Evolving Economic Catastrophe: Greek Tragedy Comes to America

By Bob Chapman
Global Research, March 03, 2010
The International Forecaster 3 March 2010
Region: Europe, USA
Theme: Global Economy

We are not going to go into the lured details regarding residential and commercial real estate, but we are going to give you some highlights. We began telling subscribers to sell real estate in June of 2005, long before anyone else. We picked the top just as we did in September 1988 at the top.

Residential real estate won't hit bottom until 2013 and who knows how long it will bump along the bottom. At the end of the year we have a whole new generation of sub prime and ALT-A mortgages coming due for reset. In addition there are the pick and pay loans that are in trouble, and 52% of problems lie, if you can believe it, in prime loans. Residential real estate countrywide is off 32% with a number of areas off 50% or more. In the next two years that national figure will show losses of 45% to 50%, and the former 30 hot city markets will be off 50% to 70%. We predicted this in November of 2004. All the savings of America for three generations of Americans will be lost, and these same Americans will be saddled with horrendous amounts of debt spawned by our Wall Street controlled Treasury and the Federal Reserve. These are the bankers who have robbed you and will continue to rob you until you are destitute and enslaved.

Over the next four years $1.5 trillion or more in commercial real estate loans will come due. About 50% are in deep trouble. From the top in 2007 their values are off 35% to 40%, so they only have 30% to 35% to go. Losses could be as high as $700 billion. The fallout will affect all banks big and small. The reality of losses will be devastating.

Lenders, mostly banks, already broke, are going to get hit very hard and many will go under. All debt in real estate is in serious trouble. That is why we believe more than 2,000 banks will go out of business over the next 1-1/2% to 2 years. That is why you should have no CDs and only three months expenses in the bank for operating and 6 months for businesses. That money should be in gold and silver related assets.

The only word to describe what has been and is continuing to happen in real estate is catastrophic. By way of comparison the losses in the Lehman collapse were piddling. If you include the derivatives it was about $775 billion. In real estate we are talking trillions. The result was that stock markets lost between 10% and 50% of their value after Lehman collapsed. Irrespective of stimulus, government and Fed loans and bogus earnings, once the effect of losses are realized, the Dow will again test 6,500 to 6,600 and in all likelihood break that level and fall to 4,000 to 4,500, with probably some way to go on the downside. The Lehman and Bear Stearns affairs forced the Treasury and the Fed to feed $12.7 trillion directly into the system with a total commitment of $23.7 trillion says our US inspector general. Not only did the US provide a rescue but so did members of the G-20, all of which are presently trying to withdraw the stimulus that kept deflationary depression at bay. The financial elites, particularly of London and NYC, have been temporarily saved, but that game is not over yet. The withdrawal of trillions of dollars from the world economy will collapse it and the Illuminists are well aware of that. The goal has always been the pauperization of the multitudes worldwide in order to implement world government and the new world order. The enslavement of mankind. That is what this is all about and you had best come to grips with what they intend to do. These people have bankrupted almost every country in the world in this deliberate process. That is why sovereign debt is the next area they have zeroed in on as one of the last main cogs of stability to be destroyed along with the devaluation of most currencies.

That brings us to the deliberate destruction of Greece. No one involved didn't know that Greece and Italy presented bogus numbers to qualify for the eurozone some ten years ago, but they all looked the other way. Greece has been the leader in the global shipping industry and so has suffered as global trade has fallen. It has killed their balance of payments. The drop in tourism has also badly hit their economy. This is their part of the price to be paid for the phony war on terrorism. The elitists found Greece to be easy prey along with hedge funds and the likes of Goldman, Morgan and Citi. Their moves set up the initial stages for what will be the deflationary takedown of the world economy financially and economically.

Greece's debt to GDP is estimated to be 120%, far worse than Russia's debt when they defaulted 12 years ago – some $430 billion. German banks hold a great deal of the debt for not only Greece, but for Spain, Ireland and Portugal, some $700 billion worth. As you know all of these countries are in trouble financially, as well as England, which will sell more than $300 billion in bonds this year, all of which will be monetized. This will create more British inflation to be added to the current 3.5% official inflation now in place. Real inflation is double that and it is going to get much worse. It is no wonder British interest rates are 1% higher than German rates. Last year the Bank of England monetized almost all the liquidity they injected into the British market. As the year wears on liquidity will get tighter as borrowed liquidity is to be returned to lenders. For all eurozone banks that number is about $600 billion, which came from the Fed, although they won't admit it. This is one of the main reasons Ron Paul wants to audit the Fed. That is to expose the Fed's illegal role in US foreign policy. The weakness in the pound, as we pointed out in previous issues, along with the dollar and other currencies, has lost 2/3's of its purchasing power, as we pointed out again and again for 6-1/2 years. That measurement is versus gold. How much longer do you believe others will hold pound, euro and US dollar paper, not long? Dollar Forex holdings have dropped from 64.5% to 60 ¾% in just the last year. Global monetary and fiscal problems worsen every day and there is no end in sight. We know there is something very big underway when Warren Buffett, who's firm recently paid a $100 million fine for accounting fraud is dragged out frequently to tell the people things are going to get lots worse. Charlie Munger said the same thing last week as further warnings are fed to the public.

Germany is playing a key role in all of this, particularly in Europe. Germany never saw a bubble in its stock market nor in its housing market. Germans have been frugal doing what any sane society should have done. They never had cheap credit, soaring salaries or big government goodies like those countries on the edge; Greece, Spain, Ireland, Portugal and Italy. It must be said though that part of German success was exporting to theses bubble countries. The cry now from purchased economists is Germany must buy in order for the rest of Europe to economically survive. Others are envious of Germany's trade surplus, which is the second largest in the world after Saudi Arabia. That surplus is what is used by the rest of the eurozone nations to stay solvent. Definitely a 2-edged sword. Is it any wonder 67% of Germans have for 11 years wanted to dump the euro. Germany was forced to take on Greece and Italy knowing they did not qualify and Ireland was subsidized into the zone and should have never been allowed to join. Germany is being penalized holding down salaries to the point of stagnation and cost cutting, whereas the other players simply ran economically and fiscally wild. Germany will not join the culture of debt and cannot be expected to pay for others profligacy.

In a recent poll German banks said they will not buy more Greek sovereign debt. Greeks are demonstrating in the streets because the party is over and they want it to continue forever. Greece's problems are somewhat similar to those of the states in the US. An economic depression, large budget deficits and giant falls in revenues. Costs have to be cut and people have to be laid off. Like in Greece, California, New York, Pennsylvania, New Jersey and other states are running out of money. Greece wants Germany to help and now 67 years after the war wants its gold returned, some $70 billion. Germany couldn't deliver the gold if it wanted too, because the US refuses to return their gold, probably because they secretly sold it to suppress gold prices. At the same time the states in the US are selling municipal bonds like mad to stay afloat with yields of only 3%. The problem is we have an unsound credit system. Last year the Fed bought 80% of Treasury debt and monetized it. In addition, they bought $1.2 trillion in MBS and Agencies at least half of which was monetized. The system in the eurozone and in the US is impaired and nothing is being done to fix it. It's one band-aid after another. All these nations can think of is reflation. The wrong path and example still exists. Trillions in deficits as far as the eye can see to underpin the stock and bond markets and make it appear that there is economic recovery, when in fact the world is going deeper into the hole. The stability of asset prices, incomes and corporate cash flow and revenues for government are a mirage. It is a classic Ponzi scheme.

This past week the Dow declined 0.7%; S&P fell 0.4%; the Russell 2000 fell 0.5% and the Nasdaq 100 fell 0.3%. Banks rose 1.7%; broker/dealers lost 0.7%; cyclicals dipped 0.4% and transports rose 1.8%. Consumers fell 0.4%; utililties 2.5%; high tech 1.0%; semis 1.4% and Internets 1.2%; biotechs rose 1.5%. Gold bullion fell about $3.00 and the HUI lost 1.6%. The USDX fell 0.4% to 80.31.

Two year T-bills fell 14 bps to 0.73%, the 10-year T-notes fell 16 bps to 3.62% and the 10-year German bunds fell 18 bps to 3.10%.

Freddie Mac's 30-year fixed rate mortgage rose 8 bps to 5.05%; one-year Fed credit expanded $5.2 billion to a record $2.269 trillion. Year-on-year it is up 19.4%. Fed foreign holdings of Treasury and Agency debt rose $5.6 billion to a record $2.965 trillion. Custody holdings for foreign central banks rose 14.9% y-o-y.

M2, narrow, money supply jumped $40.7 billion to $8.523 trillion, it is up $14.6 billion y-t-d, and 1.3% y-o-y.

Total money market deposits rose $5 billion to $3.166 trillion. Year-to-date it has declined $128 billion, with a one-year drop of $722 billion, or 18.6%.

Total commercial paper outstanding rose $16.4 billion to $1.154 trillion, y-t-d it is off 8.9%, or by $16.1 billion, and y-o-y it is down 24.3%, or $370 billion.

Markets are trying to lead us to believe that Treasury, the Fed and Wall Street will use credit effectively to lead us out of our current depression. In Europe the weak countries within the eurozone continue to suffer the inability to create money and credit to try to extricate themselves. They are in a far different kettle of fish.

Now that M3 in the US and Europe and M4 in England have been brought to almost zero levels any possibility of recovery is remote. Some academics believe inflation should be acceptable at higher levels, in particular the IMF. Of course that idea is akin to giving matches to arsonists. Grossly negligent doesn't even begin to cover this kind of insanity. Governments want higher inflation to cover their debt and let the public pay for it through reduced purchasing power. This does not bring prosperity and growth, only a temporary fix. Much akin to what a drug addict goes through. The elitist bankers and Wall Street want monetization because it keeps the game going. Neither the players or the media think the European sovereign debt crisis is a disjointing event. The lack of foreign participation in sovereign debt offerings doesn't seem to phase them as well. Just another trouble to be dealt with. If trouble ensues they will just call in the Fed to monetize the problem. Contagion never enters their minds. This is why gold continues to rise in value in every currency. Foreign governments are well aware that the Fed is monetizing debt. We can see that in the drop off of indirect participation. Can you imagine the stupidity of use of the household category to state purchases? Since when do housewives buy millions of dollars worth of treasuries? There are 17 nations that are on the verge of bankruptcy. We do not know when the Brotherhood of Darkness will decide to bring this charade to an end, but it should be before the end of next year and perhaps lots sooner.

Keynesianism will probably finally die and come to an end as the world financial system implodes. It has proven to be a deadly experiment. Bankers and Wall Street collected their riches, but as usual the public got screwed. Growth has come to a halt unless assisted by periodic injection of stimulus or massive doses of quantitative easing. The final blow has been free trade, globalization, offshoring and outsourcing for both Europe and the US. Corporate America is not going to invest in the US, nor are corporations in Europe, when politicians, fat on campaign contributions, continue to participate in the destruction of our manufacturing and service sectors.

The dollar may be stronger against the euro, but that status will soon show up in a drop in exports and a worsening of the balance of payments deficit. For every action there is a reaction. That will kill any possible economic recovery. Europe may export more, but they will face higher inflation. The only solution for the US and Europe is tariffs on goods and services and until that happens neither will be able to compete. Needless to say, many problems and challenges lie ahead. We cannot expect any help from the current Congress. The answer is vote out of office as many incumbents as possible in November. If you do not there will never be a recovery and you will end up enslaved by Wall Street and banking.

Construction spending fell for a 3rd straight month to its lowest level since June 2003. It dropped 0.6% after falling 1.2% in December.

The ISM Index of factory activity fell 56.5 in February from 58.4 in January. Prices paid were 67.0. January's ISM was 58.4 and prices paid were 70.

Two more banks hit the dust in the FDIC Friday Night Financial Follies. We are in a race to the bottom. Over the next two years 1,000 to 2,000 banks could go under.

The government now says that China did not lose its place in December as the largest foreign holder of U.S. Treasury debt.

The Treasury Department said that under annual benchmark revisions released Friday, China's holdings of U.S. Treasury securities stood at $894.8 billion at the end of December, keeping it in first place ahead of Japan.

On Feb. 16, the government reported data that showed China had been surpassed by Japan. However, the government said in the new report that those figures did not account for purchases by Chinese investors in such places as Britain.

When those purchases are taken into account, the government said that China's holdings in December grew by $139.4 billion above what was reported on Feb. 16.

That increase put China back into first place as the top foreign holder of U.S. Treasury securities at $894.8 billion followed by Japan, now back in second place, at $768.8 billion.

The revised figures represent the annual revisions Treasury makes based on a more detailed report of the actual foreign holdings of the Treasury debt. That survey revised the figures through June 2009, and those more accurate figures were used to update the monthly reports through December 2009.

The revised figures did show that China reduced its holdings in December compared with November, a drop of $34.2 billion. However, with the more accurate assessment of the actual ownership of the securities, the levels of China's holdings were much higher than expressed in the report two weeks ago.

The replacement of China by Japan as the largest foreign holder of Treasury securities when it was reported two weeks ago had raised worries that China was carrying through on comments it made about diversifying its holdings based on rising concerns about America's soaring federal budget deficits.

The Obama administration has apparently come up with a creative way to deal with the increasingly bleak news regarding the economic position of the United States in the world. It proposes to eliminate the office in the Bureau of Labor Statistics that collects and publishes the comparative data on employment, unemployment, manufacturing productivity and labor costs, among other things.– The Obama administration has apparently come up with a creative way to deal with the increasingly bleak news regarding the economic position of the United States in the world. It proposes to eliminate the office in the Bureau of Labor Statistics that collects and publishes the comparative data on employment, unemployment, manufacturing productivity and labor costs, among other things. [Simply as unbelievable as the elimination of M3 four years ago. We will get the figures anyway by backing into payroll and state figures. Who does he think he is kidding?]

Dominique Strauss-Kahn, the head of the International Monetary Fund, suggested Friday the organization might one day be called on to provide countries with a global reserve currency that would serve as an alternative to the U.S. dollar.

"That day has not yet come, but I think it is intellectually healthy to explore these kinds of ideas now," he said in a speech on the future mandate of the 186-nation Washington-based lending organization.

Strauss-Kahn said such an asset could be similar to but distinctly different from the IMF's special drawing rights, or SDRs, the accounting unit that countries use to hold funds within the IMF. It is based on a basket of major currencies.

He said having other alternatives to the dollar "would limit the extent to which the international monetary system as a whole depends on the policies and conditions of a single, albeit dominant, country."

Strauss-Kahn, a former finance minister of France, said that during the recent global financial crisis, the dollar "played its role as a safe haven" asset, and the current international monetary system demonstrated resilience.

"The challenge ahead is to find ways to limit the tension arising from the high demand for precautionary reserves on the one hand and the narrow supply of reserves on the other," he said.

Several countries, including China and Russia, have called for an alternative to the dollar as a reserve currency and have suggested using the IMF's internal accounting unit.

Strauss-Kahn said the IMF also needs to do a better job of tracing how risk percolates through the global economy.

"Here it will be essential to improve our ability to monitor several dozen large complex financial institutions that make up the `plumbing' through which global capital flows," he said, while leaving national regulators the job of monitoring the solvency of individual institutions.

The Supreme Court ruled Wednesday that investigators may resume questioning a suspect who invoked his Miranda right to a lawyer after the suspect has been out of police custody for 14 days.

The 7-2 decision scales back a 1981 Supreme Court decision intended to protect suspects from police badgering to talk and to safeguard the rights established in the 1966 Miranda v. Arizona ruling.

A 'wall' of junk debt maturing in the next four years will increase the risk of corporate defaults in the U.S., according to Bank of America Merrill Lynch. More than $600 billion of high-yield bonds and loans are due to be repaid between 2012 and 2014. Almost 90% of loans outstanding mature in the next five years.

The default rate for commercial property mortgages held by U.S. banks more than doubled in the fourth quarter and may reach a peak of 5.4% at the end of next year, according to Real Capital Analytics Inc. The default rate for loans on office, retail, hotel and industrial properties surged to 3.8% from 1.6% a year earlier. The default rate for loans on apartment buildings climbed to 4.4% from 1.8%.

New York's budget deficit for this year may be $2 billion, or 43% wider than projected earlier this month by the Division of Budget, comptroller Thomas DiNapoli said.

Florida's state pension system, manager of $112 billion is set to decide next week on the size of its first investment in hedge funds. Executives of the fourth-largest state retirement program in the U.S. will make the move amid a 7% shortfall in its ability to pay future benefits, the first in 13 years. Wisconsin's pension also plans its initial allocation this year, while Boeing Co.'s probably will raise its holdings. Public and private pensions are increasing hedge-fund commitments after slowing the flow of cash at the end of 2008.

Mr. Dimon told investors at the Wall Street bank's annual meeting that "there could be contagion" if a state the size of California, the biggest of the United States, had problems making debt repayments. "Greece itself would not be an issue for this company, nor would any other country," said Mr. Dimon. "We don't really foresee the European Union coming apart." The senior banker said that JP Morgan Chase and other US rivals are largely immune from the European debt crisis, as the risks have largely been hedged.

California however poses more of a risk, given the state's $20bn (£13.1bn) budget deficit, which Governor Arnold Schwarzenegger is desperately trying to reduce.

Earlier this week, the state's legislature passed bills that will cut the deficit by $2.8bn through budget cuts and other measures. However the former Hollywood film star turned politician is looking for $8.9bn of cuts over the next 16 months, and is also hoping for as much as $7bn of handouts from the federal government.

Earlier this week, John Chiang, the state's controller, said that if a workable plan to reduce the deficit and increase cash levels is not reached soon, he will have to return to issuing IOU's, forcing state workers to take additional unpaid leave and potentially freezing spending.

Last summer, California issued $3bn of IOU's to creditors including residents owed tax refunds as a way of staving off a cash crisis.

"I can't write checks without money; that's against the law. My main goal is to keep the state afloat, but I won't be able to do it without the help of new legislation," said Mr. Chiang.

At least eleven 15-year-old children were discovered to be working last year in three factories which supply Apple.

The company did not name the offending factories, or say where they were based, but the majority of its goods are assembled in China.

Apple also has factories working for it in Taiwan, Singapore, the Philippines, Malaysia, Thailand, the Czech Republic and the United States.

Apple said the child workers are now no longer being used, or are no longer underage. "In each of the three facilities, we required a review of all employment records for the year as well as a complete analysis of the hiring process to clarify how underage people had been able to gain employment," Apple said, in an annual report on its suppliers.

Apple has been repeatedly criticised for using factories that abuse workers and where conditions are poor. Last week, it emerged that 62 workers at a factory that manufactures products for Apple and Nokia had been poisoned by n-hexane, a toxic chemical that can cause muscular degeneration and blur eyesight. Apple has not commented on the problems at the plant, which is run by Wintek, in the Chinese city of Suzhou.

A spokesman for Wintek said that "almost all" of the affected workers were back at work, but that some remained in hospital. Wintek said n-hexane was commonly used in the technology industry, and that problems had arisen because some areas of the factory were not ventilated properly.

Last year, an employee at Foxconn, the Taiwanese company that is one of Apple's biggest suppliers, committed suicide after being accused of stealing a prototype for the iPhone.

Sun Danyong, 25, was a university graduate working in the logistics department when the prototype went missing. An investigation revealed that the factory's security staff had beaten him, and he subsequently jumped to his death from the 12th floor of his apartment building.

Foxconn runs a number of super-factories in the south of China, some of which employ as many as 300,000 workers and form self-contained cities, complete with banks, post offices and basketball courts.

It has been accused, however, of treating its employees extremely harshly. China Labor Watch, a New York-based NGO, accused Foxconn of having an "inhumane and militant" management, which neglects basic human rights. Foxconn's management were not available for comment.

In its report, Apple revealed the sweatshop conditions inside the factories it uses. Apple admitted that at least 55 of the 102 factories that produce its goods were ignoring Apple's rule that staff cannot work more than 60 hours a week.

The technology company's own guidelines are already in breach of China's widely-ignored labour law, which sets out a maximum 49-hour week for workers.

A multibillion-dollar "virtual fence" along the southwestern border promised for completion in 2009 to protect the U.S. from terrorists, violent drug smugglers and a flood of illegal immigrants is a long way from becoming a reality, with government officials unable to say when, how or whether it will ever be completed.

More than three years after launching a major border security initiative and forking over more than $1 billion to the Boeing Co., the project's major contractor, Homeland Security Department officials are re-evaluating the high-tech component of the plan in the wake of a series of critical Government Accountability Office (GAO) reports warning lawmakers that the expensive undertaking is deeply flawed.

The program now places the Obama administration in a quandary, foretold by lawmakers who witnessed Boeing and Homeland Security publicly mischaracterize the nature of the contract, according to GAO, after government officials, watchdogs and contractors privately discovered that it was destined to fail.

"Regrettably, the partnership between [Homeland Security] and Boeing has produced far more missed deadlines and excuses than results," Rep. Bennie Thompson, Mississippi Democrat and chairman of the House Homeland Security Committee, said in September 2008. "It will become the 44th president's problem."

Since February 2007, according to a review of federal records by The Washington Times, GAO has been telling Congress and Homeland Security that its high-tech border protection system needed better oversight and accountability, and that it lacked realistic measures of cost, timing and benefits.

Early on, GAO found that Boeing had failed to show how the $1.1 billion high-tech system would meet the objectives of the Secure Border Initiative (SBI), a comprehensive, multiyear, $4 billion Homeland Security proposal to secure the 2,000-mile U.S.-Mexico border, and urged revisions to the company's lucrative contract.

Despite such warnings, based on GAO's detailed evaluations of the root causes of major problems, the goals of the high-tech project, dubbed "SBInet," were not realized and deadlines were pushed back. In September, GAO reported to Congress that the virtual fence scheduled for completion in 2009 will not be ready until at least 2016 — if it goes forward at all.

Meantime, the Obama administration has announced significant budget cuts for U.S. Customs and Border Protection (CBP) programs that depend on costly manpower, fencing, infrastructure and technology. While Homeland Security has described the virtual fence project as a critical element of increased border security, the administration has requested $574 million for the program for fiscal 2011 — a cut of nearly 30 percent compared with the $800 million that Congress approved in fiscal 2010.

"How can Congress even contemplate the administration's substantial cuts to SBInet when the investment plans and oversight reports required by law have been completely ignored?" Rep. Harold Rogers, Kentucky Republican and a member of the House Appropriations subcommittee on homeland security, said last week.

Mr. Rogers is not the only one asking questions. The GAO has asked repeatedly how much more the government is willing to spend on a failed initiative.

Apple also said that one of its factories had repeatedly falsified its records in order to conceal the fact that it was using child labour and working its staff endlessly.

"When we investigated, we uncovered records and conducted worker interviews that revealed excessive working hours and seven days of continuous work," Apple said, adding that it had terminated all contracts with the factory.

Only 65 per cent of the factories were paying their staff the correct wages and benefits, and Apple found 24 factories where workers had not even been paid China's minimum wage of around 800 yuan (Pounds76) a month.

Meanwhile, only 61 per cent of Apple's suppliers were following regulations to prevent injuries in the workplace and a mere 57 per cent had the correct environmental permits to operate.

The high environmental cost of Apple's products was revealed when three factories were discovered to be shipping hazardous waste to unqualified disposal companies.

Apple said it had required the factories to "perform immediate inspections of their wastewater discharge systems" and hire an independent environmental consultant to prevent future violations.

However, Apple has not stopped using the factories.

In 2008, Apple found that a total of 25 child workers had been employed to build iPods, iPhones and its range of computers.

Personal spending jumped by a larger amount than expected in January but Americans' incomes barely budged. The weak income growth could depress spending in the months ahead, acting as a further drag on the fragile economic recovery.

The Commerce Department said that personal spending rose by 0.5 percent in January, slightly better than expected. But incomes edged up only 0.1 percent, significantly lower than the 0.4 percent gain that economists had expected.

The income gain was the weakest showing in four months and raised more concerns about whether consumers will be able to keep spending at a sufficiently strong pace to support an economic rebound.

As Congress pleads with banks to increase lending to small businesses to juice the recovery, one group of lenders is begging Congress to let them make more loans: credit unions.

Credit unions say the economic downturn presents their best opportunity yet to persuade lawmakers to raise a federal limit on their business loans. But banks say it would give the tax-exempt credit unions an unfair advantage.

FOR ENTREPRENEURS:

Credit unions are non-profit cooperatives owned by members, such as employees or community residents. They have picked up some of the slack as banks burned by bad loans in the financial crisis tightened standards and pulled back on lending.

Banks' outstanding loans to small businesses fell 3.9% in the year ended June 30. Such credit union loans rose 11% to $36 billion the first nine months of 2009, says the Credit Union National Association (CUNA).

Just how dangerous is California's budget crisis?

Extremely dangerous, according to two recent evaluations of California's debt by financial industry insiders.

California's debt is seen by investors as riskier than Kazakhstan's, according to Bloomberg News. Five-year credit default swaps tied to California's debt, which are a key measure of the market's belief in the likelihood of default, are actually trading at 100 basis points above those of Kazakhstan. In other words, the market believes a developing country of just 15.7 million people is actually less likely to default on its debt than California, which makes up the eighth-largest economy in the world.

Here's Bloomberg News:

Kazakhstan and California, the lowest-rated U.S. state, share a Baa1 ranking, three steps above non-investment grade, from Moody's Investors Service. California was given a BBB by Fitch Ratings and A- by Standard & Poor's, four levels above non-investment grade. Both companies rate Kazakhstan lower, at BBB-, one step above high-risk, high-yield junk.

And last week, Jamie Dimon, the CEO of JPMorgan, the nation's second largest bank, warned that California's $20 billion budget gap could pose a bigger risk than the Greek debt crisis. Here's Dimon: "Greece itself would not be an issue for this company, nor would any other country. We don't really foresee the European Union coming apart."

In January, Standard & Poor's cut California's debt rating amid concerns that the state was not doing enough to bolster its budgetary woes. Reporting on the downgrade, Reuters pointed out that there are several countries with debt trading at levels above California's: "The cost to insure California's debt with credit default swaps is now higher than debt of developing countries, such as Kazakhstan, Lebanon and Uruguay. It costs $277,000 per year for five years to insure $10 million in California debt, compared with $172,000 for Kazakh debt."

A big reason for the disparity: Banks "have huge losses in their portfolio and our business loans are rock solid," says CUNA CEO Dan Mica. Credit unions lend only to members and avoided the risky home and commercial loans that clobbered banks.

They say they'd make a bigger contribution if Congress passes a bill that would raise a cap on their business loans, now 12.25% of assets, to 25%. It would free an extra $25 billion or so in loans over three years, CUNA economist Bill Hampel says. While credit unions hold only 5% of all small-business loans, CUNA says the added funds would generate nearly 100,000 jobs the first year.

But economist Keith Leggett of the American Bankers Association says the cap is aimed at keeping credit unions from shifting lending from modest-income consumers to businesses. Raising it, he adds, would worsen a pricing edge credit unions enjoy because of their tax-exempt status.

Mica argues credit unions pose no threat. Hampel says easing the cap won't hurt consumers: New loans would come from money now in other investments.

Credit union officials hope to hitch the cap increase to a small-business lending bill top Democrats plan to unveil this week.

St. Mary's Bank Credit Union of Manchester, N.H., has $75 million in business loans and $15 million pending. CEO Ron Covey says the cap means he can't fund $4.8 million in loans.

Three banks rejected Kristen and Nick Arzner for a $250,000 loan to open a restaurant in Corvallis, Ore. But OSU Federal credit union OK'd it. "They worked with us," says Kristen, 27. [If this is allowed we will see lots of credit unions go under. The economy is headed into deep trouble late this year.]

The National Association of Realtors reports existing home sales fell 7.2% to a seasonally adjusted annual rate of 5.05M. The results, the weakest since June, were far worse than forecast. Economists expected a slight increase to a rate of 5.5 million.

The first revisions of Q4 GDP shows inventories increased more than expected (3.88% from 3.39%) while consumption was less than expected (1.7% vs. 2%). Final Sales were reduced to 1.6% from 2.3%.

This is not good for the economy. Production increased sharply but consumption trailed greatly. Personal consumption declined to 1.7% from Q3's 2.8%. Q4 GDP was increased 0.2% because the deflator was cut to 0.4% from 0.6%.

The Obama administration is planning to use the government's enormous buying power to prod private companies to improve wages and benefits for millions of workers, according to White House officials and several interest groups briefed on the plan.

Although the details are still being worked out, the outline of the plan is drawing fierce opposition from business groups and Republican lawmakers. They see it as a gift to organized labor and say it would drive up costs for the government in the face of a $1.3 trillion budget deficit.

“I’m suspicious of what the end goals are,” said Ben Brubeck, director of labor and federal procurement for Associated Builders and Contractors, which represents 25,000 construction-related companies. “It’s pretty clear the agenda is to give big labor an advantage in federal contracts.”

Businesses have fired 8.5 million people, or 7.4 percent of those on the payroll when employment peaked in December 2007. Local governments kept hiring through September 2008, and since then have fired 141,000 workers, less than 1 percent of the 14.6 million they had at the top, according to the U.S. Bureau of Labor Statistics.

In good times, few people focus on how government payroll expands, or how elected politicians raise salaries and enhance pensions and benefits. Americans like government services, and their public officials are happy to comply with their wishes.

Now the good times are over, at least for a while, and Americans find themselves with local-government payrolls that in many cases remain at record levels. They also now see unions refusing to reduce headcount, and are forced to wonder what planet the union bosses are on.

The unions seem to be as tone-deaf as the ranks of investment bankers were in late 2008. Even after $1 trillion in writedowns and losses and $700 billion in bailouts, bankers still collected $18.4 billion in bonuses that year. What’s more, they defended the life-altering windfalls their industry had doled out for almost a decade.

Mayor Dave Bing today criticized leaders of the city’s largest union for foot-dragging on contract negotiations, saying it’s costing the financially strapped city $500,000 a month and could result in more layoffs.

“Either they can’t read, they can’t add or they can’t comprehend,” Bing said at a press conference this morning in his office at City Hall. “It has to be one of the three.

> “Everyone is running with a deficit in their budgets. It’s leadership or a lack of leadership that has got us to where we are.”

Even in San Francisco, a union town where labor issues are treated with kid gloves, politicians and transit riders are teeing off on the drivers like they stole rent money from little old ladies.

> “There is no question in my mind that they completely misread the public,” Mayor Gavin Newsom said Wednesday. “Either they step up or the people of San Francisco will.”

We have been screaming for years that derivatives are the main reason for the depth and scope of the financial crisis and the reason that US solons and regulators allowed and continue to allow derivatives to exist is that they generate huge earnings for the Street as well as ginormous ‘unrealized’ earnings that are nothing more than fictitious profits generated by ‘mark to model’ chicanery.

Using these instruments in a way that intentionally destabilizes a company or a country is — is counterproductive, and I’m sure the S.E.C. will be looking into that.” That’s what Ben S. Bernanke, chairman of the Federal Reserve, said last week when lawmakers asked him about credit default swaps during his Congressional testimony…

Now, there are fears that the use of these swaps may also help propel entire countries — think Greece — to the precipice.

Mr. Bernanke is undoubtedly an intelligent man. But his view that it’s “co unterproductive” to use credit default swaps to crash an institution or a nation exhibits a certain naïveté about how the titans of finance operate now.

High-octane trading may be counterproductive to taxpayers, for sure. But not to the speculators who win big when such transactions pay off. And in the case of A.I.G., the speculators got their winnings from the taxpayers.

The certainty that Mr. Bernanke expressed about the S.E.C.’s inquiry into credit default swaps is quaint as well. If the past is prologue, we might see a case or two emerge from that inquiry five years from now. The fact is that credit default swaps and other complex derivatives that have proved to be instruments of mass destruction still remain entrenched in our financial system three years after our economy was almost brought to its knees…

This is not surprising. Given how much money is generated by the big institutions trading these instruments, these entities are showering money on Washington to protect their profits. The Office of the Comptroller of the Currency reported that revenue generated by United States banks in their credit derivatives trading totaled $1.2 billion in the third quarter of 2009.

Dominique Strauss-Kahn, the head of the International Monetary Fund, suggested Friday the organization might one day be called on to provide countries with a global reserve currency that would serve as an alternative to the U.S. dollar.

“That day has not yet come, but I think it is intellectually healthy to explore these kinds of ideas now,” he said in a speech on the future mandate of the 186-nation Washington-based lending organization. Strauss-Kahn said such an asset could be similar to but distinctly different from the IMF’s special drawing rights, or SDRs, the acon a basket of major currencies.

Boston Herald: Mass. unemployment insurance fund goes broke

Massachusetts’ unemployment insurance fund ran dry this month amid heavy payouts to jobless workers, forcing the state to borrow money from the federal government to cover claims.

Joanne Goldstein, Gov. Deval Patrick’s secretary of labor and workforce development, said that current and future recipients don’t have to worry and that federal loans are normal during recessions to keep the fund solvent…

About 30 states are also borrowing funds from the federal government, which doesn’t charge interest for the first year. The loans will be repaid as the economy recovers.

Employers pay into both the state and federal funds via taxes…

http://www.bostonherald.com/business/general/view.bg?articleid=1235767&srvc=rss&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+bostonherald%2Fbusiness%2Fgeneral+%28Business+%26+Markets+-+Business+-+BostonHerald.com%20

The government's net position, after deducting liabilities from assets, was in shortfall by $11.46 trillion in the fiscal year that ended Sept 30, 2009, compared with $10.2 trillion in fiscal 2008.

Its net operating costs for fiscal 2009 were $1.3 trillion, up from $1 trillion in fiscal 2008 because of weaker revenues and spending to try to revive the economy, Treasury Secretary Timothy Geithner said in a foreword to the report.

Ambrose Evans-Pritchard: Barack Obama's home state of Illinois is near the point of fiscal disintegration. "The state is in utter crisis," said Representative Suzie Bassi. "We are next to bankruptcy. We have a $13bn hole in a $28bn budget."

The state has been paying bills with unfunded vouchers since October. A fifth of buses have stopped.

Libraries, owed $400m (£263m), are closing one day a week. Schools are owed $725m. Unable to pay teachers, they are preparing mass lay-offs. "It's a catastrophe", said the Schools Superintendent.

Florida, Arizona, Michigan, New Jersey, Pennsylvania and New York are all facing crises. California has cut teachers salaries by 5pc, and imposed a 5pc levy on pension fees.

The Economic Policy Institute says states face a shortfall of $156bn in fiscal 2010. Most are banned by law from running deficits, so they must retrench. Washington has provided $68bn in federal aid, but that depletes the Obama stimulus package.

http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/7338857/Dont-go-wobbly-on-us-now-Ben-Bernanke.html

Think about the State of Illinois for a minute. It has a budget of $28B and almost half of it, $13B, is a deficit. In other words Illinois is spending almost twice as much as it takes in! And some people want to debunk our notion that the US welfare state/socialism is bankrupt.

Stage is set in U.S. for a Greek tragedy

It's not something that is 10 years away. It affects the markets currently," he told the House Financial Services Committee. "It is possible that bond markets will become worried about the sustainability [of yearly deficits over $1 trillion], and we may find ourselves facing higher interest rates even today.

> "We're not going to monetize the debt," Mr. Bernanke declared flatly, stressing that Congress needs to start making plans to bring down the deficit to avoid such a dangerous dilemma for the Fed.

> "It is very, very important for Congress and administration to come to some kind of program, some kind of plan that will credibly show how the United States government is going to bring itself back to a sustainable position." [Ben is an abject liar for saying the Fed is "not going to monetize the debt." He's been monetizing various debt relentlessly for over a year.]

http://www.washingtontimes.com/news/2010/feb/25/bernanke-delivers-warning-on-us-debt/

CNN Poll: Majority says government a threat to citizens' rights – Fifty-six percent of people questioned in a CNN/Opinion Research Corporation survey released Friday say they think the federal government's become so large and powerful that it poses an immediate threat to the rights and freedoms of ordinary citizens. Forty-four percent of those polled disagree.

The survey indicates a partisan divide on the question: only 37 percent of Democrats, 63 percent of Independents and nearly 7 in 10 Republicans say the federal government poses a threat to the rights of Americans. http://politicalticker.blogs.cnn.com/2010/02/26/cnn-poll-majority-says-government-a-threat-to-citizens-rights/?fbid=lSQeDsJ4B3R

Easy money trumps weak economy on Wall Street When is bad news not really bad? When it's eclipsed by the promise of enduring easy money for Wall Street.

US fund managers increased exposure to equities in February to reach their highest level in 14 months, a Reuters poll showed this week. Based on 11 U.S.-based fund management firms surveyed between February 11 and 24, they held an average 66.2 percent of assets in equities in February, up from 64.8 percent in January.

http://www.reuters.com/article/idUSTRE61P4P820100226

Senate Democrats unveiled a $150 billion measure that would reinstate unemployment benefits that expired yesterday. The legislation would spend $81 billion to extend the unemployment benefits, including so-called Cobra subsidies to help the jobless buy health insurance, for the rest of this year. It also would send $25 billion to state governments to help prevent layoffs.

Goldman Sachs made at least $100m in net trading revenues on 131 days last year – equivalent to once every other trading day, according to a filing with the Securities and Exchange Commission on Monday.

Goldman managed the result even as it took greater trading risks in 2009 than in the previous year. Its daily "value at risk" (VAR) – the most that the bank estimates that its traders could lose on a given day – was $218m in 2009.

In its annual report, the New York company said "adverse publicity" could have "a negative impact on our reputation and on the morale and performance of our employees, which could adversely affect our businesses and results of operations." [No wonder the populace is moving into pitchfork & torch mode.]

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Bob Chapman**