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Deepening Global Economic Crisis: Rising Unemployment, Demise of the Dollar

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Consumer credit is falling fast. In July, consumer credit plunged by $19 billion, followed by an August drop of $12 billion, a 5.8 percent annual rate. Credit card spending decreased by nearly $10 billion in August, while non-revolving debt, including auto loans, fell by $2 billion. Credit has shrunk for 7 consecutive months, the longest period of decline since 1991. The banks have shrugged off their commitment under the TARP program to increase lending to consumers and businesses. They've either deposited their excess reserves with the Fed, where they earn interest, or invested them in the equities markets for better returns. The bottom line: Credit is shrinking and the economy is slipping further into deflation.

From MarketWatch:

> U.S. banks are reducing their lending at the fastest rate on record … According to weekly figures provided by the Federal Reserve, total loans at commercial banks have fallen at a 19% annual rate over the past three months, while loans to businesses have dropped at a 28% annualized pace…
> … if the decline is mainly due to weak banks unable or unwilling to lend, then a turnaround in credit creation may have to wait until banks' balance sheets are repaired, a process that could be delayed by further expected defaults in consumer loans, mortgages and commercial real-estate loans. (Rex Nutting, "Banks cutting back on loans to businesses", Marketwatch)

Unemployment is rising and the pool of creditworthy borrowers is declining. When credit contracts in an economy where salaries have stagnated and joblessness is increasing, demand falls and recession deepens. That is, unless government spending takes up the slack in excess capacity.

There is no organic growth in the economy at present. The so-called recovery is a result of fiscal stimulus and the Fed's extraordinary liquidity injections into the financial system. True growth and prosperity do not come via the printing press. The Fed's actions are just putting more and more pressure on the dollar.

From Bloomberg today:

> Central banks flush with record reserves are increasingly snubbing dollars in favor of euros and yen, further pressuring the greenback after its biggest two-quarter rout in almost two decades…
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> Policy makers boosted foreign currency holdings by $413 billion last quarter,

> the most since at least 2003, to $7.3 trillion, according to data compiled by Bloomberg. Nations reporting currency breakdowns put 63 percent of the new cash into euros and yen in April, May and June…the highest percentage in any quarter with more than an $80 billion increase.
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> Global central banks are getting more serious about diversification, whereas in the past they used to just talk about it," said Steve Englander, a former Federal Reserve researcher who is now the chief U.S. currency strategist at Barclays in New York. "It looks like they are really backing away from the dollar." (Bloomberg News)

Congress has no say-so. Neither do the American people. The decision to skewer the dollar was made by the big banks and their allies at the Federal Reserve. Everyone else is just along for the ride. The Fed wants a cheaper dollar to increase exports, provide cheap capital for Wall Street, and to lower the true value of household and financial sector debt. But there are many pitfalls to "inflating one's way out of debt". It is a policy which should have been debated by the representatives of the people and not decided by unelected bank-oligarchs pursuing their own self-interests.

The dollar's share of global reserves is steadily falling. Private industry and central banks are shedding dollars to avoid painful adjustments in the future. Last week, South Korea, Taiwan, Thailand, and the Philippines launched currency market interventions to keep the dollar from plummeting. The situation is grave. The Fed's monetization and liquidity programs have made dollar-holders jittery. The central banks actions are the first sign of a disorderly unwind. The prospect of a dollar crash is now real.

Surprisingly, there is also a good chance that the dollar will strengthen short-term and that the misinformation about the dollar's future is being used to achieve the Fed's objectives. Fed chair Ben Bernanke is already monetizing the debt (via quantitative easing) and has slashed interest rates to zero. What else can he do? The only way to weaken the dollar further is through asymmetrical warfare, a disinformation campaign aimed at triggering a sell-off before the dollar strengthens when the stock market corrects and credit tightens even more. Is that what Bernanke has in mind?

The Fed has its back to the wall. It will do whatever is necessary to micro-manage the dollar's decline and retain its stranglehold on the global system.