GlobalResearch
Center for Research on Globalization

Recovery or Economic Collapse? Bet on Collapse

The Financial Crisis could Destroy Western Civilization

By Dr. Paul Craig Roberts
Global Research, May 21, 2012
paulcraigroberts.com 21 May 2012

Theme: Global Economy, History

The US financial system and, probably, the financial system of Europe, like the police, no longer serves a useful social purpose.

In the US the police have proven themselves to be a greater threat to public safety than private sector criminals. I just googled "police brutality" and up came 183,000,000 results.

(Here are two recent brutal assaults, one deadly, by police on hapless individuals:

http://latimesblogs.latimes.com/lanow/2012/05/kelly-thomas-video-dad-they-are-killing-me-.html and http://www.informationclearinghouse.info/article31364.htm)

The cost to society of the private financial system is even higher. Writing in CounterPunch (May 18), Rob Urie reports that two years ago Andrew Haldane, executive Director for Financial Stability at the Bank of England (the UK's version of the Federal Reserve) said that the financial crisis, now four years old, will in the end cost the world economy between $60 trillion and $200 trillion in lost GDP. If Urie's report is correct, this is an astonishing admission from a member of the ruling elite.
http://www.counterpunch.org/2012/05/18/the-true-costs-of-bank-crises/print

Try to get your mind around these figures. The US GDP, the largest in the world, is about 15 trillion. What Haldane is telling us is that the financial crisis will end up costing the world lost real income between 4 and 13 times the size of the current Gross Domestic Product of the United States. This could turn out to be an optimistic forecast.

In the end, the financial crisis could destroy Western civilization.

Even if Urie's report, or Haldane's calculation, is incorrect, the obvious large economic loss from the financial crisis is still unprecedented. The enormous cost of the financial crisis has one single source–financial deregulation. Financial deregulation is likely to prove to be the mistake that destroys Western civilization. While we quake in our boots from fear of "Muslim terrorists," it is financial deregulation that is destroying us, with help from jobs offshoring. Keep in mind that Haldane is a member of the ruling elite, not a critic of the system like myself, Gerald Celente, Michael Hudson, Pam Martins, and Nomi Prins. (This is not meant to be an exhaustive list of critics.)

Financial deregulation has had dangerous and adverse consequences. Deregulation permitted financial concentration that produced "banks too big to fail," thus requiring the general public to absorb the costs of the banks' mistakes and reckless gambling.

Deregulation permitted banks to leverage a small amount of capital with enormous debt in order to maximize return on equity, thereby maximizing the instability of the financial system and the cost to society of the banks' bad bets.

Deregulation allowed financial institutions to sweep aside the position limits on speculators and to dominate commodity markets, turning them into a gambling casino and driving up the prices of energy and food.

Deregulation permits financial institutions to sell naked shorts, which means to sell a company's stock or gold and silver bullion that the seller does not possess into the market in order to drive down the price.
http://www.rollingstone.com/politics/blogs/taibblog/accidentally-released-and-incredibly-embarrassing-documents-show-how-goldman-et-al-engaged-in-naked-short-selling-20120515

The informed reader can add more items to this list.

The dollar in its role as world reserve currency is the source of Washington's power. It allows Washington to control the international payments system and to exclude from the financial system those countries that do not do Washington's bidding. It allows Washington to print money with which to pay its bills and to purchase the cooperation of foreign governments or to fund opposition within those countries whose governments Washington is unable to purchase, such as Iran, Russia, and China. If the dollar was not the world reserve currency and actually reflected its true depreciated value from the mounting US debt and running of the printing press, Washington's power would be dramatically curtailed.

The US dollar has come close to its demise several times recently. In 2011 the dollar's value fall as low as 72 Swiss cents. Investors seeking safety for the value of their money flooded into Swiss francs, pushing the value of the franc so high that Switzerland's exports began to suffer. The Swiss government responded to the inflow of dollars and euros seeking refuge in the franc by declaring that it would in the future print new francs to offset the inflows of foreign currency in order to prevent the rise in the value of the franc. In other words, currency flight from the US and Europe forced the Swiss to inflate in order to prevent the continuous rise in the exchange value of the Swiss currency.

Prior to the sovereign debt crisis in Europe, the dollar was also faced with a run-up in the value of the euro as foreign central banks and OPEC members shifted their reserves into euros from dollars. The euro was on its way to becoming an alternative reserve currency. However, Goldman Sachs, whose former employees dominate the US Treasury and financial regulatory agencies and also the European Central Bank and governments of Italy and, indirectly, Greece, helped the Greek government to disguise its true deficit, thus deceiving the private European banks who were purchasing the bonds of the Greek government. Once the European sovereign debt crisis was launched, Washington had an interest in keeping it going, as it sends holders of euros fleeing into "safe" dollars, thus boosting the exchange value of the dollar, despite the enormous rise in Washington's own debt and the doubling of the US money supply.

Last year gold and silver were rapidly rising in price (measured in US dollars), with gold hitting $1,900 an ounce and on its way to $2,000 when suddenly short sales began dominating the bullion markets. The naked shorts of gold and silver bullion succeeded in driving the price of gold down $350 per ounce from its peak. Many informed observers believe that the reason Washington has not prosecuted the banksters for their known financial crimes is that the banksters serve as an auxiliary to Washington by protecting the value of the dollar by shorting bullion and rival currencies.

What happens if Greece exits the EU on its own or by the German boot? What happens if the other EU members reject German Chancellor Merkel's austerity, as the new president of France promised to do? If Europe breaks apart, do more investors flee to the doomed US dollar?

Will a dollar bubble become the largest bubble in economic history?

When the dollar goes, interest rates will escalate, and bond prices will collapse. Everyone who sought safety in US Treasuries will be wiped out.
We should all be aware that such outcomes are not part of the public debate.

Recently Bill Moyers interviewed Simon Johnson, formerly chief economist of the International Monetary Fund and currently professor at MIT. It turns out that deregulation, which abolished the separation of investment banks from commercial banks, permitted Jamie Dimon's JPMorganChase to gamble with federally insured deposits. http://www.informationclearinghouse.info/article31356.htm Despite this, Moyers reports that Republicans remain determined to kill the weak Dodd-Frank law and restore full deregulation.

Simon Johnson says: "I think it [deregulation] is a recipe for disaster." The problem is, Johnson says, that correct economic policy is blocked by the enormous donations banks make to political campaigns. This means Wall Street's attitudes and faulty risk models will result in an even bigger financial crisis than the one from which we are still suffering. And it will happen prior to recovery from the current crisis.

Johnson warns that the Republicans will distract everyone from the real crisis by concocting another "crisis" over the debt ceiling.

Johnson says that "a few people, particularly in and around the financial system, have become too powerful. They were allowed to take a lot of risk, and they did massive damage to the economy — more than eight million jobs lost. We're still struggling to get back anywhere close to employment levels where we were before 2008. And they've done massive damage to the budget. This damage to the budget is long lasting; it undermines the budget when we need it to be stronger because the society is aging. We need to support Social Security and support Medicare on a fair basis. We need to restore and rebuild revenue, revenue that was absolutely devastated by the financial crisis. People need to understand the link between what the banks did and the budget. And too many people fail to do that."

Consequently, Johnson says, the banksters continue to receive mega-benefits while imposing enormous social costs on society.

Few Americans and no Washington policymakers understand the dire situation. They are too busy hyping a non-existent recovery and the next war. Statistician John Williams reports that when correctly measured as a cost of living indicator, which the CPI no longer is, the current inflation rate in the US is 5 to 7 percentage points higher than the officially reported rate, as every consumer knows. The unemployment rate falls because, and only because, people unable to find jobs drop out of the labor force and are no longer counted as unemployed. Every informed person knows that the official inflation and unemployment rates are fictions; yet, the presstitute media continue to report the rates with a straight face as fact.

The way the government has rigged the measure of unemployment, it is possible for the US to have a zero rate of unemployment and not a single person employed or in the work force.

The way the government has the measure of inflation rigged, it is possible for your living standing to fall while the government reports that you are better off.

Financial deregulation raises the returns from speculative schemes above the returns from productive activity. The highly leveraged debt and derivatives that gave us the financial crisis have nothing to do with financing businesses. The banks are not only risking their customers' deposits on gambling bets but also jeopardizing the country's financial stability and economic future.

With an eye on the approaching dollar crisis, which will wreck the international financial system, the presidents of China, Russia, Brazil, South Africa, and the prime minister of India met last month to discuss forming a new bank that would shield their economies and commerce from mistakes made by Washington and the European Union. The five countries, known as the BRICS, intend to settle their trade with one another in their own currencies and cease relying on the dollar. The fact that Russia, the two Asian giants, and the largest economies in Africa and South America are leaving the dollar's orbit sends a powerful message of lack of confidence in Washington's handling of financial matters.

It is ironic that the outcome of financial deregulation in the US is the opposite of what its free market advocates promised. In place of highly competitive financial firms that live or die by their wits alone without government intervention, we have unprecedented financial concentration. Massive banks, "too big to fail," now send their multi-trillion dollar losses to Washington to be paid by heavily indebted US taxpayers whose real incomes have not risen in 20 years. The banksters take home fortunes in annual bonuses for their success in socializing the "free market" banks' losses and privatizing profits to the point of not even paying income taxes.

In the US free market economists unleashed avarice and permitted it to run amuck. Will the disastrous consequences discredit capitalism to the extent that the Soviet collapse discredited socialism?

Will Western civilization itself survive the financial tsunami that deregulated Wall Street has produced?

Ironic, isn't it, that the United States, the home of the "indispensable people," stands before us as the likely candidate whose government will be responsible for the collapse of the West.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Dr. Paul Craig Roberts**

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org