoning for bankers and bosses has arrived.

Article: War Drags the Dollar Down

Author: Ann Berg

Source: Antiwar.com 3/15/07

URL: http://antiwar.com/orig/berga.php?articleid=10671

Excerpt: See the faint jet plumes overhead? Once soaring high through the celestial sphere of finance, the dollar is starting to lose orbit – tugged by the drag of war. But this time it's different. It's different because war is being waged in a monetary climate that has no precedent: an inflationary fiat monetary system, a derivatives bubble, a pesky PATRIOT Act, and a bulging trade deficit with China. The confluence of the four spells trouble for the dollarized system, a system that broke away from the gold-backed Bretton Woods arrangement in 1973.
Article: The Popping of the Credit Bubble Has Only Just Begun

Author: Eric Sprott and Sasha Solunac

Source: Markets at a Glance (March 2007)


Excerpt: It will be the unwinding of the unsustainable borrowing binge that the US economy embarked on over the past five years. The implosion of subprime will only be the beginning of the process. We don’t even believe the fallout will be contained in the mortgage lending market, let alone subprime. Risks pervade the entire financial system. Spillover is already apparent. For the first time in a long time widespread fear is being evidenced in the financial markets. Asset prices are coming down in markets wholly unrelated to subprime or even mortgage lending.

Article: Bubble Anatomy

Author: Dr. Kurt Richebacher

Source: The Richebacher Letter (June 2005)

URL: http://www.richebacher.com/sample_issue.html

Excerpt: Pondering the U.S. economy’s prospects, the dramatic aggravation of the economic and financial imbalances is most critical. With them, there can never be normal economic growth. The other crucial aspect is the obvious fact that U.S. economic growth depends entirely on the continuation of the frenetic housing bubble. All bubbles essentially end painfully, housing bubbles in particular. They are an especially dangerous sort of asset bubble, because of their extraordinary debt intensity. The debt numbers speak for themselves: In 1996, U.S. private households borrowed $332.2 billion; in 2000, their borrowing was up to $558.6 billion. With the housing bubble in full force, it hit $1,017.9 billion in 2004. ….. Housing bubbles heavily entangle banks and the whole financial system as lenders. For this reason, as a matter of fact, property bubbles have historically been the regular main cause of major financial crises.

Article: BIS warns of Great Depression dangers from credit spree

Author: Ambrose Evans-Pritchard

Source: The Telegraph, 6/25/07

Excerpt: The Bank for International Settlements, the world's most prestigious financial body, has warned that years of loose monetary policy has fuelled a dangerous credit bubble, leaving the global economy more vulnerable to another 1930s-style slump than generally understood. .... Virtually nobody foresaw the Great Depression of the 1930s, or the crises which affected Japan and Southeast Asia in the early and late 1990s. In fact, each downturn was preceded by a period of non-inflationary growth exuberant enough to lead many commentators to suggest that a 'new era' had arrived", said the bank.

Article: Property Bubbles: Beware of Property Bubbles

Author: Dr. Kurt Richebacher

Source: The Daily Reckoning

URL: http://www.dailyreckoning.com/Featured/Beware.html

Excerpt: Pondering the U.S. economy's prospects, the dramatic aggravation of the economic and financial imbalances is most critical. With them, there can never be normal economic growth. The other crucial aspect is the obvious fact that U.S. economic growth depends entirely on the continuation of the frenetic housing bubble. All bubbles essentially end painfully, housing bubbles in particular. They are an especially dangerous sort of asset bubble, because of their extraordinary debt intensity. The debt numbers speak for themselves: In 1996, U.S. private households borrowed $332.2 billion; in 2000, their borrowing was up to $558.6 billion. With the housing bubble in full force, it hit $1,017.9 billion in 2004.

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Housing bubbles heavily entangle banks and the whole financial system as lenders. For this reason, as a matter of fact, property bubbles have historically been the regular main cause of major financial crises.

Article: Housing Bubble: A Rude Investigation / A Daily Reckoning Whitepaper Report

Author: Eric J. Fry, Executive Editor - The Rude Awakening

Source: The Daily Reckoning

URL: http://www.dailyreckoning.com/rpt/Housing-Bubble.html

Excerpt: There comes a time in every man's life when he seeks to become the lord of his own castle...rather than the tenant of another lord's castle. There comes a time when he wants to break free of the tyranny of landlords and rent checks...to own his own home. Let's ignore the fact that he is merely transferring his indentured servitude from a landlord to a mortgage lender, he FEELS that he "owns his own home."
So what happens when the security of this lifetime investment is threatened? What happens when the housing bubble hisses and finally bursts, when his castle comes under siege? With his back against the wall, Mr. Homeowner must face some hard facts.
Article: Banks face 10-day debt timebomb

Author: Iain Dey

Source: Sunday Telegraph (UK) 9/10/07


Excerpt: Britain's biggest banks could be forced to cough up as much as £70bn over the next 10 days, as the credit crisis that has seized the global financial system sparks a fresh wave of chaos. Almost 20 per cent of the short-term money market loans issued by European banks are due to mature between September 11 and September 19. Senior bankers fear that they will have to refinance almost all of these debts with funds from their own coffers, putting a further strain on bank balance sheets.

Tens of billions of pounds of these commercial paper loans have already built up in the financial system, because fear-ridden investors no longer want to buy them. Roughly £23bn of these loans expire on September 17 alone.

Article: Emergency Preparedness

Author: The Hearts Center Emergency Prepteam

Source: The Hearts Center

URL: http://www.tucsonheartscenter.com/EmergencyPreparedness.html

Excerpt: Every area in the country is vulnerable in some way even if it's a power outage or being snowed in, it's nice to be prepared with flashlights, canned food, battery operated radios, etc.. The Mormons have been preparing like this for a long time. They find that preparedness also helps in times of economic hardship such as the loss of a job. Even if they are not affected by a disaster they are able to assist their brothers and sisters who have been affected by sharing out of their stored supplies. Another benefit of emergency preparedness is the savings on food by buying quantities on sale or buying in bulk.

Article: Market Meltdown: The End of a 300 Year Ponzi Scheme

Author: Ellen Brown

Source: The Web of Debt, September 3, 2007

URL: http://www.webofdebt.com/articles/market-meltdown.php

Excerpt: Running through this whole drama is a larger theme, one that nobody is talking about and that can't be cured by fiddling with interest rates or throwing liquidity at banks making too-risky loans. The reason the modern central banking system is prone to periodic crises and market failures is that it is a Ponzi scheme, one that is basically a fraud on the
people. Like all Ponzi schemes, it can go on only so long before it reaches its mathematical limits; and there is good evidence that we are there now. If we are to avoid the greatest market crash in history, we will need to eliminate the underlying fraud; and the first step in that process is to understand what is really going on.

Article: Greenspan on Euphoria, Bubbles and Fear

Author: Greg Ip


Excerpt: Through his career at both the Council of Economic Advisers under President Ford and Fed chairman from 1987 to 2006, he learned “the best of models don’t work all that well [because] the underlying structure that we’re endeavoring to model is continuing to morph into something else all the time. There’s something we don’t model appropriately, which is a profoundly important statistic, and that is the unchanging, innate character of human nature. The behavior of what we are observing in the last seven weeks is identical to what we saw in 1998, what we saw in the stock market crash of 1987, I suspect what we saw in the land boom collapse of 1837, and certainly 1907,” when a major bank panic was only stopped by the intervention of J.P. Morgan.

Article: It’s Official: The Crash of the U.S. Economy has begun

Author: Richard C. Cook

Source: Global Research, June 14, 2007


Excerpt: It’s official. Mark your calendars. The crash of the U.S. economy has begun. It was announced the morning of Wednesday, June 13, 2007, by economic writers Steven Pearlstein and Robert Samuelson in the pages of the Washington Post, one of the foremost house organs of the U.S. monetary elite. … The fact that the crash is now being announced by the Post shows that it is a done deal. The Bilderbergers, or whomever it is that the Post reports to, have decided. It lets everyone know loud and clear that it’s time to batten down the hatches, run for cover, lay in two years of canned food, shield your assets, whatever. Those left holding the bag will be the ordinary people whose assets are loaded with debt, such as tens of millions of mortgagees, millions of young people with student loans that can never be written off due to the “reformed” 2005 bankruptcy law, or vast numbers of workers with 401(k)s or other pension plans that are locked into the stock market.