Newsletter

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The Credit Crunch – Made in the USA and exported around the world

Introduction

If there is ever to be hope of achieving global economic justice it is vital that as many people as possible are made aware of the gross economic manipulation and fraud being perpetrated by the economic elite. Once awareness has been raised we then face the enormous task of organising people of goodwill to overthrow this system of economic slavery that has the majority of the world's population in financial chains.

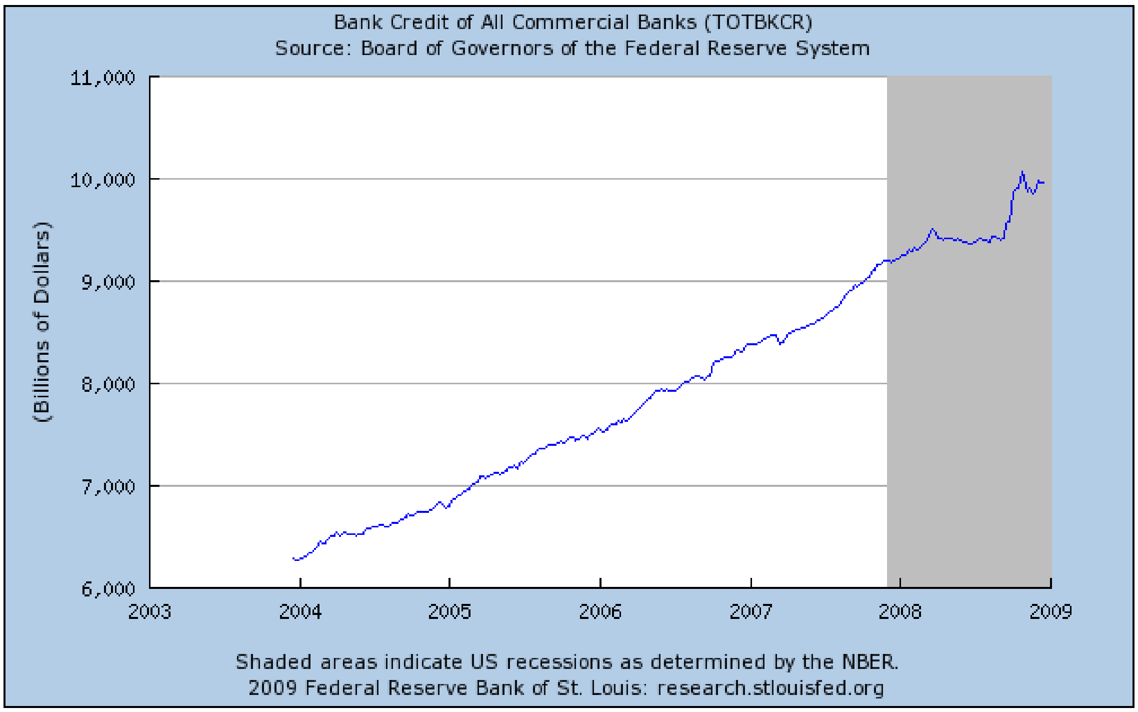
In this edition of 'The Navig***8***or' I will provide you with a relatively brief overview of the widely reported causes of the current financial crisis along with an explanation of the more deep rooted, systemic causes. We are going to pull back the curtain to show you the real face of the Wizard of Oz and his tools of manipulation and control.

The Great Credit Crunch Hoax?

In January 2009 I came across an article by Robert Higgs which asserted that the credit crunch was to all intents and purpose – and certainly as it related to inter-bank lending in the US, where the whole mess originated - a hoax. When I saw the title of his short article '*The Great Credit Crunch Hoax of 2008*' I was intrigued. However the single graph contained in the article was enough to convince me that he was on to something and that once again the vast majority of us had been had, hoodwinked, deceived, conned, bamboozled and plain tricked. Higgs tells us:

"....I am rather embarrassed, on behalf of all these giants of the ruling elite, to inform you that in retrospect the Monster from Lack-of-Liquidity Lagoon doesn't really show up as such in the most relevant statistical series.

Probably the most important measure of credit-market conditions is the amount of commercial-bank credit outstanding. These figures show that although the middle part of 2008 does stand out in the long view, it does so not by virtue of credit's frightening contraction, but only by virtue of its hitting a six-month plateau from April through September.



At no time during that interval, however, did the amount of commercial-bank credit outstanding fall below the amount outstanding at the beginning of the year. In short, credit was actually ample, indeed, at an all-time high; it simply stopped growing as usual for six months, stuck at about $9.4 trillion, while one Wall Street wizard after another told NPR that "no money is moving, the credit market is completely shut down" or some such cock-and-bull story.

After the six-month pause, commercial-bank credit zipped upward again, so that by the end of the year, the amount outstanding stood more than 8 percent higher than it had a year earlier. Some credit crunch! *Année terrible,* indeed.

But don't write off this silly little hoax too fast, because, however baseless it might have been in economic reality, it was manifestly good enough for government work. And that work has now placed U.S. taxpayers on the hook for trillions of dollars of additional Treasury commitments and put all holders of U.S. dollars and other dollar-denominated assets at risk of tremendous losses of their money's purchasing power.

The beauty of the Great Hoax of 2008, from the perspective of the ruling class, is that it was also a Great Scare, and such scares invariably serve as pretexts for the rulers' most audacious assaults on the peasants' lives, liberties, and purses. You'd almost have to admire the elite's ability to spook the rest of us into blind, unreasoning panic on such a flimsy basis, if it weren't for the fact that after the episode has passed, we find ourselves enormously worse off, our economic prospects diminished greatly and our liberties throttled more tightly by an even bigger Leviathan, with nothing to show for it on the upside but the further enrichment of a handful of big bankers and other malefactors of great wealth and power..." http://www.lewrockwell.com/higgs/higgs102.html

So there you have it. Financial institutions which were hugely overleveraged (high debt:asset ratios) were able to offload 'toxic assets' onto the hapless taxpayer and further consolidate the corporate cartels that run the financial sector and by extension have huge influence over the functioning of the world economy. Higgs is the only person I have come across who has highlighted the foregoing data, however it is definitely worthy of further investigation.

The 2008 US Bailout

Paul Craig Roberts was Assistant Secretary of the Treasury in the Reagan administration. He was Associate Editor of the Wall Street Journal editorial page and Contributing Editor of National Review. His articles are published in many publications and websites and make interesting reading. When reading the following extracts bear in mind his not unnatural tendency to defend the record of the Reagan administration of which he was a part. We should not forget that Reaganomics brought misery to millions of poor people in the US and involved the transfer of wealth to the economic elite under the system of corporate welfare that is the norm in the US.

In writing on the US government's financial rescue package he highlights a number of inconsistencies in their strategy which indicate that the stated aims of this intervention were not the real motivations driving government action.

"Just as the Bush regime's wars have been used to pour billions of dollars into the pockets of its military-security donor base, the Paulson bailout looks like a Bush regime scheme to incur $700 billion in new public debt in order to transfer the money into the coffers of its financial donor base. The US taxpayers will be left with the interest payments in perpetuity (or inflation if the Fed monetizes the debt), and the number of Wall Street billionaires will grow. As for the US and European governments' purchases of bank shares, that is just a cover for funnelling public money into private hands.

The explanations that have been given for the crisis and its bailout are opaque. The US Treasury estimates that as few as 7% of the mortgages are bad. Why then do the US, UK, Germany, and France need to pour more than $2.1 trillion of public money into private financial institutions?

If, as the government tells us, the crisis stems from subprime mortgage defaults reducing the interest payments to the holders of mortgage backed securities, thus driving down their values and threatening the solvency of the institutions that hold them, why isn't the bailout money used to address the problem at its source? If the bailout money was used to refinance troubled mortgages and to pay off foreclosed mortgages, the mortgage backed securities would be made whole, and it would be unnecessary to pour huge sums of public money into banks. Instead, the bailout money is being used to inject capital into financial institutions and to purchase from them troubled financial instruments.

It is a strange solution that does not address the problem. As the US economy sinks deeper into recession, the mortgage defaults will rise. Thus, the problem will intensify, necessitating the purchase of yet more troubled instruments. ....

The bailout package is a result of panic and threats, not of analysis and understanding. Neither Congress nor the public knows the full story. If the problem is the mortgages, why does the bailout leave the mortgages unaddressed and focus instead on pouring vast amount of public money into private financial institutions? ." '***Additional Thoughts on the Bailout***' October 16, 2008 www.Information Clearinghouse.com

Michael Hudson is a former Wall Street economist. He was Dennis Kucinich's Chief Economic Advisor in the recent Democratic primary presidential campaign, and has advised the U.S., Canadian, Mexican and Latvian governments, as well as the United Nations Institute for Training and Research (UNITAR). He is a Distinguished Research Professor at University of Missouri, Kansas City. His analysis shows why Kucinich was almost certainly the best of the Democratic candidates for the US Presidency, and hence why he was doomed to defeat from the outset.

He reinforces the unsustainable nature of the money as debt financial system.

"Banks cannot make money *ad infinitum* by selling more and more credit – that is, indebting the non-financial economy more and more. Government officials such as Treasury Secretary Paulson or Federal Reserve Chairman Bernanke are professionally unable to acknowledge this problem, and it does not appear in most neoclassical or monetarist textbooks. But the underlying mathematics of compound interest are rediscovered in each generation, often prompted by the *force majeur* of financial crisis.

A generation ago, for instance, Hyman Minsky gained a following by describing what he aptly called the Ponzi stage of the business cycle. It was the phase in which debtors no longer were able to pay off their loans out of current income (as in Stage #1, where they earned enough to cover their interest and amortization charges), and indeed did not even earn enough to pay the interest charges (as in Stage #2), but had to borrow the money to pay the interest owed to their bankers and other creditors. In this Stage #3 the interest was simply added onto the debt, growing at a compound rate. It ends in a crash."

Hudson goes on to describe the underlying problem with interest charges which I also highlighted earlier. Whilst interest seems great – and is great in a narrow self-centred view – for those levying or receiving the interest, in the end it acts as a tax on real economic productivity and impoverishes more people than it enriches. Hudson tells us that:

"This was the flip side of the magic of compound interest – the belief that people can get rich by "putting money to work." Money doesn't really work, of course. When lent out, it *extracts* interest from the "real" production and consumption economy, that is, from the labor and industry that actually do the work. It is much like a tax, a monopoly rent levied by the financial sector. Yet this quasi-tax, this extractive financial rent (as Alfred Marshall explained over a century ago) is the dynamic that is supposed to enable corporate, state and local pension funds to pay for retirement simply out of stock market gains and bond investments –

purely financially and hence at the expense of the economy at large whose employees are supposed to be gainers. This is the essence of "pension-fund capitalism," a Ponzi-scheme variant of finance capitalism. Unfortunately, it is grounded in purely mathematical relationships that have little grounding in the "real" economy in which families and companies produce and consume"...

Hudson describes how by acting as financial good Samaritan for the financial institutions the US government has loaded an enormous weight of debt on ordinary US taxpayers.

"By increasing America's national debt from $5 trillion earlier this year to $13 trillion in almost a single swoop by taking on junk loans and other bad investments rather than letting them go under as traditionally has occurred in the "cleansing" culmination of business crashes ("cleansing" in the sense of clean slates for debts that cannot reasonably be paid), Paulson's bailout actions increase the interest payments that the government must pay out of taxes or by borrowing (or printing) yet more money. Someone must pay for bad debts and junk loans that are not wiped off the books. The government is now to take on the roll of debt collector to "make a profit for taxpayers" by going around and kneecapping the economy – which of course is comprised primarily of the "taxpayers" ostensibly being helped."

It should be noted that David Walker former Comptroller General (US) – this means he was head of the government accountability office - for ten years from 1998 estimates the total US national debt is $55,000,000,000,000 ($55 trillion) or $480,000 per US household as of 2008. You can view his interview with Bill Maher at the following site http://www.youtube.com/watch?v=0NM5Q5VDpnA His has also made a documentary on this subject IOUSA.

The only temporary solution is debt deflation, i.e. wiping out a significant portion of the crippling mountain of debt. Hudson explains this reality as follow:

"This attempt is necessarily in vain. No amount of money can sustain the exponential growth of debt, not to mention the freely created credit and mutual gambles on derivatives and other financial claims whose volume has exploded in recent years. The government is committed to "bailing out" banks and other creditors whose loans and swaps have gone bad. It remains in denial with regard to the debt deflation that must be imposed on the rest of the economy to "make good" on these financial trends.

Here's why the plan for the government to recover the money is whistling in the dark: It calls for banks to "earn their way out of debt" by selling more of their product – credit, that is, debt. Homeowners and other consumers, students and car buyers, credit card users and their employers – the "taxpayers" supposed to be helped – are to pay the repayment money to the banks, instead of using it to purchase goods and services. If they charge only 6 per cent per year, they will extract $93 billion in interest charges – $42 billion to pay the Treasury for its $700 billion, and another $51 billion for the Federal Reserve's $850 billion in "cash for trash" loans"........................

Hudson concludes by reinforcing the collusion between Wall Street and both the Republicans and Democrats which means that whoever is notionally in power it is always business as usual.

"The problem of "debt pollution" is being "solved" by creating yet more debt, not by reducing its volume. Neither the Treasury nor Congress is helping to resolve this problem. The working assumption is that giving newly created government debt to the banks and Wall Street will lead to more lending to re-inflate the real estate and stock markets. But who will

lend more to the one-sixth of U.S. homes already said to have fallen into negative equity territory? As debt deflation eats into the domestic market for goods and services, corporate sales and earnings will shrink, dragging down stock prices. Wall Street is in control, but its policies are so shortsighted that they are eroding the underlying economy – which is passing from democracy to oligarchy, and indeed it seems to a bipartisan financial kleptocracy."
Source: Licensed Kleptocracy for Years to Come The ABCs of Paulson's Bailout By Michael Hudson October 21, 2008 "Counterpunch"
http://www.informationclearinghouse.info/article21066.htm

Suffice to say that the Obama '*stimulus package'* is doomed to fail for many of the reasons highlighted above and as much for what it does not do as what it does.

Conclusion

In reading this newsletter I am hopeful that the following points will be as apparent to you as they are to me:

- Subprime mortgages were not the principle cause of the financial crisis if they had been why did the rescue package not address the problem of bad mortgage debt directly by refinancing troubled mortgages and paying off foreclosed mortgages rather than giving public money to banks.
- Excess debt and financial deregulation are at the heart of this crisis.
- The whole issue of subprime mortgages became a convenient excuse to blame poor US citizens (disproportionately made up of Afrikans and other non-Caucasians) for a problem engineered by predominantly rich Caucasian males. It was also used to gloss over the longstanding, systematic and ongoing discrimination in the provision of mortgages and other financial services to Afrikan people in the US.
- Economic boom and bust is inherent in a system founded upon ever increasing levels of personal and institutional debt and unrestrained greed and wild financial gambling.
- The financial bailout packages put together in the US and elsewhere, although appearing large pale into insignificance when compared to the sort of money doled out by the US Federal Reserve in soft loans to banks in the days whilst they were apparently waiting for the bailout package to be approved by the legislators. It is small when compared to the money that cannot be accounted for by Pentagon and tiny when compare to the incredible amount of money wagered on derivatives.
- These types of periodic economic collapses simply concentrate additional wealth in the hands of a very small segment of the population and involve the transfer of assets from the poor to the rich. If there are winners and losers and the winners are in a position to precipitate such a collapse is it really beyond the realms of possibility that these are not the freakish accidental series of chain reactions depicted by the

corporate media. Remember JP Morgan published rumours that a prominent bank in New York faced insolvency which led to a spiral of bankruptcy and insolvency in 1907. This led to a congressional investigation led by Nelson Aldrich, who later married into the Rockerfeller family and who was deeply connected to the banking cartels. The commission recommended the setting up of a central bank so that such a financial crisis would never take place again. In 1913 President Woodrow Wilson enacted the legislation (the Federal Reserve act was written by bankers) that created the US Federal Reserve and the rest is history.

- The Federal Reserve and other central banks are at the heart of these financial crises and are not the solutions. Each of these crashes is preceded by huge increases in the money supply followed by a sudden curtailment of lines of credit. Check out the US crash of 1929.

- Corruption is at the heart of corporate capitalism despite what you might be led to believe. One of the ways in which the US government was able to push through its initial much touted bailout package was by the addition of $150 billion of bribes described as ‘earmarks’. These bribes are standard procedure when enacting legislation in the US and are divided 60:40 between the ruling majority and minority parties. The monies are then spent on pet projects in the legislators’ home states.

- The US government, Republican and Democrat, have been deliberately manipulating government economic statistics to present a picture of the economy that is far removed from reality. This manipulation is important in preventing the type of public unrest that would result if people became fully aware that inflation is far outstripping their wage rises and unemployment is millions higher than officially reported. US workers are working longer hours to compensate for the decreasing buying power of their devalued dollars.

The US led economic system is built on sand, however it will remain intact so long as the dollar remains the currency in which oil is bought and sold in and so long as it remains the world’s reserve currency. Despite the weakness of the US economy the dollar rose dramatically towards the end of 2008 as spooked investors ran to the world’s reserve currency for cover. However don’t be fooled, during the next 2-4 years we are going to see a huge crash in the value of the dollar when the Chinese, Japanese and sovereign wealth funds eventually refuse to continue to bankroll the US’ addiction to debt.

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