

Predicting Worse Ahead from America's Economic Crisis

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Austrian economist Ludwig von Mises (1881 - 1973) said:

“There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.”

Under Alan Greenspan, Ben Bernanke and successive US Treasury Secretaries, America chose the latter path and now faces the consequences of their reckless, criminal behavior.

In early 2009, economist Michael Hudson said:

The (US) economy has reached its debt limit and is entering its insolvency phase. We are not in a cycle but (at) the end of an era. The old world of debt pyramiding to a fraudulent degree cannot be restored,” only delayed to postpone a painful day of reckoning.

Economist Hyman Minsky (1919 - 1996) described a “Ponzi finance” system during prolonged expansions and economic booms. Speculative excesses create bubbles, triggering structural instability, then asset valuation collapse that turns euphoria to revulsion and market crashes.

On December 29, 2008, the Wall Street Journal online headlined: “As if Things Weren't Bad Enough, Russian Professor Predicts End of US,” then continued:

“For a decade, Russian academic (and former KGB analyst) Igor Panarin has been predicting the US will fall apart in 2010” to include an “economic and moral collapse, a civil war, and the eventual breakup of the country.” For years, no one took him seriously, but no longer. He's invited to Kremlin receptions, gets interviewed twice a day, publishes books, is a frequent lecturer, and appears regularly in the media as an expert on US - Russia relations as well as the great interest in his predictions and new book titled, “The Crash of America.”

On March 25, 2009, RussiaToday.com headlined: “Is there anything Obama can do about the US Collapse?” No, according to Panarin, for these reasons:

— “the moral and psychological factor and the stress of the American population;”

- America’s deepening financial and economic crisis; and
- “the increase of anti-Americanism in the world,” the result of continued US belligerency.

Panarin sees America collapsing into six areas of foreign influence and perhaps disintegrating as a nation:

- depressed northern states close to Canada “in their mentality and economic development;”
- the Southwest “fuel and energy complex, the oil sector” close to Mexico;
- California and the Pacific Northwest falling under Chinese influence;
- the Northeast and Middle Atlantic regions under the EU;
- Alaska may be returned to Russia; and
- Hawaii may become a Japanese or Chinese protectorate.

Panarin sees 2010 as America’s tipping point and says no miracle rescues can save it. In addition, he cites French political scientist Emmanuel Todd’s 1976 prediction of the Soviet Union’s dissolution that got him laughed at and scorned at the time but proved right.

Todd now predicts a similar fate for the US in his 2002 book, “After the Empire: The Breakdown of the American Order.” He cites:

- unilateral militarism shows weakness, not strength;
- America is parasitic, relying on voluntary or extracted “tributes” from vassal states;
- global terrorism is a myth;
- many nations, including EU states, China and Russia, are beginning to resist US adventurism;
- terminal corruption and decay;
- economic weakness and decline;
- producing little, America’s “specialty is consumption (so) relies on foreign imports” to satisfy it;
- a declining middle class and growing poverty will curtail spending sharply;
- if capital inflows cease, the dollar will crash:
- a coming collapse of the stock market, financial institutions and the dollar;
- a ballooning trade deficit and shrinking manufacturing base;
- a predatory ruling class plundering the world with impunity, yet out of touch with its own people growing poorer, more desperate and angrier;
- America’s abandonment of universalism and egalitarianism;
- excess consumption trapping people in an ocean of debt and lowering their

living standards;

— “the rest of the world....is on the verge of discovering that it can get along without America; America is realizing that it cannot get along without the rest of the world;”

— an emerging Eurasia will end US supremacy, then isolate and curtail its dominance; and

— “If America continues to endeavor to show its power, it will simply reveal (to) the world its impotence.”

For his part, Panarin compares America to the Titanic after hitting an iceberg when it was unclear whether the crew would try to save the ship or more importantly its passengers. Unfortunately, under Bush and Obama, they’re trying to save themselves at the expense of the ship and passengers.

After disintegration, Panarin sees three dominant influence areas emerging - the EU, Russia and China. After 11 years of monitoring US policies, he believes his prediction is largely confirmed and states the following:

America’s FY 2009 “budget deficit is 4.5 times the 2008 deficit, while firearms sales are up 40%. On October 1, the coupons that were given state workers are to be cashed out. When (they) realize that they are getting nothing for (them), they will take out their firearms and chaos will unfold.”

Further, on September 30, 2009, results will be published that are “destined to shock investors worldwide. After that, and (Japan and China’s) snubbing of the dollar....which will transfer 50% of (their) international operations to Yuan starting in 2010, the currency will then flow like a landslide out of style.” Already nations like China, Russia, Brazil, Argentina and others are trading in their own currencies or will do so shortly.

In Panarin’s view, “the probability of the US ceasing to exist (in its present form) by June 2010 exceeds 50%. At this point, the mission of all major international powers is to prevent chaos” because what hurts America also harms them.

A Multiple-Dip Depression

Economist John Williams publishes the shadowstats.com electronic newsletter with updated sample data on his site. He calls government figures corrupted and unreliable because manipulative changes rigged them for political and market purposes. To correct them, he reverse-engineers GDP, employment, inflation, and other key data for greater reliability to subscribers.

On August 1, Williams called the “Current Economic Downturn (the) Worst Since (the) Great Depression.” It began a year earlier than reported, triggered a systemic solvency crisis, and the effects of “a multiple-dip depression (are) far from over.”

The July 31, 2009 national income accounts “confirmed that the US economy is in its worst economic contraction since the first downleg of the Great Depression, which was a double-dip” one like today’s.

Intermittent upturns are common, like from spiked auto sales from the cash-for-clunkers program that borrowed future purchases for today's. "Yet, this downturn will continue to deteriorate, proving to be extremely protracted, extremely deep and particularly nonresponsive to traditional stimuli."

The economy suffers from deep structural problems related to household income. Consumers are over-indebted, can't borrow, and Washington's policies aren't helping them. Continued economic decline will follow. "The current depression is the second dip in a multiple-dip downturn that started in 1999 (and triggered) the systemic solvency crisis" that was visible by August 2007 but started in late 2006.

The worst lies ahead, the result of the "government's long-range insolvency and (dollar debasing that risks) hyperinflation during the next five years," and perhaps sooner in 2010. It will cause "a great depression of a magnitude never before seen in" America, disrupting all business and commerce and reverberating globally.

Williams defines deflation as a decrease in goods and services prices, generally from a money supply contraction. Inflation is the reverse. Hyperinflation debases the currency to near worthlessness. Officially, two or more consecutive declining quarters means recession, but better measures are protracted weakened production, employment, retail sales, construction, capital investment, and demand for durable goods among other factors.

A depression occurs when inflation-adjusted peak-to-trough contraction exceeds 10%, and a great depression when it's 25% or worse.

Today's economic downturn preceded the systemic solvency crisis after key data "hit cycle highs and began to weaken in late-2005 for housing and durable goods orders....early-2006 for nonfarm payrolls, (and) late-2006 for retail sales and industrial production, patterns more consistent with a late-2006" real recession onset. Gross Domestic Income (GDI) data confirms this analysis.

Its real growth peaked in Q 1 2006, and revised GDI data contracted in seven of the last nine quarters. "Revised GDP shows the sharpest annual decline in the history of the quarterly GDP series," suggesting a much deeper and protracted downturn than previously reported.

July 2009 marked the 19th consecutive month of contraction, "the longest downturn since the first downleg of the Great Depression." More recent GDP declines of 3.3% and 3.9% in Q 1 and Q 2 2009, "are the worst showings in the history of the quarterly GDP series" dating back to 1947-48. In 1946, a greater contraction occurred because of post-war production cutbacks, but it was short-term.

Today's most reliable economic indicators show the downturn is deepening, not abating as deceptive media accounts report. "The SGS (Shadow Government Statistics) alternative measure of GDP suggests (a) 5.9% contraction....versus the official year-to-year" 3.9% figure.

The official estimated annualized Q 2 2009 decline was 1% compared to SGS's figure "in excess of five-percent." Its alternative data show "deeper and more protracted recessions" than officially reported, suggesting a deepening crisis ahead.

The CBO's Grim Forecast

Even the conservative Congressional Budget Office sees a weaker economy ahead, contrary to most consensus views of a sustainable upturn. Its latest projections are as follows:

- 2010 U-3 unemployment at 10.2%, edging down to 8% by 2011 and 4.8% by 2014;
- in 2010, 12 million will be underemployed;
- for the next five years, economic weakness and lower demand will pressure workers with unemployment or underemployment;
- part-time work only will be available for millions wanting full-time jobs;
- low consumption will persist through 2014;
- unemployment benefits will be exhausted;
- households will be pressured to make mortgage payments, pay for health care, meet other obligations, and provide for their families at a time state and city budget crises force deep cuts in vital social services, not made up for by the federal government;
- tax revenues are down 17%, the sharpest decline since 1932;
- \$600 billion in investment losses will result plus another \$5.9 trillion in lost output through 2014; and
- the federal deficit will nearly double over the next 10 years to about \$20 trillion.

In sum, CBO projects a more severe protracted downturn than it earlier forecast in January.

Troubled Times Ahead

On July 14, Egon von Greyerz, Founder and Managing Partner of Zurich-based Matterhorn Asset Management AG, specializing in precious metals and other investments, said “The Dark Years Are Here” and explained why.

Because of “the devastating effects of credit bubbles, government money printing (and) disastrous actions that governments are taking, (upcoming) tumultuous events will be life changing for most people in the world.” They’ll begin by year end, last for two to three years, then be followed by extended economic, political, and social upheaval, perhaps continuing for two decades.

Greyerz cites three main concerns:

- exploding unemployment and government deficits;
- trillions of unreported bank losses and worthless derivatives; and
- rising inflation, high interest rates, collapsed Treasury bond (and UK gilt)

valuations resulting in more money creation, worthless paper, and a “perfect vicious circle (leading to) a hyperinflationary depression followed by the collapse of the dollar and British pound.

America is hemorrhaging financially and economically. Other countries now realize they hold “worthless” US dollars. Reckless money creation achieved short-term hope, benefitted Wall Street alone short-term, elevated world stock markets, and led some to believe the crisis was over when, in fact, it’s worsening.

Aside from expected short-lived upturns, “every single sector of the real economy is deteriorating whether it is production, unemployment, corporate profits, real estate, credit defaults, construction, federal deficits, local government and state deficits etc.”

In response, the Fed keeps printing money and destroying its value. “This is total lunacy! How can any intelligent person believe that printed pieces of paper can solve an economic catastrophe?”

We’re in “the first phase of this tragic saga.” Likely by year end, a second more serious one will start. Real unemployment now tops 20%. It hit 25% in the Great Depression with 35% of the nonfarm population out of work and desperate.

“It is our firm opinion that (US) non-farm unemployment levels will reach 35% at least....in the next few years” with all uncounted categories included.

Growing millions with no jobs, incomes, savings, or safety net protections will create “a disaster of unimaginable consequences that will affect the whole fabric of American society” to a degree far greater than in the Great Depression.

Growing unemployment now plagues Western and Eastern Europe as well, and by 2010 will more greatly affect most parts of the world, “including China, Asia and Africa. Never before has there been a global unemployment crisis affecting the world simultaneously.” Ahead expect sharp drops in consumption and global trade leading to depression, poverty, “famine and social unrest.”

Already, conditions are worse than in the 1930s, but the worst is yet to come. Expect:

- an extremely severe global depression in most countries with grave economic, political, and social consequences;
- social safety net protections will end;
- private and state pensions will likely collapse; and
- unemployment, poverty, homelessness, hunger, and famine will cause a protracted period of economic, political, social, and institutional upheaval.

If von Greyerz, Panarin, Todd, and others with similar views are right, a deepening, protracted, unprecedented global catastrophe approaches that “will be life changing for most people in the world.”

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