Entering the Greatest Depression in History

More Bubbles Waiting to Burst

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Introduction

While there is much talk of a recovery on the horizon, commentators are forgetting some crucial aspects of the financial crisis. The crisis is not simply composed of one bubble, the housing real estate bubble, which has already burst. The crisis has many bubbles, all of which dwarf the housing bubble burst of 2008. Indicators show that the next possible burst is the commercial real estate bubble. However, the main event on the horizon is the "bailout bubble" and the general world debt bubble, which will plunge the world into a Great Depression the likes of which have never before been seen.

Housing Crash Still Not Over

The housing real estate market, despite numbers indicating an upward trend, is still in trouble, as, "Houses are taking months to sell. Many buyers are having trouble getting financing as lenders and appraisers struggle to figure out what houses are really worth in the wake of the collapse." Further, "the overall market remains very soft […] aside from speculators and first-time buyers." Dean Baker, co-director of the Center for Economic and Policy Research in Washington said, "It would be wrong to imagine that we have hit a turning point in the market," as "There is still an enormous oversupply of housing, which means that the direction of house prices will almost certainly continue to be downward." Foreclosures are still rising in many states "such as Nevada, Georgia and Utah, and economists say rising unemployment may push foreclosures higher into next year." Clearly, the housing crisis is still not at an end.[1]

The Commercial Real Estate Bubble

In May, Bloomberg quoted Deutsche Bank CEO Josef Ackermann as saying, "It's either the beginning of the end or the end of the beginning." Bloomberg further pointed out that, "A piece of the puzzle that must be calculated into any determination of the depth of our economic doldrums is the condition of commercial real estate — the shopping malls, hotels, and office buildings that tend to go along with real- estate expansions." Residential investment went down 28.9 % from 2006 to 2007, and at the same time, nonresidential investment grew 24.9%, thus, commercial real estate was "serving as a buffer against the declining housing market."

Commercial real estate lags behind housing trends, and so too, will the crisis, as "commercial construction projects are losing their appeal." Further, "there are lots of reasons to suspect that commercial real estate was subject to some of the loose lending practices that afflicted the residential market. The Office of the Comptroller of the

Currency's Survey of Credit Underwriting Practices found that whereas in 2003 just 2 percent of banks were easing their underwriting standards on commercial construction loans, by 2006 almost a third of them were relaxing." In May it was reported that, "Almost 80 percent of domestic banks are tightening their lending standards for commercial real-estate loans," and that, "we may face double-bubble trouble for real estate and the economy."[2]

In late July of 2009, it was reported that, "Commercial real estate's decline is a significant issue facing the economy because it may result in more losses for the financial industry than residential real estate. This category includes apartment buildings, hotels, office towers, and shopping malls." Worth noting is that, "As the economy has struggled, developers and landlords have had to rely on a helping hand from the US Federal Reserve in order to try to get credit flowing so that they can refinance existing buildings or even to complete partially constructed projects." So again, the Fed is delaying the inevitable by providing more liquidity to an already inflated bubble. As the Financial Post pointed out, "From Vancouver to Manhattan, we are seeing rising office vacancies and declines in office rents."[3]

In April of 2009, it was reported that, "Office vacancies in U.S. downtowns increased to 12.5 percent in the first quarter, the highest in three years, as companies cut jobs and new buildings came onto the market," and, "Downtown office vacancies nationwide could come close to 15 percent by the end of this year, approaching the 10-year high of 15.5 percent in 2003."[4]

In the same month it was reported that, "Strip malls, neighborhood centers and regional malls are losing stores at the fastest pace in at least a decade, as a spending slump forces retailers to trim down to stay afloat." In the first quarter of 2009, retail tenants "have vacated 8.7 million square feet of commercial space," which "exceeds the 8.6 million square feet of retail space that was vacated in all of 2008." Further, as CNN reported, "vacancy rates at malls rose 9.5% in the first quarter, outpacing the 8.9% vacancy rate registered in all of 2008." Of significance for those that think and claim the crisis will be over by 2010, "mall vacancies [are expected] to exceed historical levels through 2011," as for retailers, "it's only going to get worse."[5] Two days after the previous report, "General Growth Properties Inc, the second-largest U.S. mall owner, declared bankruptcy on [April 16] in the biggest real estate failure in U.S. history."[6]

In April, the Financial Times reported that, "Property prices in China are likely to halve over the next two years, a top government researcher has predicted in a powerful signal that the country's economic downturn faces further challenges despite recent positive data." This is of enormous significance, as "The property market, along with exports, were leading drivers of the booming Chinese economy over the past decade." Further, "an apparent rebound in the property market was unsustainable over the medium term and being driven by a flood of liquidity and fraudulent activity rather than real demand." A researcher at a leading Chinese government think tank reported that, "he expected average urban residential property prices to fall by 40 to 50 per cent over the next two years from their levels at the end of 2008."[7]

In April, it was reported that, "The Federal Reserve is considering offering longer loans to investors in commercial mortgage-backed securities as part of a plan to help jump-start the market for commercial real estate debt." Since February the Fed "has been analyzing appropriate terms and conditions for accepting commercial mortgage-backed securities

(CMBS) and other mortgage assets as collateral for its Term Asset-Backed Securities Lending Facility (TALF).”[8]

In late July, the Financial Times reported that, “Two of America’s biggest banks, Morgan Stanley and Wells Fargo … threw into sharp relief the mounting woes of the US commercial property market when they reported large losses and surging bad loan,” as “The disappointing second-quarter results for two of the largest lenders and investors in office, retail and industrial property across the US confirmed investors’ fears that commercial real estate would be the next front in the financial crisis after the collapse of the housing market.” The commercial property market, worth $6.7 trillion, “which accounts for more than 10 per cent of US gross domestic product, could be a significant hurdle on the road to recovery.”[9]

The Bailout Bubble

While the bailout, or the “stimulus package” as it is often referred to, is getting good coverage in terms of being portrayed as having revived the economy and is leading the way to the light at the end of the tunnel, key factors are again misrepresented in this situation.

At the end of March of 2009, Bloomberg reported that, “The U.S. government and the Federal Reserve have spent, lent or committed $12.8 trillion, an amount that approaches the value of everything produced in the country last year.” This amount “works out to $42,105 for every man, woman and child in the U.S. and 14 times the $899.8 billion of currency in circulation. The nation’s gross domestic product was $14.2 trillion in 2008.”[10]

Gerald Celente, the head of the Trends Research Institute, the major trend-forecasting agency in the world, wrote in May of 2009 of the “bailout bubble.” Celente’s forecasts are not to be taken lightly, as he accurately predicted the 1987 stock market crash, the fall of the Soviet Union, the 1998 Russian economic collapse, the 1997 East Asian economic crisis, the 2000 Dot-Com bubble burst, the 2001 recession, the start of a recession in 2007 and the housing market collapse of 2008, among other things.

On May 13, 2009, Celente released a Trend Alert, reporting that, “The biggest financial bubble in history is being inflated in plain sight,” and that, “This is the Mother of All Bubbles, and when it explodes […] it will signal the end to the boom/bust cycle that has characterized economic activity throughout the developed world.” Further, “This is much bigger than the Dot-com and Real Estate bubbles which hit speculators, investors and financiers the hardest. However destructive the effects of these busts on employment, savings and productivity, the Free Market Capitalist framework was left intact. But when the ‘Bailout Bubble’ explodes, the system goes with it.”

Celente further explained that, “Phantom dollars, printed out of thin air, backed by nothing … and producing next to nothing … defines the ‘Bailout Bubble.’ Just as with the other bubbles, so too will this one burst. But unlike Dot-com and Real Estate, when the “Bailout Bubble” pops, neither the President nor the Federal Reserve will have the fiscal fixes or monetary policies available to inflate another.” Celente elaborated, “Given the pattern of governments to parlay egregious failures into mega-failures, the classic trend they follow, when all else fails, is to take their nation to war,” and that, “While we cannot pinpoint precisely when the ‘Bailout Bubble’ will burst, we are certain it will. When it does, it should be understood that a major war could follow.”[11]

However, this “bailout bubble” that Celente was referring to at the time was the $12.8 trillion reported by Bloomberg. As of July, estimates put this bubble at nearly double the previous estimate.

As the Financial Times reported in late July of 2009, while the Fed and Treasury hail the efforts and impact of the bailouts, “Neil Barofsky, special inspector-general for the troubled asset relief programme, [TARP] said that the various US schemes to shore up banks and restart lending exposed federal agencies to a risk of $23,700bn [$23.7 trillion] – a vast estimate that was immediately dismissed by the Treasury.” The inspector-general of the TARP program stated that there were “fundamental vulnerabilities . . . relating to conflicts of interest and collusion, transparency, performance measures, and anti-money laundering.”

Barofsky also reports on the “considerable stress” in commercial real estate, as “The Fed has begun to open up Talf to commercial mortgage-backed securities to try to influence credit conditions in the commercial real estate market. The report draws attention to a new potential credit crunch when $500bn worth of real estate mortgages need to be refinanced by the end of the year.” Ben Bernanke, the Chairman of the Fed, and Timothy Geithner, the Treasury Secretary and former President of the New York Fed, are seriously discussing extending TALF (Term Asset-Backed Securities Lending Facility) into “CMBS [Commercial Mortgage-Backed Securities] and other assets such as small business loans and whether to increase the size of the programme.” It is the “expansion of the various programmes into new and riskier asset classes is one of the main bones of contention between the Treasury and Mr Barofsky.”[12]

Testifying before Congress, Barofsky said, “From programs involving large capital infusions into hundreds of banks and other financial institutions, to a mortgage modification program designed to modify millions of mortgages, to public-private partnerships using tens of billions of taxpayer dollars to purchase ‘toxic’ assets from banks, TARP has evolved into a program of unprecedented scope, scale, and complexity.” He explained that, “The total potential federal government support could reach up to 23.7 trillion dollars.”[13]

Is a Future Bailout Possible?

In early July of 2009, billionaire investor Warren Buffet said that, “unemployment could hit 11 percent and a second stimulus package might be needed as the economy struggles to recover from recession,” and he further stated that, “we’re not in a recovery.”[14] Also in early July, an economic adviser to President Obama stated that, “The United States should be planning for a possible second round of fiscal stimulus to further prop up the economy.”[15]

In August of 2009, it was reported that, “THE Obama administration will consider dishing out more money to rein in unemployment despite signs the recession is ending,” and that, “Treasury secretary Tim Geithner also conceded tax hikes could be on the agenda as the government worked to bring its huge recovery-related deficits under control.” Geithner said, “we will do what it takes,” and that, “more federal cash could be tipped into the recovery as unemployment benefits amid projections the benefits extended to 1.5 million jobless Americans will expire without Congress’ intervention.” However, any future injection of money could be viewed as “a second stimulus package.”[16]

The Washington Post reported in early July of a Treasury Department initiative known as “Plan C.” The Plan C team was assembled “to examine what could yet bring [the economy] down and has identified several trouble spots that could threaten the still-fragile lending industry," and "the internal project is focused on vexing problems such as the distressed commercial real estate markets, the high rate of delinquencies among homeowners, and the struggles of community and regional banks."

Further, "The team is also responsible for considering potential government responses, but top officials within the Obama administration are wary of rolling out initiatives that would commit massive amounts of federal resources." The article elaborated in saying that, "The creation of Plan C is a sign that the government has moved into a new phase of its response, acting preemptively rather than reacting to emerging crises." In particular, the near-term challenge they are facing is commercial real estate lending, as "Banks and other firms that provided such loans in the past have sharply curtailed lending," leaving "many developers and construction companies out in the cold." Within the next couple years, "these groups face a tidal wave of commercial real estate debt — some estimates peg the total at more than $3 trillion — that they will need to refinance. These loans were issued during this decade's construction boom with the mistaken expectation that they would be refinanced on the same generous terms after a few years."

However, as a result of the credit crisis, "few developers can find anyone to refinance their debt, endangering healthy and distressed properties." Kim Diamond, a managing director at Standard & Poor's, stated that, "It's not a degree to which people are willing to lend," but rather, "The question is whether a loan can be made at all." Important to note is that, "Financial analysts said losses on commercial real estate loans are now the single largest cause of bank failures," and that none of the bailout efforts enacted "is big enough to address the size of the problem."[17]

So the question must be asked: what is Plan C contemplating in terms of a possible government "solution"? Another bailout? The effect that this would have would be to further inflate the already monumental bailout bubble.

The Great European Bubble

In October of 2008, Germany and France led a European Union bailout of 1 trillion Euros, and "World markets initially soared as European governments pumped billions into crippled banks. Central banks in Europe also mounted a new offensive to restart lending by supplying unlimited amounts of dollars to commercial banks in a joint operation."[18]

The American bailouts even went to European banks, as it was reported in March of 2009 that, "European banks declined to discuss a report that they were beneficiaries of the $173 billion bail-out of insurer AIG," as "Goldman Sachs, Morgan Stanley and a host of other U.S. and European banks had been paid roughly $50 billion since the Federal Reserve first extended aid to AIG." Among the European banks, "French banks Societe Generale and Calyon on Sunday declined to comment on the story, as did Deutsche Bank, Britain's Barclays and unlisted Dutch group Rabobank." Other banks that got money from the US bailout include HSBC, Wachovia, Merrill Lynch, Banco Santander and Royal Bank of Scotland. Because AIG was essentially insolvent, "the bailout enabled AIG to pay its counterparty banks for extra collateral," with "Goldman Sachs and Deutsche bank each receiving $6 billion in payments between mid-September and December."[19]

In April of 2009, it was reported that, "EU governments have committed 3 trillion Euros [or

$4 trillion dollars] to bail out banks with guarantees or cash injections in the wake of the global financial crisis, the European Commission."[20]

In early February of 2009, the Telegraph published a story with a startling headline, "European banks may need 16.3 trillion pound bail-out, EC document warns." Type this headline into google, and the link to the Telegraph appears. However, click on the link, and the title has changed to "European bank bail-out could push EU into crisis." Further, they removed any mention of the amount of money that may be required for a bank bailout. The amount in dollars, however, nears $25 trillion. The amount is the cumulative total of the troubled assets on bank balance sheets, a staggering number derived from the derivatives trade.

The Telegraph reported that, "National leaders and EU officials share fears that a second bank bail-out in Europe will raise government borrowing at a time when investors – particularly those who lend money to European governments – have growing doubts over the ability of countries such as Spain, Greece, Portugal, Ireland, Italy and Britain to pay it back."[21]

When Eastern European countries were in desperate need of financial aid, and discussion was heated on the possibility of an EU bailout of Eastern Europe, the EU, at the behest of Angela Merkel of Germany, denied the East European bailout. However, this was more a public relations stunt than an actual policy position.

While the EU refused money to Eastern Europe in the form of a bailout, in late March European leaders "doubled the emergency funding for the fragile economies of central and eastern Europe and pledged to deliver another doubling of International Monetary Fund lending facilities by putting up 75bn Euros (70bn pounds)." EU leaders "agreed to increase funding for balance of payments support available for mainly eastern European member states from 25bn Euros to 50bn Euros."[22]

As explained in a Times article in June of 2009, Germany has been deceitful in its public stance versus its actual policy decisions. The article, worth quoting in large part, first explained that:

Europe is now in the middle of a perfect storm – a confluence of three separate, but interconnected economic crises which threaten far greater devastation than Britain or America have suffered from the credit crunch: the collapse of German industry and employment, the impending bankruptcy of Central European homeowners and businesses; and the threat of government debt defaults from loss of monetary control by the Irish Republic, Greece and Portugal, for instance on the eurozone periphery.

Taking the case of Latvia, the author asks, "If the crisis expands, other EU governments – and especially Germany's – will face an existential question. Do they commit hundreds of billions of euros to guarantee the debts of fellow EU countries? Or do they allow government defaults and devaluations that may ultimately break up the single currency and further cripple German industry, as well as the country's domestic banks?" While addressing that, "Publicly, German politicians have insisted that any bailouts or guarantees are out of the question," however, "the pass has been quietly sold in Brussels, while politicians loudly protested their unshakeable commitment to defend it."

The author addressed how in October of 2008:

[…] a previously unused regulation was discovered, allowing the creation of a 25 billion Euros “balance of payments facility” and authorising the EU to borrow substantial sums under its own “legal personality” for the first time. This facility was doubled again to 50 billion Euros in March. If Latvia’s financial problems turn into a full-scale crisis, these guarantees and cross-subsidies between EU governments will increase to hundreds of billions in the months ahead and will certainly mutate into large-scale centralised EU borrowing, jointly guaranteed by all the taxpayers of the EU.

[…] The new EU borrowing, for example, is legally an ‘off-budget’ and ‘back-to-back’ arrangement, which allows Germany to maintain the legal fiction that it is not guaranteeing the debts of Latvia et al. The EU’s bond prospectus to investors, however, makes quite clear where the financial burden truly lies: “From an investor’s point of view the bond is fully guaranteed by the EU budget and, ultimately, by the EU Member States.”[23]

So Eastern Europe is getting, or presumably will get bailed out. Whether this is in the form of EU federalism, providing loans of its own accord, paid for by European taxpayers, or through the IMF, which will attach any loans with its stringent Structural Adjustment Program (SAP) conditionalities, or both. It turned out that the joint partnership of the IMF and EU is what provided the loans and continues to provide such loans.

As the Financial Times pointed out in August of 2009, “Bank failures or plunging currencies in the three Baltic nations – Latvia, Lithuania and Estonia – could threaten the fragile prospect of recovery in the rest of Europe. These countries also sit on one of the world’s most sensitive political fault-lines. They are the European Union’s frontier states, bordering Russia.” In July, Latvia “agreed its second loan in eight months from the IMF and the EU,” following the first one in December. Lithuania is reported to be following suit. However, as the Financial Times noted, the loans came with the IMF conditionalities: “The injection of cash is the good news. The bad news is that, in return for shoring up state finances, the new IMF deal will require the Latvian government to impose yet more pain on its suffering population. Public-sector wages have already been cut by about a third this year. Pensions have been sliced. Now the IMF requires Latvia to cut another 10 per cent from the state budget this autumn.”[24]

If we are to believe the brief Telegraph report pertaining to nearly $25 trillion in bad bank assets, which was removed from the original article for undisclosed reasons, not citing a factual retraction, the question is, does this potential bailout still stand? These banks haven’t been rescued financially from the EU, so, presumably, these bad assets are still sitting on the bank balance sheets. This bubble has yet to blow. Combine this with the $23.7 trillion US bailout bubble, and there is nearly $50 trillion between the EU and the US waiting to burst.

An Oil Bubble

In early July of 2009, the New York Times reported that, “The extreme volatility that has gripped oil markets for the last 18 months has shown no signs of slowing down, with oil prices more than doubling since the beginning of the year despite an exceptionally weak economy.” Instability in the oil and gas prices has led many to “fear it could jeopardize a global recovery.” Further, “It is also hobbling businesses and consumers,” as “A wild run on the oil markets has occurred in the last 12 months.” Oil prices reached a record high last summer at $145/barrel, and with the economic crisis they fell to $33/barrel in December. However, since the start of 2009, oil has risen 55% to $70/barrel.

As the Times article points out, “the recent rise in oil prices is reprising the debate from last year over the role of investors — or speculators — in the commodity markets.” Energy officials from the EU and OPEC met in June and concluded that, “the speculation issue had not been resolved yet and that the 2008 bubble could be repeated.”[25]

In June of 2009, Hedge Fund manager Michael Masters told the US Senate that, “Congress has not done enough to curb excessive speculation in the oil markets, leaving the country vulnerable to another price run-up in 2009.” He explained that, “oil prices are largely not determined by supply and demand but the trading desks of large Wall Street firms.” Because “Nothing was actually done by Congress to put an end to the problem of excessive speculation” in 2008, Masters explained, “there is nothing to prevent another bubble in oil prices in 2009. In fact, signs of another possible bubble are already beginning to appear.”[26]

In May of 2008, Goldman Sachs warned that oil could reach as much as $200/barrel within the next 12-24 months [up to May 2010]. Interestingly, “Goldman Sachs is one of the largest Wall Street investment banks trading oil and it could profit from an increase in prices.”[27] However, this is missing the key point. Not only would Goldman Sachs profit, but Goldman Sachs plays a major role in sending oil prices up in the first place.

As Ed Wallace pointed out in an article in Business Week in May of 2008, Goldman Sachs’ report placed the blame for such price hikes on “soaring demand” from China and the Middle East, combined with the contention that the Middle East has or would soon peak in its oil reserves. Wallace pointed out that:

Goldman Sachs was one of the founding partners of online commodities and futures marketplace Intercontinental Exchange (ICE). And ICE has been a primary focus of recent congressional investigations; it was named both in the Senate’s Permanent Subcommittee on Investigations’ June 27, 2006, Staff Report and in the House Committee on Energy & Commerce’s hearing last December. Those investigations looked into the unregulated trading in energy futures, and both concluded that energy prices’ climb to stratospheric heights has been driven by the billions of dollars’ worth of oil and natural gas futures contracts being placed on the ICE—which is not regulated by the Commodities Futures Trading Commission.[28]

Essentially, Goldman Sachs is one of the key speculators in the oil market, and thus, plays a major role in driving oil prices up on speculation. This must be reconsidered in light of the resurgent rise in oil prices in 2009. In July of 2009, “Goldman Sachs Group Inc. posted record earnings as revenue from trading and stock underwriting reached all-time highs less than a year after the firm took $10 billion in U.S. rescue funds.”[29] Could one be related to the other?

Bailouts Used in Speculation

In November of 2008, the Chinese government injected an “$849 billion stimulus package aimed at keeping the emerging economic superpower growing.”[30] China then recorded a rebound in the growth rate of the economy, and underwent a stock market boom. However, as the Wall Street Journal pointed out in July of 2009, “Its growth is now fuelled by cheap debt rather than corporate profits and retained earnings, and this shift in the medium term threatens to undermine China’s economic decoupling from the global slump.” Further, “overseas money has been piling into China, inflating foreign exchange reserves and domestic liquidity. So perhaps it is not surprising that outstanding bank loans have doubled in the last few years, or that there is much talk of a shadow banking system. Then there is China's reputation for building overcapacity in its industrial sector, a notoriety it won even before the crash in global demand. This showed a disregard for returns that is always a tell-tale sign of cheap money."

China's economy primarily relies upon the United States as a consumption market for its cheap products. However, "The slowdown in U.S. consumption amid a credit crunch has exposed the weaknesses in this export-led financing model. So now China is turning instead to cheap debt for funding, a shift suggested by this year's 35% or so rise in bank loans."[31]

In August of 2009, it was reported that China is experiencing a "stimulus-fueled stock market boom." However, this has caused many leaders to "worry that too much of the $1-trillion lending binge by state banks that paid for China's nascent revival was diverted into stocks and real estate, raising the danger of a boom and bust cycle and higher inflation less than two years after an earlier stock market bubble burst."[32]

The same reasoning needs to be applied to the US stock market surge. Something is inherently and structurally wrong with a financial system in which nothing is being produced, 600,000 jobs are lost monthly, and yet, the stock market goes up. Why is the stock market going up?

The Troubled Asset Relief Program (TARP), which provided $700 billion in bank bailouts, started under Bush and expanded under Obama, entails that the US Treasury purchases $700 billion worth of "troubled assets" from banks, and in turn, "that banks cannot be asked to account for their use of taxpayer money."[33]

So if banks don't have to account for where the money goes, where did it go? They claim it went back into lending. However, bank lending continues to go down.[34] Stock market speculation is the likely answer. Why else would stocks go up, lending continue downwards, and the bailout money be unaccounted for?

What Does the Bank for International Settlements (BIS) Have to Say?

In late June, the Bank for International Settlements (BIS), the central bank of the world's central banks, the most prestigious and powerful financial organization in the world, delivered an important warning. It stated that, "fiscal stimulus packages may provide no more than a temporary boost to growth, and be followed by an extended period of economic stagnation."

The BIS, "The only international body to correctly predict the financial crisis … has warned the biggest risk is that governments might be forced by world bond investors to abandon their stimulus packages, and instead slash spending while lifting taxes and interest rates," as the annual report of the BIS "has for the past three years been warning of the dangers of a repeat of the depression." Further, "Its latest annual report warned that countries such as Australia faced the possibility of a run on the currency, which would force interest rates to rise." The BIS warned that, "a temporary respite may make it more difficult for authorities to take the actions that are necessary, if unpopular, to restore the health of the financial system, and may thus ultimately prolong the period of slow growth."

Of immense import is the BIS warning that, "At the same time, government guarantees and asset insurance have exposed taxpayers to potentially large losses," and explaining how fiscal packages posed significant risks, it said that, "There is a danger that fiscal policy-makers will exhaust their debt capacity before finishing the costly job of repairing the financial system," and that, "There is the definite possibility that stimulus programs will drive up real interest rates and inflation expectations." Inflation "would intensify as the downturn abated," and the BIS "expressed doubt about the bank rescue package adopted in the US."[35]

The BIS further warned of inflation, saying that, "The big and justifiable worry is that, before it can be reversed, the dramatic easing in monetary policy will translate into growth in the broader monetary and credit aggregates," the BIS said. That will "lead to inflation that feeds inflation expectations or it may fuel yet another asset-price bubble, sowing the seeds of the next financial boom-bust cycle."[36]

Major investors have also been warning about the dangers of inflation. Legendary investor Jim Rogers has warned of "a massive inflation holocaust."[37] Investor Marc Faber has warned that, "The U.S. economy will enter 'hyperinflation' approaching the levels in Zimbabwe," and he stated that he is "100 percent sure that the U.S. will go into hyperinflation." Further, "The problem with government debt growing so much is that when the time will come and the Fed should increase interest rates, they will be very reluctant to do so and so inflation will start to accelerate."[38]

Are We Entering A New Great Depression?

In 2007, it was reported that, "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." Further:

The BIS, the ultimate bank of central bankers, pointed to a confluence a worrying signs, citing mass issuance of new-fangled credit instruments, soaring levels of household debt, extreme appetite for risk shown by investors, and entrenched imbalances in the world currency system.

[…] In a thinly-veiled rebuke to the US Federal Reserve, the BIS said central banks were starting to doubt the wisdom of letting asset bubbles build up on the assumption that they could safely be "cleaned up" afterwards – which was more or less the strategy pursued by former Fed chief Alan Greenspan after the dotcom bust.[39]

In 2008, the BIS again warned of the potential of another Great Depression, as "complex credit instruments, a strong appetite for risk, rising levels of household debt and long-term imbalances in the world currency system, all form part of the loose monetarist policy that could result in another Great Depression."[40]

In 2008, the BIS also said that, "The current market turmoil is without precedent in the postwar period. With a significant risk of recession in the US, compounded by sharply rising inflation in many countries, fears are building that the global economy might be at some kind of tipping point," and that all central banks have done "has been to put off the day of reckoning."[41]

In late June of 2009, the BIS reported that as a result of stimulus packages, it has only seen "limited progress" and that, "the prospects for growth are at risk," and further "stimulus measures won't be able to gain traction, and may only lead to a temporary pickup in growth." Ultimately, "A fleeting recovery could well make matters worse."[42]

The BIS has said, in softened language, that the stimulus packages are ultimately going to cause more damage than they prevented, simply delaying the inevitable and making the inevitable that much worse. Given the previous BIS warnings of a Great Depression, the stimulus packages around the world have simply delayed the coming depression, and by adding significant numbers to the massive debt bubbles of the world's nations, will ultimately make the depression worse than had governments not injected massive amounts of money into the economy.

After the last Great Depression, Keynesian economists emerged victorious in proposing that a nation must spend its way out of crisis. This time around, they will be proven wrong. The world is a very different place now. Loose credit, easy spending and massive debt is what has led the world to the current economic crisis, spending is not the way out. The world has been functioning on a debt based global economy. This debt based monetary system, controlled and operated by the global central banking system, of which the apex is the Bank for International Settlements, is unsustainable. This is the real bubble, the debt bubble. When it bursts, and it will burst, the world will enter into the Greatest Depression in world history.

Notes

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[6] Ilaina Jonas and Emily Chasan, General Growth files largest U.S. real estate bankruptcy. Reuters: April 16, 2009: http://www.reuters.com/article/businessNews/idUSTRE53F68P20090417

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