

Dispatches from the Front Lines of the Economic Crisis

By [Stephen Lendman](#)

Theme: [Global Economy](#)

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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 damndest 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 letup in sight.

February 18: "Housing starts plunge nearly 17% to a record-low 466,000 rate," far below the weakest post-WW II levels, and at this rate "would fall to zero" by year end; annualized building permits of 521,000 also hit a record low.

Since construction peaked in 2005, starts are down around 77% and for single-family homes nearly 80%. Obama's mortgage relief plan (the Homeowner Affordability and Stability Plan) provides little help at best, nothing for second mortgage holders, or for millions of underwater homeowners and many more at risk as property valuations keep plunging. It's also limited to borrowers whose mortgages are owned or securitized by Fannie Mae or Freddie Mac.

The plan may cost up to \$275 billion. According to the Wall Street Journal (WSJ), \$200 billion is for Fannie and Freddie and \$75 billion "to encourage (but not require) lenders to modify loan terms for people at risk of foreclosure or already in foreclosure proceedings" who qualify. Many millions don't.

The idea is to lower monthly payments to 31% of household income, add the residual owed to principle, create a greater burden as property valuations fall, and postpone a likely default for later. The plan takes effect March 4 when its provisions and rules are published.

The WSJ says it will "prolong the housing downturn and make financing a home purchase more difficult for future borrowers." It also won't slow the decline in home valuations. Observer comments included:

— UBS saying: "Obama Speaks, Market Listens, Sells Off;"

— another observer: US mortgage lending is "the biggest racket since Al Capone," and Obama plans to subsidize it; and

— housing and consumer finance expert Mike Larson:

"Taxpayers could ultimately get soaked here if home prices don't rise in the coming few years (and so far there's little chance they will)....Furthermore, the plan doesn't (address) the principal reduction issue head on," so lenders can add on unpaid balances as a tradeoff for lower rates and term extensions making the solution worse than the problem. Without principal reductions required, "redefault rates (on modified mortgages) will remain extremely high."

"With (millions of) borrowers deeply underwater, the new refinance standards....won't help. Nor will the (proposed) small incentive payment encourage many to stay put. Result: We're

going to see tons of 'walk-aways' and 'jingle mail' - homeowners abandoning their homes and mailing their keys to their lenders - despite the Obama plan."

It will have no effect on home prices. They'll "continue to fall this year and into 2010, given the very large (property) overhang and rising unemployment." As the saying goes, Obama's plan is mostly "show," little "dough," and more betrayal for the money trust he represents.

Increasing Talk about Nationalizations

Deepening gloom has even Republicans thinking the unthinkable - nationalizing insolvent banks with Senator Lindsey Graham (R, SC), on February 15, telling ABC's This Week:

"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.

Martin Weiss on the "Truth and Consequences (of) Stimulus"

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." Here's the score:

— the economy wasn't stimulated; it's been plunging – by an annualized Q 4 3.8% rate and projected to deepen to 5.2% in Q 1, according to a Philadelphia Fed survey of economists;

— housing valuations have fallen for 28 straight months and continue to plunge with recent declines the "worst on record;"

— the University of Michigan's Consumer Sentiment Index is its lowest in 28 years;

— the credit crunch persists; "we've seen the biggest contraction in credit availability in recorded history – new home mortgages shrinking at an annual rate of \$327.5 billion, commercial mortgages (dropping) \$56.7 billion, (and) commercial paper plunging \$291 billion;"

— a potential global debt collapse is more possible than ever:

(1) America's 25 largest banks increased their holdings of "the single most dangerous form of derivatives - credit default swaps (CDSs);"

(2) on average, America's five largest banks increased their CDS exposure from 264% at yearend 2007 to 317% nine months later; and

(3) "similar risks are rising dramatically in Western Europe, Japan and emerging market economies."

As a result, "a global debt collapse is even more likely today than (before Washington) began its massive interventions." Instead of shoring up the nation's banks, they've gotten worse because offenders get bailout rewards, and they're counterproductive and don't help.

Bottom line: "As the housing bust progressed and the foreclosure epidemic spread," bank asset valuations plunged further. Their losses "multiplied," and their balance sheets "have sunk into an even deeper hole." They're insolvent and operating only with federal bailout help.

Many economists agree, with a February 12 New York Times article calling them "dead men walking." Yet new policy failures follow old ones. Trillions are being ill used as a result. The Japanese spent \$6.3 trillion and failed to fix their economy. Matching them would take over \$29 trillion, given the US economy's size, with much the same result in the end plus a debt burden that will crush us.

Further, 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 largest debtor with personal savings at minus 0.5% until it rose to 2.9% just recently. Japan pursued bad policy and failed. Its economy today is in 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.

False Signal from the Baltic Dry Index (BDI)

Issued daily by London's Baltic Exchange, it provides "an assessment of the price of moving the major raw materials by sea. Taking in 26 shipping routes measured on a timecharter and voyage basis, the index covers Handymax (terminology for bulk carriers), Panamax (maximum ship size for the Panama Canal), and Capesize (ships using the Cape of Good Hope or Cape Horn) dry bulk carriers carrying a range of commodities including coal, iron or and grain."

In December, the BDI hit a low of about 660 off its 11,000 May 2008 high. On February 10, it reported a rise to about 1800 and a glimmer of hope for the global economy. Not for long.

On February 17, Lloyd's List, "The Leading Maritime & Transport News Portal," headlined: "Asian box ports see alarming drop in throughput," and are bracing for a grim 2009 after "alarming drops in (January) volumes." Here's the tally:

— Singapore: "the world's largest container port" down 19% from a year ago reflecting

sharp drops in Asian - Europe trade; Indonesia is also down as most of its cargo is transhipped through Singapore;

— Hong Kong: down 23% with reports calling February “challenging;”

— Port Klang, Malaysia: down 16% with 2009 estimates of 10% down and the likelihood those numbers will be revised higher;

— China overall dropped 17.5%; in ports besides Hong Kong: down 15% and down 10% from December alone; Shenzhen dropped 18%; Xiamen down 10%; Ningbo down 9%;

— one of Southeast Asia’s largest exporters, Mari Pangestu, forecasts a 2009 decline of 20%;

— on February 2, the Wall Street Journal reported that South Korea’s January exports fell 32.8% from a year ago, far higher than expected;

— earlier, reports from Japan were that December exports plunged by a record 35% from the previous year.

Analysts expressed shock over these and other regional results with IMA Asia’s Richard Martin saying: “It’s a bit like watching a train wreck in slow motion. North Asia is suffering the biggest collapse in demand since World War II.” Westpac’s Richard Franulovich called it “on a par with the collapse in the US during the 1930s Depression.” Bank of Japan chief economist Kazuo Momma said his economy faced an “unimaginable” contraction with huge output drops and large numbers of layoffs. Deutsche Bank’s Tokyo branch was even blunter in predicting a “severe depression” at least through late 2010, and it’s evident in the numbers.

The world’s largest automaker, Toyota, saw January sales fall 30% and predicts its first ever loss in its 70 year history. The 10 largest electronics firms collectively expect to lose \$20 billion, and the Reuters Tankan corporate sentiment survey hit its lowest ever reading of -74.

India is also bleak with the ENS Economic Bureau reporting (February 4) that January exports fell 20%, sparking fears of further declines. According to commerce secretary GK Pillai, the “sharp drop came as a surprise and was not expected.”

In America, December exports fell 6% while imports dropped 5.5% as recession deepens globally and economists see steeper declines ahead.

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.”

According to UK-based Market Oracle editor Nadeem Walayat, add Britain to the troubled country list from his article headlined: “UK Recession Watch – Britain’s Great Depression?” In a lengthy analysis, he cites why:

- Q 4 GDP contracting 1.5% (or an annualized 6% loss) compared to 2009 forecasts of 2%;
- like America, enough “money (being printed to) bankrupt” the country;
- today’s deflation will be tomorrow’s inflation, and it’s likely to be severe;
- sterling falling over 30% in six months to a 23-year low against the dollar;
- it still failed to boost manufacturing as the global slump hits everywhere;
- a growing conviction that Britain is contracting fastest since the 1930s;
- 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, and obey the Constitution's Article I, Section 8 that gives Congress alone the right to coin (create) money and regulate its value.

A Final Comment

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:

- nearly everywhere earlier and now.

In 19th century America:

- through indigenous slaughter, slavery, financial panics, child labor, sexism, racism, and worker exploitation;

In 20th century America:

- much the same in most respects;
- the 1930s depression;
- repeated recessions, inflation, deflation, instability, unemployment, under-employment, and the erosion of job security, high wages, good benefits, and reliable pensions;

- wealth and want extremes;
- a plutocracy masquerading as democracy; according to Gore Vidal, most people never question “the inequality of a system (under which they) drudge along, pay heavy taxes (and) get nothing (back) in return;”
- government of, by, and for the privileged;
- elections reduced to theater in a de facto one-party state;
- a corporate state placing profits over people;
- essential needs left unmet; and
- imperialism, militarism, foreign wars, homeland repression, government and business corruption, a broken media, a prison-industrial gulag, wage slavery, social decay, growing poverty, inequality, injustice, and racism under a system where the business of America is business; where never have so many lost out to the few; where capital is empowered to get more of it; where it’s sucked from the public to the privileged; and where government is indifferent to human needs, rights and civil liberties.

Enough is enough. Bury the monster, its crimes, its inhumanity. End its poison and bandit ideology for egalitarian freedom and equal justice. Marshal collective defiance for real change. It’s high time we got some.

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