

# Review of Financial Markets: The Call from Obama is for more Leverage and more Debt.

By [Bob Chapman](#)

Global Research, December 12, 2009

[The International Forecaster](#) 12 December 2009

Region: [USA](#)

Theme: [Global Economy](#)

Congressional appropriators agreed Tuesday night to give civilian federal employees a 2 percent pay increase — which includes a locality pay increase President Obama didn't want.

Government workers will get a 1.5 percent nationwide increase in base pay and a 0.5 percent average increase in locality pay. The final agreement goes against the wishes of Obama, who called for a flat 2 percent jump and no locality increase.

Locality pay helps address the gaps between federal pay and private sector wages in high-cost areas of the country. The Federal Salary Council estimates the current private-public gap is about 26 percent, on average. Locality increases mean a federal worker in Cincinnati might get a smaller increase than a worker in Washington, D.C., because of local costs of living. [Why aren't Social Security recipients and disabled veterans receiving their COLA raises for the next few years as well?]

US homeowners have lost about \$5.9 trillion in value since the housing market's peak in March 2006 as mounting foreclosures and the recession weighed on prices, according to Zillow.com.

Almost half a trillion dollars was wiped out this year through November as housing headed for a third straight annual decline. New foreclosures and higher mortgage rates in 2010 may hinder a rebound, the property data service said yesterday.

"A phenomenal amount of wealth has been erased since the housing bust," Stan Humphries, the chief economist for Seattle-based Zillow, said Tuesday in an interview. "For many households, most of their wealth is tied up in real estate."

The net worth of US households at the end of June fell 19 percent from two years earlier to \$53.1 trillion, according to Federal Reserve data. Employers have cut more than 7.2 million jobs since the start of the recession in December 2007.

The slowing of property declines because of a government tax credit for first-time buyers and record-low mortgage rates will be tested as more foreclosures reach the market and borrowing costs rise, Humphries said. More than two-thirds of the 154 markets tracked by Zillow have lost value this year.

The value of US housing today is about \$24.7 trillion, down 19 percent from the market's

peak, according to Zillow.

Wells Fargo & Co., the bank that gained a portfolio of option adjustable-rate mortgages when it bought Wachovia Corp. last year, cut the principal for delinquent borrowers in some loans by as much as 30 percent.

Wells Fargo has forgiven an average of \$46,000 in principal, or 15 percent, for the 43,500 option-ARM loans it has modified this year through September, said Franklin Codel, chief financial officer at the bank's home-lending unit. The San Francisco-based lender has cut as much as 30 percent off the loan principal in a few "rare exceptions," with the ceiling typically capped at 20 percent, Codel said.

"Right away we decided we wanted to go after the highest-risk borrowers," Codel said in an interview yesterday from Des Moines, Iowa, where Wells Fargo Home Mortgage is based. "Principal forgiveness is one of the arrows in the quiver."

In the second-quarter, 15.2 percent of option-ARMs were seriously delinquent, almost triple the 5.3 percent rate for all home loans, according to joint figures from the Office of the Comptroller of the Currency and the Office of Thrift Supervision. As U.S. home prices declined, the Federal Deposit Insurance Corp. and the Center for Responsible Lending have called for banks to reduce the principal for borrowers who owe more than their property is worth.

Wells Fargo has modified about \$15.7 billion of option-ARMs in the first three quarters, Codel said. It wrote down \$2 billion in loan balances, leaving \$13.7 billion in modified mortgages that no longer qualify as option-ARMs, according to a third-quarter presentation.

The U.S. Freight Transportation Index fell in October to its lowest level for October since 1996, as industry shipments decreased for two months in a row.

Shipments suffered their biggest October year-on-year decline, falling 10.5 percent, since the department began calculating the index 20 years ago.

The Freight TSI measures the month-to-month changes in freight shipments in ton-miles, which are then combined into one index.

The index measures the output of the for-hire freight transportation industry and consists of data from for-hire trucking, rail, inland waterways, pipelines and air freight.

FROM A SHOPPER: This happened at Wal-Mart (Supercenter Store #1279, 10411 N Freeway 45, Houston, TX 77037) a month ago. I bought a bunch of stuff, over \$150 worth, and I glanced at my receipt as the cashier was handing me the bags. I saw a cash-back of \$40. I told her I didn't request cash-back, and to delete it. She said I'd have to take the \$40, because she couldn't delete it.

I told her to call a supervisor. The supervisor came, and said I'd have to take it. I said NO! Taking the \$40 would be a cash advance against my Discover card, and I wasn't going to pay interest on a cash advance!!!! If they couldn't delete it, then they would have to delete my whole order. So the supervisor had the cashier delete the whole order and re-scan everything. This second time around I looked at the electronic pad before I signed, and an unwanted cash-back of \$20 popped up. At that point I told the cashier, and she deleted it. The total came out right.

The cashier agreed that the electronic pad must be defective. However, it was obvious that the cashier already knew that the electronic pad was defective because the first time around, although the \$40 cash back showed up on the receipt, she kept quiet and NEVER offered me the money, like she should have! She intended to pocket my \$40.

Can you imagine how many people went through before me, and at the end of her shift how much money she pocketed?

Few employers plan to ramp up hiring early next year, two surveys show - evidence that the economic recovery isn't likely to create many jobs anytime soon.

That will mean fierce competition for job openings that do exist. Nearly 6.3 unemployed workers, on average, are vying for each opening, government figures released Tuesday show. When the recession began, only 1.7 jobless workers were competing for each opening.

More of America's largest companies will shrink their staffs than hire in the next six months, according to a quarterly survey from the Business Roundtable, a group of large-company CEOs released Tuesday.

Nineteen percent of the CEOs expect to expand their work forces, while 31 percent predict a decrease in the next six months, the survey found. That's slightly better than the 13 percent who expected to increase hiring three months earlier. At that time, 40 percent forecast cuts.

More chief executives foresee higher sales and capital spending compared with three months ago. But "it still will take some time for these gains to translate into more jobs," said Ivan Seidenberg, CEO of Verizon Communications and chairman of the Roundtable.

Separately, a survey of 28,000 employers by staffing company Manpower Inc. found that hiring may improve in the first quarter of 2010 compared with the current quarter - but any gains will likely be slight.

Manpower said its hiring index rose to 6. It was the first positive reading since the first quarter of 2009. Still, that's far below the 18 the index reached in the fourth quarter of 2007, when the recession began.

Economists say employment at large firms is likely to remain flat through much of 2010. Many companies already have hit their hiring targets for what's expected to be a weak and bumpy recovery.

The number of U.S. workers filing new claims for jobless benefits rose more than economists expected last week, the Labor Department said in its weekly report Thursday.

Total claims lasting more than one week, meanwhile, fell.

Initial claims for jobless benefits rose by 17,000 to 474,000 in the week ended Dec. 5. The previous week's level was unrevised at 457,000.

Economists surveyed by Dow Jones Newswires expected an increase of 8,000 initial claims.

An economist at the Labor Department said Thursday that an increase in claims is generally expected during this time of year because it reflects data from the week after Thanksgiving

and because construction lay-offs tend to occur in that week.

“Generally...that week sees the biggest percentage increase in initial claims over the year, and this year was no exception,” he said.

Although initial claims rose last week, the four-week moving average, which aims to smooth volatility in the data, still continued to drop. The Labor Department said the four-week moving average fell by 7,750 to 473,750 from the previous week’s revised average of 481,500. That is the lowest figure since September 27, 2008.

Michelle Meyer, an economist at Barclays Capital, said in an interview Wednesday that despite the predicted increase in claims, she also expected the four-week moving average to continue to decline in a positive sign for the labor market.

“You are still seeing an improving trend,” she said. “You are still experiencing an overall downturn in jobless claims.”

In the Labor Department’s Thursday report, the number of continuing claims—those drawn by workers for more than one week in the week ended Nov. 28—fell by 303,000 to 5,157,000 from the preceding week’s revised level of 5,460,000.

The unemployment rate for workers with unemployment insurance for the week ended Nov. 28 decreased to 3.9%, a 0.2 percentage point decline from the prior week’s unrevised rate of 4.1%.

The largest increase in initial claims for the week ended Nov. 28 was in Wisconsin due to layoffs in the construction, service and manufacturing sectors. The largest decrease in initial claims occurred in California.

The U.S. trade deficit narrowed unexpectedly in October, falling to \$32.94 billion, as the rise in exports from September of goods such as cars was slightly higher than the increase in imports.

The figure, representing the U.S. deficit in international trade of goods and services, is 7.6% lower than the downwardly revised \$35.65 billion trade gap the U.S. ran in September, the Commerce Department reported Thursday.

Economists surveyed by Dow Jones Newswires had expected the October trade deficit would widen to \$37.0 billion. The September trade gap was originally estimated to be \$36.5 billion.

The real, or inflation-adjusted deficit, used by economists to measure the impact of trade on gross domestic product, fell to \$38.0 billion in October from a downwardly revised \$41.49 billion in September.

U.S. GDP, a broad range of economic activity, rose in the third quarter by an annualized 2.8%, the first increase in more than a year. However, the economy’s expansion was limited by a wider trade deficit, with net exports subtracting 0.8 of a percentage point to GDP in the July-September period.

Thursday’s report showed U.S. exports in October rose 2.6% to \$136.84 billion, the highest level in nearly a year, from \$133.38 billion the previous month.

Imports rose by just 0.4% to \$169.78 billion from \$169.03 billion in September, but that was still the highest level in U.S. imports since Dec. 2008.

The U.S. paid \$17.44 billion for crude oil imports in October, down from \$19.51 billion the month before. After rising for seven months in a row, the average price per barrel was the lowest since January 2000, falling to \$67.39 from \$68.17 in September. Crude import volumes fell to 258.83 million barrels from 286.22 million barrels.

The total U.S. bill for all types of energy-related imports fell to \$22.45 billion in October from \$24.87 billion in September.

Imports of foreign-made consumer goods rose \$1.0 billion in October, with imports of auto and related parts rising by \$0.4 billion from September. Purchases of capital goods increased by \$1.1 billion.

U.S. exports of consumer goods, including artwork and jewelry, rose by \$1.0 billion in October compared to the prior month. The value of U.S. exports of industrial supplies, such as steelmaking material and gold, increased by \$0.4 billion. Auto and related products exports also rose by \$0.4 billion from September.

Meanwhile, capital goods exports rose by \$1.2 billion in October from the previous month.

The U.S. trade gap with China was the highest since Nov. 2008, rising to \$22.7 billion in October from the previous month's \$22.1 billion. The trade deficit with Japan rose to \$4.4 billion from \$4.1 billion in September.

However, the U.S. trade deficit with some other major trading partners narrowed slightly. The deficit with the European Union fell to \$4.9 billion from \$5.5 billion a month earlier, while the trade shortfall with Mexico was unchanged at \$4.6 billion.

Foreclosure filings in the U.S. will reach a record for the second consecutive year with 3.9 million notices sent to homeowners in default, RealtyTrac Inc. said.

This year's filings will surpass 2008's total of 3.2 million as record unemployment and price erosion batter the housing market, the Irvine, California-based company said.

"We are a long way from a recovery," John Quigley, economics professor at the University of California, Berkeley, said in an interview. "You can't start to see improvement in the housing market until after unemployment peaks."

Foreclosure filings exceeded 300,000 for the ninth straight month in November, RealtyTrac said today. A weak labor market and tight credit are "formidable headwinds" for the economy, Federal Reserve Chairman Ben S. Bernanke said in a Dec. 7 speech in Washington. The 7.2 million jobs lost since the recession began in December 2007 are the most of any postwar economic slump, Labor Department data show. Unemployment, at 10 percent last month, won't peak until the first quarter, Quigley said.

Loan-modification programs and an expanded government tax credit for first-time homebuyers are helping slow the monthly pace of filings and "keeping a lid" on further foreclosures, James Saccacio, RealtyTrac's chief executive officer, said in the statement.

November filings fell 15 percent from the July peak and dropped 8 percent from October, the

seller of default data said. That was the fourth straight monthly drop.

Wholesale inventories rose in October for the first time in more than a year, up 0.3%. September declined 0.8%. This build was responsible for part of the economic growth in the present quarter. The extent of restocking remains to be seen. In October wholesale sales rose 1.2%, the seventh straight monthly increase. September rose 1.3%. The inventory to sales ratio was 1.16 months versus 1.17 in September.

The 10-year Treasury note auction saw a bid to cover of 2.62 to 1, yielding 3.43%, up from 3.40% prior to the auction. They sold \$21 billion worth, up from \$20 billion. Indirect, foreign central bank bidding and purchases was 34.9% versus 45.2% at the last four auctions. It was a very sloppy auction.

The MBA mortgage purchase applications index rose 4% for last week, as the total market index rose 8.5%. It was 4.1% and 2.1% the previous week. The 30-year fixed rate was up 10 bps (basis points) to 4.88%; the 15's were up 7 bps to 4.33%.

Treasury has told Congress that TARP funds will be extended to October 2010.

Excessive spending sent America into the abyss and our President now tells us we are going to spend our way out of the downturn. What wisdom - it intones going for broke. The call is for more leverage and more debt. Mr. Obama will defy the natural economic laws that caused this mess in the first place. This, of course, has horrified the Fed, which wanted to remove \$1.5 trillion from the economy. Now Obama wants a large chunk of the incoming TARP funds that the Fed wanted to retire. Inflation is on the way big time, and at best we will go sideways for another year. The dollar will fall and test its old lows at 71.18 and gold and silver will reach new heights. As 2010 progresses credit will tighten further and eventually interest rates will begin to rise.

Meredith Whitney says the government is out of bullets, but she failed to deal with what the Fed is capable of. She is very good, but still doesn't see the entire picture and what is behind all this. Then again, maybe she is only willing to go so far to protect her business.

Downgrades in Greece and Spain will trigger hidden credit default swap liabilities. This is our fear. Some may not be able to meet their obligations. A default would affect markets worldwide.

In 2010 the Treasury has to refund \$2 trillion in short-term debt, not including war debt, agency debt and entitlement debt. That should take the total to \$3 trillion.

The extension of the TARP program until just prior to the next election tells us the bankrupt banks are still in deep trouble and cannot live without the Fed infusion. The Fed dream of hauling in all of the TAP funds is just that, a dream. They will probably get \$400 to \$500 billion of the funds. Part will go to the Treasury for stimulus, say \$400 billion, and \$100 billion to buy more Treasuries, Agencies and more toxic debt.

We see the administration expanding unemployment benefits indefinitely, as a permanent form of welfare. Unemployment is not going to drop in spite of last month's cooked figures. Air, rail and trucking traffic continue to decline and who guarantees that inventory replacement will happen. Imports continue to decline and foreclosures in residential real estate continue to grow. The flippers who do not find buyers could end up broke.

The oversight panel for the government's 14-month-old bailout program generally supported a decision by Treasury Secretary Timothy Geithner to keep it alive nine more months, but challenged him yesterday about his management of the operation.

In a quarterly appearance before the panel, Geithner was called upon to defend decisions to fully pay financial giants for their claims against the American International Group, to account for continuing troubles at small banks and businesses, and to answer criticisms that the Treasury Department might be letting some big banks exit the program too soon.

The hearing of the Congressional Oversight Panel came amid the release this week of three reports on the Troubled Asset Relief Program. The panel's yearend assessment gave the program, known as TARP, credit for helping to avert a financial collapse but raised some of the issues discussed yesterday.

Separately yesterday, the inspector-general for TARP reported that Treasury was addressing criticism that information regarding the use of taxpayer funds was not transparent enough.

The Treasury's Office of Financial Stability released a report yesterday whose findings Geithner had already disclosed showing that the program's losses are likely to be a fraction of the \$700 billion allotted, while the portion for banks is making a profit. The independent Government Accountability Office audited the report.

While big banks are mostly stabilized, Geithner told the oversight panel yesterday, the program is needed to help reduce home foreclosures and for a new initiative to get capital to smaller banks so they, in turn, will lend money to the credit-starved small businesses that create most jobs.

The world would cut greenhouse-gas emissions at least 50 percent by mid-century under a United Nations draft proposal being debated by 192 countries in Copenhagen.

The plan obtained by Bloomberg News says nations should collectively reduce the heat-trapping pollution that many scientists say could lead to catastrophic climate change between 50 percent and 95 percent from 1990 levels by 2050.

Industrialized countries as a group are called on to reduce their combined gas discharges by 75 percent to more than 95 percent in the period.

The UN draft, set for more reviews and final consideration on Dec. 18, requires nations and their polluting industries to limit the planet's temperature rise to between 1.5 degrees Celsius and 2 degrees Celsius from pre-industrial times to "avoid dangerous climate change."

Financing efforts by developing countries to mitigate the damage of climate change, as well as pay for emissions reductions, was absent from the draft. [Can you imagine these outrageous lies in the face of the emails that have been exposed revealing the true fraudulent nature of global warming.]

Import Price Index increases 1.7% in November; 3.7% up year on year.

November retail sales increase 1.3% in November; ex autos, 1.2% up.

The federal deficit for the first two months of the new budget year is piling up faster than

last year's record imbalance.

Economists worry the flood of red ink could push interest rates higher and raise the cost of borrowing for consumers and businesses, a potential drag on the fragile economic recovery.

The November deficit totaled \$120.3 billion, the Treasury Department said Thursday. That's less than analysts had expected and down from a \$176.4 billion imbalance in October. It was a record 14th straight monthly deficit.

Even with the improvement, the deficit is 5.7 percent higher than the first two months of the 2009 budget year when it hit a record \$1.42 trillion. The Obama administration expects the 2010 deficit will set a new record at \$1.5 trillion.

In a sign of the recession's depth, the government said individual income tax collections totaled \$63.9 billion in November, less than the \$70.5 billion the government collected in Social Security taxes and taxes for Medicare and disability insurance programs.

Analysts said it is not unusual for individual income taxes to fall sharply during a recession because the volatile category not only reflects the number of people working, but also bonuses and individual investment earnings that plunged during the downturn.

The amount of revenues that reflect Social Security and Medicare taxes, while down because fewer people are working than a year ago, are not subject to such large swings.

The flood of red ink reflects the downturn's effect the government's books. Both individual and corporate tax receipts have been cut sharply, while government spending on unemployment benefits, food stamps and other programs surged.

In addition, the deficit reflects heavy spending from the \$700 billion financial bailout fund to stabilize the financial system, and the \$787 billion economic stimulus program to jump-start growth and prevent the Great Recession from turning into another Great Depression.

For October and November, government receipts totaled \$268.9 billion, down 13.1 percent from the same two months a year ago. Government outlays over the past two months totaled \$565.6 billion, a drop of 4.2 percent from the year-ago period.

Spending to shore up the financial system was much lower over the past two months compared with a year ago, but the administration still projects that for the entire year, total government outlays will be 3 percent higher.

A forecasted deficit of \$1.5 trillion for the fiscal year that began Oct. 1 would represent a third straight record annual imbalance. The administration in August also projected that the 2011 deficit would be \$1.12 trillion and the imbalance would never fall below \$739 billion over the next decade.

Over the next 10 years, the administration is forecasting that the red ink will total \$9.05 trillion, an amount that would be approaching the \$12 trillion current national debt, the sum of all the deficits since the country was founded more than two centuries ago.

President Barack Obama has said once the current economic crisis recedes, his administration will work to sharply trim the deficits. But private economists wonder whether Obama will be able to break the political gridlock in Washington that prevented a significant



attack on deficits even before the recession made them worse.

“It is possible to bring the budget deficit under control but it will not be easy,” said David Wyss, chief economist at Standard & Poor’s in New York.

The administration this week did announce one improvement from its August budget review. It now projects that the losses from the \$700 billion government financial rescue fund will be \$141 billion over the next decade, \$200 billion lower than it forecast in August. However, Democrats in Congress would like to use some of those savings to boost spending on a new effort to fight unemployment.

The Obama administration plans to channel money from the government’s massive financial bailout program to small businesses as part of an effort to limit the political and economic damage of high unemployment.

One plan under consideration involves spinning off a new entity from the Troubled Assets Relief Program that would give banks access to federal funds without restrictions, including limits on executive pay, as long as the money was used to support loans to small businesses. But officials are not yet certain whether carving the program out of TARP would be the best way to encourage banks to boost small-business lending, according to sources familiar with the matter who spoke on the condition of anonymity because the plans are not final.

As an alternative, officials are prepared to ask Congress to modify TARP itself, easing the pay limits and other restrictions that would be imposed on small-business lenders taking the money, the sources said.

Consumer sentiment improved markedly in early December, according to media reports on Friday of the Reuters/University of Michigan index. The consumer sentiment index rose to 73.4 in early December from 67.4 in November. The increase was larger than expected. The consensus forecast of Wall Street economists was for sentiment to rise to 69.0. This is the highest level of consumer sentiment since September. The strong stock market and last week’s better-than-expected job report were seen boosting consumer moods.

Wall Street firms are recovering. Their standing with the American public isn’t.

Executives at financial firms, coming off two years of failures, bailouts and writedowns, are less popular than Congress, lawyers and insurance companies. As they prepare to give out year-end bonuses, they risk another wave of public fury, according to a Bloomberg National Poll.

Two-thirds of Americans say they have an unfavorable view of financial executives. More than half say big financial companies are only out to enrich themselves and also say they shouldn’t have received government aid. And most Americans don’t want to see bankers collecting fat checks at the end of the year if their companies were bailed out by taxpayers.

“The fact that they’re even in existence should be bonus enough,” says Cassie Swihart, a 58-year-old retired registered nurse from Warsaw, Indiana, who responded to the poll of 1,000 U.S. adults, conducted Dec. 3-7 by Selzer & Co., a Des Moines, Iowa-based firm. The margin of error is plus or minus 3.1 percentage points.

Banks that got taxpayer help through the Troubled Asset Relief Program — the \$700 billion

financial rescue plan passed by Congress last year — shouldn't pay any bonuses, according to 75 percent of those polled.

Of those, 51 percent say even the banks that have paid the government back shouldn't be rewarding their employees so soon.

"Why would you want to give somebody a bonus who put us into this situation?" said respondent Elijah Brown, 42, an unemployed union contractor from California.

Drew Schlosser tried for two years to sell his three-bedroom Punta Gorda, Florida, waterfront condominium for less than he owed on its two mortgages. The deal only went through last month when Wells Fargo & Co. agreed to take a \$165,000 loss on the loans.

Even after he had an offer of \$155,000 for the property, it took five months for the San Francisco-based lender to approve the purchase, a so-called short sale, in which the bank accepts less than the balance owed on a property. Schlosser said earlier offers had fallen through as bidders lost faith the bank would take less than the \$320,000 in two mortgages.

"It was just kind of a mess," said Schlosser, 31, a market research company director living in Estero, Florida. "You really have to get buyers who are patient."

Banks are beginning to go along with short sales in increasing numbers, three years into a U.S. housing slump that pushed the economy into a recession and cut resale values by 30 percent from the peak in July 2006. Short sales almost tripled to 40,000 in the first six months of 2009 from the same period a year earlier. Yet for each short sale, there were 25 foreclosures started or completed in the first half of this year, according to data from the Office of Thrift Supervision and the Office of the Comptroller of the Currency.

"It's really finally dawning on banks that they're better off with a short sale," said Richard Green, director of the Lusk Center for Real Estate at the University of Southern California in Los Angeles. "I think banks were in denial."

In time we will find out whether Dubai was the biggest construction crash of all time. The government of Dubai has washed its hands in the collapse saying it is a private matter. London banks, now owned by the taxpayers have lost some \$50 billion. These two banks, the Bank of Scotland and HSBC, are already on life support. There are several European and US banks that will be taking losses as well. One of the interesting aspects to the Dubai problems is the reflection on two banks that have been involved in the gold and silver suppression. The Bank of Scotland had a somewhat minor role, but HSBC had a major role. These events in Dubai will make it difficult for these banks to overcome their problems. The Bank of Scotland could go under, but under the circumstances neither will again be able to affect gold and silver prices in the way they have in the past. Their disservice to humanity should soon come to an end. The lesson to be learned over the past six thousand years is that printing money can never replace gold as the only real money. Gold holds its own as currencies all eventually fall. In just the past ten years, since we had our subscribers go long gold in June of 2000, gold has appreciated 80% versus the dollar and Agnico Eagle (AEM-NYSE) has risen from \$5.00 a share to \$83.50 and is currently \$64.00. As you can see its performance is far beyond 80%. That is where the real money is made.

From a fundamental viewpoint gold production is falling every year and even if new large discoveries were made it would take 7 to 10 years to get them on stream. In the meanwhile

present reserves would be depleted daily. Present gold and silver prices have been attained by only a small segment of investors. That leaves 98% of investors as future buyers, particularly in Europe and the US and Canada. That means great pent up demand. As we have recently heard from the President, he intends to spend much more money on unemployment benefits, job creations and a second stimulus package that will cost hundreds of billions of dollars. It is called the "Cash for Everything Program." In addition the Fed can't afford to stop creating money and credit. If they do we will fall into a deflationary depression.

The financial state of our federal government, states, municipalities and major investment and banking institutions are deplorable. Institutions, pension and asset managers are almost totally out of the precious metals markets. That means there is another large reserve of investment funds that could become involved in the precious metals markets.

As LBMA, Comex central banks, exchange traded funds and certificates come into question, shares and physical gold and silver will be the most sought after mediums in the future. There may even be legislation to audit the Treasury's gold holdings. As you are aware, central banks are now buyers of gold not sellers. Many have said they will continue to be buyers. In addition, an extended war in the Middle East into Pakistan or Iran would cause a major flight into gold out of all currencies. Currencies have not been the place to be versus gold. The US dollar has declined 285% versus gold over the past ten years, as the pound fell 271%, the yen 233% and the euro 165%, a trend that began only 6-1/2 years ago. We expect those trends to continue. Few have reported these facts. As stated many times the entire gold industry is smaller than the capitalization of many major singular corporations, such as GE, Exxon or Microsoft. The smallness of the gold producing industry is such that it gives it great leverage and that in part is why the industry's shares demanded P/E ratios of 350 times earnings in 1980, and they achieved prices 40 times on average those of bullion. There is no question the US will have higher inflation in 2010 and perhaps hyperinflation. During the next year gold and silver will still be denominated in dollars and in dollar terms gold should hit \$2,500 an ounce and perhaps \$3,000, as silver trades between \$50 and \$100 an ounce.

US government and Federal Reserve spending has only bailed out banking, Wall Street and insurance. The public is about to get a minor bailout with another stimulus package of \$400 billion or more. That will exacerbate the inflation problem and like TARP, and other spending accomplish little, except push the problems a little further into the future.

Once the Dow falls again pensions will probably fall to 50% funding or less and if yields rise bond losses will add to the problems. We must not discount the fact that the federal government will have to bail out the states, many of which are on the edge of bankruptcy. That will take billions more causing more inflation. Thus, here we are with interest rates only able to go one way and that is up. As that happens too big to fail will cease to be a factor and the massive failures will begin in 2011.

The next question is will the infusion of capital into the economy jump from \$13.7 trillion to perhaps \$25 or \$30 trillion? Will the dollar continue its fall? Will we have hyperinflation? The answer to all the above is yes.

We have certainly exposed Climategate and well we should have. The Russians, by hacking East Anglia University's Climate Research Unit, saved the world from onerous taxation and from world government. The bottom line was the emails revealed a giant hoax, which had

been going on for years, headed by Al Gore, Obama's Science Czar John Holdren and Phil Jones, head of the CRU who quit his post and Michael Mann of Penn State. As a result of this exposure the Academy Awards have asked Gore for his award statue to be returned. "An Inconvenient Truth, a film, showed at the Awards was a total fabrication. Then there was Copenhagen, where 16,500 freeloaders from 192 countries flew in on private jets to consume 200,000 meals and produce an estimated 41,000 tons of carbon dioxide.

What we have here is purely academic fraud and criminal acts. The result of which is the UN Copenhagen Conference, where the exposure of the fraud is simply ignored. At the conference developing countries have reacted furiously to leaked documents, called the Danish Text, where world leaders will be asked to sign a document, which relieves the UN's future participation and puts it in the hands of the World Bank. People in rich countries will be permitted to emit twice as much carbon per person as allowable for the Third World. Effective control of climate change will be passed to the World Bank, the Kyoto protocol will be abandoned and Wall Street and the City of London will make the decisions. The Third World leaders found out that they are not going to get tax revenue from the First World. They are going to pay taxes to the World Bank just as the First World and everyone else is. There will be abortion on order, and a limit as to who will be allowed to breed.

The commercial paper market shrunk for the 5th time in six weeks, which tells us that credit is getting ever tighter not looser. Short-term funding fell \$26.2 billion to \$1.210 trillion. Two years ago that figure was over \$2 trillion.

US foreclosures rose 18% yoy in November. Can you imagine what the figures would be like if the government wasn't giving out subprime loans like popcorn?

Rep. Spencer Bachus (R-AL): TARP was supposed to be a temporary plan to restore the health of the credit markets and protect the economy from a 'doomsday' scenario. Instead, the Obama administration is turning TARP into a permanent bailout agency and petty cash drawer for politically favored interests.

A contract worth nearly \$6 million in stimulus funds was awarded by the Obama administration to two firms run by Mark Penn, Hillary Clinton's pollster in 2008.

Employer Costs for Employee Compensation news release text

State and local government employers spent an average of \$39.83 per hour worked for total employee compensation in September 2009, the U.S. Bureau of Labor Statistics reported today. Wages and salaries averaged \$26.24 per hour worked and accounted for 65.9 percent of these costs, while benefits averaged \$13.60 and accounted for the remaining 34.1 percent. Total employer compensation costs for private industry workers averaged \$27.49 per hour worked in September 2009. Total employer compensation costs for civilian workers, which include private industry and state and local government workers, averaged \$29.40 per hour worked in September 2009.

Health benefit employer costs were \$4.43 per hour worked for state and local government and \$2.01 in private industry. Paid leave, including vacation, holiday, sick, and personal leave, cost \$3.05 per hour worked for state and local government and \$1.86 in private industry. Retirement and savings costs, which include both defined benefit and defined contribution plans, were \$3.23 per hour worked for state and local government employers and 94 cents for private employers.

Private industry employer compensation costs averaged \$27.49 per hour worked. Private industry employer wages and salaries averaged \$19.45 per hour (70.7 percent of total compensation). Government pays its workers, and we all know how productive they are, 44.88% more than the private sector - It's the Great US Productivity Miracle!!! Government also pays 220% more for healthcare benefits than the private sector pays.

This is a simple algebra problem that concludes in financial ruin.

The Fed balance sheet contracted by \$17.7B for the week ended Wednesday. It has contracted \$61.948B y/y. A \$15.177 decline in the TAF is most of the decline. Currency swaps declined \$6.5B.

In a bold but risky year-end strategy, Democrats are preparing to raise the federal debt ceiling by as much as \$1.8 trillion before New Year's rather than have to face the issue again prior to the 2010 elections.

The US Treasury acknowledged that it lost \$61B on two key bailouts, \$30B of AIG and \$31B on GM. Sales of video game equipment and software in the United States fell 7.6 percent in November to \$2.7 billion, research group NPD said on Thursday, as the struggling industry limped into the crucial holiday sales period.

Hardware sales fell 13.4 percent, while software sales dropped 3.1 percent. The results were worse than some analysts had expected. "This should not be viewed as a healthy start to the holiday season," EEDAR analyst Jesse Divnich said in a research note.

On this Labor Day weekend, many Californians find themselves more in need of work than a holiday.

A report released Sunday says two of five working-age Californians do not have a job, underscoring the challenges in one of the toughest job markets in decades. A new study has found that the last time employment levels among this group were this low was February 1977.

The study was done by the California Budget Project, a Sacramento-based nonprofit research group that advocates for lower- and middle-income families. The report said that California now has about the same number of jobs as it did nine years ago, when the state was home to 3.3 million fewer working-age people.

California Budget Project executive director Jean Ross recommended Congress adopt a second extension of unemployment insurance benefits. Those checks pay between \$200 and \$1,800 a month depending on a worker's previous earnings.

On Friday, the U.S. Labor Department reported that the nation's jobless rate had climbed to 9.7 percent, the highest since 1983.

More than a year after the near-collapse of Wall Street plunged the economy into crisis, the House on Friday approved the most sweeping overhaul of the nation's financial regulatory system since the Great Depression.

The 223 to 202 vote, largely along party lines, marked a milestone in the Obama administration's efforts to rein in the abuses that contributed to the current crisis and to revamp the current patchwork of regulators to prevent similar failures in the future. The

president has called financial reform one of his top priorities, alongside health care and climate change.

The 1,279-page bill creates a new federal agency dedicated to consumer protection, establishes a council of regulators to police the financial landscape for systemic risks, initiates oversight of the vast derivatives market and gives the government power to wind down large, troubled firms whose collapse could endanger the entire financial system. The legislation also gives shareholders an advisory say on executive compensation, increases transparency of credit ratings agencies and sets aside billions in government funds to aid unemployed homeowners.

House Republicans were nearly unanimous in their opposition to the bill, claiming that it amounts to an egregious overreach of government powers and fails to address the problems that led to the crisis. They argue that it would create unnecessary new layers of bureaucracy, stifle innovation, increase costs to consumers and fails to rid the nation of “too big to fail” financial firms.

Thirty-three-year-old lawyer Brien Santarlas pled guilty to securities fraud on Thursday in the scandal involving hedge fund firm the Galleon Group.

According to prosecutors, Santarlas, who worked for law firm Ropes & Gray, conspired to steal inside information about mergers and acquisitions. He and his co-conspirator, Arthur Cutillo, are thought to have profited to the tune of \$20 million in the scheme.

“The charges against Santarlas arose out of an ongoing investigation of insider trading at hedge funds and stock trading firms which has already led to charges against 20 Wall Street professionals, five of whom have pleaded guilty and are cooperating with the government,” said the statement from the U.S. Attorney’s Office.

Meanwhile, other in the case, including Galleon’s head honcho Raj Rajaratnam, have also been charged with related insider trading.

The Paul-Grayson Bill was included by the House in HR3996 and was passed on Friday. Now it is on to the Senate where we can expect hand-to-hand combat by the Illuminists. Billions have been spent already to buy the Senate. Ron Paul said the overall Bill was terrible and voted against it.

The House votes next week to raise the debt limit by \$1.8 trillion to \$1.9 trillion, so that they won’t have to vote again before the elections. Attached will be an extension of 6-months more of unemployment benefits.

The FDIC Friday Night Financial Follies:

SolutionsBank, Overland Park, KS with approximately \$511.1 million in assets and approximately \$421.3 million in deposits was closed. Arvest Bank, Fayetteville, AR has agreed to assume all deposits, excluding certain brokered deposits. (PR-227-2009)

Valley Capital Bank, National Association, Mesa, AZ with approximately \$40.3 million in assets and approximately \$41.3 million in deposits was closed. Enterprise Bank & Trust, Clayton, MO has agreed to assume all deposits. (PR-226-2009)

Republic Federal Bank, National Association, Miami, FL with approximately \$433.0 million in assets and approximately \$352.7 million in deposits was closed. 1st United Bank, Boca Raton, FL has agreed to assume all deposits, excluding certain brokered deposits. (PR-225-2009).

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