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The Financial Storm

Reviewing Ellen Brown's "Web of Debt:" Part IV

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This is the fourth in a series of articles on Ellen Brown's superb 2007 book titled "Web of Debt," now updated in a December 2008 third edition. It tells "the shocking truth about our money system, (how it) trapped us in debt, and how we can break free." This article focuses on America's "web of debt" entrapment.

The Debt Spider Captures America – American Workers Consigned to Debt Serfdom

America has been trapped for over two centuries, with today's debt level way exceeding developing nations. Like bankrupt people staying "afloat by making the minimum payment(s) on (their) credit card(s), the government (avoids) bankruptcy by paying just the interest on its monster debt" – now double in size since Brown's first edition and onerous enough for Controller of the Currency David Walker to warn earlier of its unaffordability by this year. If America can't service the amount, it's officially bankrupt and the economy will collapse. If it happens, IMF austerity will follow and turn America into Guatemala. Other vulnerable economies as well – permanent debt bondage and worker serfdom.

Catherine Austin Fitts was a former high-level Wall Street and government insider. She points to a "financial coup d'etat" conspiracy between the two to hollow out America, centralize power and knowledge, shift wealth to the top, destroy communities and local infrastructure, create new wealth by rebuilding them, and leave human wreckage in its wake.

She also calls today's crisis "a criminal leveraged buyout of America (meaning) buying (the) country for cheap with its own money and then jacking up the rents and fees to steal the rest." She calls it the "American Tapeworm" model:

It's "to simply finance the federal deficit through warfare, currency exports, Treasury and federal credit borrowing and cutbacks in domestic 'discretionary' spending…This will then place local municipalities and local leadership in a highly vulnerable position – one that will allow them to be persuaded with bogus but high-minded sounding arguments to further cut resources. Then to 'preserve bond ratings and the rights of creditors,' our leaders can be persuaded to sell our water, national resources and infrastructure assets at significant discounts of their true value to global investors" – masquerading as a plan to "save America by recapitalizing it on a sound financial footing."

In fact, it's to loot the country by shifting wealth offshore and to the top. Also, to destroy the country's middle class, consign US workers to serfdom, then meet expected civil disobedience with military force, followed by mass internment in over 800 FEMA detention camps in every state.

Today, the rich are getting richer while millions of Americans struggle daily to get by and live perilously from paycheck to paycheck, a mere one away from insolvent disaster.

Given where we're heading, Warren Buffett warns that America is changing from an "ownership society" to a "sharecroppers' " one, no different than feudal serfdom. Economist Paul Krugman calls it "debt peonage," much like the post-Civil War South that forced debtors to work for their creditors.

Make no mistake, it's a corporate America scheme for a plentiful reserve army of labor no better off than in developing countries – at low wages, no benefits, weak unions if any, and government engineering the whole scheme. Even personal bankruptcy protection eroded under the Bankruptcy Abuse Prevention and Consumer Protection of 2005 – benefitting lenders at the expense of borrowers by keeping them chained to their debts.

It requires many more people "to file under Chapter 13, which does not eliminate debts but mandates that they be repaid under a court-ordered payment schedule over a three to five year period." Homes, in some cases, may be seized and even owe a "deficiency, or balance due" if its sales price doesn't cover it. This Act "eroded the protection the government once provided against (various) unexpected catastrophes (like job loss and high medical expenses) ensuring that working people (henceforth) are kept on a treadmill of personal debt."

Even worse are loopholes in the law letting "very wealthy people and corporations....go bankrupt....and shield(ing) their assets from creditors..." This bill was written at the behest of credit card companies that entrap consumers in debt, charge usurious interest, and demand repayment no matter what besets them. In one respect, debt bondage is worse than slavery. As property, slaves had to be cared for. Debt slaves have to fend for themselves and pay tribute (interest) to their captors.

The Illusion of Home Ownership

In 2004, household home ownership rates were "touted" to be nearly 69%. In fact, only 40% of homes are debt-free, but that percentage fell given the amount of refinancing in recent years. As a result, "most mortgages on single-family properties today are less than four years old" meaning they're many years away from free and clear ownership.

"The touted increase in home ownership actually means an increase in debt (and) Households today owe more relative to their disposable income than ever before," although in recent months they've been repaying it and saving more.

Earlier, and still now, low "teaser rates" entrapped households in onerous debt, fueling the housing bubble as another Federal Reserve/lender ploy to pump "accounting-entry money into the economy," set it up for trouble, then let financial predators exploit it for profit. The same strategies for Third World countries are playing out in America with too few people the wiser.

The 19th century "Homestead Laws that gave settlers their own plot of land (cost and debt free) have been largely eroded by 150 years of the 'business cycle,' in which bankers have periodically raised interest rates and called in loans, creating successive waves of defaults and foreclosures" – worst of all for subprime and other risky mortgage holders defaulting in record numbers with millions still ahead in what's playing out as the nation's worst ever housing crisis showing no signs of ending.

The Perfect Financial Storm

It looms in the form of inflation and deflation given the enormity of newly created money at the same time borrowers can't repay loans that then default. When that happens, "the money supply contracts and deflation and depression result."

When the housing market corrected between 1989 – 1991, "median home prices dropped by 17%, and 3.6 million mortgages" defaulted. The equivalent 2005 decline "would have produced 20 million defaults, because the average equity-to-debt ratio….had dropped dramatically" – from 37% in 1990 to 14% in 2005, a record low as a result of equity extracted refinancings.

"What would 20 million defaults do to the money supply?" Two trillion dollars would evaporate or about one-fifth of M3. The fallout would cause huge stock and home value declines, income taxes needing to be tripled, Social Security, Medicare and Medicaid benefits halved, and pensions and comfortable retirements gone for the vast majority of workers. And that's assuming a modest housing price decline when it's already far more severe and continuing, giving pause to the virtually certain calamity ahead and devastation for the millions affected.

Policy changes in 1979 – 1981 laid the groundwork for today's crisis by "flood(ing) the housing market with even more new money," and much more. They let Fannie and Freddie speculate in derivatives and mortgage-backed securities and by so doing assume enormous risk.

In June 2002, writer Richard Freeman warned of the impending dangers in an article titled: "Fannie and Freddie Were Lenders – US Real Estate Bubble Nears Its End." He cited the largest housing bubble in history made all the greater by Fannie and Freddie manipulation and stated: …."what started out as a simple home mortgage has been transmogrified into something one would expect to find at a Las Vegas gambling casino. Yet the housing bubble now depends on (highly speculative derivatives as new) sources of funds," made all the riskier through leverage.

In 2003, Freddie was caught cooking its books to make its financial health look sound. In 2004, Fannie did the same thing. Meanwhile, housing peaked in 2006, then steadily imploded, bringing the economy down with it.

Derivatives in the Eye of the Cyclone

In November 2006, financial expert and investor safety advocate Martin Weiss called the derivatives crisis:

"a global Vesuvius that could erupt at almost any time, instantly throwing the world's financial markets into turmoil….bankrupting major banks….sinking big-name insurance companies….scrambling the investments of hedge funds (and) overturning the portfolios of millions of average investors."

Gary Novak's web site explains the derivatives crisis as follows: the banking system gridlocked because "pretended assets are fake and fake assets" consumed real ones. Deregulation, beginning in the 1980s, caused the problem. Once eliminated, "funny money became the order of the day (in the form) of very complex vehicles (called) derivatives, which were often made intentionally obscure and confusing." Even financial experts don't understand them, and that was the whole idea – to sell junk to the unsuspecting, profit hugely as a result, and let buyers handle the problems.

It was a Ponzi scheme disappearing money "down the derivatives hole." Holders are now stuck with "pretend" values. They can't sell and no one will buy. A global liquidity shortage resulted. "The very thing derivatives were designed to create – market liquidity – has been frozen to immobility in a gridlocked game." Ironically, derivatives are sold as insurance "against something catastrophic going wrong." The solution is now the problem writ large.

Something gone wrong makes counterparties (on the other side of the bet) "liable to fold their cards," take losses, "and drop out of the game."

In May 2005, early signs of a crisis emerged after GM and Ford debt was downgraded to junk. Dire warnings followed of "a derivatives crisis 'orders of magnitude beyond LTCM" in 1998. To head it off, the Fed and other central banks covertly flooded the market with liquidity by no longer reporting M3 – "the main staple of money supply management and transparent disclosure for the last half-century, the figure on which the world has relied in determining the soundness of the dollar."

Even worse is that the government isn't doing it interest and inflation-free. The private Federal Reserve and banks are creating a massive amount of government debt, debasing the currency, and risking a future hyperinflation even though none is around today. When the Fed buys government bonds with newly issued money, they stay in circulation, "become the basis for generating many times their value in new loans; and the result is highly inflationary."

Catherine Austin Fitts describes an Orwellian (pump and dump) scheme letting "the powers that be steal money by manipulation (then) keep this thing going, but in a way that leads to a highly totalitarian government and economy – corporate feudalism" with workers as serfs. Another observer said: "The only way government can function and maintain control in an economically collapsed state is through a military dictatorship," where it looks like we're heading with police state laws enacted and hundreds of concentration camps nationwide to handle expected civil disobedience disruptions once people realized they've been had.

Financial Market Rigging

The notion that markets move randomly and reflect investors' sentiment is rubbish. There's a "mechanism at work, like the Wizard of Oz behind a curtain, pulling on strings and pushing buttons." Indeed there is with names.

In 1989, Reagan's EO 12631 created the Working Group on Financial Markets (WGFM) in response to the 1987 market crash. It's more commonly known as the Plunge Protection Team (PPT), including the president, Treasury secretary, Fed chairman, SEC chairman, and Commodities Futures Trading Commission (CFTC) chairman. Its purpose: to enhance "the integrity, efficiency, orderliness, and competitiveness of our Nation's financial markets and (maintain) investor confidence."

The plain truth is that the PPT rigs market performance up or down at Wall Street's discretion because insiders profit both ways. Money used to manipulate markets is "Monopoly money, funds created from nothing and given for nothing" just to move markets as insiders wish.

In a June 2006 article titled "Plunge Protection or Enormous Hidden Tax Revenues," Chuck Austin wrote bluntly stating:

"….Today the markets are, without a doubt, manipulated on a daily basis by the PPT. Government controlled 'front companies' such as Goldman Sachs, JP Morgan and many others collect incredible revenues through market manipulation. Much of this money is probably returned to government coffers, however, enormous sums….are undoubtedly skimmed off by participating companies and individuals."

They're no different from Mafia crime families but far larger and more profitable. Further, these banks are global crimes syndicates writ large, and, unlike the Mafia, have limitless Fed-supplied funds, free from accountability, investigation, and prosecution.

"The PPT not only cheats investors out of trillions of dollars, it also eliminates competition that refuses to be 'bought' through mergers. Very soon now, only global companies and corporations owned and controlled by the NWO (New World Order) elite will exist." Wall Street giants sit atop that pyramid.

Along with the PPT, the "Exchange Stabilization Fund (ESF) exists – "authorized by Congress to keep sharp swings in the dollar's exchange rate from 'upsetting' financial markets." In a word, like the PPT, it operates by rigging markets for insiders, the usual suspects being major Wall Street firms – getting inside information on how to invest or the equivalent of tomorrow's Wall Street Journal today.

Another organization exists for the same purpose – the so-called Counterparty Risk Management Policy Group (CRMPG), established in 1999 to handle the LTCM crisis and protect against future ones. According to one account, it was "set up to bail out its members from financial difficulty by combining forces to manipulate markets" with US government approval.

One of its devices is for the nation's giant banks to collude in large-scale program trading, amounting to over half of all daily New York Stock Exchange volume and on some days much more. Knowing which way to bet puts them at odds with smaller firms and ordinary investors, vulnerable to losing out by a scam designed to defraud them – supported, however, by the full faith, credit, and muscle of the government.

But is an eventual day of reckoning coming? Hans Schicht believes so and says:

"In 2003, master spider David Rockefeller was 88 years old, so today," he'll be 94 in June. "(W)herever we look, his central command is seen to be fading. Neither is there a capable successor in sight to take over the reigns….Corruption is rife….Rivalry is breaking up the empire."

"What has been good for Rockefeller, has been a curse for the United States. Its citizens, government and country indebted to the hilt, enslaved to his banks…The country's industrial force lost to overseas in consequence of strong dollar policies (pursued for bankers not the country….)"

With Rockefeller leaving the scene, sixty years of dollar imperialism (is ending)….The day of financial reckoning is not far off any longer….With Rockefeller's strong hand losing its grip and the old established order fading, the world has entered a most dangerous transition period, where anything could (and may) happen."

Consider also the possibility that the "spider" moved to London where a "navy of pirate hedge funds….rule the world out of Cayman Islands" – an "epicenter for globalization and financial warfare" run by "Anglo-Dutch oligarchy" chosen officials allied with major global banks and shadow financial system players.

But even best laid plans at times fail, given how vulnerable even major banks are from their derivatives bets. As gold expert Adrian Douglas observed:

The system is so corrupted that if huge bets go wrong, the giants "have no other choice (than) to manipulate the price of underlying asset prices to prevent financial ruin….Instead of stopping this idiotic sham business from growing to galactic proportions, they've let it spin out of control (placing them) all on the hook….(This) sham is coming unglued because the huge excess liquidity (in the system ballooned to) asset bubbles all over the place."

He concluded that when derivatives buyers catch on to the scam and "quit paying premiums for insurance that doesn't exist, (they'll be) a whole new definition of volatility….the financial equivalent of a hurricane Katrina hitting every US city on the same day….When the bubble(s collapse), the banking empire….built on (them) must collapse as well."

To fend it off, Wall Street and its European partners are using desperate measures, "including a giant derivatives bubble that is jeopardizing the whole shaky system." In a February 2004 article called "The Coming Storm," the London Economist warned that "top banks around the world are now massively exposed to high-risk derivatives (posing a systemic) risk of an industry-wide meltdown."

John Hoefle believes that "the Fed has been quietly rescuing banks ever since. (He) contends that the banking system went bankrupt in the late 1980s, with the collapse of the junk bond market and the real estate bubble." The S & L crisis was "just the tip of the iceberg."

The Fed secretly took over Citicorp in 1989," arranged shotgun mergers for other giant banks, back door bailouts, and "bank examiners were ordered to ignore bad loans. These measures, coupled with a headlong rush into derivatives and other forms of speculation gave banks a veneer of solvency while actually destroying what was left of the US banking system."

It got in trouble because big gambles failed, including Third World debt defaults as well as Enron and other corporate bankruptcies. Giant US banks "are masters at….counting trillions of dollars of worthless IOUs (like derivatives) on their books at face value (to make it look like they're) solvent."

Between 1984 – 2002, takeovers papered over failures by reducing bank numbers nearly in half and consolidating the top seven into three – Citigroup, JP Morgan Chase, and Bank of America. According to Hoefle:

"The result of all these mergers is a group of much larger, and far more bankrupt giant banks. (A) similar process played out worldwide." He added that "zombies have now taken over the asylum" and writer Michael Edward agreed in a 2004 article titled: "Cooking the Books – US Banks Are Giant Casinos (engaging in) smoke and mirror accounting," then merging with each other to conceal their derivatives losses with "paper asset" bookkeeping. It means that "US banks have become (a giant) Ponzi scheme paying account holders with other account holder assets or deposits" – robbing Peter to pay Paul but promising to end very badly.

Does this "mark the inevitable end times of a Ponzi scheme that is inherently unstable?" Perhaps private banking as well, replaced by pension and mutual funds, and others able to operate efficiently at low cost.

Battling back, giants expanded into investment banking with repeal of Glass-Steagall, but profits continued to fall as the economic downturn accelerated, resulting in investment banks converting to commercial ones and retrenching temporarily from core businesses like M & A and corporate lending. "Meanwhile, banking as a public service has been lost to the all-consuming quest for profits," the very strategy getting giants in trouble and needing periodic government bailouts.

Very few of their services involve "taking deposits, providing checking services, and making consumer or small business loans." Instead, they concentrate on "dubious practices" responsible for a giant Ponzi scheme with "the entire economy in its death grip." They created a "perilous derivatives bubble that has generated billions of dollars in short-term profits but has destroyed the financial system in the process."

The "too big to fail" concept resulted from the S & L crisis when many of them collapsed and Citibank lost half its value. In 1989, Congress passed the Financial Institutions Reform, Recovery and Enforcement Act, bailing S & Ls out with taxpayer money. It was a brushfire compared to today's global conflagration, making it far harder to contain and effectively teetering all banks on bankruptcy. Considering the damage they've done, it's time to cut them loose and let them survive or fail on their own. And if the latter, it will be a major step toward restoring economic health overall.

Banking services can more efficiently be provided than by parasites using us as their food source."The irony is that our economic system is built on an illusion. We have been tricked into believing we are inextricably mired in debt, when the 'debt' was for an advance of 'credit' that was ours all along." It's high time we reclaimed it.

The next article focuses on taking back our money power.

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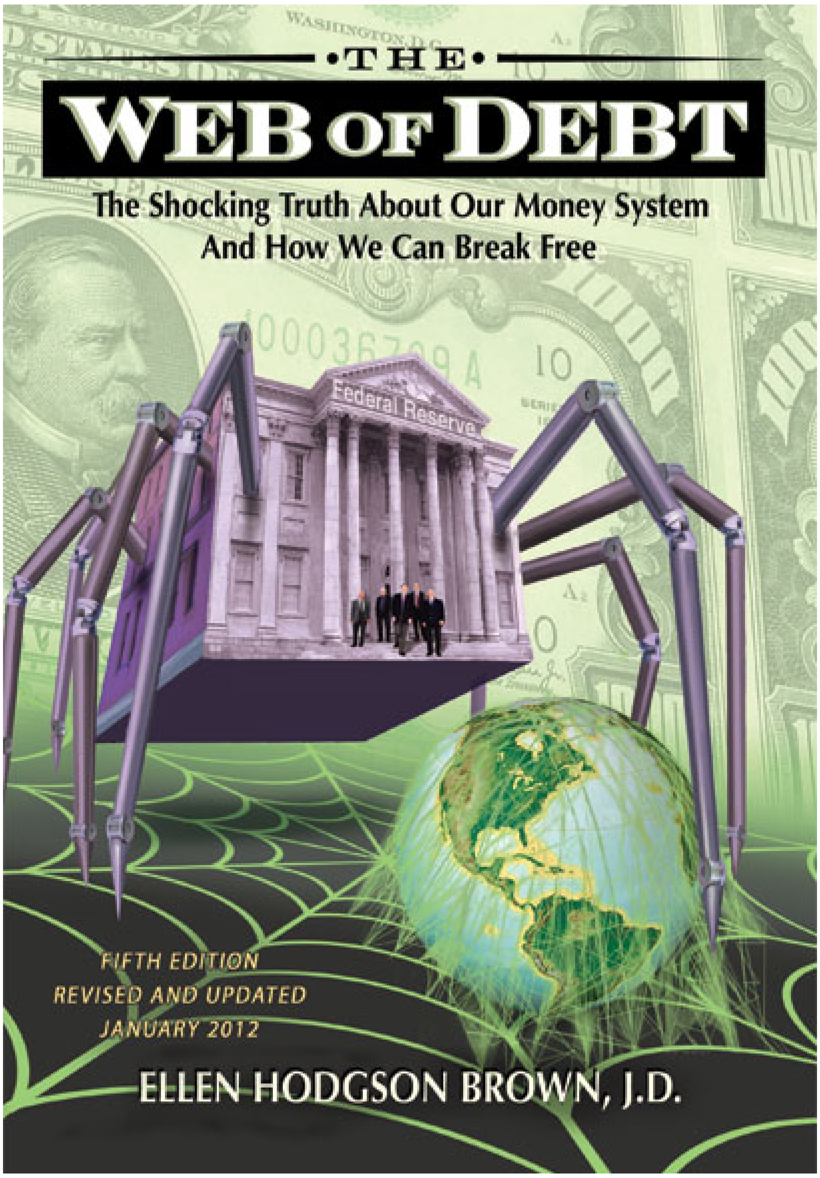

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