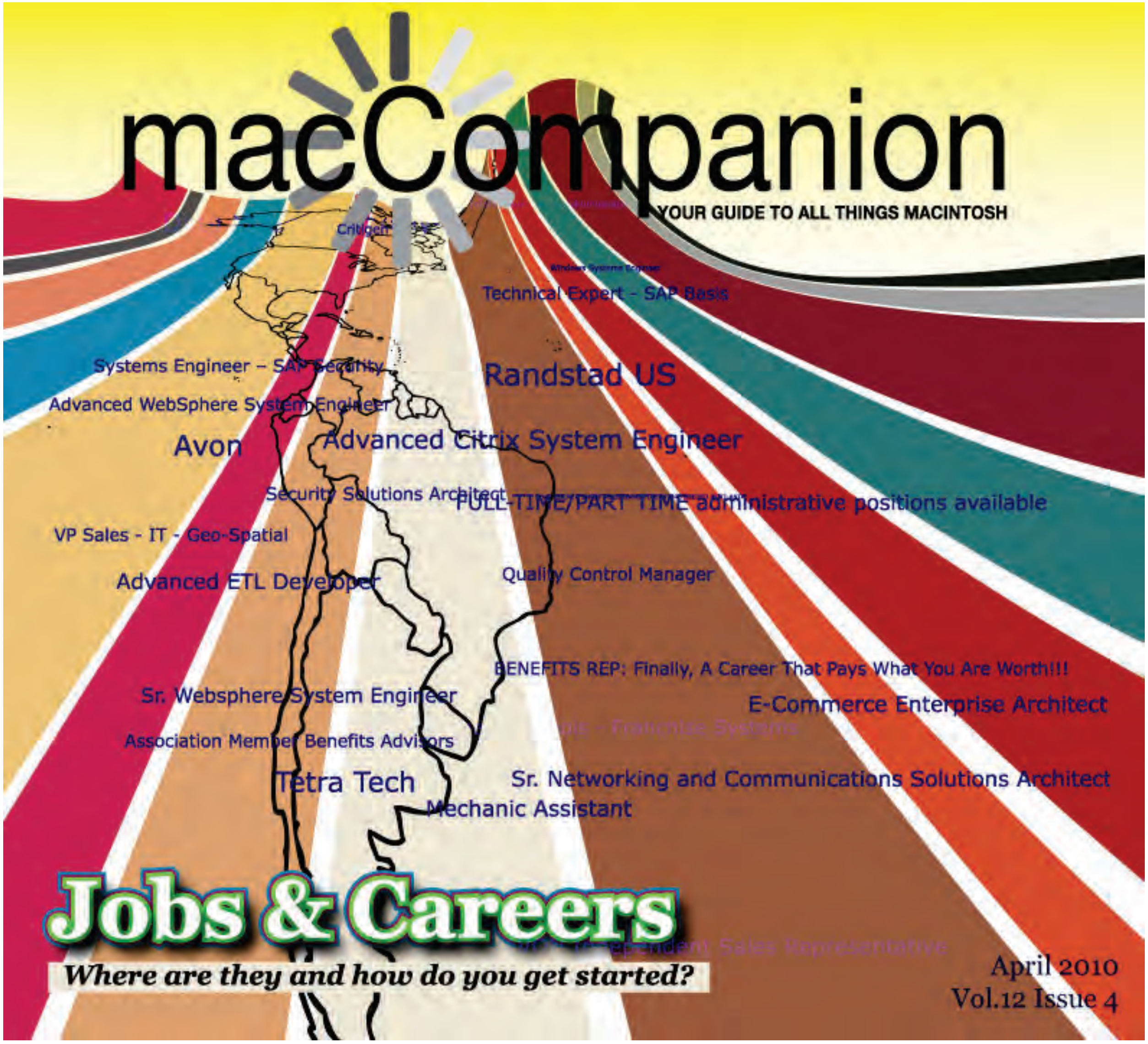


Cover by Michele Patterson

ISSN 2150-3141

Masthead

Publisher	MPN, LLC
Editor-in-Chief	Robert L. Pritchett
Assistant Editors	Harry Babad
	Michele Patterson
Consultants	Harry {doc} Babad
	Ted Bade
Advertising and Marketing Director	Robert L. Pritchett
Web Master	Robert L. Pritchett
Public Relations	Robert L. Pritchett
Contacts	Webmaster@macCompanion.com
	Feedback@macCompanion.com
Correspondence	1952 Thayer, Drive, Richland, WA 99352
	USA
	1-509-942-4328
	rpritchett@macCompanion.com
	Skype: maccompanion

macCompanion Staff

Harry {doc} Babad	Ted Bade
Dr. Eric Flescher	Jonathan Hoyle III
Daphne Kalfon (I Love My Mac)	Wayne Lefevre
Michele Patterson	Robert Pritchett
Gene Steinberg (TechNight Owl)	Rick Sutcliffe (The Northern Spy)

Guest Columnists:

Dr. Alvin N. Feldzamen
Todd Hathaway

Application Service Provider for the macCompanion Website: http://www.stephousehosting.com

Our special thanks to all those who have allowed us to review their products!
In addition, thanks to you, our readers, who make this effort all possible.

Columns

Books

Columns

Letter from the CEO

Jobs and Careers

By Robert L. Pritchett

This month we explore employment possibilities. This is not about Steve Jobs and careers. I probably do not need to show you graphs, charts, etc. on the consistent downward trend we have witnessed worldwide regarding employment as the engineered Depression continues, in spite of what “government” tells us.

Jobs vs. Careers

I do believe you do know the difference between a job and a career, right? http://www.diffen.com/difference/Career_vs_Job For those that do not, a job is a temporary position, usually doesn’t pay all that much and some have said it is an acronym for Just Over Broke. A career is something that may take a lifetime or in my case, a number of lifetimes. I think I’ve had around 5 careers and I’ve had to reinvent myself and stay a few steps ahead of disaster as technology has advanced over my short lifetime from mechanical, electromechanical, discrete electronics, microelectronics to nano-technology. I’m still expecting that the next major leap in the computing industry will be photonic in nature. And I hope to play a part in it. http://www.futureforall.org/computers/opticalcomputers.htm

Recently, the US VP Joe Biden said; “Only 38,000 jobs lost, That is good!” Good for whom?

Old Time Jobs: http://genealogyfix.tripod.com/jobdesc.html It is better to be flexible with variable skillsets, than to be stuck in a job that has become obsolete. I used to milk cows, deliver newspapers, buck bales, help burn scruff from forest harvests, repair all kinds of typewriters, calculators, shredders, staplers, computer keyboards, floppy drives and monitors. I had a wise uncle who once said that I should not worry about what I wanted to be when I grew up, because I would end up doing lots of different jobs through life. He was right. It pays to be “flexible”.

If you go to my bio page http://www.maccompanion.com/macc/info/AboutUs/robertpritchett.html, you will see that I’ve been able to do a lot of different things over the years in order to make ends meet. That page links to my ever-morphing Resume and Curriculum Vitae.

At one time or another, if you are not self-employed (and even that can be short-term too!), you will be either out of work, seeking a job or between jobs.

Even today, there are honest ways and means for good folks to obtain work to support families and help be self-sufficient, instead of using the public dole to subsist.

I've been involved with such volunteer projects as the Reemployment Opportunity Center (ROC) back in the '90's as well as the Employment Resource Center, operated by the church I attend.

WorkSource, I believe is a spin-off from the ROC. It houses a number of employment groups and resources under one roof and it looks like it has been syndicated or franchised to other states in the US after being established here in my community.

We linked to WorkSource and various other resources at ***Jobs and Careers*** – *http://www.maccompanion.com/macc/companions/macjobs.html*, where I have broken the groups down into International, National, Mac-Specific and the Pacific Northwest (where I live).

I added and updated a few more Mac-Specific job sites recently.

How It All Started

I participated in establishing the LDS Employment group at church, previously to when I was "let go" (RIFfed or Reduced In Force) from a promising career on the Hanford Nuclear Reservation back in the early '90's. That organization grew into a regional activity in the Inland Empire, then went to Salt Lake City and now it is a worldwide, all-volunteer organization that has successfully assisted in helping many people improve their employment possibilities over the years. It continues to do so. There is now a beta site that anybody (guest account) can register on to participate at *http://www.ldsjobs.org* from anywhere in the world. The original site is/was *http://www.providentliving.org*. The new site is being touted as being one with both a heart and soul as the Employment Resource Center (ERC). We are "enablers".

My mission for many years, was as a Ward Employment Specialist or Ward Employment Coordinator and now I continue to function as the Stake Employment Secretary (each Stake consists of a bunch of Wards – think Diocese and Parishes for a comparison). A Ward Employment Coordinator works each week with other groups in each Ward to identify who is seeking employment, an improvement in education, or a leg up in improving their existing work situation or who want to get off unemployment benefits and get back to work. This "People Network" also helps identify any existing job opportunities that then get fed back to each Employment Resource Center (ERC), if local participants aren't queued in first.

Being Our Brother's Keeper

This calling/position allows me to practice what we preach regarding being our brother's keeper. The success of the program can be related in one story of a former store manger in Spokane who could not find work, drove to another job fair in Seattle and on his way back from an unsuccessful trip, was so distraught, he decided to commit suicide up on Snoqualmie Pass.

As he was carbon-monoxidizing himself, he remembered one of his friends discussing the Employment Resource Center in Spokane and who was in a position to help him. He aired out the car, went home, participated in the free program and landed a great job. He testified that the ERC saved his life. Hearing about things like that put this kind of effort into proper perspective.

I held the Ward Employment Specialist/Coordinator position here in Richland WA through 3 bishops over 14 years, until I was released this past year, due to a conflict with a new job I had that didn't allow me to go to church on Sundays. I took that job after having survived on unemployment benefits for a few months. That job opened the door for the current position I have in IT support for a government agency.

Job Searching

The job situation is always a tenuous one in a down economy, but honest opportunities do exist. If you have joined the ever-swelling unemployment ranks, do not give up! There is help at the nearest no-cost ERC, anywhere in the world.

During my recent unemployment period, I knocked on quite a few doors, met a lot of great people, distributed lots of Resumes, interviewed for various jobs and collected a lot of business cards. Forgive me, but I have never, ever gotten much in Google or online affiliate cheques. Apparently, nor have many others. And I see every Multilevel Marketing (MLM) opportunity as a glorified chain letter or work-at-home Ponzi scheme. None have ever given me more than I personally put in. To me, they have been a waste of time, effort and money. I'm sure those who put those schemes together, enjoyed my contributions.

The current unemployment situation continues to be a dire one and I doubt that the unemployment claims programs were ever meant to be an extended glorified welfare cheque system, instead of a short-term help, due to unfortunate circumstances.
http://www.washingtonpost.com/wp-dyn/content/article/2010/03/08/AR2010030804927_pf.html
More than 75% of folks out of work right now, do not even qualify for unemployment benefits because of under-employment, self-employment or worked for now-defunct companies that did not "contribute" to the program.

People Hire People

Technology is a wonderful tool, but in reality, people hire people, computers do not hire people. They filter out prospects. I found that you have to get out of the house and talk to real live people, in order to land a job.

The morphing Resumé is just a tool to get your foot in the door, nothing more. Computers tend to be a useful tool, only as long as the jobs are current.

I discovered that Indeed.com – *http://www.indeed.com* tends to keep the most current regarding job openings, but anything listed beyond a day for any particular region becomes suspect, as those jobs may have for the most part, already been filled.

Regarding Headhunting

Once I worked for one of the Mac Jobs I still have linked, but discovered quickly that as a people-placer, the jobs we had at the time posted, were years old. They were, what I would call, "bait-and-switch". I didn't last long at that job (months) and never "placed" anybody, so I could collect a fee. I did however, manage to talk to a lot of employers and provided a lot of bodies and updated the Resumé and jobs available databases. I continue to get job postings from there in eMail distributions for current positions in the Mac World, so they are still in business. The thing with software development is that we live in a global economy and when trying to place individuals who are accustomed to $150 per hour, they do not realize they are competing with folks from other countries who will work for next to nothing, doing the exact same coding and in many cases doing it better, quicker.

Job Fairing

We live in a time where thousands of people are trying to juggle for position for tens of jobs. There is an incredible amount of competition! I found it rather interesting that my community (Tri-Cities, WA) held the dubious top spot nationwide recently (4th quarter 2009) for job opportunities and placement. I was flabbergasted when one of our State Senators declared nationally that we had thousands of jobs here last year!

I stood in line with literally thousands of others in job fairs who also were looking for work on the Hanford Nuclear site last Summer. Many gave up their homes and connections to move here, only to discover that job opportunities were not really the case - at least for them and their job skill sets. Many locals hold one to three jobs, just to stay solvent and not loose their homes.

On the other hand, Stimulus Bill funds were awarded to the Hanford site for nuclear cleanup and many temp jobs have been distributed in that effort. These are short-time jobs, not careers. When the Hanford projects are done, that's it. There are no more. This is a boomlet cycle, not a boom cycle and those who were selected to do work will have to move on, once the work has been completed.

Economic Situations

I believe that "we" need to get back to being a manufacturing economy (making things) instead of continuing to be a service economy (passing on things made elsewhere). It may be okay to think globally, but "we" still have to live locally.

In the book "How To Save Jobs" by David Gewirtz *http://www.howtosavejobs.org*, we see that over 75% of those "employed" in the US are outside the Bureau of Labor Statistics. They are not counted. That 75% also do not qualify for unemployment benefits. Officially, the unemployment rate is between 17 and 21%. I declare and have stated many times, it is much closer to 50% nationwide. Just look around you at all the closed business and store fronts. Small businesses are struggling to survive. I've already closed one of my own businesses. The others will possibly soon follow. The income that came in, isn't coming in any more.

When Melvin Campbell (Stake Employment Director) served a mission in Guatemala years ago with his wife, he was asked to help with job placement in that country. Those who were sitting at computers had not done as well as they otherwise could have. He implemented a "People Network", simplifying the talent-to-job process with non-computer paper-and pen techniques and in so doing, helped place thousands of people per month throughout the country. Those who previously had been sitting at computers all day, got out to businesses and began knocking on doors to find out what was available. Feedback loops were established, interviews occurred and people were placed and it didn't cost very much to garner the results obtained. We can do that here in the USA as well. In fact, we are, just not as successfully as was done in Guatemala yet. We have to improve our "People Network" techniques and not rely so much on technology and paid-for job services.

That, and the government and the banksters need to step back and allow private enterprise to thrive, instead of throttling it to death.

Give Us the Opportunity to Perform!

Like Susan Boyle, the Scottish singer, *http://www.youtube.com/watch?v=wnmbJzH93NU*, all we ask is the opportunity to perform. Is that too much to ask?

(BTW, Happy Birthday Susan, April 1. You are nobody's fool. Thanks for inspiring us!)

> "We all have work, let no one shirk. Put your shoulder to the wheel."
> LDS Hymns. American Sign Language #252.
> *http://www.lds.org/cm/display/0,17631,7208-1,00.html*

Sincerely,

Robert L. Pritchett

Digging Deeper

More Susan Boyle - *http://www.youtube.com/user/susanboylemusicuk*
http://www.susanboylemusic.com/us/

WND: Understanding What Really Creates Jobs (page 252…)
http://www.zinio.com/reader.jsp?issue=416118786&o=ext&RF=WNWExpressFeb19

Barack Obama Admits That "By Design" You Remain Unemployed
http://www.redstate.com/erick/2010/02/02/barack-obama-admits-that-by-design-you-remain-unemployed/

Underemployment At Record 20% According To Gallup
http://www.zerohedge.com/article/underemployment-record-20-according-gallup

People power in short supply for green tech
http://news.cnet.com/8301-11128_3-20001180-54.html?tag=nl.e703

How easy is it to find a job in Seattle? How one job site sees it
http://blog.seattlepi.com/thebigblog/archives/199597.asp?
The Job Patronage System
http://www.newswithviews.com/Betty/Freauf140.htm

Groundbreaking Study Puts Real-World Numbers Behind The Promise of "Green Jobs"
http://www.maccompanion.com/macc/archives/May2009/Greenware/GreenJobCosts.htm

Times, They are a Changin'
http://www.maccompanion.com/macc/archives/January2010/Columns/LetterfromtheCEO.htm

ADP Says U.S. Companies Unexpectedly Cut Payrolls (Update3)
http://www.bloomberg.com/apps/news?pid=20601087&sid=aSfp5pL7BSTM&pos=2

One I have not added to our site, but I have subscribed to at one time: *http://www.theladders.com*

According to Hoyle...

Programmer Jokes

April 2010
by Jonathan Hoyle

jhoyle@maccompanion.com
macCompanion
http://www.jonhoyle.com

Last fall, we began a six part series on the upcoming changes on the C++ language. After such a long dive into an extremely technical (and limited appeal) topic, I figure that we need to lighten things up this month. So, I am going to take a break from my usual boring geek rants, and give my loyal readers a little well-earned entertainment. So this month, I am presenting some of the best programmer jokes. They are in no particular order, but please enjoy!

Q: How can you tell when a programmer has had sex?
A: When he's washing the pepper spray out of his eyes.

Eight bytes walk into a bar. The bartender asks, "Can I get you anything?"
"Yeah," reply the bytes. "Make us a double."

How many programmers does it take to change a light bulb?
None – It's a hardware problem

Why do programmers always mix up Halloween and Christmas?
Because OCT 31 == DEC 25.

"Knock, knock."
"Who's there?"
very long pause….
"Java."

There are three kinds of lies: Lies, damned lies, and benchmarks.

Two strings walk into a bar and sit down. The bartender says, "So what'll it be?"
The first string says, "I think I'll have a beer quag fulk boorg jdk^CjfdLk jk3s d#f67howe%^U r89nvy~~owmc63^Dz x.xvcu"
"Please excuse my friend," the second string says, "He isn't null-terminated."

The three most dangerous things in the world are a programmer with a soldering iron, a hardware engineer with a software patch, and a user with an idea. – The Wizardry Compiled by Rick Cook

A computer science student is studying under a tree and another pulls up on a flashy new bike. The first student asks, “Where’d you get that?”
The student on the bike replies, “While I was studying outside, a beautiful girl pulled up on her bike. She took off all her clothes and said, ‘You can have anything you want’.”
The first student responds, “Good choice! Her clothes probably wouldn’t have fit you.”

Q: How do you tell an introverted computer scientist from an extroverted computer scientist?
A: An extroverted computer scientist looks at your shoes when he talks to you.

Saying that Java is nice because it works on every OS is like saying that anal sex is nice because it works on every gender.

A young Programmer and his Project Manager board a train headed through the mountains on its way to Wichita. They can find no place to sit except for two seats right across the aisle from a young woman and her grandmother. After a while, it is obvious that the young woman and the young programmer are interested in each other, because they are giving each other looks. Soon the train passes into a tunnel and it is pitch black. There is a sound of a kiss followed by the sound of a slap.
When the train emerges from the tunnel, the four sit there without saying a word. The grandmother is thinking to herself, “It was very brash for that young man to kiss my granddaughter, but I’m glad she slapped him.”
The Project manager is sitting there thinking, “I didn’t know the young tech was brave enough to kiss the girl, but I sure wish she hadn’t missed him when she slapped me!”
The young woman was sitting and thinking, “I’m glad the guy kissed me, but I wish my grandmother had not slapped him!”
The young programmer sat there with a satisfied smile on his face. He thought to himself, “Life is good. How often does a guy have the chance to kiss a beautiful girl and slap his Project Manager all at the same time!”

If you put a million monkeys at a million keyboards, one of them will eventually write a Java program.
The rest of them will write Perl programs.

Q: "What’s the object-oriented way to become wealthy?"
A: Inheritance

```
int getRandomNumber()
{
	return 4; // chosen by fair dice roll
		// guaranteed to be random
}
```

To understand what recursion is, you must first understand recursion.

Q: How many prolog programmers does it take to change a lightbulb?
A: Yes.

Q: How do you keep a programmer in the shower all day?
A: Give him a bottle of shampoo which says "lather, rinse, repeat."

God is real (unless declared integer)

Q: Why do all Pascal programmers ask to live in Atlantis?
A: Because it is below C level.

APL is a write-only language.

In C we had to code our own bugs. In C++ we can inherit them.

C gives you enough rope to hang yourself. C++ also gives you the tree object to tie it to.

A computer without COBOL and Fortran is like a piece of chocolate cake without ketchup and mustard.

PL/I is for programmers who can't decide whether to write in COBOL or Fortran.
Computer interfaces and user interfaces are as different as night and 1.

There's no place like 127.0.0.1.

A programmer walks down a path when suddenly a frog steps into his lane, saying: "if you'll kiss me I'll turn into a beautiful blond babe who'll adore you and start a family with you". After couple of seconds the programmer picks the frog up and puts it in his shirt pocket. The frog goes "Aren't you gonna kiss me?!" "No", the programmer responds. "I work at Google, no time for a wife. But a talking frog is COOL!"

Q: how many Microsoft programmers does it take to change a light bulb?
A: none, they just make darkness a standard and tell everyone "this behavior is by design"

Q: Why didn't the programmer get a new car?
A: He couldn't find anyone to cosine.

All my girlfriends names have ended in jpg.

To see a list of all the According to Hoyle columns, visit:
http://www.jonhoyle.com/maccompanion

Apple's Company Store

By Dr. Alvin N. Feldzamen, copyright 2010

In the late 18th, the 19th, and early 20th centuries, as industrialization spread across America, "company towns" began to be formed, small communities centered around a factory -- towns in which a corporation owned the real estate, built the housing for the workers, and generally ran the local governments. Included among the amenities there were generally "company stores" to provide the workers with foodstuffs, clothing, fabrics, hardware goods, and the like. In time, these stores came to be considered symbols of oppression.

Wikipedia, for example, notes this often was "an arrangement in which employees are paid in commodities or some currency substitute (referred to as scrip), rather than with standard money. This limits employees' ability to choose how to spend their earnings—generally to the benefit of the employer. As an example, scrip might be usable only for the purchase of goods at a "company store" where prices are set artificially high.

> "While this system had long existed in many parts of the world, it became widespread in the eighteenth and nineteenth centuries, as industrialization left many poor, unskilled workers without other means to support themselves and their families. The practice has been widely criticized as exploitative and similar in effect to slavery, and has been outlawed in many parts of the world."

Paying the workers in scrip and forcing them thereby to buy at the company store was the heart of the system. This was the time of the foundation of many of the great American fortunes -- the times we associate with the names of Robber Barons and industrial and financial magnates such as Rockefeller, Morgan, Carnegie, Astor, Harriman, and the like.

Something similar has been approached, but until recently been never realized in the new world of data handling.

Imagine, for example, the furor that would arise today were Microsoft to engineer a new Windows operating system that would prevent totally using any word processor other than its own WORD application. In point of fact, critics have asserted that earlier versions of Windows, while not preventing using outside software, did indeed offer certain specific operating advantages to Microsoft's own spreadsheet, display, and word handling programs. And only this year did the European Union force Microsoft to present other Internet browsers than its own EXPLORER on an equal footing in the latest version of Windows.

But Apple, always fiercely defended by its ultra-loyal devoted partisans, has seemingly managed to create its own "company store," successfully selling one data handling device to which it totally controls normal access, the iPhone, and now presumably, the iPad to come.

I write as one who bought the original Macintosh, upgraded through the years, using the computers to manage two medical offices, even wrote two (functional but not totally successful, alas) commercially available programs for it (a physician's California office billing relational data base program---this being surprisingly complex -- and also a teleprompter simulator that simultaneously, while presenting scrolling words under speed control to a laptop user, also showed synchronized slides and videos to the audience), and has generally appreciated Apple's offerings through the years. But I nonetheless look with growing disappointment at the company's restrictions on outside resources, and its censorship or suppression of software it finds objectionable -- sometimes disgracefully on purely competitive business grounds.

Certainly, Apple has the right to sell what it wishes in its own stores, Internet-based or in reality. But preventing others from selling software to its products? That's precisely the 21st century update of the "company store." And forbidding outside developers to speak out about their relations with Apple -- is this not Big Brother in action?

When I have been critical on this point, Apple devotees have responded: "It's a company, and they can do what they want." And also, "There are contracts for the developers, and they signed them willingly."

Those writers are displaying a woeful misunderstanding or lack of knowledge of the law. There is a reason, for example, why in the splendid film and later television series, THE PAPER CHASE, about a beginning law student, the sternly curmudgeon professor, portrayed by the magnificent John Houseman, thundered: "I teach you to think like a lawyer!" and had, as his subject, the most important first-year law course, Contracts. Because, as every law student rapidly learns, just because both sides have signed a piece of paper with words written on it, a valid contract is not thereby created. There are many, many reasons such paper agreement can be considered invalid---and chief among them being a finding by a judge that its provisions are against "public policy."

So as a former attorney, I think there is a reasonable probability that many if not most, of the provisions of Apple's absurdly restrictive "contract" with developers for its iPhone (and presumably iPad) system would be voided with a court challenge, since they are clearly against certain public policies. Attempting to forbid, by a specific provision, an outside developer from speaking out about relations with Apple, and about the contractual provisions themselves, is certainly a BIG BROTHER, perhaps Fascistic, tactic! Should this muzzling not be against public policy?

Monopoly avoidance is another such public policy, and indeed, one that has led to various forms of legislation in many countries. Microsoft certainly did not have an absolute operating system monopoly in Europe, since the Macintosh OS and various open source operating systems are in widespread use there. Nonetheless the EU concluded there was a sufficient monopoly interest that Windows could no longer be permitted to favor Microsoft's Explorer.

So how then, can Apple's more restrictive closure of its systems for the iPhone and iPad be defended? My guess here to that this "company store" policy can also be voided, because Apple does have a quasi-monopoly, established by its restrictive operating systems, over the hardware universe it has pioneered.

Another legally valid reason for considering a contract invalid, is that it is not the result of legitimate "bargaining" between the signatories, in that one side has a significant advantage. This is called a "contract of adhesion," and can thereby be voided. Can any Apple functionary or fan maintain that an iPod, iPhone, iPad developer can bargain, on an equal footing, with Apple?

Last month I began my 80th year of life -- an altogether unexpectedly long lifespan. Were I decades younger, I would myself, as a plaintiff, undertake litigation against Apple. Most non-lawyers do not realize (1) it is absurdly easy to start a lawsuit (Clerk of the Court will give detailed instructions as to the form required, and the filing fee is usually not large), (2) most any reasonable ground can serve as the basis for such a suit, and (3) when one files for himself or herself as the aggrieved party, no lawyer is necessary (such an unlawyered legal action is called pro se).

In fact, Wikipedia tells us;

> "Pro se legal representation refers to the instance of a person representing himself or herself without a lawyer in a court proceeding, whether as a defendant or a plaintiff and whether the matter is civil or criminal. Pro se is a Latin phrase meaning "for oneself". This status is sometimes known as propria persona (abbreviated to "pro per"). In England and Wales the comparable status is "litigant in person". In the United States, many state court systems and the federal courts are experiencing an increasing proportion of pro se litigants.[1] In the United States federal court system for the year 2007 approximately 27% of actions filed, 92% of prisoner petitions and 10% of non-prisoner petitions were filed by pro se litigants."

So go to it, you defenders of freedom. The courtroom doors are always open in the US!

Dr. Alvin N. Feldzamen
3 Arrowood Lane
Ithaca, New York 14850-9793
607-257-8080
alfeld@twcny.rr.com

The writer was graduated from the University of San Diego Law School, and later admitted to the bar in Virginia. He also was a practicing physician for many years in the San Diego area, has written 5 trade books, two articles in separate encyclopedias, scholarly articles in mathematics and psychology journals, holds 1 medical patent, and has a long computer history.

Behind the Story

Editorial Response from Robert L. Pritchett that germinated into this article being posted;

Dr. Alvin N. Feldzamen wrote;

> "I don't like censorship. Except for the famous calling-FIRE-in-a-crowded theater exception, speech should generally be free, and I think most Americans would agree, outrageous obscenity excepted. So I find Apple-ATT's censoring of applications on, and transmissions to, the iPhone repugnant (and deserving of a vigorous court challenge, on the basis of unfair competition, by the way). So I am troubled also by the apparent intention of the Apple-AT&T combine to try to censor applications on, and transmissions to, the iPad. Shouldn't the stockholders of these corporations revolt?"

Answer from Robert L. Pritchett:

> "No.
>
> The apps Apple Corporation has been censoring are revolting. Apple Corporation owns the process. Let Apple Corporation monitor it. There are standards that apply and the Apps in question do not meet the criteria of common decency.
>
> First, you have to believe in good and evil, right and wrong. There are rules of civility. There are God-given commandments to follow.
>
> We live in a very wicked world. I had to shut down my own forum, because of the bad-nasties that began populating it. The monitors could not keep up with the filth that was being linked.
>
> Do you want Apple to just shut down the App Store?
>
> We used to be civil and there were censoring activities that have sadly been ignored for decades. We are being inundated with evil, filthy stuff that cannot be erased from our minds, once it has entered in. The rise in sexual crimes and destruction of innocence is the result of these activities.
>
> And many of us know we have to answer for our actions after this life, so it is a good thing to be on the good side of Karma and not the bad side. If you want gratuitous sex and filth, go elsewhere. I personally do not need to have it blasted at me from the App Store.
>
> Self-censorship is best, but when decency and good morals do not kick in, a god-fearing adult needs to step in and supervise.

Meanwhile, we should do what we can to prevent a pre-Nazi Germany environment from repeating itself in our lifetime.

Apple Corporation is a business. So is AT&T. They are both watched closely. They can be shut down, if they step out-of-bounds. And you and I have the right to not buy or promote their products."

Editorial Note: Based on recent events, I will have to modify my stance. It would appear that Apple Corporation Legal Eagles are overstepping their reach and the company is going down the path of corpogapolyism.

Digging Deeper

Apple Stores
http://en.wikipedia.org/wiki/Apple_Store

The Value Gap is Closing
http://seekingalpha.com/article/195837-apple-vs-microsoft-the-value-gap-is-closing?

Apple's Censorship

Publisher pushes back over arbitrary censorship on App Store (March 10, 2010)
http://www.macnn.com/articles/10/03/10/apple.seeks.to.expand.censhorship/

Digital Rights Group Blasts iPhone's Faustian Developer Deal (March 9, 2010)
http://www.theatlantic.com/business/archive/2010/03/digital-rights-group-blasts-iphones-faustian-developer-deal/37233/

Apple's Secret iPhone Developer Agreement Goes Public (March 9, 2010)
http://www.wired.com/gadgetlab/2010/03/iphone-developer-agreement/

All Your Apps Are Belong to Apple: The iPhone Developer Program License Agreement (March 2010)
http://www.eff.org/deeplinks/2010/03/iphone-developer-program-license-agreement-all

It's Time to Declare War Against Apple's Censorship (March 2010)
http://www.gizmodo.com.au/2010/03/its-time-to-declare-war-against-apples-censorship/

Apple Censorship Reaches New Level of Stupid (February 20, 2010)
http://www.cultofmac.com/apple-censorship-reaches-new-level-of-stupid-daisy-mae-pulled-fnar/31091

Veil Lifts Slightly on Apple's Secret Plan to Control the Universe (February 2010)
http://www.wired.com/epicenter/2010/03/the-veil-lifts-slightly-on-apples-secret-plan-to-control-the-universe

Apple iPhone Censorship
http://mydd.com/2009/9/29/apple-iphone-censorship

Apple's Censorship & Censure
http://scratchpad.wikia.com/wiki/Apple%27s_Censorship_%26_Censure

Apple's Unreasonable Censorship (April 29, 2009)
http://owstarr.com/2009/04/29/apples-unreasonable-censorship/

Apple Hit with Censorship Lawsuit (April 9, 2009)
http://www.eweek.com/c/a/Apple/Apple-Hit-With-Censorship-Lawsuit-133102/

The Joy of Tech - Think Puritanical (February 20, 2010)
http://www.geekculture.com/joyoftech/joyarchives/1357.html

Apple and App Store censorship: where to draw the line? (January 20, 2009)
http://arstechnica.com/apple/news/2009/01/apple-and-app-store-censorship-where-to-draw-the-line.ars

Does Apple Really Want To Be An Internet Censor?
http://mashable.com/2008/08/27/apple-censorship/

Apple Censorship: This Time It's Displays (December 19, 2007)
http://www.tomshardware.com/reviews/apple-display-update,1747.html

Harry McCracken and the Apple Censorship Myth (May 5, 2007)
http://www.roughlydrafted.com/RD/RDM.Tech.Q2.07/7CDAFFA9-6D18-40C4-A903-4BDED5AEFF84.html

Articles about Apple Censorship
http://www.appletell.com/apple/tag/apple%20censorship/

April's Fools?

By Robert Pritchett

What is Truth and what is Fiction? When does Fiction become Truth?

> **Oh Say, What Is Truth?** Hymn no. 272
>
> 1. Oh say, what is truth? 'Tis the fairest gem that the riches of worlds can produce and priceless the value of truth will be when the proud monarch's costliest diadem is counted but dross and refuse.
>
> 2. Yes, say, what is truth? 'Tis the brightest prize to which mortals or Gods can aspire. Go search in the depths where it glittering lies, Or ascend in pursuit to the loftiest skies:' Tis an aim for the noblest desire.
>
> 3. The sceptre may fall from the despot's grasp When with winds of stern justice he copes. But the pillar of truth will endure to the last, and its firm-rooted bulwarks outstand the rude blast and the wreck of the fell tyrant's hopes.
>
> 4. Then say, what is truth? 'Tis the last and the first, for the limits of time it steps o'er. Tho the heavens depart and the earth's fountains burst, Truth, the sum of existence, will weather the worst, Eternal, unchanged, evermore.
> *http://library.lds.org/nxt/gateway.dll/Curriculum/music.htm/hymns.htm/special%20topics.htm/272%20oh%20say%20what%20is%20truth.htm#JD_Hymns.272*

We are only 2 years away from all the 2012 "World Change" *http://www.2012predictions.net/* stuff, after all.

I hope you have your bogus meters turned on. It is April.

Here are some things you may or may not believe;

Project Camelot Interviews by Bill Ryan and Kerry Cassidy
The music they played together - *http://projectcamelot.org/Jaguar.mp3*

- extraterrestrial visitation and contact
- time travel
- mind control
- classified advanced technology
- free energy
- possible coming earth changes
- revealing plans that exist to control the human race

“The video and audio links below will stream unless they are downloaded. To download, PC users right-click and then select Save As; Mac users option-click. The Google and YouTube links will just stream when clicked. WMV video files are for PCs (Windows) which do not have QuickTime player. MOV or MP4 are for Macs or PCs with QuickTime (and are usually slightly better quality). MP3 audio files should play on any machine, including iPods and similar players.”
http://projectcamelot.org/interviews.html

Whistleblowers who died for their cause - *http://projectcamelot.org/tribute.html*

Pledge to not be suicided (yes, I signed it);

- We have no intention of ending our own lives.
- We will not tolerate suppression of our truths, our ideas, our freedoms, or our work.
- We stand together to support others in the expression of truths and freedom to speak out... no matter how radical those ideas may seem.
- Standing for freedom takes courage; together we shall be strong in the face of all odds. •
- If it is ever claimed that we have committed suicide, disappeared, been institutionalized, or sold out financially or in any other way to self-interested factions, we declare those claims false and fabricated.
- We testify, assert and affirm without reservation, on behalf of all those who have dedicated their lives to the ending of secrecy and the promotion of freedom of thought, ideas and expression... that we shall prevail.
  http://projectcamelot.org/round_table.html

Conspiracy Theory TV

- HAARP

Premiered Wed, December 2 at 10P Is it a communications research project or a doomsday weapon that can change the weather, shoot satellites out of orbit - and trigger mind control across the globe? Jesse Ventura and his team head north to a remote region of Alaska to confront the military installation called HAARP. TV-14-L

- 9/11

Premiered Wed, December 9 at 10P Jesse Ventura steps into America's most controversial conspiracy by challenging the 9/11 Commission Report and searching for evidence that the September 11th attacks may have been an inside job. At the urging of victims' families, he finds witnesses who claim the towers were brought down by explosives, the missing black box flight recorders were actually recovered and ground control knew the hijackers were in the cockpits before the jets took off. TV-PG-LV

- Global Warming

Premiered Wed, December 16 at 10P Whether global warming is real or not, it's believed some people are using the issue to make billions of dollars, start a one-world government and control our lives, from the cars we drive to the foods we eat. Jesse Ventura starts with Al Gore and goes far beyond as he uncovers the evidence that leads to one man thought to be behind the global warming conspiracy.

- Big Brother

Premiered Wed, December 23 at 10P Big Brother is watching and it's not who you think. Jesse Ventura's investigation of government surveillance on its citizens tears the lid off a nationwide program that is thought to turn local businessmen and office workers into spies, snooping on their neighbors and ratting on their friends in exchange for information and special privileges from the FBI- including, some charge, a "license to kill."

- Secret Societies

Premiered Wed, December 30 at 10P They're thought to be a group of the world's elite who meet once a year at a luxury hotel and decide how they will run the world. It's believed they plan to thin out the population through disease-and vaccines. Jesse Ventura infiltrates the Bilderberg Group.

- Manchurian Candidate

Premiered Wed, January 6 at 10P Authors and experts warn that forces within the government have revived a program that uses mind control techniques to turn ordinary citizens into programmed assassins. This real-life Manchurian Candidate seems outlandish- until Jesse Ventura searches for the evidence and goes face-to-face with a man who claims he's one of the killers.

- Apocalypse 2012

Premiered Wed, January 13 at 10P It's believed that the world is heading for disaster in 2012 and the government is preparing to save and protect the elite - while leaving the rest of us to fend for ourselves. Jesse Ventura investigates claims of top secret underground bunkers being built in places ranging from the Nevada desert to the White House, including the largest, now under construction beneath a major metropolitan airport.
http://www.trutv.com/shows/conspiracy_theory/index.html

Crystal Skulls
http://www.crystalinks.com/crystalskulls.html
Other Crystal Links
http://www.crystalinks.com/crystals.html

George Green - Handbook for the New Paradigm (Volumes 1-3)
http://www.trufax.org/handbooks/paradigmvol1.html

Report from Iron Mountain
http://www.mega.nu:8080/ampp/ironmtn.html

FEMA Camps
http://www.dailymotion.com/video/x65ep2_underground-bases-and-fema-camps_tech
http://www.campfema.com/
Fear of FEMA, Intelligence Report, Spring 2010, Issue Number: 137 http://www.splcenter.org/get- informed/intelligence-report/ browse-all-issues/2010/spring/ fear-of-fema

The Unlikeliest Conspiracy-Monger: Colorado Public Television
http://www.splcenter.org/blog/ 2010/03/11/the-unlikeliest- conspiracy-monger-colorado- public-tv/ - more-3805

MIAC Report http://www.news-leader.com/ assets/pdf/DO131242323.PDF

FEMA and REX 84

The plan called for the suspension of the Constitution, turning control of the government over to FEMA, appointment of military commanders to run state and local governments and the declaration of Martial Law. The Presidential Executive Orders to support such a plan were already in place. The plan also advocated the rounding up and transfer to "assembly centers or relocation camps" of a least 21 million American Negroes in the event of massive rioting or disorder, not unlike the rounding up of the Jews in Nazi Germany in the 1930s. http://uweb.txstate.edu/~lf14/ conspire/rex84.html

Billy Meier – The Future of Mankind
http://www.futureofmankind.co.uk/Billy_Meier/Main_Page

The Pleiadian Intelligences
http://www.angelfire.com/il2/pleiadians/

Matrix V
http://www.trufax.org/matrix5/welcome.html

Nine-Eleven (911)
http://www.911truth.org/
http://www.ae911truth.org/
http://pilotsfor911truth.org/
http://911scholars.org/

Underground Bases and Tunnels
www.projectcamelot.org/underground_bases.html
http://www.think-aboutit.com/under.htm
http://www.think-aboutit.com/underground/maps_of_the_underground.htm

Shadow Government
http://www.abovetopsecret.com/forum/thread60574/pg1
http://www.shadowgovernment-movie.com/index.php

Phil Schneider
http://www.projectcamelot.org/schneider.html
http://video.google.com/videoplay?docid=-9042499324182317197#

Obama at bat (video based on Casey-up-to-bat poem)
http://www.youtube.com/watch?v=4Tcahn7PwQU

X-Squared Radio
http://www.x2-radio.com/

Webecoist
http://webecoist.com/2008/10/27/52-elemental-land-water-fire-and-sky-phenomena/
http://webecoist.com/galleries#energy

Dirty Secrets of Drinking Water
http://www.disclose.tv/action/viewvideo/41228/Dark_Dirty_Secrets_About_Drinking_Water/

Phantom Stimulus Money Jobs
http://www.newswithviews.com/DeWeese/tom164.htm

Weatherization Boondoggle
http://www.americanthinker.com/2010/03/the_weatherization_boondoggle.html

Live Free or Die Hard (2007 movie)
Terrorists are mounting a "fire sale" attack, taking advantage of the vulnerability of the nation's computer-controlled infrastructure.
http://en.wikipedia.org/wiki/Live_Free_or_Die_Hard

Globalist's Plan: Put Cunning Women In Charge
http://www.newswithviews.com/Betty/Freauf159.htm

Crypetome
Cryptome welcomes documents for publication that are prohibited by governments worldwide, in particular material on freedom of expression, privacy, cryptology, dual-use technologies, national security, intelligence, and secret governance -- open, secret and classified documents -- but not limited to those.
http://cryptomeorg.siteprotect.net/

WikiLeaks
Cryptome welcomes documents for publication that are prohibited by governments worldwide, in particular material on freedom of expression, privacy, cryptology, dual-use technologies, national security, intelligence, and secret governance -- open, secret and classified documents -- but not limited to those.
http://wikileaks.org/

RFID: 1984
http://www.spychips.com/

Über Communications and Privacy
http://www.maccompanion.com/macc/archives/June2009/Columns/LetterfromtheCEO.htm

“Fossil” Fuel and Abiotic Oil
http://www.maccompanion.com/macc/archives/April2008/Greenware/Fossil.htm

Global Warming, the Cult of Gaia and “Edidence”
http://www.maccompanion.com/macc/archives/May2008/Greenware/Global%20Warming.htm

Global Cooling
http://www.maccompanion.com/macc/archives/November2008/Greenware/GlobalCooling.htm

Terminological Inexactitude (Lying)
http://www.maccompanion.com/macc/archives/October2008/Columns/LetterfromtheCEO.htm

Signs of the Times
http://www.maccompanion.com/macc/archives/January2009/Columns/LetterfromtheCEO.htm

Project Blue Beam Technologies and "False Christs"
http://www.maccompanion.com/macc/archives/February2009/Greenware/ProjectBlueBeam.htm

Of CFLs and Wind Turbines
http://www.maccompanion.com/macc/archives/February2009/Greenware/UnintendedConsequences.htm

Systematic Site Shutdowns
http://www.maccompanion.com/macc/archives/March2009/Columns/SystematicSiteshutdowns.htm

April's Fools (2009)
http://www.maccompanion.com/macc/archives/April2009/Columns/LetterfromtheCEO.htm

Is the U.S. Surface Temperature Record Reliable?
http://www.maccompanion.com/macc/archives/July2009/Greenware/Surfacetemp.htm

Life, Liberty and the Pursuit of Property/Happiness
http://www.maccompanion.com/macc/archives/July2009/Columns/Letter%20from%20the%20CEO.htm

Wake up and stand up, America!
http://www.maccompanion.com/macc/archives/October2009/Columns/LetterfromtheCEO.htm

ClimateGate
http://www.maccompanion.com/macc/archives/December2009/Greenware/ClimateGate.htm

Codex Alimentarius – Control Food and you Control People
http://www.maccompanion.com/macc/archives/January2010/Columns/Codex%20Alimentarius.htm

Haitian Haarpquake or "Natural" Disaster?
http://www.maccompanion.com/macc/archives/February2010/Greenware/Haitian%20Haarpquake.htm

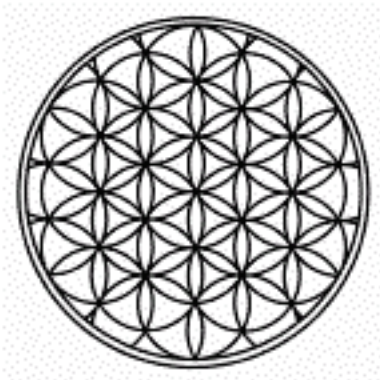
Electromagnetic Interference and Radiation Emissions: Cell phones, Apple Computers and Tinfoil Hats
http://www.maccompanion.com/macc/archives/March2010/Columns/EMIRFI.htm

Big Brother Becomes Big Bully
http://www.americanthinker.com/2010/03/big_brother_becomes_big_bully.html

Shocking! This 'Tequila' Sweetener is Far Worse than High Fructose Corn Syrup: Agave
http://articles.mercola.com/sites/articles/archive/2010/03/30/beware-of-the-agave-nectar-health-food-fraud.aspx

Scoopertino: Unreal Apple News
http://scoopertino.com/

Take your pick. Choose one or choose all. But do it with a sense of humor, because that may be all we have left, after all is said and done. And that's the truth!



Peaceful Leadership is Self Government

By Todd Hathaway
Updated on February 17, 2010

Table of Contents

INTRODUCTION

We currently find ourselves in debt individually and collectively. More people are finding it difficult to perpetuate the status quo in their everyday lives, bringing their very survival into question. This manuscript is intended to serve as a bridge between where we are today and the near future when self-governed leaders shall emerge from the ashes of today's modern civilization. May you elect to become one of these leaders in the years that follow.

PART ONE: THE DECLINE

The Impact of Unsustainable Debt on the Western World

On February 4, 2010, the House of Representatives followed the Senate into the abyss by approving a $1.9 trillion increase in the U.S. debt limit, raising the debt ceiling to $14.294 trillion. Fiscal irresponsibility throughout the E.U. is taking down nations' economies one by one. The U.S. banking industry is being consolidated into less than a dozen large banks. Nothing is in place to reverse this trend. During the next three years, a point will be reached where the Western world will be unable to service its debt, and the derivatives markets that have propped up the global economy over the last ten years will fail.

Intervention on a global scale is required to reverse this trend. Intervention requires likeminded people to come together to change the system. Without systemic change, the West shall remain on its current course. As of January 2010, the Ceridian UCLA Pulse of Commerce Index is showing a decline in the U.S. economy at a time when it is necessary to increase GDP in order to service the nation's burgeoning debt. Unfortunately, self-interest remains the dominant motivator by likeminded people who would otherwise work in unison to resolve these issues.
Those who have chosen a path of honesty and truthfulness, follow your dreams, regardless of the expected outcome. The only other option is to choose not to follow your dreams…resulting in the worst possible outcome.

Following in the Footsteps of the Former Soviet Union

Prior to the economic collapse of the former Soviet Union, Gorbachev was desperately pursuing credit in Western financial markets. Today, the U.S. finds itself in a similar position, with nations no longer willing to provide the outside funding needed to service the U.S. debt. The EU and UK are in a similar situation. For the U.S., the burden has fallen on Americans' retirement and other investment accounts, as well as the Federal Reserve. Both government entitlement programs and non--U.S. debt holdings are now cashflow negative. The end result is a hyperinflationary cycle that will collapse the value of fiat currencies such as the U.S. dollar and the Euro relative to commodities: gold, silver, platinum, food, water, fuel and electricity. There is nothing currently in place to necessitate the changes in global fiscal policies required to reverse these trends.

Russians and Ukrainians have shared information about their lives prior to the fall of the Berlin Wall, revealing the struggles that these former Soviet citizens faced in developing the leadership skills needed to cope with a collapsing economy. The lack of initiative, motivation, and individual responsibility for making decisions and taking action brought activity to a halt whenever a deviation from the usual routines occurred. No one was willing to step up to the plate to solve a problem.

In the United States, we have a different problem. People are willing to take action. However, out of ignorance and fear, actions taken by government officials and leaders within private industry are making the nation's fiscal crisis even worse.

Failing to Resolve the Issues That Have Caused Our Current Crisis

The issues that have caused our current economic crisis originate from maligned policies following the World War I. Our current circumstances are a direct result of actions taken by people who are no longer with us today. However, those in office today are responsible for continuing to perpetuate debt, in lieu of sound fiscal policies.

In the U.S., we have a two party political system. The influence of any other party is suppressed by the two dominant parties. As failed fiscal policies mature in the form of recessions and depressions, the populous oscillates between the two political parties from one election year to the next. This solves nothing, as evidenced by our current circumstances in the U.S., as well as evolving geopolitical and economic trends. Therefore, without an independent third party to genuinely represent the interest of the people, for the people, by the people, current fiscal policies will continue to devalue the U.S. dollar and other fiat currencies that are tied to the dollar.

In early 2010, an inflationary cycle replaced the deflationary cycle. The most recent Congressional action to continue deficit spending and raise the debt ceiling beyond our means of paying it off has guaranteed a hyperinflationary cycle will follow, considering current economic trends. Other nations are no longer willing to service our nation's debt; therefore, the end state is a failed global currency system, and in turn a failed global economy. Currently, nothing is in place to replace our current system of monetary transactions or the fiat currency--based global trade system.

Another huge issue that also remains unresolved is egregiously dysfunctional foreign diplomacy in the Middle East. Therein lies the crux of the problem between East and West. The Western nations are spending up to $3 billion/day supporting various initiatives in the Middle East and adjacent nations, to include protecting our national security interests such as oil. The end result is continued dependence on foreign oil, Israel and Iran stage-setting for a regional war without bounds, and the U.S. in the middle of everything with no way out. What happens to the U.S. economically will happen in varying degrees to all other industrialized nations in the world without intervention on a global scale.

PART TWO: THE TRANSITION

The Middle East as the Key to Resolving Our Nation's Problems

Nearly one million Western military and civilian personnel are assigned to the Middle East region and immediately surrounding nations. Cost to maintain this overseas presence is estimated at ~$1 million annually per person stationed overseas. With a global economic debt burden carried by Western nations predominantly the U.S. it is clear that there must be a reduction in spending and debt, coupled with a substantial increase in GDP to avoid an economic meltdown. The process of global intervention must begin in the Middle East.

The Annapolis Conference was a Middle East peace conference held on November 27, 2007. The conference marked the first time a two-state solution was articulated as the mutually agreed-upon outline for addressing the Israeli-Palestinian conflict. The conference ended with an issuing of a joint statement from all of the attendees representing dozens of nations that have an interest in the region. This peace initiative continues today with a current outline for an Israeli-Palestinian peace agreement including a two-state solution.

King Juan Carlos is taking full advantage of Spain's stint in the rotating presidency of the European Union through June 2010. Spain and Jordan are working to present a draft of the new EU Jordan Action Plan "which will include arrangements regarding the Jordanian negotiation proposal for an advanced statute." This action plan includes a two-state solution. If this peace initiative were to be successful in the long term, the economic burden carried by the West to remain in the Middle East would be substantially reduced. However, with the stage set for a regional war following such a peace agreement, intervention by a power independent of this global governing body is required to prevent a regional war in the Middle East.

Current estimates suggest that such a peace agreement will be implemented within the next two years.

Fear + Ignorance = Materialism

The primary reason humanity finds itself in our current situation is due to the influence of the greatest false religion of all time: materialism. Strictly defined, materialism holds that the only thing that exists is matter and energy that can be converted to matter; that all things are composed of material and all phenomena (including consciousness) are the result of material interactions. This false belief system has led to the desire for material gain and the things that allow for ease of material gain, such as sex, power and making a name for oneself. Ignorance perpetuates materialism, while fear keeps people in check once they have embraced a materialistic belief system. Materialism is a dualistic belief system, divorcing the physical universe from the metaphysical the complete opposite of belief systems emanating out of unity consciousness.

The simplest approach to overcoming the influence of materialism is to desire something else, namely unity through acquiring self-knowledge an awareness of one's inherent being and existence through prayer, meditation and contemplation. Once one is honest and truthful to oneself about the reality of the metaphysical and the illusory nature of the physical world, overcoming materialism is a straightforward process that requires discipline. Unfortunately, too few people have chosen this route. As a result, humanity remains on the path to the destruction of the global economy and its monetary system.

This outcome was entirely avoidable up to a point; however, one will have to decide for oneself when the point of return has been reached, in order to justify preparing for the transition to a postindustrial society. The overwhelming majority of those who occupy a position of influence that could alter humanity's course continue to perpetuate self--interest, in lieu of serving the greater good.

When the Wheels Fall Off the Wagon

What is transpiring today is known as the Second Great Contraction, the first being the Great Depression of the 1930s. The general agreement among economists is that World War II revived the global economy and alleviated long-term unemployment. For more information on an analysis of what brought the U.S. out of the Great Depression, go to http://alturl.com/4tiw. The same expectation will occur this time, as well. Based on current trends, the expected timing for a regional war in the Middle East coincides with a collapsing global economy, so one will begin to hear in increasing frequency over the next two years suggestions through mass media of the possibility of war bringing the global economy out of the Second Great Contraction. Again, this is the track we are on today. Intervention on a global scale is required for us to change course.

If a regional war does occur in the Middle East following the Israeli-Palestinian peace agreement, nations whose national security interests are tied to the region will inevitably become involved, such as Russia, China and the United States. If a regional war were to spread beyond the Middle East, the result would be devastating to the global economy, initiating a catastrophic transition to a postindustrial society via third world status. One approach towards minimizing the negative fallout of this scenario is group prayer and meditation. Prayer and meditation could also delay or even eliminate an outcome involving a regional war in the Middle East; however, too few people have chosen this approach.

When it is time to begin living outside the normal range of everyday experiences afforded to us through the comforts of our modern civilization, one must be prepared for this transition in advance. An excellent book outlining how to prepare for this experience is 'Dare to Prepare' by Holly Drennan Deyo (2009). This and many other books on survival preparation will show you what needs to be done on an individual basis, as well as, how to prepare an entire community for this transition. The government will not be in a position to assist individuals during the transition phase to a postindustrial society.

Self-interest has sealed our civilization's fate. However, the future is not etched in stone from humanity's perspective; therefore, it is our birthright and responsibility to change, becoming the peace we want to manifest in our lives. We will succeed in overcoming the darkness of this world.

PART THREE: A NEW BEGINNING

Vision of a Post Industrial Society: Decentralized, Sustainable Communities

Having learned what not to do, humanity will be given a clean slate. Those who have successfully weathered the storm of transition to a postindustrial society will have learned to become self-governed. Those around them who help establish sustainable communities will also be self-governed. Those who are not selfgoverned will find themselves strangers in a strange world and will inevitably be relocated off-planet in short order.

It is at this stage of our collective experience that humanity will begin to learn how to survive in decentralized, sustainable communities. These sustainable communities will initially exist as the indigenous tribes have existed for thousands of years connected to Spirit and Mother Earth. From that point, communities will collectively evolve through higher states of consciousness, and the level of technology will reflect the degree to which humanity has evolved as a whole.

To learn more about how the indigenous tribes have managed to survive for millennia, it is necessary to research their way of life and to visit indigenous tribes in person, if possible. An ideal example of sustainable living can be found in the Sierra Nevada mountains of Northern Columbia within the Kogi villages.

Taking Responsibility for Your Own Actions

The 12 Steps is an excellent way to begin taking responsibility for one's own actions:

Step 1 We admitted we were powerless over our shortcomings that our lives had become unmanageable

Step 2 Came to believe that a Power greater than ourselves could restore us to sanity

Step 3 Made a decision to turn our will and our lives over to the care of a Higher Power as we understood our Higher Power

Step 4 Made a searching and fearless moral inventory of ourselves

Step 5 Admitted to God, to ourselves and to another human being the exact nature of our wrongs

Step 6 Were entirely ready to have our Higher Power remove all these defects of character

Step 7 Humbly asked our Higher Power to remove our shortcomings

Step 8 Made a list of all persons we had harmed, and became willing to make amends to them all

Step 9 Made direct amends to such people wherever possible, except when to do so would injure them or others

Step 10 Continued to take personal inventory and when we were wrong promptly admitted it

Step 11 Sought through prayer and meditation to improve our conscious contact with our Higher Power, praying only for knowledge of the intent of the All There Is and the power to carry that out the role it is written for us to play within the collective intent of the All There Is

Step 12 Having had a spiritual awakening as the result of these steps, we serve as an example to others by practicing these principles in all our affairs

These 12 Steps define is what it means to be a peaceful leader through self-government.

Thinking Creates Destiny

Four free ebooks worth reviewing are found online at *http://wordfoundation.org/abooks.htm* No registration required. These books outline how thinking creates destiny and the path humanity will follow after decentralized, sustainable communities are established throughout the world. One will recognize that it is through feeling and desire that thinking is manifested, and that one’s thinking creates one destiny, individually and collectively.

The Northern Spy

The Last Column

Technology News and Views Since 1983
April 2010
By Rick Sutcliffe

After over forty years and at least 18 000 lectures
the Spy recently delivered his Last Lecture, to the TWU chapel gathering this past month. While there is plenty of overlap with this column (last advice is, after all, last advice), the dissimilar audiences and intent necessitate a substantially different approach, organization, and applications. What follows is in addition to the Spy's Laws (required prerequisite reading here, folks), and if he finds himself repeating himself repeating himself on the ideas below, he'll add some of this material to that collection.

Rightness
The post moderns are wrong. Truth and rightness do exist. So, by all means consider yourself right with God, upon doctrine, and respecting your choice of church (including that of PC or Mac, C++ or Modula-2, liberal or conservative, Ford or GM), but don't extend any of this to thinking you are right about everything, or you will be insufferable, no one will want to have anything to do with you, and when you're finally gone, everyone will just be plain relieved.

On that note, as far as possible, be right with others. It is better to be wronged than to be forever trying to vindicate yourself, even if you are right. And, be very careful about using terms like "frankness" or "speaking the truth in love" because both are far too often euphemisms or excuses for an abusive and critical tongue sharp enough to cut sheet metal.

And don't forget: as there is no difference between exaggerating and lying, between ripping off your employer's office supplies or her time (to surf), between robbing a bank and pirating books, music and software, It's right to pay for your shareware, music files, and eBooks. You do want the authors to continue writing, don't you?

Yes, and put the purveyors of the illicit out of business by ignoring both the pirate sites and the pornography collections. You don't need it, and neither does anyone else.

Moreover, when you are wrong, repent of it specifically, and change your ways. On the one hand, doing the same thing the same way over and over and expecting a different outcome is a good definition of insanity. This includes continuously rebooting your computer (or your life) upon the occurrence of every fault, in the vain hope that all will work better the next time, but without venturing to make any fundamental enquiries into what went wrong (or what you did wrong) and then, informed with this knowledge, fixing the problem before continuing.

Finally, your rights (but not others') are significantly less important than your responsibilities. Moreover, the two are related in the same way as bad money and good--sufficient of the former inevitably drives out the latter. When you are wrong (reprise) it really is your fault, not someone else's, certainly not that of society. The devil didn't make you do it. Take responsibility.

Positivity
Be a builder not a destroyer, a creator not just a consumer, a praiser not a critic. Last month's column criticized the critics and destroyers. Who needs 'em?

Life
Enjoy life while its time lasts, and make sure it counts for something when you're gone. You don't get another one here. Remember that life is a fatal disease. You haven't lived well until you have died well.

Reality
Know the difference between fantasy and truth, between imagination and reality. The world is not the way you want it to be, no matter how hard you try. Alternate History really is fiction, the Spy's novels notwithstanding. Maybe you did really buy the wrong computer and OS. Maybe that product really isn't ready to ship, despite the boss' bullying. Maybe that deadline cannot be met. Fooling yourself once may be excused.

Fooling yourself routinely is yet another good definition of insanity.

People

The most important things in life are not things. So give rather than take. Invest in people and ensure they know to pay your investment forward, rather than back.

Be a team player--there are few software projects and almost no other worthwhile things that can be profitably constructed alone--and that includes your life and those of others.

Connectedness

To expand on that last thought, the New Agers are right about one thing, even if only one. Everything and everyone is connected to everything and everyone else. We cannot live alone. That is why we have society, clubs, churches, towns, countries. What you say, do, or decide always has consequences, even if you repent of, regret, and retract it later. That web page you put up affects the rest of the net as search engines and other sites link to it. That Facebook or Twitter post will be a window into your mind for your friends, enemies, parents, teachers, and prospective employers for the rest of your life. It will change both you and them. All such information remains in the collective archive or Metalibrary, continuing its influence forever (in Internet time at least). Have you thought about the consequences of your own connectivity?

While we're on the subject, privacy is becoming a fossil. You cannot keep secrets in the information age. If you're cheating, stealing, lying, it will all become public eventually. Expect it.

Faithfulness

Be a faithful servant. Keep your word even when it costs you, even if you later would rather decide you were tricked into giving it. Be the kind of person who is always there--at Church, at work, at your appointments, the one person other people CAN take for granite, a pillar, not a missing person.

Multiply your talents. Be prepared. We will all give account for our stewardship to someone someday.

Occasionally violate the rule of predictability to do something unpredictably kind and loving. Perform a Random Act of Kindness, help the poor sufferer understand MS W*rd's arcanities, remove your neighbour's W*nd*ws viruses gratis, or treat that homeless bum to a sandwich. She may be an angel in disguise sent to test you.

Addictions

Everyone has a *potential* for addiction, whether it be to alcohol, tobacco, another mind altering drug, sex, work, fame, power, money, toys (including your Mac), social networking, games, work, pride, self-righteousness, food, beauty (your own or others), or even learning. Give in, and you will be a slave forever, of no practical value to anyone.

Oh, and if you turn your very self into a (literal or metaphorical) crack house or a slum tenement, you may end up getting evicted, and (to misuse an old Irish expression) your meathouse torn down. Same goes for your environment.

Not only that, don't decry street crime and drug related violence if you're a user. Your addiction is the cause. Look to yourself first. To pick on one of those again, the Spy mentions beauty more than once herein. Remember this: the best looking software, camera, computer, or drill press isn't always what gets the job done. Likewise, there is more real substance of beauty in a kind heart, a generous soul, and a smiling face, than in all the sham and illusion found in all the clothing stores, makeup kits, jewelry collections and beauty parlors in all the world.

To pick on two others, and not for the first time in this space, while drugs and alcohol are a tax on intelligence, gambling is a tax on stupidity. Pickle your brain with one, flush money, home, relationships and livelihood down the toilet with the other. Your call.

The Spy was once a swim club sponsor for his high school students. It just ain't possible to destroy your lungs with smoke and still swim, run, or ski like a champ. Neither can you write quality software, or indeed do much else worthwhile if you're looped on or preoccupied by some addiction. Big projects with lasting impact require time, concentrated attention, diligence, and consistent hard work. They won't happen if your mental wiring is short-circuited or French-fried. 'Course, if your addiction is work in the first place....

Technology, Money and Stuff

Everything costs more and takes longer than you expect, especially hardware and software projects.

She who dies with the most toys may well win, but what does she win? After all, money not only isn't everything, it isn't anything-just an abstraction for keeping score, like chalk, or ink, both of which fade out or are soon wiped away.

In the very long run, money is meaningless. It's just a convenience token for a fractional portion of your day's work, and of use solely as a medium of exchange between that and goods. And it does not matter whether the abstraction is expressed tangibly (gold or lead), instantiated symbolically (old fashioned paper money) or exists purely abstractly (electronic funds). Reality and the meaning of life are found under other headings, not this one.

And, while on the subject of toys and pseudo assets--before you plan, buy, deploy, and train for technology, ask some questions about its effects on people, their jobs, their lives. If the deployment decision makers don't deal with the ethics of technology, who will?

And if someone offers you a business deal that sounds too good to be true, a higher-than-normal interest rate, a domain transfer to a company you don't know, access to your own or somebody else's bank account or web site, or an unexpected inheritance--run, do not walk, as far away as you can go. It's a scam. The only one to make money will be the scammer--and the money taken will have been yours. 'Course, if you followed the previous advice, you didn't want it anyway, did you?

Learning

Be a student all your life. If you're not growing in wisdom, knowledge, understanding, and application, you're dying. By the way, university is NOT about deconstructing your world view and constructing another on its ruins, it's about engaging ideas.

Practical corollary: lean as much about mathematics, science, and computing technology as you can, for these three are keys to understanding the world around you, and how it was made. They will also dictate many of the everyday circumstances of life for the next generation. Moreover, if we may turn from the general and philosophical to the specific and hard-nosed practical, they'll get you something better than a McJob.

Exercise your brain (and not with salacious pictures). Read and study the classics (including the Bible), philosophy, history, economics, science, and novels. However, if you want your mind not merely filled, but challenged to think creatively, read science fiction and even some fantasy. After all, today's Science Fiction is tomorrow's everyday technology. Hey, give the Spy's Alternate History SF a try.

And, while we're at it, don't neglect music and art--also windows to the soul. Hey, get a double degree in the arts and the sciences. Be a New Renaissance man or woman, why not?

Be open minded, but not so much so that just any ideas can lodge there. Intelligently and meaningfully assess ideas (and web sites). Just because they're published doesn't make them true. Even if they're true they're not necessarily practical or applicable.

Oh, and the purpose of discourse and debate is NOT to win, to beat your opponent down. It is to engage competitive ideas and sharpen (and perhaps change) your mind. Let's hear it for rational discourse to make a comeback, particularly in the academic, political, scientific, and religious realms.

Teaching

It is sometimes said by the abysmally and unrepentantly fence-post-for-a-brain ignorant that "those who can, do, the rest teach. Rather, say, "you have not done anything really well until you have taught another person to do it better." More pithily: "If you cain't teach it, you hain't done it yet." The goal, on any job site, whether the task is ditch digging, sermon preaching, theorem proving, polymer synthesis, barn cleaning, or computer programming, is to replace yourself, and then some.

In business, the bottom line can be totaled up at the end of the month or quarter, and you count how successful you have been. In teaching, success is realized over decades, and is measured by the former students who return to tell you what positive influence you have had on their lives.

Problems

By definition, problems have solutions. Otherwise, they are called something else. However, not every problem is worth your trying to solve. You may lack the resources to finish a software project, to deal with a difficult person, to build that network, to complete a business venture. Count the cost ahead of time before starting, count it again as you decide whether to continue or to fold either your hand or an IT project. Don't throw good money after bad. You cannot finish everything.

Intentionality

Plan ahead. Thimk. Have an engineering mindset. Your intelligence is the only (related word warning) discernible difference between random data and meaningful information. Indeed all meaning derives from intelligence. You're not on a random walk through life. Do things on purpose. Have a reason (double entrende intended). Otherwise you are indistinguishable from a vending machine. There is no difference between a life without plan or purpose or meaning and no life at all, no difference between an unintended or undocumented feature and a bug. If you didn't know where you were going when you started, you'll never know either when you've finished your journey or where you've arrived.

Know your discipline's epistemology. Until you understand what it means when you say you know something is true about your discipline, you cannot credibly claim to know anything about it at all.

Understand that the universe already has substance, form, meaning, and beauty. Look for and marvel at the concinnity of meaning and beauty that is already there; do not arrogantly suppose you can create your own consilience.

Tools
Cheap tools ruin your work and waste your time. Both are too expensive. Get the right ones. As we mathematicians say, don't use a sledgehammer to crack a peanut. Use screws to attach sheet goods, not nails. Rototill your garden at least twice before planting. Remember that a computer is not an appliance like a toaster, but a tool like a compound sliding mitre saw or a Swiss Army officer's knife. Get a Mac.

As a reprise of the last point, intend to create the software or documents you write, then do so with the best tools--Excel 2004, NisusWriter Pro, Scrivener, BBEdit. IOW, intentionally use and write the right programs. Develop the software the customer needs. Life is short, and so are contracts. Do the job right at least by the third time.

Practice
The Spy's Second Law, a variation of Murphy's states: The practice of theory never matches the theory of practice--or, what's a beta tester for? So learn from your disappointments, and when life serves you lemons, savour the lemonade.

The silver bullet
Every few years a "new" old teaching fad limps back into vogue, often with a new alias--just like fashions, paint colours, political ideas, or heresies. Resist. Educational theories, like the corresponding business fads, are all too often power tripping tools in the hands of supervisors promoted per the Peter Principle.

Likewise, every few months brings a new piece of technology to solve all your problems using the DWYM (do what you mean) mantra. You don't need to be the first on the block to adopt the latest and greatest iGadget or iSoftware. Nearly every home, school, or business has an "old tech" cupboard or room somewhere filled with "stuff" that was scarcely used before it became obsolete. Why add to it faster than you can remove what's already there to the town recycler next time you take your shrub prunings?

Sooner or later the buffer will overflow.

Likewise the software development field is littered with the wreckage of IT projects that failed despite (or even because of) being pursued with the latest and greatest fads in development methodology. Folks, there is no silver bullet.

On the other hand, there is a brass one. It has scratches and isn't very shiny, but it does seem to don its jeans, roll up its sleeves, work its heart out, and usually get the job done. It involves getting along with and managing people, consulting users, developing in teams, writing specs, designing and coding to those specs, (planning ahead with intentionality), being accountable, testing, checking, and documenting everything. It's called "software engineering", and it's little more than a compendium of some of the advice in the space above. One invests heavily in the front end schema and the foundations, then the superstructure goes on smoothly and cleanly. It ain't rocket science; it's computing science, and that's harder to get right, but in general terms we do know how. Get with the program.

Specialization & Generalization

"A human being should be able to change a diaper, plan an invasion, butcher a hog, conn a ship, design a building, write a sonnet, balance accounts, build a wall, set a bone, comfort the dying, take orders, give orders, cooperate, act alone, solve equations, analyze a new problem, pitch manure, program a computer, cook a tasty meal, fight efficiently, die gallantly. Specialization is for insects."

-- From the Notebooks of Lazarus Long, by Robert A. Heinlein

The Spy seconds that motion, even if he isn't otherwise a big Heinlein fan. The New Renaissance man or woman does not need to know all the answers about a single ultra specialized field so much as be able to practice its techniques by employing well-understood means to find those answers on demand in the Metalibrary.

The last word

may or may not be. While all the above is good sound advice to our reader, that alone is the entire premise of a "last lecture" or by extension, a "last column"--that is, what one would say if one knew there'd never be another chance to address that audience on the topics of mutual interest. And if our reader really was hoping there'd never be another word from this ink-stained wretch, he refers one and all to the date. The catch this year--the Spy was perfectly serious beyond the title and opening line. 'Course, that couldn't last. So, there may be another column after all.

An after word

The most famous "Last Lecture" was that given by Randy Pausch 2007 10 22 at Carnegie-Mellon University. Like the Spy, Randy was also a computing science professional and therefore high on the nerdity scale. Unlike him, the Spy has not yet been informed that he is imminently about to die, though such comes to all, and mayhap sooner to the writer than the reader. All set for same?

--The Northern Spy

Rick Sutcliffe, (a.k.a. The Northern Spy) is professor and chair of Computing Science and Mathematics as well as Senate Chair at Trinity Western University. He is also on the board of CIRA, operator of .ca. He's written two textbooks and several novels, one named best ePublished SF novel for 2003. His columns have appeared in numerous magazines and newspapers (paper and online), and he's a regular speaker at churches, schools, academic meetings, and conferences. He and his wife Joyce have lived in the Aldergrove/Bradner area of BC since 1972.

Want to discuss this and other Northern Spy columns? Surf on over to ArjayBB.com. Participate and you could win free web hosting from the WebNameHost.net subsidiary of Arjay Web Services. Rick Sutcliffe's fiction can be purchased in various eBook formats from Fictionwise, and in dead tree form from Amazon's Booksurge.

URLs
The Northern Spy Home Page: http://www.TheNorthernSpy.com
The Spy's Laws collected: http://www.thenorthernspy.com/spyslaws.htm
The Spy's Shareware download site: http://downloads.thenorthernspy.com/
WebNameHost: http://www.WebNameHost.net
WebNameSource: http://www.WebNameSource.net
nameman: http://nameman.net
opundo: http://opundo.com
Sheaves Christian Resources: http://sheaves.org
Arjay Books: http://www.ArjayBooks.com
Booksurge: http://www.booksurge.com
Fictionwise: http://www.fictionwise.com
Rick Sutcliffe's Last Lecture:
http://www.sheaves.org/rsdevotions/lastlecture.html
Rick Pausch's Last Lecture: http://www.youtube.com/watch?v=ji5_MqicxSo

TechNightOwl

Mac Myths Just Won't Go Away

By Gene Steinberg

http://www.technightowl.com/2010/03/mac-myths-just-wont-go-away/

You'd think that, with Apple's incredible sales growth and product explosion in recent years, most of the lingering doubts about the success of the company would be history. Yet a few of the old myths still persist and, despite all the great press Apple receives in the mainstream media, there are still some misconceptions. Some might even come as a surprise to you.

When recording an interview with John Martellaro, of The Mac Observer, for this week's episode of the tech radio show, he mentioned that lots of people don't realize, surprisingly enough, that Mac OS X is a Unix-based operating system. Their conception of Macs is rooted in the 1990s, when things got pretty bad, and they haven't caught up with the changes.

But that takes us to all the other myths that arose then, which are still resurrected by people you'd think ought to know better.

This is not to say that some of those myths had no core justification to them. I mean, there are still loads of people who used a Mac at one time, got disgusted with the operating system, the lack of a specific application or some other negative situation, and vowed to go to Windows then and there. They may have seen all those Apple ads about how great Macs are these days, but they are just ads, after all. You can't take those things seriously.

I remember, for example, when a local dentist, a long-time Mac user, ditched the platform in the mid-1990s when the vertical market software he needed for his practice failed to work properly on his network of PowerPC-based Macs. I know I tried to help him, but almost every day a new problem arose. Finally, the company that developed the product told him that they were abandoning Macs and he had to switch to Windows.

Since he had years of accumulated financial and patient records that he needed to access, he sold his Macs, migrated to Windows and never looked back. Now if I recall correctly, the publisher of that product has, in fact, since returned to the Mac platform. No, my friends, I haven't explored the situation in recent years and whether that dentist could or should become a Mac switcher and keep all his data and settings intact.

That's the microcosm folks. There are loads of former Mac users that still harbor grudges against Apple for the loss of the software they needed for their business, bad service, or a host of other reasons that have nothing to do with the Mac of the 21st century. Maybe they know Mac OS X is Unix-based, maybe not. But that's just a geek term that means nothing to them. They have become accustomed to the peculiarities of Windows and don't want to have to deal with the devil they don't know.

There is also the assumption, no doubt buttressed by Apple's consumer orientation, that the Mac is just not a serious work computer. It's great for managing your music library — although iTunes for Windows is near-identical — and certainly iLife helps with your photo album, personal site and other casual pursuits. But how can anyone believe that this "toy" is actually a serious work computer that you can use to run your business?

The other day, I talked to a friend, a freelance writer, who has been using Windows for years. He writes in Word, uses Internet Explorer and Firefox for Web surfing, and whatever miserable email app Microsoft provides for his messages. Most of the time, things work all right, but he can't get Skype to run without quitting after a session or two. Yes, he uses the latest version, but there's clearly something amiss with his two-year-old Windows box, but he's not inclined to want to change setups that otherwise function for the sake of one broken app. That's understandable.

I've mentioned Macs to him, and perhaps he used them at one time and wasn't impressed. I remind him that there's a Firefox and Word for the Mac, and who cares about Internet Explorer? Besides, Skype for the Mac is fairly reliable, most of the time already. But he still bears a bit of that prejudice about Macs not being serious work computers and I don't expect him to change. Well, not unless his Windows PC develops a real serious problem that stops his daily workflow in its tracks, and I don't wish anything negative upon him.

This, however, raises the critical issue for Apple in encouraging Windows users to move — or return — to the Mac. It's all about first impressions. I complain frequently when Apple releases a new OS and there are serious bugs that need to be fixed after a few weeks.

Releasing new hardware with defects is also a matter of serious concern. While my Late 2009 iMac has worked flawlessly, most of you know about the problems with screen flickering and that yellow discoloration that afflicted an unknown number of users. Yes, Apple has evidently fixed most of the problems, and even replaced computers one or more times to satisfy customers.

How many of those iMac owners were Windows users getting their first exposure to a Mac? And, of those, how many encountered a serious hardware or software defect and decided to return to Windows? That lost customer may not give Apple another chance, and, in addition to continuing to dispell myths about the Mac, I hope Apple will work harder to make sure new products are as reliable as possible. Certainly they'll get another chance with the iPad. Let's see how that works out for them.

Editor: Go to the *Tech Night Owl* website to see comments on this article, or add your own.

Rants, Raves and Revelations – April 2010

The diNovo Edge Wireless Keyboard for Macintosh

The Good – The Bad – The Beautiful!

By Harry {doc} Babad © 2010

Corporations alas giveth and alas taketh away… so it is with my beloved Logitech diNovo Edge Bluetooth wireless keyboard.

Background

With my finally getting my iMac updated to Snow Leopard [OS X 10.6.2] my hard work in collecting and installing updates that would work with the new OS came to fruition. It was, according to Mike, my Apple certified ex-son in law, a painless upgrade. Well almost.

> A few things were with broken, or did not work as well as the vender implied. For just a sampling:

- Locking out the caps lock key on the diNovo Edge (mac) keyboard using the Snow Leopard compatible Logitech control center version 3.2.0 did not work. More on about diNovo misadventures below.

- My Unsanity haxies were all dead, but they'll be updated shortly to be snow leopard capable. I mostly miss Fruit Menu (in beta), Menu Master, and most of all, Font Card.
- http://unsanity.com/products/compatibility/. I have used the free XMenu 1.9 software from DEVONtechnologies [http://www.devon-technologies.com] as a workaround, but miss the extra bells and whistles of the Unsanity products.

- Neither my Fujitsu ScanSnap S510M scanner or its associated Abby FineReader 3.0 or the older ReadIris OCR 11.5.1 software for Fujitsu is not fully functional. I can use Acrobat Pro 9, PDF Pen Pro 4.5.1 or my stand along ReadIris Pro 11.6.3 to convert scanned copy to OCR editable text; it's just an added extra step. See: http://www.macworld.com/reviews/product/405270/review/scansnap_s510m.html?expand=true

- Also, my IRIS Card Reader is plain dead… a small brick.

- Of course I needed an update to the update for the drivers for my Dymo LabelWriter 330 turbo. I'm now using version 8.2 See: https://global.dymo.com:443/enCA/RNW/RNW.html?pg=std_adp.php&p_faqid=101

Back to the diNovo Edge;
The Good – Getting to Logitech technical support by phone was easy fast and included minimal robot voiced interactions. <1 646-454-3209> I described the problem to the support technician, he walked me through a few ‘fixes’ using both the Snow Leopard keyboard preference (=> modifier key action controls> and the newly installed Logitech {3.2.0} control center [LCC]. No luck, as I commented that I’m such a bad typist, and write so much copy, that I was ready to scream at my keyboard ‘caps lock’ *The bad* was that he off the top of his head, suggested I pop the Key. Meanwhile he would pass the problem up to the Logitech software developers. Great!

> *The Bad* – *Don’t pop keys off of your keyboards.* Neither Mike nor I could reset the key. Less than 24 hour after my initial call, I got feedback from Logitech that they needed to fix the control center software… I was their software-based problem. …The beautiful, the email the next day provided me with a work-around that would keep me calm, until a new update to the control software was released. The bad news was that it appeared that I needed to use the now popped key.

> *The Beautiful: details* — I called Logitech support again, explained the comedy of errors, and was asked to wait till a supervisor was consulted. The GOOD news, they would swap my keyboard for a new diNovo Edge one. Just return the old one at their cost, using the UPS return sticker they provided. *The BAD news:* The Macintosh version of the keyboard was *discontinued* but still supported. They would send me a PC version; configure to work with my iMac… call if I needed help getting it to work.

Final Thoughts
I promptly went on line, and got a great price {Amazon.com) on a new replacement keyboard, why take chances and my fingers know the way around the diNovo Edge. I’ll let you know if there’s any glitches, but don’t expect any… but for now – Kudos to Logitech.

Having like most of us, started with an Apple keyboard, switching a bit later, as my needs and Macintosh model evolved to Microsoft equipment. Then, after a Macworld or MacUser review, *yes those were they days my friends*, I switched to Logitech equipment and have never looked back.

Read the Description of the Logitech control system 3.2.0 keyboards caps lock procedure below. I needed at least one hint, didn’t I?

Doc

Resetting the Caps Lock Key on My diNovo Edge (Mac) Keyboard
From Jerry – Logitech Customer {technical) support — March 23rd 2010.

My name is Jerry and I'm the Tier 2 Tech that has been researching your case.
I have been able to reproduce this issue in our lab and it seems to be related to Logitech Control Center (LCC). We have however; found a way to get the Caps Lock disabled.

1) Make sure you have no other keyboards other than the diNovo Edge connected for now.
2) Uninstall Logitech Control Center (LCC) using the LCC uninstaller.app located in Applications>Utilities> folder.
3) When the uninstaller finishes, restart your computer.
4) When it does start back up go to, System Preferences > Keyboard > Keyboard tab > Modifier Keys
5) Make sure the drop down menu says 'diNovo Edge Keyboard' then set Caps Lock Key to "No Action" and press OK
6) Test the keyboard to make sure the Caps Lock key is now disabled. It should be.
7) At this point I restarted the computer again.
8) After it boots back up, test the Caps Lock in TextEdit or a Stickie, it should still be disabled. If so, it's now safe to reinstall LCC.
9) Here is the link: *ftp://ftp.logitech.com/pub/techsupport/mouse/mac/lcc320.zip*
10) After it installs it will prompt you to restart one more time. This is the last time you will need to do it.

Let me know how it goes for you.

Jerry

Responsible Macintosh

Safe, Secure and Polite Macin' — Things You Should Practice

The Triple Play — The Dock – Sidebar — Menu Bar Apple's tools to shortcut your daily work

by Harry {doc} Babad © 2010

Acknowledgements: Unless otherwise noted I have provided the additional sources for the material in these articles. I also found in my many notes I've stashed for future articles, that certain themes keep coming up, that parallel what I've read or practiced. In most cases I have acknowledged as well as modified the original document(s) to personalize them for our readers.

As needed the information provided was created, and as appropriate demonstrated on my iMac 2.8 GHz Intel Core 2 Duo with 2 GB installed 667 MHz DDR2 SDRAM now AT LAST running Snow Leopard Mac OS X version 10.6.2 & all current security updates.

- -

Introduction:
A few months ago I attended a very interesting Mid-Columbia Macintosh club (Tri-Cities, WA) and listened to Scott Armstrong our president discuss Snow Leopard and his favorite Macintosh 101 things. At that time I once again realized the degree of redundancy and flexibility to operating system uses to allow you to 'compute' in your own personalized way.

<u>In Apple advertising lingo</u>:

- "The Power to Be Your Best"
- The Computer for the rest of us"

As Scott discussed the dock and sidebar I again became aware of how many tools, Apple's and those created by others, there were, are and will become to organize and quickly access items in your startup hard drive, network and mounted volumes. Tools, I've set up, work with daily, but otherwise pay no attention to.

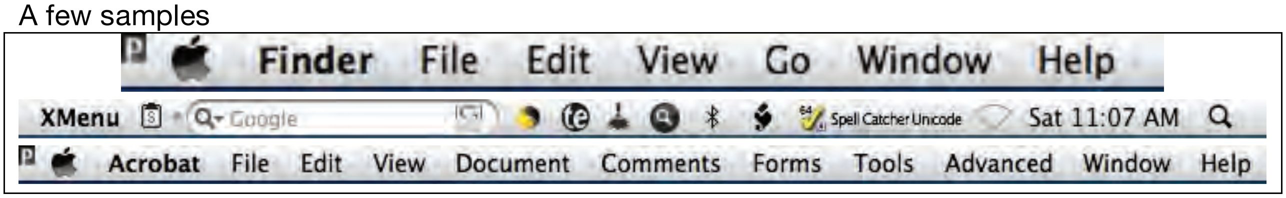
I'm not going to tell you how to organize your files and folders in a manner that suits your working style but yet allows you to understand/remember in 6 moths, where stuff is stashed. I did that several times over the years:

- *Thank Goodness — Your Mac is Not a File Cabinet,* One person's guide to hard disk organization [MacNut 2003]
- *Organizing Your Mac*, The Responsible Macintosh Column, macCompanion, Nov 2008.
- *There's one more 5-7 years ago, but I named it weird and haven't time to play Spotlight games to find it.*

Triple Play – Full House, Whatever!
Actually your choices create at least a full house with a little help from shareware and freeware. I use DEVONtechnologies free XMenu (Snow Leopard compatible) and have used Unsanity's shareware Fruit Menu, being updated to snow leopard. More on these and other possible file/folder accessibility program alternatives, below. Now the details…

<u>*My Menu Bar (Apple OS X)*</u> — Without the use of an add-on application, this is the least flexible of Apple's OS related tools. But I do use enhancement tools, since mousing to the menubar is a good way for me to go.

A few samples



<u>*My Dock (Apple OS X)*</u>
As you know the left hand side of the dock is reserved for applications I use it for my frequently used items as well as temporary storage for applications I'm testing. The dock's right side focused on storing frequently used folders or documents. I've illustrated this by four example, read the Apple help files to learn more about configuring your dock.

<u>Doc's *Dock*, A Snapshot – An Ever Changing Mix</u>

Professional Files	Databases and Files
Household Files	Computer Related - General
Nuclear Energy Book I Revision	Three Rivers Folklife Society
MacUpdate site link	Active Links
Main Professional Societies	Seldom Used Installed Applications
Amazon.com Link	Burn to CD/DVD Images
macCompanion	Current Active Consulting Projects
Energy Books and Projects	Library {Apples}
Orders and More-Taxes 2010	Applications {Apples}
Asian Recipes plus Pasta & Seafood	Documents {Apples}
NON-Asian Recipes w/o Pasta & Seafood	Harry's Documents
Home Related—to Finish or File	Harry - Home
	Trash

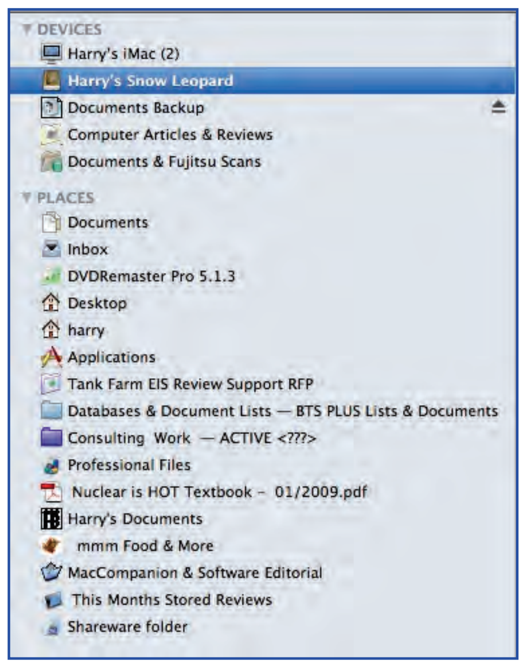
Note — Temporary Items are marked in blue. The contents of my permanent folders change but the categories usually don't. I also store some of these permanent and temporary folders on my sidebar, but I do prefer using the Dock or augmented menu based tools most of the time.

I here share just the barest how-to summary:

- To add a file or folder, drag its icon from a Finder window to the right hand side of the Dock
- To add an application, drag its icon from a Finder window to the left side of the Dock
- To arrange or rearrange items in the Dock, drag them into the order you prefer. (This can be tricky since icons vary in grab-ability, so don't give up)
- To remove an item, drag it off the dock — Poof, it's gone. No, not the item on your hard disk or mounted volume, it's only an alias.

My Side Bar (Apple OS X)

Finder windows have a sidebar on the left side of the window that displays icons for items you use frequently, including disks, servers, and folders. To open a Finder window, click the Finder icon in the Dock. If the sidebar is not visible, open the View menu and choose Show Sidebar. If Show Sidebar is dimmed, choose Show Toolbar. [From Apple's help.]



To add, remove, and rearrange items in the sidebar:

- To add a file, folder, or application to the sidebar, drag its icon to the Places section.
- To remove an item, drag its icon out of the sidebar. Although the icon disappears, the original is still in its place on your computer. You can't remove items from the Shared section.
- To rearrange items, drag to where you want them in the sidebar. Note, you can't rearrange items in the Shared section.

My Other Goodies to Supplement Apple's Tools.

X-Menu XMenu 1.9 —XMenu adds one or more global menus to the right side of the menu bar. They give you access to your preferred applications, folders, documents, files, and snippets.

Launch any application or insert text snippets or URLs into your email messages or Pages documents with a single menu choice. Freeware from Devon Technologies)

FruitMenu 3.7.3 — FruitMenu is a haxie that gives you the ability to customize the Apple Menu and contextual menus. Using a visual editor you can edit the contents of the menus to suit your needs and taste. FruitMenu will also display the contents of the FruitMenu Items folder inside of your Library folder, launch applications and shell scripts from the Apple Menu and contextual menus, to allow easy file navigation and launching. To make the haxie completely flexible and customizable, you can assign hotkeys to particular menu items. (Shareware $12 from Unsanity LLC) in Leopard, soon, very soon I hope, for Snow Leopard

Shortcut Navigation Tools of Note – Get the current version on the MacUpdate site.

Other Possibilities
…More than we would ever need, at least most of us. These tools are either supplements to and/or enhancements to Apple's dock, or add to the flexibility of the Apple Menu bar. They go by various category names, so rad the application titles below and
Learn the jargon. Although I've tested a few of these items, I've not been convinced I need my than my 'full house' of tools.

Dock-It 2.7.4 — Dock-It is a multifunctional launcher and Finder enhancer for the Mac OS X operating system. It utility allows for multiple docks & more. (Shareware $10.00 – Gideon Softworks)

Dock Spaces 3.10 — Have 5 different docks and swap them from the menubar. Freeware Patrick Chamelo)

AppMenuBoy 1.0.4 — When Mac OS X 10.5 (Leopard) changed the way that folders are represented in the Dock, I lost a handy start menu made by dragging the Applications folder to the end of the dock. AppMenuBoy is a small Cocoa application that creates a hierarchical menu of your apps in the dock and menubar Freeware David Phillip Oster

DragThing 5.9.5 — Tidy up your desktop with this versatile launcher. DragThing, the original dock augmentation software, is designed to tidy up your Macintosh desktop. It puts all your documents, folders, and applications just a single click away. Highly flexible, it allows multiple docks, each customized to suit your exact needs. It stores frequently used clippings such as text and pictures, and lets you easily paste them into other applications with just a click. Shareware $29 by James Thompson)

Application Switcher Menu 2.3 — ASM (Application Switcher Menu) is a small utility that adds a system-wide menu to the right side of the menubar. This menu lists all of your open applications, so you can easily switch between them. And you can set ASM to automagically hide other apps when you switch to another app! This is one utility you must have! Brings back the application switcher menu (and more) to Mac OS X. It's highly customizable and offers some nice extra features, such as Classic Window Mode (orders all windows of an application to front when it becomes active) or Single Application Mode (automatically hides applications other than the front-most one). Frank Vercruesse $9.50)

Overflow 2.5.7 — Overflow is an application designed to quickly launch applications, open documents, or access folders while reducing the number of items needed in your Dock. Anything you want can be added to the Overflow interface, making it accessible through a few simple mouse clicks or keystrokes. The interface is resizable, and fully customizable. Create separate categories for your applications, work files, games, or anything else you want to be able to access quickly. After using Overflow, we think you'll find it just as indispensable as we do. Stunt Software Shareware 14.95

LaunchBar 5.0.2 –– is an award winning productivity utility that offers an amazingly intuitive and efficient way to search and access any kind of information stored on your computer or on the web. It provides instant access to your applications, documents, contacts and bookmarks, to your music library, to search engines and more, just by entering short abbreviations of the searched item's name. Shareware, Objective Development $35.00

QuickAccessCM 1.7.1 — QuickAccessCM is a contextual menu plug-in for easy access to frequently used folders, documents and applications. It can be used as a launcher, file commander or installer. QuickAccessCM plugin provides a number of access augmenting feature has independent modules to your contextual menus.

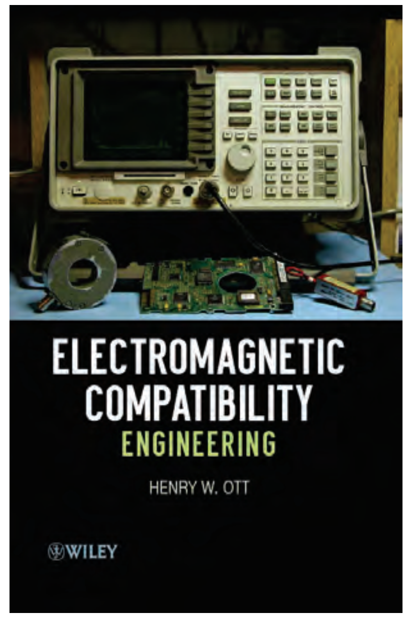
Final Thoughts
If this is NOT enough to get you moving then go use Google — Check: Organizing Your Mac.

In addition, Apple OS X Spaces (is a tool which I ignore.) – its purpose is to organize your main *windows* into 'project' groups to decrease desktop and window clutter and increase access to project specific tools and documents. Perhaps if I were using a small screen based computer and traveling with it, I'd use it but my iMac's 24" screen is plenty large enough for my work.

Books

Electromagnetic Compatibility Engineering

Reviewed by Robert L. Pritchett



Author: Henry W. Ott
http://www.hottconsultants.com
Wiley
http://www.wiley.com/WileyCDA/WileyTitle/productCd-0470189304.html
Pages: 872
Released: August 24, 2009
$120.00 USD
ISBN-13: 978-0470189306

Strengths: This is "the" book on EMC.

Weaknesses: Publishing and editing errors.

Interview: http://www.pcb007.com/radio/andy.php?ide=221

Introduction

> "Electromagnetic Compatibility Engineering started out being a third edition to my best selling book Noise Reduction Techniques in Electronic Systems, 2nd edition., but it turned out to be much more than that, hence, the title change. Nine of the original twelve chapters were completely rewritten. In addition, there are six new chapters, plus two new appendices, with over 600 pages of new and revised material (including 342 new figures). Most of the new material relates to the practical application of the theory of electromagnetic compatibility (EMC) engineering, and it is based on experience gained from my EMC consulting work, and the teaching of EMC training seminars over the last 20 plus years.

This book is intended primarily for the practicing engineer who is involved in the design of electronic equipment or systems and is faced with EMC and regulatory compliance issues. It addresses the practical aspects of electromagnetic compatibility engineering, covering both emission and immunity. The concepts presented in this book are applicable to analog and digital circuits operating from below audio frequencies up to those operating in the GHz range. Emphasis is on cost-effective EMC designs. Electromagnetic Compatibility Engineering is the most comprehensive book on the subject and reflects all the latest advances and developments in the field.

The book contains 251 problems for the student to work out, the answers to which are included in the appendix. The book contains eighteen chapters and six appendices, almost 900 pages."

"EMC authority Henry Ott's new book is out, and it's a beauty. It's nearly twice the size of his previous book. There's lots of new material, including coverage of the Pin 1 problem (with credit to Neil Muncy) and SCIN. There's also an excellent analysis of switch mode power supplies and variable frequency drive motor controllers, with specific recommendations for minimizing the massive noise they produce.

Many of the earlier chapters have significant updates, and there are lots of other new topics, analog and digital designs and printed circuit board layout issues, as well as updated information on EMC regulations. A section on mains power focuses on North American practice.

There's also the very useful development of an equation for partial inductance -- that is, the inductance of a conductor "in free space" that does not form a loop, which is then reconciled with equations for loops by applying the partial treatment to each element of the loop. This is quite helpful in understanding fundamental practical applications like the inductance of a
length of wire in a grounding path. The only other place I've seen an equation to cover this problem is in Terman's 1943 book. Ott's and Terman's equations are a bit different, but provide results that are within 5% of each other for practical problems. A friend recently reminded me that Clayton Paul's excellent book also covers this concept.

No surprise -- Henry's analysis is always spot on and his writing style easy to follow. He never "hides behind the math, but there's enough to allow quantification of each principle being discussed. This book ought to be on the bookshelf of every EE, no matter the discipline."

Jim Brown
Chair - Technical Committee on EMC, Audio Engineering Society (AES)
Vice-Chair, AES Standards Committee Working Group on EMC

What I Learned

This is the kind of book one gets into where the thought comes; "Why didn't anyone teach me this when I was studying electronics?"

This book is the one I was waiting for to complete my research with *"Electromagnetic Interference and Radiation Emissions: Cell phones, Apple Computers and Tinfoil Hats"* http://www.maccompanion.com/macc/archives/March2010/Columns/EMIRFI.htm last month.

Tom Bearden once said that the Energy in the Vacuum is what we try to remove when we attempt to eliminate "noise" from electronics. This book demonstrates to the best of our ability, ways and means to that end to reduce interference, unnecessary shock and harm to our bodies as we live in an evermore electrosmogish environment.

The best "take away" I found from this book was the Appendix B, on how to maximize emissions from electronic products. Supposedly tongue-in-cheek, it shows what happens when electrical engineers bring in EMC as an afterthought, instead of up-front in producing electronic products.

I also appreciated the human body model section showing our own capacitance and resistance levels and triboelectric charging and discharge from different parts of the body.

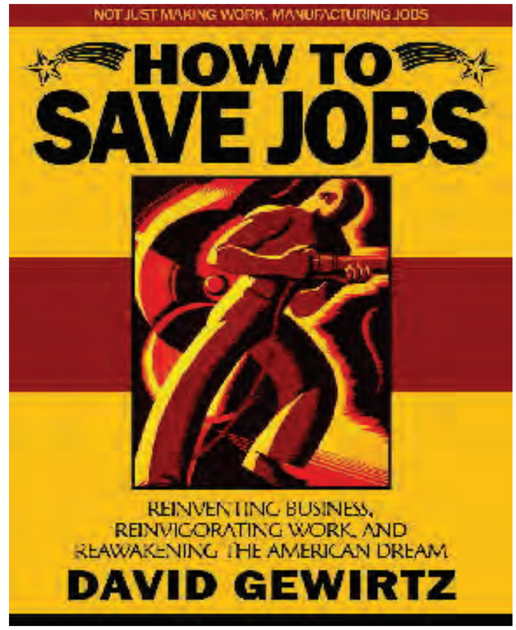
Conclusion

Anyone who even remotely wants to gain a full understanding of electronics needs to read this book on what I would term "Survival Electronics". It follows the KISS principle.

I kept marveling at how much I didn't know about electronics prior to digging into this book. Without a doubt, this one is a real "shocker".

How To Save Jobs: Reinventing Business, Reinvigorating Work, and Reawakening the American Dream

Reviewed by Robert L. Pritchett



Author: David Gewirtz
Publisher: ZATZ Publishing
http://www.HowToSaveJobs.org
Released:
Pages: 476
$25.00 (Hardcopy) or free download.
ISBN: 978-0-945266-01-3

Strengths: A positive book on ways and means on how to "create" jobs and keep careers.

Weaknesses: Occasional publishing gotchas (misspellings, etc.) to see if we are paying attention. And legacy issues revolving around certain hot buttons that sneak in – but that makes the book interesting!

Introduction

> "Everyone's busy, so here's a quick cheat-sheet:
>
> • If you take anything at all away from this book, let it be this: the world has changed radically since our parents' time. We can't approach jobs in America the way we did in past decades.
> • If you want to really understand how much everything has changed, you'll want to read Part I, "The state of jobs in America"
> • For an in-depth understanding of our health care challenges and some possible solutions, read Chapter 8, "The health care hostage crisis" and Chapter 13, "How to save health care."
> • If you're a policy-maker or are interested in innovative ideas for reinventing business, reinvigorating work, and reawakening the American dream, read Part II, "Policy ideas that could save jobs."
> • If you're an individual trying to make ends meet or a business owner or manager who doesn't have time to wait for Washington to get its act together, read Part III, "Tips & techniques you can use right now."

Of course, if you really want to understand how to save jobs, read the whole book. It's quite a story.

I believe it's important for students and researchers to have complete access to my research database on projects as far-reaching as this book.

Throughout How To Save Jobs, I cite many different research resources. Nearly all of those citations are listed on the HowToSaveJobs.com Web site.

More than 350 resources are listed (with links), ranging all the way from a 1956 Presidential report to a YouTube video of pizza workers performing socially unacceptable acts on camera.

Through a grant of rights from ZATZ Publishing to the U.S. Strategic Perspective Institute, we are giving away free digital copies of *How To Save Jobs* to anyone who wants a copy.

The grant of rights allows you to go ahead and give away digital copies as well. So if you have a digital copy of How To Save Jobs and you want to give it to one friend or 100 friends, go ahead and do so. You can download a PDF copy of the entire book by visiting HowToSaveJobs.org and clicking the Download button.

You are also welcome to post copies of the PDF on your Web site, if you'd like, and distribute it that way. All we ask is you don't change the content of the book and don't sell it, but you're welcome to distribute the digital copy of the book as far and as wide as you wish.

Of course, if you prefer, printed copies of this book are available for purchase from Amazon and better bookstores everywhere." David Gewirtz

What I Learned

Because I had reviewed an earlier book by David Gewirtz on "*Where Have All the [Whitehouse] Emails Gone?*" http://www.maccompanion.com/macc/archives/January2008/Books/EmailsGone.htm and had not given it high praise, I was interested in how David would treat this topic. I would have to say he did a stellar job in researching and organizing the information found within the pages of this book.

I tend to not agree with a lot of what he wrote regarding certain topics (early earth, climate, population control and other hot buttons), but the fact is, an incredible amount of what he wrote makes sense and allowed me to see both sides of the coin.

The joy comes from his presentation on what small business owners can do now, today, to resolve a lot of the issues we face today regarding business, health insurance and continuing employment.

The downside is that reality tends to get in the way regarding what "government" is doing to insure small businesses fail. But even in chaotic economies, businesses can prosper and provide good employment for people who want to work.

For those who are into Apple products, David even discusses manufacturing and buying products made in the USA and how much of the iPhone dollar is actually produced in "this" country. He advocates bringing back manufacturing instead of "outsourcing" offshore.

I also though tit was a great idea to discuss outsourcing that keeps jobs here, such as Amazon's Mechanical Turk process wherein Human Intelligence Tasks (HITS) that puts real humans inside computer code subroutines for object identification called "Turking".

I liked how he established the growth-share matrix for product viability categorized into dogs, question marks, rising stars and cash cows. He provides secrets that are common sense, once you read them.

Part One discusses a snapshot of the current global situation and competition for work.

Part Two digs into political policies and procedures and how they could be changed from a negative to a positive if approached with new eyes.

Part Three is the part that makes the book worthwhile – and it is not a small part of the book either. It is a compilation of tried and true methods that can be done immediately to keep and create jobs without government intervention.

And there is a Part Four (Appendices), where David has published previous articles he believes is still good to publish again regarding health care reform, China, Infrastructure and Detroit.

Conclusion

I think David is doing a great service allowing this book to be given away free to anyone who wants it, but I bet he'd love to get paid for his excellent effort by folks who would actually put coin down for hard-copy. I think he deserves it. After you read the free version, you too may want to take up the banner and spread the word about the response to the current economic situation we find ourselves in.

Success begets success and this book is a positive catalyst for good.

We can make a difference by rolling up our sleeves and getting to work – again.

The Minsky Meltdown: Point of no Return?

By Todd Hathaway, Copyright 2009-2010, Potomac Sustainable Communities Initiative
http://psci.us/
http://www.linkedin.com/pub/todd-hathaway/19/735/b46

Projected Median Net Worth of U.S. Households for the Period 2010-2012

Motivation for Choosing Topic: Independent research suggests that geopolitical and economic instability will result in a 'Minsky Moment' and/or 'Sudden Stop' event by the end of the year, adversely affecting the net worth of virtually all households in the U.S.

Data Availability: Data available through open sources (books, Internet, journals, etc.) will be reviewed during the semester. Professor(s) in the Economics Department at the University of Maryland were consulted as needed.

Executive Summary: Median net worth of U.S. households from the date of a 'Minsky Moment' and/or 'Sudden Stop' event will be estimated based upon relevant historical activity/data. For the purposes of this project, the Minsky Moment and/or Sudden Stop event will be slated to occur on November 27, 2009. Median net worth will be estimated for the three years following the Minsky Moment and/or Sudden Stop event. Net worth is defined as an individual's net economic position, using the value of all assets minus the value of all liabilities. Dynamic models of collapse and business cycles will be applied in order to estimate projected median net worth.

The U.S. Census Bureau announced on September 10, 2009, that real median household income in the United States fell 3.6 percent between 2007 and 2008, from $52,163 to $50,303. This breaks a string of three years of annual income increases and coincides with the recession that started in December 2007.
Census Bureau: Real Median Household Income Fell 3.6%. Downloaded from *http://www.calculatedriskblog.com/2009/09/census-bureau-real-median-household.html* on September 23, 2009.

Household income is a measure of current private income commonly used by the United States government and private institutions. To measure the income of a household, the pre-tax money receipts of all residents over the age of 18 over a single year are combined. Downloaded from *http://en.wikipedia.org/wiki/Household_income_in_the_United_States* on September 23, 2009.

Year	Median income	Dollar change
2000	**$52,500**	-87
2001	**$51,356**	-1,144
2002	**$50,756**	-600
2003	**$50,711**	-45
2004	**$50,535**	-176
2005	**$51,093**	558
2006	**$51,473**	380
2007	**$52,163**	690
2008	**$50,303**	-1,860

Table 1 – U.S. Household Income
Source: Census Bureau

In 2008, income tumbled to its lowest dollar level since 1997 — a decade's worth of gains wiped out in one year — and things will get worse before they get better, says Sheldon Danziger of the Population Studies Center at the University of Michigan. "2009 is going to be dreadful," he says. Danziger predicts income will drop at least 5% this year because of rising unemployment in the recession's second year.

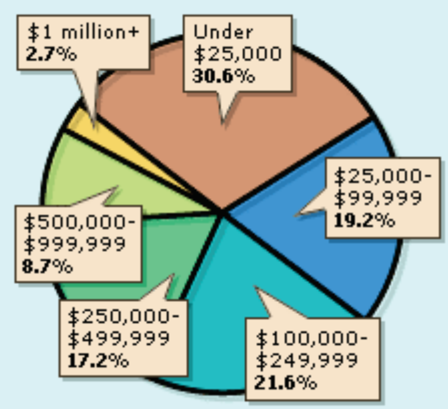
Downloaded from *http://www.usatoday.com/money/economy/2009-09-10-census-healthcare_N.htm* on September 23, 2009.
Cost of living is the cost of maintaining a certain standard of living. Changes in the cost of living over time are often operationalized in a cost of living index. Cost of living calculations are also used to compare the cost of maintaining a certain standard of living in different geographic areas.
Downloaded from *http://en.wikipedia.org/wiki/Cost_of_living* on September 23, 2009.
Across all groups, the 2007 median net worth was $120,300.
Downloaded from *http://www.bargaineering.com/articles/average-net-worth-of-an-american-family.html* on September 23, 2009.

1 ASSETS	
Stocks and stock funds:	$
Bonds and bond funds:	$
Cash (Savings accounts, CDs, money-market funds):	$
Retirement accounts (401(k), IRAs, SEPs):	$
Variable annuities	$
Value of primary residence:	$
Vacation property / second home:	$
Art, collectibles, jewelry, furnishings:	$
Other:	$
Total assets:	$

2 DEBTS	
Mortgage(s):	$
Home-equity loan:	$
Student loan:	$
Credit cards:	$
Other:	$
Total debts:	$
WHAT'S MY NET WORTH?	
CALCULATE	$

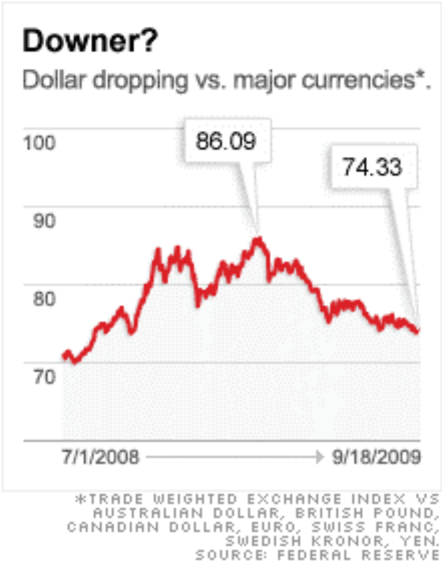
HOW DO YOU COMPARE?

Breakdown of households by net worth:



Median household net worth: $100,894

Source: Claritas, December 2003 data

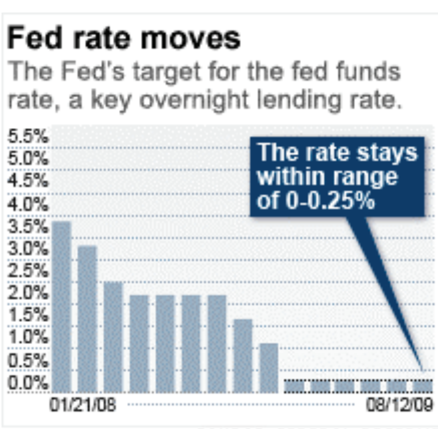


The Fed's decision to hold short-term interest rates near zero has temporarily revived financial markets without addressing the economy's underlying problems. The danger is that with bank lending remaining anemic and consumer balance sheets still bloated, the low U.S. rates could end up supporting overseas growth without fortifying domestic health.

"You end up financing everybody else's expansion but your own," said Howard Simons, a strategist at Bianco Research in Chicago.

Critics focus on the fact that low U.S. interest rates enable investors around the globe to borrow dollars for next to nothing and invest them elsewhere at higher rates

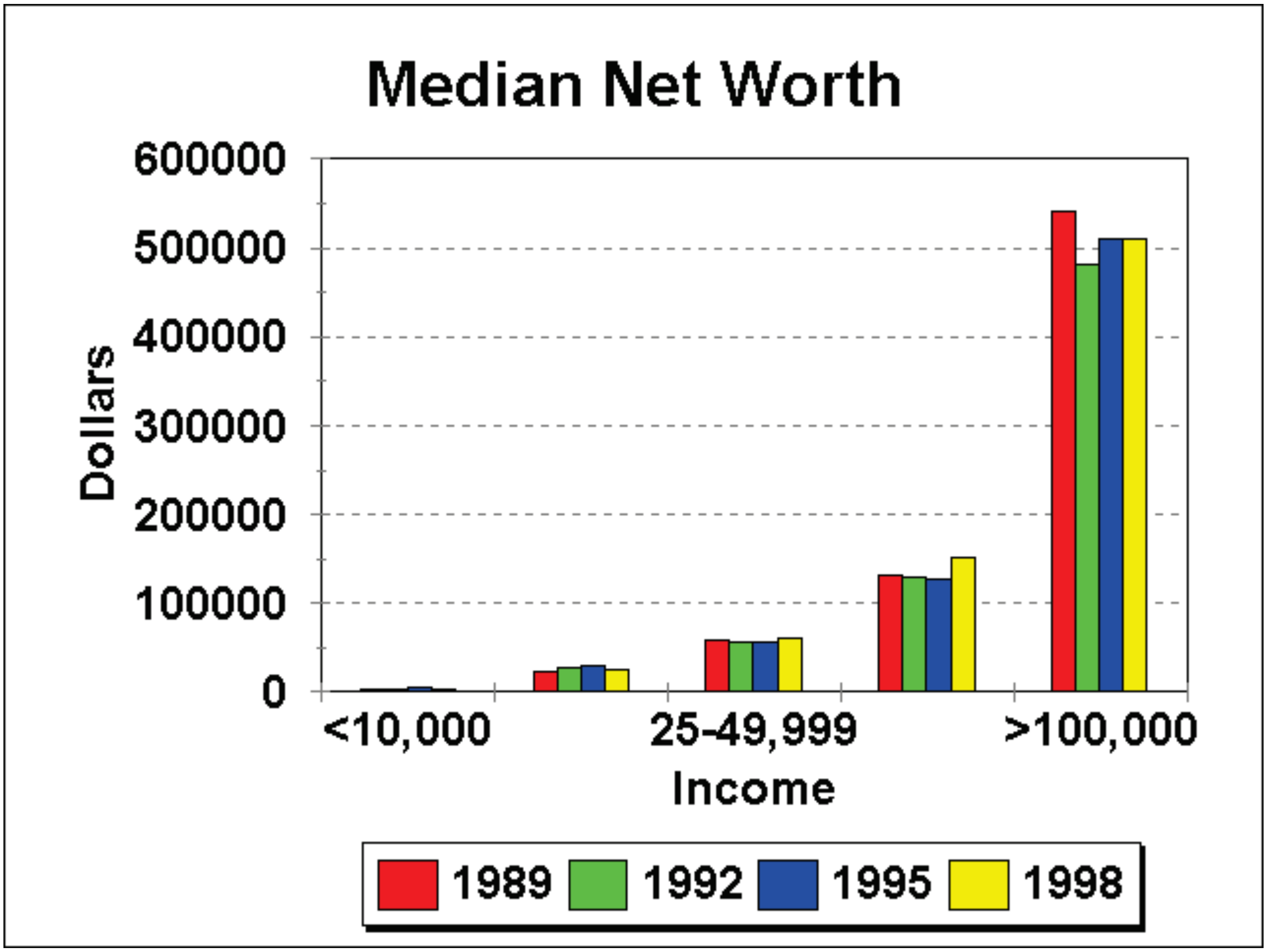
This bet -- known as the dollar carry trade -- appears to be one of the forces pushing down value of the dollar. Though there are few reliable figures on the size of the carry trade, the dollar's trend has clearly been down since stock and bond markets revived.



Downloaded from *http://money.cnn.com/2009/09/22/news/economy/fed.financing.fortune/index.htm* on September 23, 2009.

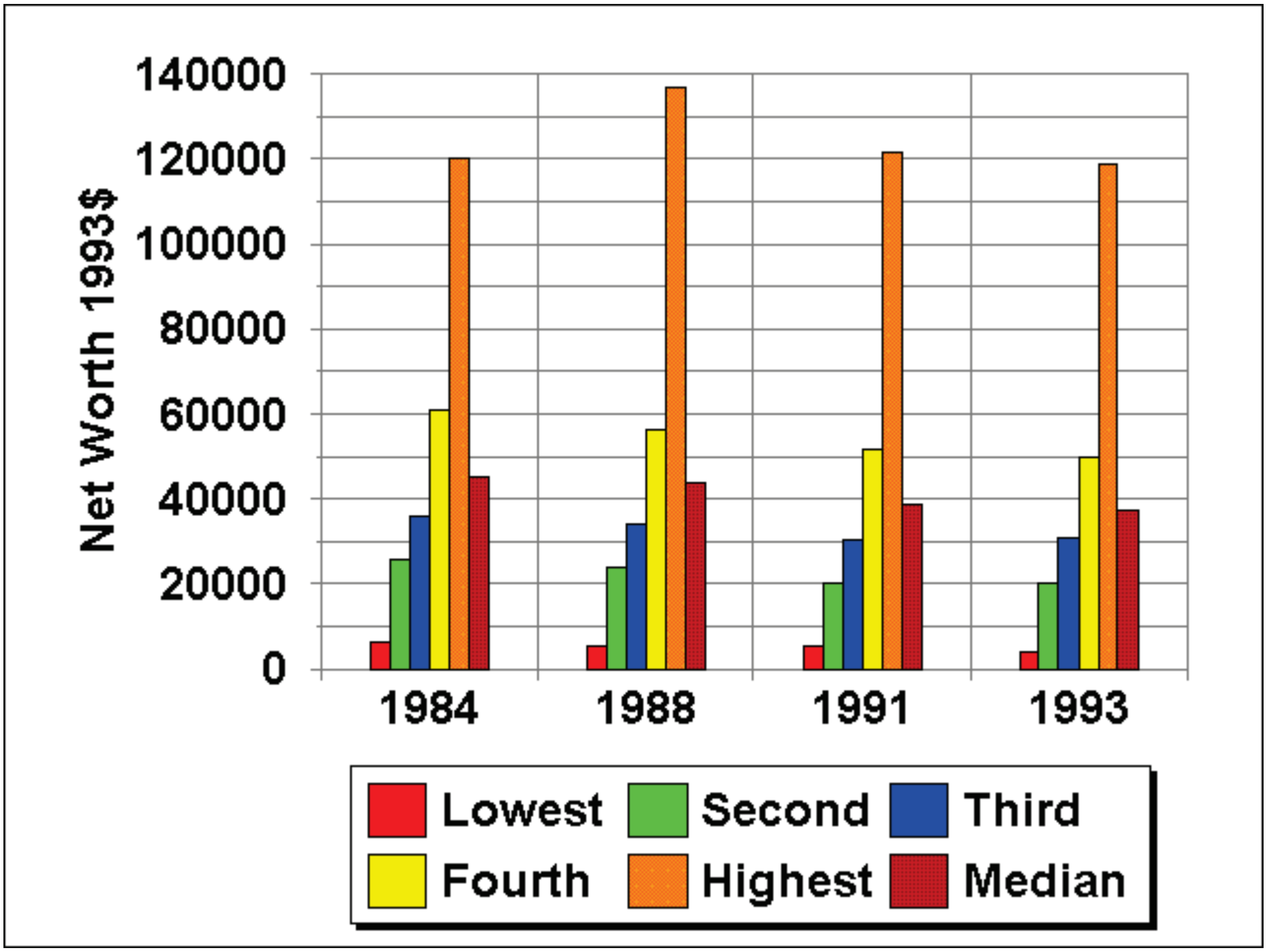
U.S. Wealth Distributions 1989-2001

Federal Reserve median family net worth by percentile for 1992, 1995, 1998, 2001 (Federal Reserve Bulletin January 2003, pp. 1-36). Note the small gains for the bottom 75% of the population and larger gains for the upper 25% and that the 1998 to 2001 gains were largest.



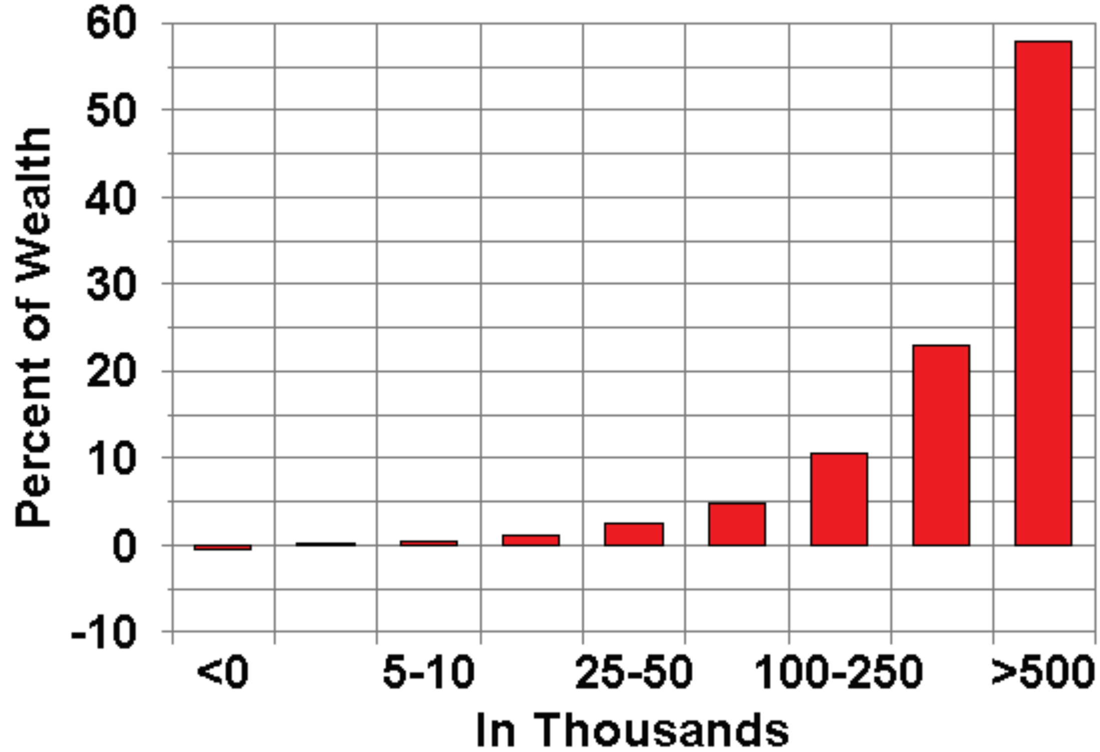
Federal Reserve median family net worth data by income level for 1989, 1992, 1995, and 1998 (Federal Reserve Bulletin, 86, January 2000, pp. 1-29). All five income categories except incomes over $100,000 have higher net worth in 1998 than they had in 1989.

U.S. Wealth Distribution 1984, 1988, 1991, 1993



The graph shows the median net worth of U.S. households by quintile for 1984, 1988, 1991, 1993. Note that in general net worth in all quintiles has not changed substantially, since 1984 to 1988. Median net worth in each quintile shows a slight declining trend. The decline is due to the fact that most of the net worth of households in the U.S. is in homes and other real estate. Property values declined during this period.

Source: Census Bureau, Survey of Income and Program Particpation 1997:Table F.



The graph shows U.S. household net worth by various wealth levels for 1993. The 3.6% of households with wealth levels over $500,000 have almost 60% of the nation's household wealth. The "zero or negative" category has 10% of the white households and 25% of the black, while the $100,000 and above categories include 31% of the white households and 8% of the black households.

Source: Census Bureau, Survey of Income and Program Particpation 1997:Table 4.

Downloaded from *http://oregonstate.edu/instruct/anth484/wpsipp.html* on September 23, 2009.

Average American Net Worth Drops 23% - As Home, Stock And Business Values All Tanked, Recession Ate Away At Americans' Worth From Dec. '07 To Oct. '08

The recession has cut many Americans' net worth by about 20 percent as the value of homes, stock portfolios and businesses have plummeted, the Federal Reserve said Thursday.

The Fed said the average net worth of American households plunged 22.7 percent since the recession began in December 2007 through October, when the report was prepared. The median net worth, or the midpoint between the wealthiest and poorest, fell 17.8 percent.

The impact has disproportionately fallen on the wealthiest households and those between the ages of 55 and 64, a Federal Reserve economist said. Net worth tends to peak in that age bracket, as retired Americans begin to spend down their savings.

If the value of second homes and businesses are excluded, the Fed said in its report, average household net worth fell 12 percent, which reflects that such assets are "relatively concentrated among wealthier families."

The decline in home prices and stock portfolios in 2008 wiped out gains in net worth from the previous three years, the Fed said. Median household net worth increased 17.7 percent between 2004 and 2007, but fell 3.2 percent from 2004 through last October, according to the Federal Reserve's Survey of Consumer Finances.

The central bank conducts the survey of more than 4,400 households every three years. The survey was completed at the end of 2007, and Fed economists used stock market and home price indices to calculate changes through October.

The report also includes some data that illustrate the inflating credit and housing bubbles that popped with such disastrous results. Earlier this decade, Americans took out much more debt to finance the purchase of second homes and make other real estate investments, the report showed.

That type of borrowing increased to 10.1 percent of all debt in 2007, the survey found, up from 6.2 percent in 2001. Mortgage debt on primary residences, meanwhile, remained relatively constant as a share of all debt over that time.

And while the total debt burden of U.S. families didn't change much from 2004-2007, the percentage of debtors that owed an amount equal to 40 percent or more of their income increased to 14.7 percent in 2007 from 12.2 percent three years earlier, according to the Fed's survey.

The increase was particularly noticeable among higher-income earners. For those in the second-wealthiest group - between the top 60 percent and 80 percent of incomes - the percentage of borrowers that owed 40 percent or more of their income jumped to 12.7 percent in 2007 from 7.1 percent in 2004.

Downloaded from *http://www.cbsnews.com/stories/2009/02/12/national/main4798225.shtml* on September 23, 2009.

Age: 20-29
Median Net Worth: $7,900
Top 25%: $36,000
Top 10%: $119,300

Age: 30-39
Median Net Worth: $44,200
Top 25%: $128,100
Top 10%: $317,800

Age: 40-49
Median Net Worth: $117,800
Top 25%: $338,100
Top 10%: $719,800

Age: 50-59
Median Net Worth: $182,300
Top 25%: $563,800
Top 10%: $1,187,600

Age: 60-69
Median Net Worth: $209,200
Top 25%: $647,200
Top 10%: $1,429,500

Source: Federal Reserve Board's 2004 Survey of Consumer Finances

Over seven years of wealth gains gone

The inflation-adjusted net worth of the typical family increased 17.7% to $120,300 from 2004 through 2007. Since the end of 2007, as of October, median net worth had fallen to $98,900, down 3.2% from the end of 2007 and 2% below the 2001 amount after the dot.com bubble burst. Since last October, stock prices have fallen another 15%, while home prices have fallen at least 2%.

The typical family owed $67,300 in debts in 2007, up from $60,700 in 2004. The big increase came from debt on second homes. Median household income growth was relatively flat from 2004 to 2007 after adjusting for inflation. Median household income stood at $47,300 per year at the end of 2007.

However, mean income (or the simple average) rose 8.5% during that time to $84,300, suggesting big income gains at the high end of the income distribution. Indeed, the average income for those in the top tenth of the income scale increased nearly 20% to $398,000, while those in the bottom fifth saw their income rise by an average of 3% ($400) to $12,300. For those in the middle, average incomes decreased $400 to $47,300 after adjusting for inflation.

In 2007, 14.7% of households were paying more than 40% of their income on debt service (including rent) up from 12.2% in 2004. Among the poorest households, more than a quarter were paying more than 40%. The biggest increases in debt-service levels, however, occurred among those making more than median income, especially those at the very top.

Downloaded from *http://www.progress.org/2009/networth.htm* on September 23, 2009.

DECLINING WEALTH: The average net worth of American families has dropped drastically and threatens to decline more

Even worse, there's been no letup in the erosion of net worth since October, noted Don Hurst of Hurst Capital Management in Albuquerque. Stock prices and home prices, the main sources of wealth for most families, have continued to slide.

The Dow Jones Industrial Average, for example, dropped 2,257 points to 7,063 between Nov. 1 and Feb. 27. Home prices nationwide dropped another 7 percent from October through January, according to the National Association of Realtors.

But take heart: The plunge in average net worth is really just an illusion, said Clayton Bryan of Prudent Wealth Management in Albuquerque. "It's only real if you cash out after the fall," he added.

Median net worth

In case the high average net worth of families shocks you, it's heavily weighted by extremely wealthy families. If you measure the drop by median net worth -- half of all families are worth more, half are worth less -- the dollar value is at a more realistic level for most New Mexicans, who have the sixth lowest median income in the country ($34,585 a year for a single wage earner).

Yet the bottom line is you still got poorer in a big way.

The median net worth of American families dropped 17.8 percent during the first 10 months of the year, from $120,300 at the end of 2007 to $98,887 by October, according to the Federal Reserve estimate. The median net worth of $98,887 in October is a little less than it was at the end of 2001.

Median net worth is brought down by the millions of American families who have little or no savings or financial investments, like stocks and bonds, and don't own a house.

The Federal Reserve inserted the estimate of dropping net worth in its survey report titled, "Changes in U.S. Family Finances from 2004 to 2007." The estimate was added in acknowledgement of the current recession's profound impact on family finances. Years of broad financial gains were essentially wiped out in 10 months.

"You know, this seems a great time to celebrate all of the nonfinancial wealth we have in our lives," suggested Vicki Van Horn, executive director of the New Mexico Project for Financial Literacy. "I'm grateful for friends, cats, sunshine, opera, health and work."

Illusion of wealth

The 2005-07 period was an excellent time for families to build wealth, especially following the 2001 economic recession and subsequent 29-month so-called "jobless recovery."

The average net worth of American families grew 13 percent from 2005-07, compared with 6 percent from 2002-04. Median net worth grew 17.7 percent from 2005-07, compared with 1 percent from 2002-04.

Just like the big drop in net worth during the first 10 months of 2008, the big jump during 2005-07 can viewed as an illusion -- especially in light of the fact that the acceleration in net worth was tied to the housing bubble.

For two-thirds of American families, equity in their home is by far the biggest source of net worth. The average value of a primary residence rose 11.5 percent in 2005-07, translating to the addition of $31,300 to a homeowner's net worth, according to the Federal Reserve. The median value rose 13.8 percent in 2005-07, translating to $24,300 in net worth.

Yet home values are a difficult tool to use in financial planning, Hurst said. Home values are not as stable as many owners think, as illustrated by the recent rise and fall in value. Since homes are not actively traded like stocks and other securities, an owner really doesn't know what his or her house is worth without some sort of appraisal, he said.

"If you had to sell your house right now, you'd probably take a hit," Hurst said.

Liabilities

Nine out of 10 families held a financial asset in 2007, with basic checking accounts being by far the most common. The second most common financial asset is a retirement account, such as a 401(k) plan, held by 52.6 percent of all families.

The value of financial assets held by American families rose in 2005-07, primarily because of the increasing participation in and value of retirement accounts. The average value of financial assets held by American families increased 13.1 percent to $668,500, while the median value increased 16.6 percent to $221,500.

It's worth noting that 2005-07 were go-go years for stocks. For example, the Dow rose pretty steadily from 10,550 points in early 2005 to its high for the decade of 14,165 on Oct. 9, 2007. The Nasdaq Composite Index went from 2,175 in early 2005 to its most recent high of 2,810 on Nov. 2, 2007.

Yet financial assets, as a share of total assets, were on the decline in the Fed report. Financial assets made up 33.9 percent of a family's total assets in 2007, compared with a 42.2 percent in 2001. Occurring at the ebb of the tech stock bubble, the 42.2 percent share in 2001 "marked the high point observed in the survey since at least 1989," the Fed says in its latest survey report.

Remember that assets are only half of the net worth equation. Liabilities typically include the balance owed on a home mortgage, car and college installment loans, credit card debt and other bills.

Burst bubble

Most people felt good watching their homes appreciate in value and their 401(k) plans fatten during 2005-07, unaware that the end was near.

The Federal Reserve itself was setting up the plunge with its policy of keeping key interest rates artificially low, said Daniel Yu of MarketSpace Financial in Albuquerque. The low rates had the effect of making money cheap. In turn, cheap money encouraged a quantity-over-quality approach to lending, he said.

"Here's where lenders got themselves into trouble," Yu said. "They lowered their standards."

Subprime home loans started going bad, triggering the mortgage meltdown in the fall of 2007. The meltdown hit banks and other financial institutions hard, then spread through the economy and into the pocketbooks of consumers.

"Everybody stopped lending," he said. "This recession is different, because it's from a complete freeze-up of credit."

How long it will take to recover the loss in family net worth is anybody's guess, but don't be surprised if it's 8-9 years. In the meantime, Yu's basic advice is to stay calm.

"With every (economic) downturn, there's that psychology of fear among market participants," he said. "Market bottoms get formed when panicky people leave."

Downloaded from http://www.allbusiness.com/society-social/families-children-family/11853222-1.html on September 23, 2009.

Tracking the Household Balance Sheet

One concept that has gotten a lot of attention the last few months is the household balance sheet: the relationship between household assets and liabilities, and what that means for household behavior (consumption versus saving). Though not the precipitating factor in the current crisis, the weakening of household balance sheets (fewer assets, same liabilities, less net worth, more anxiety) has likely had a significant effect in depressing consumption, which has been the single largest factor in our recent decline in GDP. The Federal Reserve recently released a snapshot of the household balance sheet in its triennial *Survey of Consumer Finances*, so we can see what the situation looks like in some detail. The survey was actually taking in 2007, but with a few adjustments we can see what the current balance sheet looks like.

On the headline level, median income fell from $47,500 to $47,300 (all figures are in constant 2007 dollars), while median net worth (assets minus liabilities) grew from $102,200 to $120,300. No surprise there: we already knew wages stagnated, while real estate and stocks appreciated. However, since the survey was conducted in 2007, median net worth fell by 17.8% according to the Fed estimate, to $99,300, and that's just to October 2008. Given that the cumulative returns of the stock market have been about -15% since October 31, and that housing prices have fallen as well (and the Fed used a housing index that has fallen less than the Case-Shiller index*), that net worth is probably between $90,000 and $95,000 – significantly less than in 2004, and back around 1998 levels ($91,300).

I wanted to come up with a composite picture of the median family, to see how they are doing. This is actually impossible to do precisely, because of the way the survey data are presented in the report: for each category of assets (or liabilities), they say what percentage of families (in each income quintile) have that asset, and then the median value owned *among families that have that asset*.** So I came up with the following compromise: for each asset or liability, I include it if more than 50% of the families in the middle income quintile have it; in that case, I record the median amount held by families who hold that asset. This isn't the median family, but we might call it a "typical" family. (If you didn't follow this, don't worry about it.)

The picture I get, with some basic assumptions,*** looks like this:

	2004	**2007**	**2009**
Income	47,500	47,300	47,300
Assets			
Bank accounts	3,300	2,700	2,700
Retirement savings	19,000	23,900	17,900
Vehicles	14,400	14,600	14,600
Primary residence	148,300	150,000	125,400
Total assets	185,000	191,200	160,600
Liabilities			
Mortgage on primary residence	84,800	88,700	88,700
Installment loans	11,800	12,800	12,800

Credit cards	2,400	2,400	2,400
Total liabilities	99,000	103,900	103,900
Net worth	86,000	87,300	56,700

The picture you get is surprising. From 2004 to 2007, the typical family only took on $4,900 more debt – mainly in mortgages, but some for installment loans (primarily for cars and education) – but its assets grew by slightly more, a little bit because of home values but more because of increased retirement savings, presumably due to the rise in the stock market. (For those wondering at that small increase in home values: the median value of all homes increased from $175,000 to $200,000, but the median homeowner is not in the 50th percentile in income; he or she is somewhere in the 60-80th percentile range, so he has a more expensive house than the typical family.) In this picture, the typical family looks reasonably prudent, although taking on 4% more debt with no increase in income is not necessarily recommended.

When the crisis hit, though, the typical family took large hits in retirement savings and in home equity that cost over one-third of its net worth. So even though the typical household still has the jobs it had before the crisis (unemployment is still "only" 7.6%), it is much more worried about saving for whatever it has to save for – college tuition, retirement, etc. – and hence much less willing to spring for the proverbial flat-screen TV.

(Bear in mind that this picture tells us nothing about the foreclosure crisis, since the typical mortgage holder is not delinquent at this point. The foreclosure crisis and its impact on mortgage-backed securities is about the ability of problems at the margins to have severe impacts on certain kinds of securities and the institutions that hold them.)

At the end of the day, I think we knew all this already. But seeing it in numbers does help illustrate the crisis from the household perspective.

Notes:

* The Fed used the state-level purchase-only Loan-Performance Home Price Index, from which they derive a decline in value of 9.2% from the survey date (sometime in 2007) until 10/31/08. By contrast, the Case-Shiller Composite 20 fell by 14.5% from December 2007 to October 2008, and 16.4% from December 2007 to November 2008. Since inflation was positive during this period, the real fall in the Case-Shiller index was even greater.

** For example, of families in the middle income quintile (40th to 60th percentile), 71.6% own their primary residence, and of those the median house value in 2007 was $148,300 – but that's just the median value for the 71.6%, not for all 100%.

*** For 2009, retirement savings reduced by 25% (stock market is down ~45%), housing by 16.4% (from Case-Shiller), other values the same as in 2007.

Update: *Tom Cunningham* did some similar calculations using the data from the Survey of Consumer Finances, and he finds that households in the 50-75th percentiles by net worth (not income, which I used) have seen a 29% fall in their net worth, which is similar to what I got. He also finds that on a percentage basis, the richest households have suffered the least (primarily, I believe, because they are more diversified and have less leverage, which is what really hurts you when asset prices fall).

2008: Asset Prices Down, Wealth Inequality Up
(January 2009)

A recent paper by Parker and Vissing-Jorgensen (2009) argues that consumption and income inequality are both procyclical (at least in the US, since the early 1980s), and on the basis of this evidence they predict that the recession beginning in 2008 will lower inequality in both distributions. (See also an article in the Wall Street Journal by Robert Frank (2008) which makes the argument that both income and wealth inequality are falling.)

Their interpretation is that "high-income households currently bear an inordinately large share of aggregate fluctuations." This note argues that in fact wealth inequality has probably risen in the course of 2008 because of the leverage of the middle classes. However, that conclusion is then reversed if we include an estimate of human capital.

Data on Wealth Distribution

The Federal Reserve collects a "Survey of Consumer Finances" every 3 years. The most recent data available is for 2004. Below I show net worth broken down into four categories. The distinction between financial and nonfinancial assets is the survey's own, but I have divided financial assets into safe (transaction accounts, CDs, savings bonds, bonds, cash value life insurance) and risky (stocks, other managed assets, other), and I have treated the remaining categories as 50% safe and 50% risky (pooled investment funds, retirement accounts).

percentile of net worth	(1) safe financial assets	(2) risky financial assets	(3) nonfinancial assets	(4) debt	(5) net worth	(6) change	(7) % change	(8) income/net worth
less than 25	2	1	17	21	-1	-4	249%	-1705%
25-49.9	11	6	86	56	47	-20	-42%	90%
50-74.9	38	25	214	93	185	-53	-29%	33%
75-89.9	124	96	409	103	526	-120	-23%	17%
90-100	610	736	1981	214	3113	-691	-22%	8%

Table 1: assets by wealth quantiles, from the Federal Reserve Survey of Consumer Finances 2004, thousands of US dollars.

The results are divided into five net wealth quantiles, using cutoffs given by the SCF summary tables. Columns (1)-(4)in Table 1 show average values for each of four asset classes, measured in thousands of US dollars, and the fifth column shows net worth. The sixth column is calculated by multiplying nonfinancial assets by -20%, and financial assets by -40%, which are approximately the changes in house prices, and US stock prices, respectively, since summer

2006. Column (7), the most important, shows the predicted proportional change in net worth. This column shows a monotonic relationship: the wealthier groups have lost a smaller proportion of their net wealth. Note that the average net worth of the poorest quartile is negative in 2004, this net worth is predicted to have become even more negative, but it remains small as a proportion of their income (as shown in column (8)). This finding, that the middle classes have lost proportionately more of their wealth than the rich, casts some doubt on Parker and Vissing-Jorgensen's interpretation that "high-income households currently bear an inordinately large share of aggregate fluctuations," and a sentence from the Wall Street Journal, "If history is any guide, the upheaval already is shrinking inequality and could continue to narrow the wealth gap."

Qualifications

1. The conclusions are altered if we include human capital (the present value of future labour income) as a part of human capital. Taking present income as proportional to human capital, and multiplying it by 10 to approximate a present discounted value, we find much smaller decreases in net worth, and with the opposite ranking (ascending, the losses to total net wealth are: 1%, 4%, 7%, 9%, 12%). If the income distribution is procyclical then this reversal effect will be even stronger. Also, if the wealthier are typically older, then their PDV factor will be smaller, again contributing to a magnifying of the loss of the wealthy.

2. PVS compare the populations in different bands of consumption, whereas I have divided the population according to net wealth. I have also calculated the changes in net wealth according to band of income (defined in the SCF summary tables), and find the following results, showing that those on higher incomes also have lower proportionate losses of wealth:

Percentiles of income	change in net wealth
less than 20	-37%
20-39.9	-32%
40-59.9	-28%
60-79.9	-23%
80-89.9	-22%
90-100	-21%

3. These figures could exaggerate the losses borne on housing if a significant share of households have "non-recourse" mortgages, such that the debt can be settled by returning the house, even if the value of the house is less than that of the debt.

4. There may be some capital loss in "safe" assets through higher default probabilities or inflation. However, inflation has been reasonable over 2008, and the Moody's index of AAA monthly bond yields shows no very large change in yield. See *http://research.stlouisfed.org/fred2/series/AAA/119*

5. There may be significant reversion to trend in house prices, which would make housing wealth difficult to account for properly.

References

· Parker and Vissing-Jorgensen (2009) "Who Bears Aggregate Fluctuations? Estimates and Implications for Consumption Inequality"
· Piketty & Saez (2003) "Income Inequality in the United States, 1913-1998", QJE
· Frank, Robert, "Wealth Gap Is Focus Even as It Shrinks", WSJ October 27 2008

Downloaded from *http://meansandends.com/TomCunningham/?body=wealthDistribution* on September 23, 2009.

"The smartest players in the US stock market – the top insiders who run public companies – are not betting their own money on an economic recovery," said Charles Biderman, chief executive of TrimTabs.

When you think it through, Biderman says all that needs to be said today. Executives at a large number of companies are selling their shares, while in public, in many cases, they keep touting the great situation their company is in. Crazily enough, it's legal.

The financial markets go down, so does oil, all perfectly predictable. Just as predictable is that it won't all keep going down. Not this time around. Not yet. We'll have to wait till fall.

But that's just the markets. Ordinary people's lives will keep on going down; no force in the world can stop that deafening wave anymore. The number of people who fall through the grooves and keep right on sinking grows fast, as stats on welfare recipients make abundantly clear.

Some numbers take some time to sink in. The default rate on OptionARM mortgages is at 35%, and resets have hardly started yet. Which means millions more foreclosures are locked in already between today and 2014.

Another nice stat: *"the number of U.S. households paying more than half their incomes for housing jumped from 13.8 million in 2001 to 17.9 million in 2007"*. Where would it be now? 25 million households? 35 million?

$930 billion is owed on US credit cards, or $3100 for every single American citizen. Just on credit cards. Remember that Meredith Whitney predicted $2.5 trillion will vanish in plastic credit lines.

People's spending power goes down at lightning speed, and down with it goes GDP. Overall, the picture becomes that the old are losing their homes, and the young will never have a job that allows them to buy a home. Whatever you imagine the future will be, it won't be like today at all, that much is certain.

The mortally wounded banks that play healthy with the help of the government will get to do so even more if Obama's regulatory reforms plans are accepted. But it's just the most expensive exercise in futility the world has ever known. Not that that comes as a surprise to you anymore, I'm sure. The losses will keep on piling on, and they will come from all sides. Credit cards defaults, commercial real estate, which is plunging at a 30-50% clip as we speak, and has much further downward to go, speculative corporate bonds that are closing in on a 10% default rate,

The World Bank, meanwhile, wants the rich world to cough up $1 trillion to help the poor in other countries. Don't worry, they don't really believe it either. The rich world will have more than enough poor of its own to take care of. Please don't you believe that it will.

And don't believe that there will be a recovery any time soon. Make your decisions based on the assumption that there'll be no recovery for at least a generation. That will save you a lot of hardship.

Downloaded from *http://theautomaticearth.blogspot.com/2009/06/june-22-2009-makes-you-think-all-worlds.html* on September 23, 2009.

World Bank cuts forecast for 2009 growth
By Tom Eley
24 June 2009
A new World Bank report, *Prospects for the Global Economy*, refutes recent claims of an incipient economic recovery. The report predicts that the world economy will shrink by 2.9 percent in 2009, a significant downward revision from an estimate the bank made in March, when it anticipated a 1.7 percent decline. It also revised downward its growth estimate for 2010, to 2 percent from 2.3 percent, predicting "a much more subdued recovery than during a normal recession."

The World Bank said US gross domestic product (GDP) will end the year 3 percent smaller, Japan's will fall by 6.8 percent, and the eurozone's will decrease by 4.5 percent. Global trade will fall by close to 10 percent. All of these estimates represent negative revisions from projections made in March.

The report reveals that the financial crisis, which was set into motion by the predatory lending and speculative practices of the major banks, has now become a global crisis of the "real economy." The human consequences will be severe, and will be disproportionately felt by the working masses and the world's poorest regions.

"Unemployment is on the rise, and poverty is set to increase in developing economies, bringing with it a substantial deterioration in conditions for the world's poor and most vulnerable," the report states. It is already anticipated that the economic crisis will throw more than 200 million people into poverty this year, and drive the number of the world's malnourished above one billion for the first time in human history.

Global industrial production fell by 13 percent in the space of six months, between September 2008 and March 2009, according to the World Bank. The dollar value of manufactured trade fell by one third in the same period, and "virtually every" country reported a sharp decline in industrial output.

Many countries are now utilizing less than 70 percent of their industrial capacity, including the US.

Demand for consumer durables fell at an annualized rate of around 20 percent in Western Europe and the US in the fourth quarter of 2008, and in the first quarter of 2009 global demand for autos was down 30 percent.

The crisis in industrial production appears to have become a self-perpetuating cycle. The collapse of manufacturing leads to more layoffs, which further reduces consumers' ability to buy manufactured goods, thus necessitating further layoffs, and so on.

Declining consumer confidence is reflected in an increase in the savings rate, which in the US has shot up from 0.6 percent in 2007 to 5.7 percent by April 2009. The World Bank believes this trend will continue, as households attempt to recoup some of the wealth they have lost in home values and stock market investments. US household wealth declined by nearly 15 percent, or $11.3 trillion, between the fourth quarters of 2007 and 2008.

The World Bank anticipates that developing countries will experience GDP growth of only 1.2 percent in 2009, after growing at a rate of 5.9 percent in 2008 and 8.1 percent in 2007. Excluding China and India, GDP in the developing world is expected to fall by 1.6 percent.

Since peaking at $1.2 trillion in 2007, international capital flows to developing nations fell to $707 billion in 2008, and the World Bank anticipates they will fall to $363 billion in 2009, less than a third of the volume two years earlier.

These "increasingly grave economic prospects" arise from declines in foreign direct investment, cash from exports, and remittances from emigrants. The cash crisis will be complicated by difficulty in securing loans and credit, as the major economies—especially the US—absorb world liquidity through sharply increased deficit spending. The report predicts that developing countries' total borrowing requirements will exceed net capital inflow by as much as $635 billion in 2009.

With few exceptions, developing nations are already suffering from a shortage of capital. In the months after the full onset of the financial crisis began in September of 2008, they suffered from a migration of investment out of their "emerging" economies, as investors sought security in major currencies and economies, and as firms called in investments to improve their balance sheets.

The World Bank predicts that the crisis for developing countries will be most severe in Eastern Europe and Central Asia. There the crisis could “force a number of countries ... into a much less orderly process of adjustment, characterized by substantial currency depreciation and painful cuts in domestic demand.”

Russia, for example, is expected to see its GDP decline by 7.5 percent in 2009, a result of declining commodity prices. Turkey’s economy will fall by 5.5 percent, and Pakistan’s will be stagnant, growing at a rate of 1.1 percent.

Among the big Latin American economies, the World Bank expects that both Brazil and Argentina will see GDP declines, of 1.1 percent and 1.5 percent respectively. Mexico’s GDP may tumble by nearly 6 percent, a reduction owed both to the sharp decline in trade with the US and disruption caused by the swine flu outbreak. Sub-Saharan Africa has been hard-hit by falling commodity prices and “sharply lower” capital inflows, the report notes. Regional growth is estimated at 1 percent for 2009.

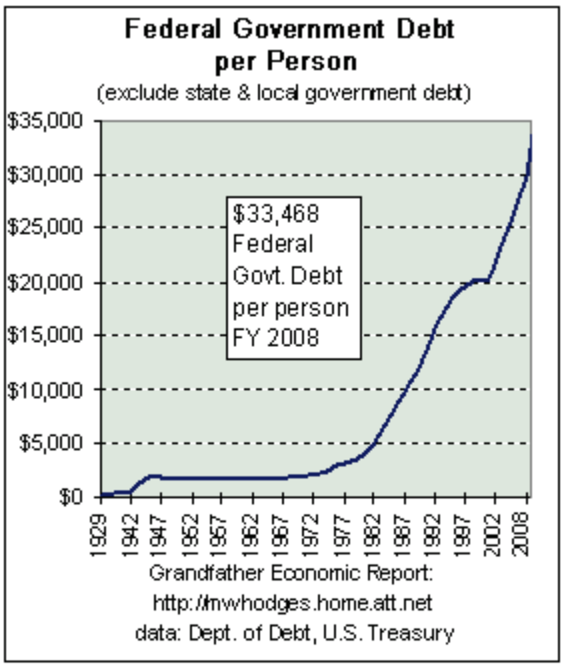
Financial markets, which had been slightly down over the last two weeks, reacted negatively to the World Bank’s warnings on global growth. Stock values in the US, Europe, Mexico and Brazil fell after the report’s release on Monday. On Tuesday, Japan’s Nikkei stock index fell 3.1 percent, with analysts citing fears over the global economy. Crude oil prices also declined.

The World Bank report points to the artificial nature of the three-month long increase in stock prices on the major US exchanges. There was nothing taking place in the real economy, either in the US or globally, to justify the ebullient mood among investors. It now appears the run-up in stock prices was orchestrated, with the assistance of the Obama administration, so that the major financial players could recoup some of their losses.

In early March, President Barack Obama appealed to working Americans to invest in the stock market. “What you’re now seeing is... profit and earning ratios are starting to get to the point where buying stocks is a potentially good deal if you’ve got a long-term perspective on it,” he said.
But an article in Tuesday’s *Financial Times*, “Pessimistic Executive Cash Out of Shares,” explains that over the past month—just as the propaganda about “green shoots” in the economy was reaching its crescendo—top executives and company insiders sold off massive amounts of their stocks.

According to data from the US Securities and Exchange Commission, the sell-off of shares “by so-called company insiders” exceeded their purchases by a multiple of 22. Insiders at companies listed on the S&P 500 Index sold $2.6 billion worth of stock in June, while they purchased only $120 million, according to TrimTabs, an investment research company.

“The smartest players in the US stock market—the top insiders who run public companies—are not betting their own money on an economic recovery,” said Charles Biderman, chief executive of TrimTabs.



If we divide fiscal year 2008 ending debt of $10.2 trillion by the population of 304 million we have debt per person.

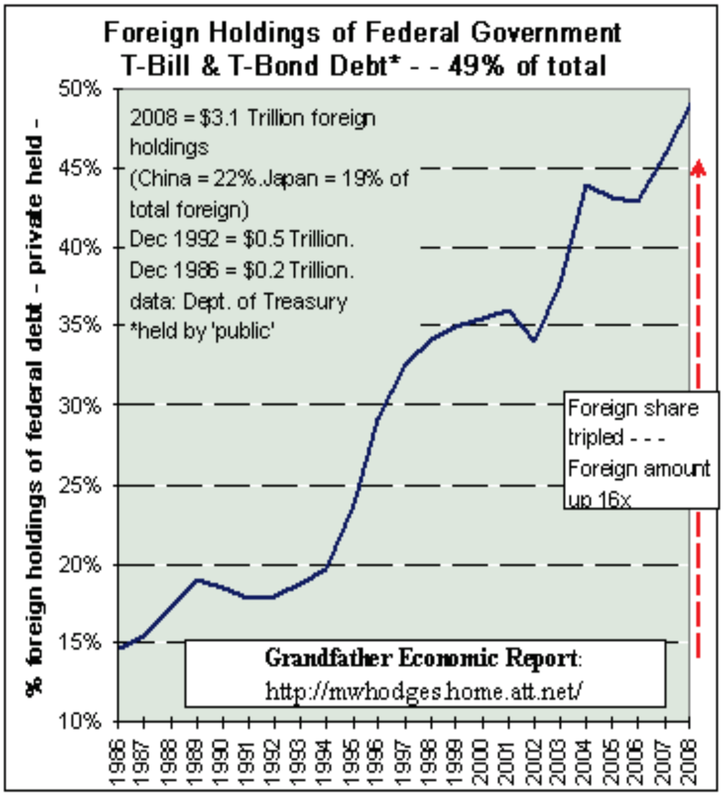
At the left is a chart showing the rapid build-up of federal debt per man, woman and child to $33,468.

This means a **family of four (4) shares $133,872 in federal debt responsibility - - including those still in diapers - $14,585 per family more than last year.** And, that's not all they owe.

Our nation's founders were against debt. At the writing of the Constitution they were concerned about debt incurred to finance the Revolutionary War, and it was their intention to promptly pay it off. Alexander Hamilton (federalist paper #7) called for the**"extinguishment of all debt."** Thomas Jefferson later wrote, "I place economy among the first and most important of republican virtues, and **public debt as the greatest of dangers to be feared**."

If today's debt ratio to national income were the same as in the early 1970s (40%), today's debt would be $4.5 trillion, a whopping $5.7 trillion ($18,750 per person) less than it is.

Is the debt going down? Nope!! In fiscal year 2008 (ending 9/30/08) federal debt rose to $10.2 trillion - $1.2 Trillion more than the prior year, which is a one-year increase of $3,947 per man, woman and child - or $15,788 more per family of 4 - -



Some like to 'hope' we owe all debt to ourselves. This chart shows otherwise.

How about a lot owed to foreign interests? Is $3.1 Trillion a lot? Absolutely !!

Of the $10.7 Trillion in total Federal government debt outstanding at the end of CY 2008, approximately $6.4 Trillion was owed to the public (foreign and domestic) in the form of treasury bonds and T-bills. Of that $6.4 trillion, 49% $3.1 Trillion, was owed to foreign interests.

The left chart shows **foreign parties control 49% ($3.1 trillion)** of $6.4 trillion of outstanding Treasury bond and T-Bill dominated debt - at the end of 2008.

This means each man, woman and child **owes $10,197 in federal debt to foreign interests**. A family of 4 owes $40,788 in this regard - - 22% of the total is owed to Chinese interests, 19% to Japan.

Note the rapidly **rising trend** since 1992, as the share of **foreign holdings more than tripled**.

Who was the idiot that said about debt, "We owe it to ourselves, so its no big deal if debt goes up." This chart proves Americans owe a huge amount to foreign interests - - and that's a very serious 'deal."

This chart shows 78-years of debt history as a percentage of gross domestic product (GDP). Study it from left to right to 'get the picture.'

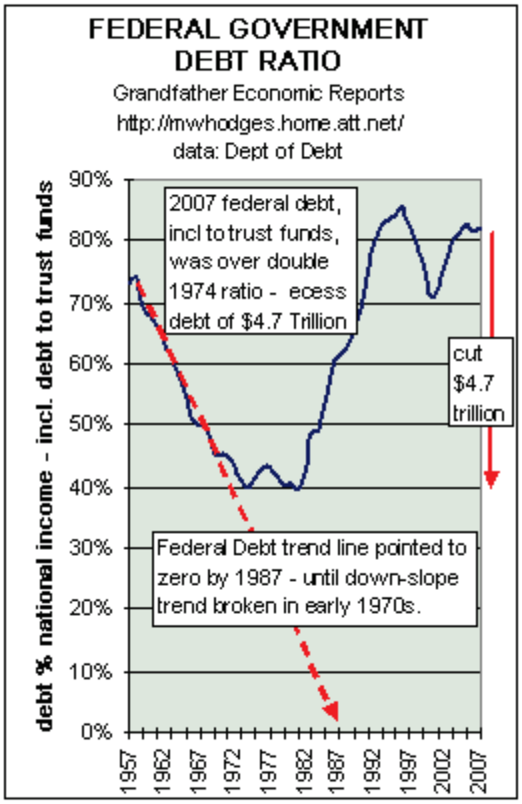
In the late 1920's, an era of economic expansion, national debt was 16% of GDP. Following the depression in the early 1930s (slow GDP), the 'New Deal' of massive social programs was created. These 'New Deal' social programs were financed by 3 times higher exploding debt, from 16% GDP to 50% prior to the war. We can conclude that the **'New Deal' more than doubled the debt ratio**.

In the 1940s, **as a result of World War II, debt increased to 122% GDP**, up from 50% GDP prior to the war (1940). Here we can conclude that the war effort added debt equivalent to 72% of GDP. It was hoped, however, that at war's end this war debt would be budgeted for fast pay-off - - as was the intention of our founding forefathers regarding war debt.

Following the war, the **debt ratio was falling rapidly** which, according to this chart, was aimed at returning the debt ratio to its pre-war 50% GDP ratio within 10 years (about 1956), and **aimed toward ZERO debt by 1965**. (that move to liquidate debt sounds like Alexander Hamilton and Thomas Jefferson were still calling the plays. But, we will see that some others got in the way, finding new ways to spend).

The debt down-trend started slowing in the mid-1950s, and only reached its 50% pre-war ratio in 1964, instead of by 1956 (8 years late), delayed perhaps by Korea and Vietnam, and due to the fact government social spending was growing much faster than the economy. It could be said the war debt had been 'paid-off' by 1964 (since the debt ratio dropped to its pre-war level of 50%), and defense spending percent economy was on a downward trend thereafter - - despite the continuing cold war with the Soviet Union.

In the 1970s the downward debt ratio trend slowed, and slowed, and slowed - - until the downward trend stopped, cold about 1974 at 32% of GDP. After oscillating at this level, it then rose steadily to 67% of GDP in 1994-96 - - more than double the prior 32% ratio (red dotted line). As the economy GDP appeared pumped up on debt-out-of-thin-air-steroids the govt. debt ratio fell to 58% even as debt dollars soared to new records. **By 2009 (Right side of this chart) a debt ratio of 71% GDP** was recorded. The ratio is now rising again with a slower economy and higher spending and even higher new debt levels. We will explore this further in the following graphic, using national income instead of GDP.



This chart shows the trend of federal government debt (Dept. of Treasury data) 1957 to 2004, expressed as a percent of national income (instead of % GDP). (The national income measure is considered 'cleaner' than GDP)

Off the chart to the left, war-time debt had reached a peak in 1947 at 132% of national income. On the left part of the chart it shows the debt ratio was still heading down from 1957 to 1974, although slower than previously. Had that slower down-trend of this debt ratio continued, the red dash-line shows there would be zero debt by about 1987.

But, the slope of the downward trend slowed in the late 1960's, and by 1974 ceased to drop - - oscillated for 10 years - - and then rocketed upward to historic peace-time record highs.

The reason for the declining debt ratio to stop falling is quite clear. It was due to the fact that new social spending (the 'Great Society') was soaring many, many times faster than growth of the economy's national income - as seen in the Grandfather Federal Government Spending Report.

Note the right edge of the chart - - the downward pointing red arrow. That means - - if today's debt ratio had been 40% of national income (as it was in 1974), instead of 2007's actual ratio of 82% - - today's debt would be a whopping $5.7 Trillion less than is the case.

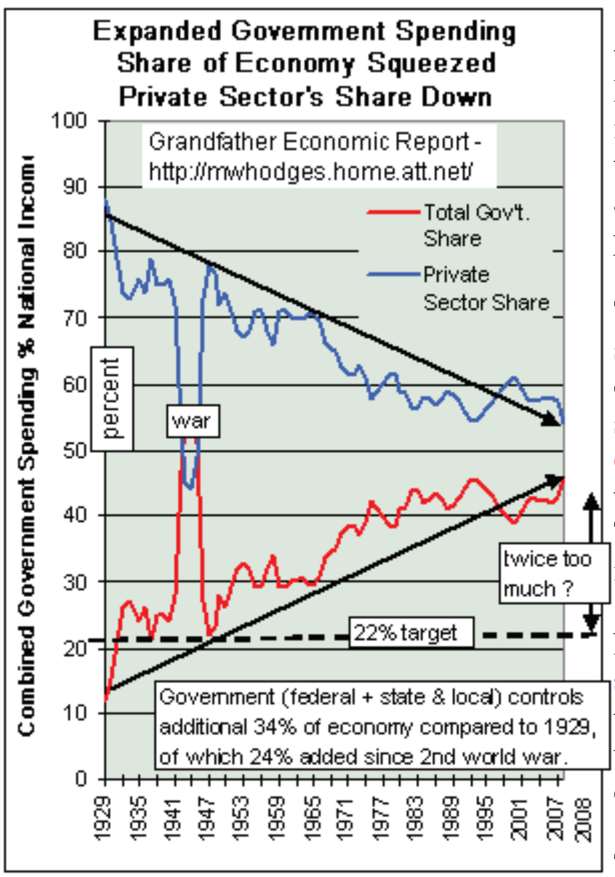
It may be worth noting, that much of that $4.7 trillion excess debt was money siphoned out of various trust funds (such as from Social Security), and spent on non-pension activities - - without even accounting for this in the budget deficit calculations. As the federal government siphoned off all trust fund surpluses, it left behind non-marketable IOUs, which even the Federal Reserve does not record as market debt - but, the Treasury Dept. properly records it as seen in the data chart.

Additionally, the federal government does not even pay cash interest on that 'borrowing' - it just sends over a few more IOUs. All this makes the social security trust fund more vulnerable to disaster - - as the demographic bulge of the baby boom looms very near. Federal budgets do not call this trust fund siphoning (and IOUs) as deficit spending, although it is.

And, they do not budget one penny to repay that already siphoned-off - - yet, hardly a day does not go by that politicians don't moan about the looming social security crisis - - that they created.

From the above charts note that World War II required surge borrowing of an extra 72% of GDP (above the prior 50% debt ratio) to meet the surge production and economic shifts necessary to meet our war needs. Now, that really was not all that difficult, since the private sector's share of the economy's national income at that time was itself 80% of the economic pie, as shown in the *Government Spending Report*. But now the private sector's share has been shrunk to 57% of the economic pie, leaving much less capacity for a surge to war-time needs. Now, today's debt is 71% GDP (or, 82% of national income). Can you imagine trying to add another 72% on top to meet an equivalent war in the future, considering the smaller relative private sector? Who are we going to shift from peace-time production to war-time production - - our higher ratio of seniors and state & local government employees and welfare recipients? And who will loan us the additional $7.3 trillion, since we are already tapped out with record domestic and foreign borrowings today?

Downloaded from *http://mwhodges.home.att.net/debt.htm* on September 23, 2009.



Since **successful military capacity is related to the potential of the private sector to support a large economic war-time surge, if needed**, it is instructive to first compare the relative size of the private sector today to that before, during and after WW II and see how today's surge potential compares.

This chart shows a 79-year history of the private sector (blue line) share of the economy, compared to the relative size of the federal plus state & local government sector spending share (red line) of the U.S. economy. (the chart is from the *Government Spending Report*).
Today's **spending ratio is 45%** of national income.

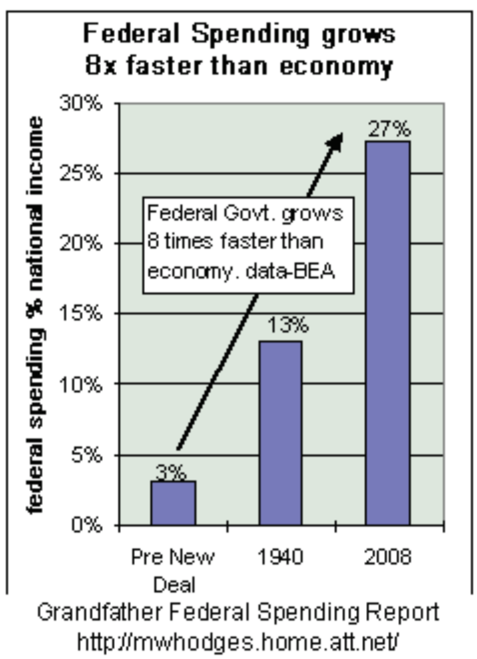
Note the **huge down-draft of the private sector** (blue line) share of the economy during the 1940s, which resulted from the equivalent upward jump of the government spending share of the economy (red line).

That **red jump was the World War II war-time economic surge** to support men and factories transferred from private sector to military needs - - equivalent to a total economic shift of more than 30% of the entire economy..

Now - - **what happened at the end of the 1940s**, right after the war? Did our leaders do the right thing? The apparent answer is YES. The chart shows that by 1947 the red government line dropped back near it's pre-war level, as said economic resource demands were transferred from government's economic share back to the private sector (blue) from whence they were 'borrowed' for war-time purposes.

By returning the private sector line to near its pre-war level the private sector, once again, had recovered its pre-war capacity to economically support future such surge requirements should they be needed at another time. The size of the **post-war government cut-back** was a very proper result - - protecting our future.

Now to the problem - - **What happened after 1947 to preserve future war-time surge capacity? Answer: it deteriorated, remarkably so**.
After 1947 this chart shows the government spending started ratcheting upward, from 22% share of the economy to today's 45% level twice as high, as shown at the right edge of the chart. And, as a result, the economy remaining to the private sector dropped from a 78% share down to about 55%. This means **the war-time surge potential has been reduced about 23 points since WW II**.



This chart (from the *Federal Spending Report*) shows growth of federal spending as a percentages of America's total economic pie - -

for 1929 (before the New Deal social programs) - - 3% of the economic pie,

for 1940 (just before the World War II) - - 13% of the economic pie,

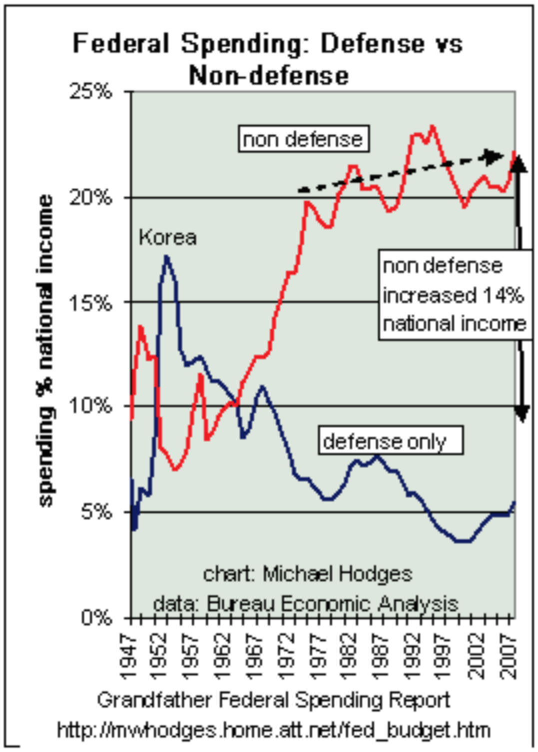
and, today - - 27% of the economic pie. As seen, over time **federal government spending has consumed a larger and larger share of America's total economic pie**.

Note in 1929 (the left bar), before the New Deal social programs, total federal spending accounted for but 3% of the entire national economic pie.

The middle bar shows that just before WW II federal spending was 13% of the economy.

Today's ratio is 27% of the pie, as shown by the right bar - -

8 times higher than the first bar.



In the first chart we saw impact on the total economy due to the economic war-time surge to meet World War II challenges.

This chart is for the 60 year period since the end of World War II.

It breaks down all federal government spending into just 2 curves. Defense vs. non-defense.

The black curve is defense spending (as a percent of national income).

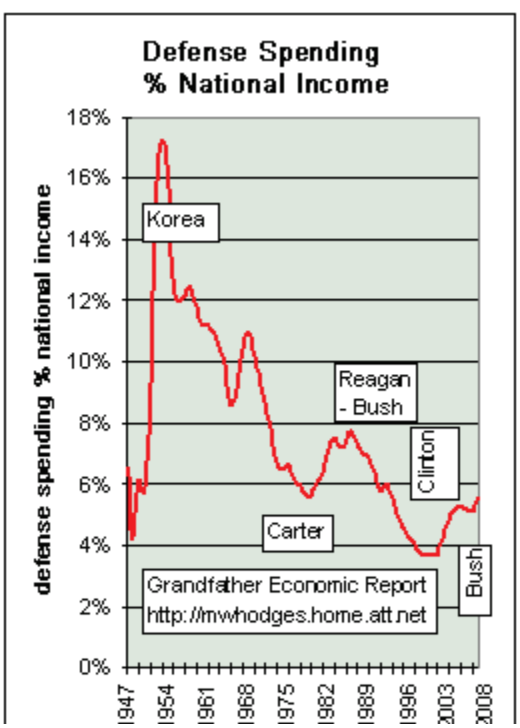
After defense rising from about 6% of national income in 1947 it increased to about 17% of the economy during the Korean War.

We call that jump the Korean war-time economic surge - - a jump consuming about 11% of national income.

Thereafter it declined for the next 54 years - - reaching today's level of about 5.5% of net national income.

This declining defense spending ratio partly camouflaged the huge spending increases in the non-defense parts of government - - shown by the red curve.

In other words, declining defense spending ratios were not returned to the private sector from which they had been extracted to cover the Korean war-time surge.



Instead, defense cuts were retained by the federal government to support more and more social spending.

Now - let's look just at the defense spending curve over this period.

This chart shows the trend of defense spending as a share of the economy's national income.

Note right after World War II (left on chart), in 1948, defense was about 4% of the economy, jumping by 13 points to over 17% of the economy during the Korean

War (we call this the 'Korean war-time economic surge').

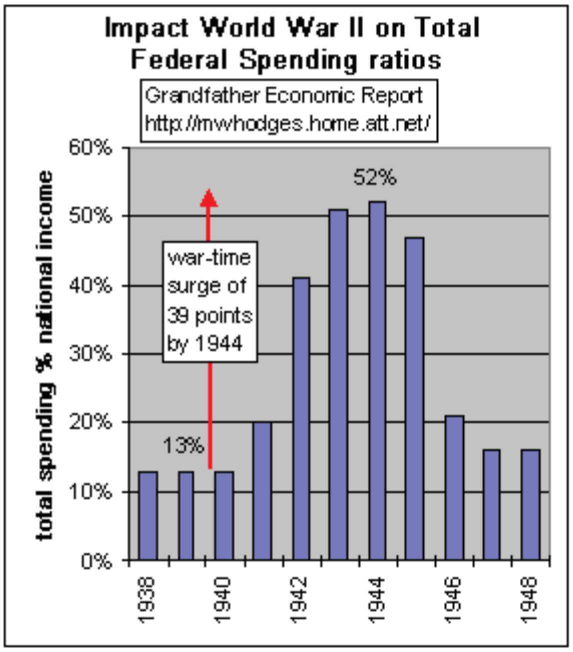
Since that time the defense spending ratio trended downward for the next 27 years, falling to below 6% at end of the Carter administration.

The defense ratio rose 2 points, to 8%, during the Reagan-Bush era to finance a dramatic face-down of the Soviet Union and thereby close-out the 5 decade cold war. (it is noteworthy that this 2 point surge in defense was off-set by a reduction in non-defense spending ratios).

Despite the 2% surge to close-out the Soviets, the Reagan-Bush era' defense ratio ended about where it started before that era - at a 6% defense spending ratio.

During the Clinton era defense spending was slashed. By 2000 it had been cut to 3.7% of the economy's national income - - the lowest ratio in 53 years.

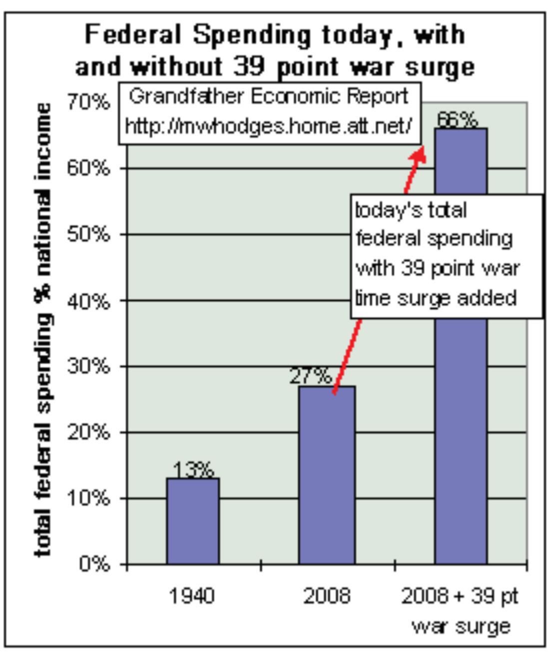
As noted at the top of the page, between 1990 and 2000 our military had been cut virtually in half; the number of army divisions has been reduced from 18 to 9, the navy has shrunk from 600 ships to 300, and the number of air wings has declined from 36 to 18.



This chart is a blow-up of the spending ratios of the entire federal government (defense plus all other categories), for the 3 years leading up to the war (1938-40), the war years (1941-1945), and the 3 years following the war (1946-48).
Note: the 3 years before the war (1938-40) - federal spending consumed 13% of the entire economy. For the war years, this spending surged each year - - peaking in 1944 at 52% of the economy.

This war-time surge, from a pre war ratio of 13% to a 1944 peak of 52%, was a transfer of an additional 39% of the entire economy from private sector to government spending. For this report, the author calls this a 39% jump the **'economic war-time surge**.'
Note after the war, spending ratios were reduced to a 16% - - although not quite to the pre war 13% ratios.{See raw data for this chart - - from data-base submitted by Nobel laureate Dr. Milton Friedman. (see tribute to Dr. Friedman)

Do you wonder what it would look like today if, to meet an equivalent war-time economic challenge as we faced in the past, we needed to add 39 points to current spending ratios? See the next chart.



The left chart for federal spending ratios shows:

1940 (the left bar) represents the federal spending ratio for the WW II pre-war period - - with its 13% federal spending ratio.

2008 (the middle bar) is shown with today's federal spending ratio - - at 27% of the national income's economic pie.

Now, if we add a 39 point 'war-time surge' to the 2008 spending ratio - - we get the third bar - where federal government spending consumes 66% of the entire economy.

Adding this 66% federal government spending ratio to the state & local government spending ratio of

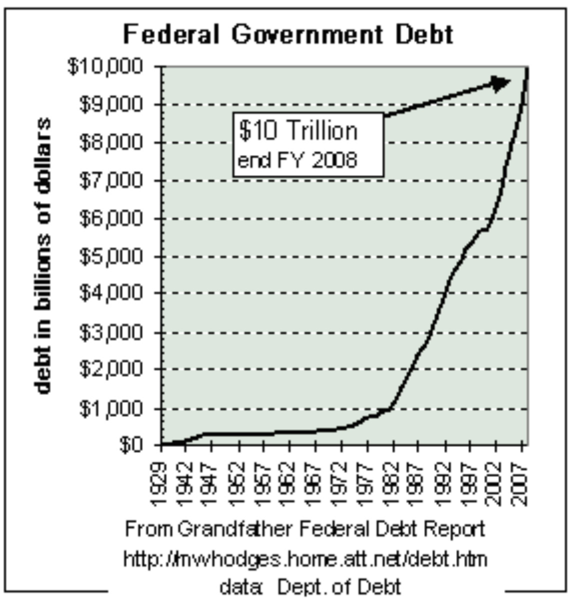
18% would push the 3rd bar up to an 84% total government spending ratio for the economy.

But, that would only leave a private sector with 16% of the economy to function - - which just about equals today's private sector's cost of complying with government regulations (being 14% of the economy per the Regulation Cost Compliance Report).

Could the American economy function with only 16% of the economy in the private sector with 84% in the government sector control, while also considering that total private sector debt today is at the highest ratio to national income in history, including a large portion of that owed to foreign interests - - and personal saving ratios are at historic lows?

Downloaded from *http://mwhodges.home.att.net/defense.htm* on September 23, 2009.

79-YEAR TREND OF FEDERAL GOVERNMENT DEBT



This chart shows the 79-year trend of federal government debt, in current dollars without any adjustments. One thing most interesting about this chart is that none of the data is adjusted for inflation or growth of the economy, so the plot is free of distorting adjustments, and therefore lays bare revealing information. In this period it started at $16 Billion. By fiscal year 2008 it was **625 times larger**, rising exponentially to $10 Trillion.

Looking at the left side of the chart you will see the jump in the early 1940s, due to World War II. From that point forward, the curve remains relatively flat (at a low level of about $250 billion) for the next 20 years, despite growth of the economy. This was a period of strong real growth in median family incomes, a period when for most families only one wage-earner per household was needed to expand living standards. Starting late 1960s, an upward trend emerged, then accelerating in the early 1970s. [it is interesting that since the start of the rise in debt, the *Family Income Report* shows incomes (adjusted for inflation) ceased rising (for the next 2 ½ decades)- and real incomes fell for full-time employed male workers.]

From 1970, debt continued to accelerate - straight up - - the cause of which, as later shown in this report, was due to socialization of the economy, as consumptive social spending as a share of the economy sky-rocketed upward. The catalyst for such expansion, therefore, is clearly laid at the doorstep of the birth of the 'Great Society' of the President Johnson era - from which it continued to expand forever upward.

By the end of fiscal year 2008 debt exceeded $10 Trillion, nearly half of which occurred just in the 1990's despite the added revenue from 2 record tax increases in the 1990s.

Is the debt going down? Nope!! In fiscal year 2008 (ending 9/30/08) federal debt increased $1 trillion, which is an increase of $2,893 per man, woman and child - or $11,572 more per family of 4 - - another in a long string of new records.

Downloaded from *http://mwhodges.home.att.net/debt_a.htm* on September 23, 2009.

BOTTOM-LINE - - DEBT SUMMARY TABLE
AMERICA'S TOTAL DEBT (as of Jan. 1, 2008)
- $57 Trillion -

- add another $60 trillion for other contingencies such as Social Security/Medicare/Medicaid -

Our *Federal Government Debt Report* shows $10.6 Trillion of debt as of end CY 2008, the *State & Local Government Report* shows debt of $2.2 Trillion, and $44.2 Trillion of private (household, business and financial sector) debt is revealed in *America's Total Debt Report*.

These sum to **$57 Trillion - - equivalent to $177,900 per capita**, or $711,600 per family of 4. (This sum does not include the federal government's un-funded contingent liabilities such as Social Security/Medicare/Medicaid estimated at $107 trillion, plus additional unknown amounts (?) for other contingencies listed below.)

The following table summarizes Total Debt in America - - as of January 1, 2009

DEBT TYPE	DEBT AMOUNT ($ Trillion)	Debt Per Child (per capita)
GOVERNMENT SECTOR DEBT:		
Federal Government Sector debt - a record high as of year end 2008. (Treasury data and *Federal Government Debt Report*, (includes *$3.1 trillion federal govt. owes foreigners*, plus $3.3 trillion debt owed U.S. domestic public, plus *$4.2 trillion surplus siphoned from and owed to trust funds*) - total $10.6 trillion - (up an unprecedented $1.4 trillion over prior year)	$ 10.6	$34,868
State & Local Government Sector debt - a record high (*State & Local Government Spending Report*)	$ 2.2	$ 7,368
Un-funded Social Security contingent liabilities estimated looking forward *	$13.6	$44,737
Un-funded Medicare contingent liabilities (part A $34.4 T, part B $34 T, Part D $17.2 T)*	$85.6	$281,579
Un-funded Medicaid contingent liabilities (Congressional Research Service report - 2/2005)	? $ 8.4	$ 27,632
Un-funded federal employee pension contingent liabilities (incl.	? $ 4.0	$13,158

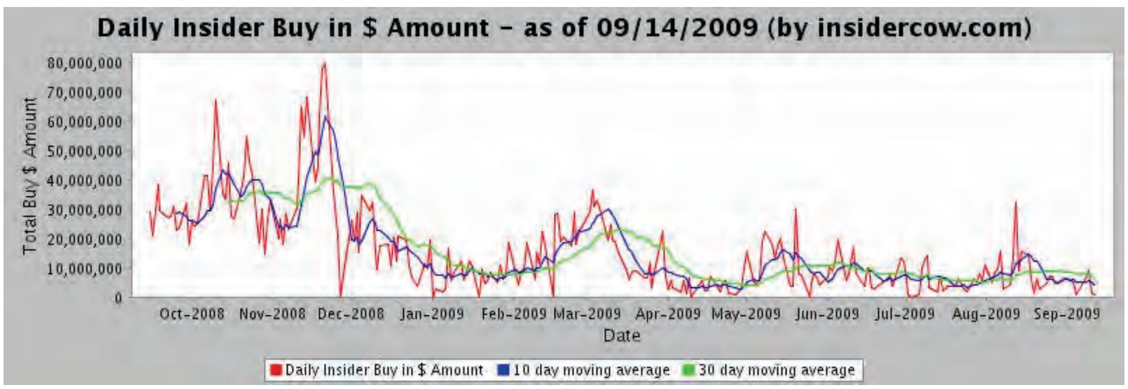
Postal service)		
Un-funded federal employee medical contingent liabilities	?	?
Un-funded state & local government employee pension & medical contingent liabilities	? $ 2.7	$8,888
Other off-budget Federal Govt. borrowings	?	?
Financial Sector Disaster Bail-out not incl. above (2008/09 estimated*)	? $2.5	$8,233
SUM above Government Debt	$112 + ?	$368,421?
PRIVATE SECTOR DEBT:		
(see *America's Total Debt Report*)		
Household Sector debt - soaring record high	$13.8	$45,395
Business Sector debt - record high	$11.1	$36,513
Financial Sector debt (domestic) - explosive record high	$17.2	$56,579
Other (extra foreign debt in addition to such included in numbers above sectors)	$ 1.9	$ 6,250
Un-funded business sector employee pension contingent liabilities	? $ 0.5	?
Un-funded business sector employee medical contingent liabilities	?	?
Impact trillions of dollars of derivatives & over-priced 'assets' (+ off balance sheet debt) on above business & financial sectors	?	?
SUM above Private Debt	$44 + ?	$144,737 + ?
SUM ALL DEBT		
SUM Government + Private Sector Debt (including Contingent liability items)	**$174.1** + ?	**$564,749** +?
SUM All Government + Private Sector Debt (exclude contingent liability items)	**$56.9**	**$186,717**
We don't 'owe it to ourselves' - - we owe $13.6 Trillion (24%) of above $56/9 trillion debt to international entities, ($3.2 Trillion owed by federal government plus $10.4 Trillion by private sector) >	[**$13.6**]	[$44,737]
NOTES > **?** = No reliable estimate available, or preliminary estimate only, or there may be other contingencies. For discussion see the *Federal Government Debt Report*, *America's Total Debt Report*, *Trust Fund Report articles*, the *State & Local Government Spending Report*, the *International Trade & Debt Report* and the *Grandfather Social Security Report*. (Debt Data Sources: Federal Govt.		

Treasury Dept.; Private Sector and State & Local Govt. from Federal Reserve flow of funds accounts, table D.3; International Monetary Fund; * *Social Security/Medicare - Fed Reserve Member R. Fisher* May 2008 and *David Walker, US Comptroller General* 7/22/07; and *U.S. Treasury Account Statement*

THE NEGATIVE TREND IN INSIDER SELLING WORSENS

15 SEPTEMBER 2009 BY TPC 6 COMMENTS

For the latest two week period ending yesterday, insiders purchased just $4.6MM in stock while selling an astounding $471MM in stock. That is a $217MM jump over last week's reading of $254MM. *The trend in insider selling has been negative for quite some time*, but even more alarming is the total lack of insider buying. Insiders sell for a number of varying reasons, but it remains confounding that the equity markets can be so convinced of an economic rebound while insiders give a resounding vote of no confidence in their own companies via purchases of their own shares. Perhaps *the lack of organic growth via revenue growth* has insiders less than convinced of the economic rebound.



Ticker	Owner	Relationship	Date	Transaction	Cost	#Shares	Value ($)	#Shares Total
NHC	ADAMS ROBERT G	CEO	Sep 09	Buy	11.00	112,981	1,242,791	559,289
DM	CHRISTIANSON TONY	Director	Sep 08	Buy	11.00	62,157	683,727	202,362
SLRY	MARTIN WILLIAM C	Director	Sep 03	Buy	2.90	175,000	507,500	842,230
DIET	MCGRATH KEVIN N	CEO	Sep 11	Buy	1.06	471,700	500,002	996,700
ESP	Espey Mfg. & Electronics Corp.	Retirement Plan Trust	Sep 14	Buy	15.95	20,486	326,752	663,203
UDR	FREEMAN ROBERT P	Director	Sep 14	Buy	13.55	20,000	271,096	106,337
HCC	ROSHOLT ROBERT A	Director	Sep 08	Buy	26.30	9,400	247,183	15,208
SBUX	TERUEL JAVIER G	Director	Sep 08	Buy	19.09	12,600	240,543	12,600
GLP	Global GP LLC	General Partner	Sep 10	Buy	24.04	7,700	185,108	157,774
GLP	Global GP LLC	General Partner	Sep 04	Buy	22.85	6,900	157,665	143,074
GLP	Global GP LLC	General Partner	Sep 08	Buy	22.89	6,400	146,496	149,474
CHS	BURDEN JOHN W	Director	Sep 08	Buy	12.61	10,000	126,100	61,045
GEOI	Joliat Jay Frederick	Director	Sep 10	Buy	10.28	12,000	123,360	237,000

Ticker	Owner	Relationship	Date	Transaction	Cost	#Shares	Value ($)
PSA	HUGHES B WAYNE ET AL	CHAIRMAN OF THE BOARD	Sep 11	Sale	70.42	564,600	39,757,035
URBN	HAYNE RICHARD A	President	Sep 14	Sale	30.19	848,429	25,615,090
PSA	HUGHES B WAYNE ET AL	CHAIRMAN OF THE BOARD	Sep 08	Sale	70.11	350,000	24,536,750
URBN	HAYNE RICHARD A	President	Sep 10	Sale	30.10	610,574	18,377,423
KSS	MONTGOMERY R LAWRENCE	Director	Sep 08	Sale	54.54	240,000	13,089,000
PSA	HUGHES B WAYNE ET AL	CHAIRMAN OF THE BOARD	Sep 09	Sale	70.60	150,000	10,590,375
SLXP	Flynn James E	Possible Member of 10% Group	Sep 10	Sale	13.13	744,060	9,773,011
JCG	DREXLER MILLARD S	Chief Executive Officer	Sep 08	Sale	34.18	285,800	9,767,644
KSS	KELLOGG WILLIAM S	Director	Sep 09	Sale	55.95	165,945	9,285,104
KSS	KELLOGG WILLIAM S	Director	Sep 10	Sale	55.57	134,055	7,449,375
PSA	HUGHES B WAYNE ET AL	CHAIRMAN OF THE BOARD	Sep 10	Sale	71.13	103,800	7,383,252
JCG	DREXLER MILLARD S	Chief Executive Officer	Sep 04	Sale	33.47	214,200	7,169,995
TOL	TOLL ROBERT I	Chief Executive Officer	Sep 10	Sale	21.77	314,600	6,847,678
URBN	HAYNE RICHARD A	President	Sep 11	Sale	30.12	200,997	6,054,693
GPS	FISHER ROBERT J	Director	Sep 08	Sale	21.54	277,013	5,966,057
TOL	TOLL ROBERT I	Chief Executive Officer	Sep 09	Sale	21.81	258,500	5,637,549
TOL	TOLL ROBERT I	Chief Executive Officer	Sep 11	Sale	21.77	256,418	5,583,066
STLD	BATES JOHN C	Director	Sep 09	Sale	17.16	300,000	5,147,779
GES	ALBERINI CARLOS	President & COO	Sep 09	Sale	35.59	139,400	4,960,814
KSS	MANSELL KEVIN	Chairman, President, CEO	Sep 11	Sale	55.55	88,000	4,888,646
TOL	TOLL ROBERT I	Chief Executive Officer	Sep 08	Sale	22.06	218,300	4,815,894
GILD	MARTIN JOHN C	Chairman and CEO	Sep 08	Sale	46.68	100,000	4,667,870
STLD	BATES JOHN C	Director	Sep 10	Sale	17.19	239,800	4,122,752
UEPS	Belamant Serge	Chief Executive Officer	Sep 10	Sale	20.00	196,669	3,933,380
UEPS	Kotze Herman	Chief Financial Officer	Sep 10	Sale	20.00	196,669	3,933,380
TOL	BARZILAY ZVI	President	Sep 08	Sale	21.99	168,853	3,713,449
OREX	POWELL MICHAEL	Director	Sep 10	Sale	9.18	400,000	3,670,000
DIS	STAGGS THOMAS O	Sr. EVP & Chief Finan. Officer	Sep 10	Sale	27.80	125,000	3,475,000
PAY	ROCHE COLLIN E	Director	Sep 10	Sale	14.09	240,541	3,389,223
PAY	GTCR PARTNERS VII L P		Sep 10	Sale	14.09	239,128	3,369,314
FAST	KIERLIN ROBERT A	Director	Sep 08	Sale	37.16	90,000	3,344,400
DHR	CULP H LAWRENCE JR	President and CEO	Sep 04	Sale	65.41	50,000	3,270,494
MD	FERNANDEZ MICHAEL	Director	Sep 09	Sale	51.35	62,000	3,183,458
KSS	HERMA JOHN F	Director	Sep 09	Sale	55.95	55,315	3,095,035

Downloaded from http://pragcap.com/the-negative-trend-in-insider-selling-worsens on September 24, 2009.

INSIDER SELLING SOARS, BUYING STILL AT RECORD LOWS

29 JULY 2009 BY TPC 5 COMMENTS

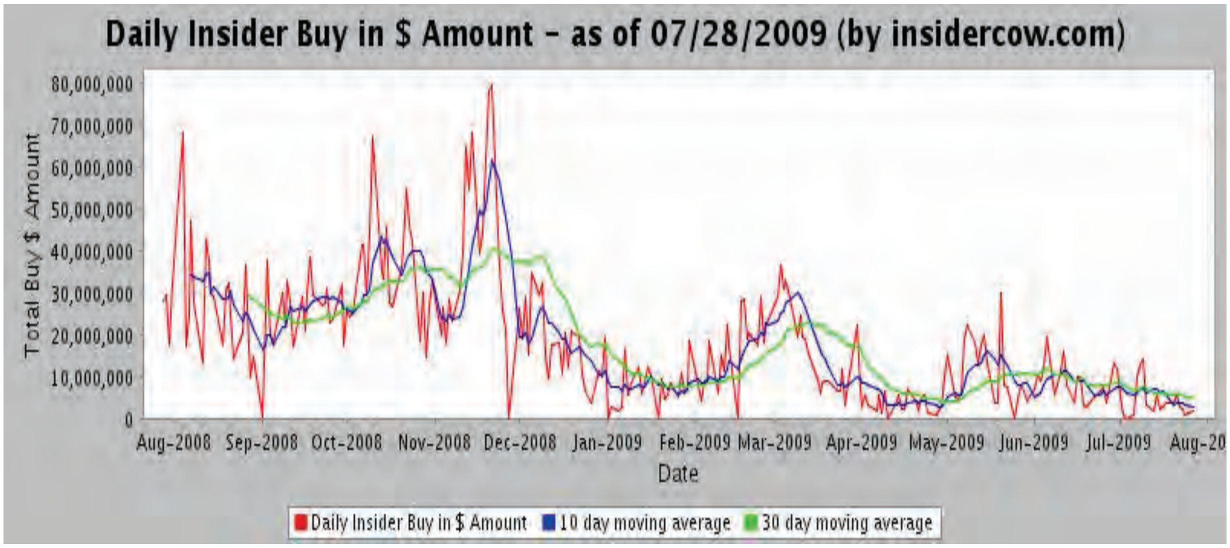
Despite a near 50% rally in the stock market and "better than expected" earnings across the board, we're continuing to see unprecedented levels of insider selling and record low levels of insider buying. The buyers in recent weeks have accumulated just over $26MM in stock

($16.5MM of which was one buyer). Meanwhile, the sells amount to over $300MM. That's a staggering 1:30 ratio if you back out the one larger buy.

Ticker	Owner	Relationship	Date	Transaction	Cost	#Shares	Value ($)	#Shares Total	SEC Form 4
HGG	ROTH JOHN M	Director	Jul 24	Buy	16.50	1,000,000	16,500,000	13,475,981	Jul 28 05:10 PM
OREX	DOVEY BRIAN H	Director	Jul 23	Buy	7.50	650,000	4,875,000	1,121,163	Jul 24 04:12 PM
OPK	FROST PHILLIP MD ET AL	CEO & Chairman	Jul 27	Buy	1.75	932,734	1,632,285	96,728,381	Jul 27 11:47 AM
HGG	CASTELLANI LAWRENCE P	Director	Jul 21	Buy	16.50	60,606	999,999	260,606	Jul 22 05:29 PM
WINA	MORGAN JOHN L	Chairman & CEO	Jul 22	Buy	17.99	20,000	359,800	1,529,561	Jul 22 04:35 PM
CNBC	SEIDMAN LAWRENCE B	Director	Jul 23	Buy	8.00	44,093	352,744	1,892,195	Jul 27 07:43 PM
OZM	KENNEY JEROME P	Director	Jul 22	Buy	9.90	20,000	197,938	23,347	Jul 23 05:52 PM
CNS	RHEIN PETER L	Director	Jul 27	Buy	17.59	10,000	175,900	30,856	Jul 28 12:20 PM
STBA	PAPERNICK ALAN	Director	Jul 22	Buy	10.81	14,400	155,619	4,128	Jul 27 04:08 PM
SNV	BLANCHARD JAMES H	Director	Jul 27	Buy	2.94	50,000	147,000	453,877	Jul 27 12:29 PM
JBHT	HARPER ALFRED C	EVP and Chief Operations Offic	Jul 23	Buy	27.40	5,109	139,989	5,109	Jul 27 11:45 AM
WINA	MORGAN JOHN L	Chairman & CEO	Jul 27	Buy	17.99	6,900	124,131	1,536,461	Jul 27 03:07 PM
GILD	HILLS CARLA A	Director	Jul 24	Buy	48.28	2,500	120,700	2,742	Jul 28 06:29 PM
HAL	DICCIANI NANCE K	Director	Jul 23	Buy	22.98	5,000	114,900	7,000	Jul 24 12:24 PM
CWBS	TAVSS RICHARD	Director	Jul 20	Buy	5.13	21,666	111,147	256,050	Jul 22 10:25 AM
CWBS	WOODARD EDWARD J JR	President & CEO	Jul 20	Buy	5.13	21,666	111,147	190,759	Jul 22 10:29 AM
CWBS	YOUNG KENNETH	Director	Jul 20	Buy	5.13	21,666	111,147	85,933	Jul 22 10:35 AM
Ticker	Owner	Relationship	Date	Transaction	Cost	#Shares	Value ($)	#Shares Total	SEC Form 4
AAPL	Forstall Scott J	Senior Vice President	Jul 24	Sale	158.01	131,203	20,731,654	0	Jul 28 06:10 PM
SYK	STRYKER RONDA E	Director	Jul 24	Sale	39.32	500,000	19,658,350	18,256,682	Jul 27 10:08 AM
APOL	SPERLING JOHN G	Exec Chrmn of the Board	Jul 21	Sale	67.05	211,202	14,161,923	12,909,789	Jul 22 06:21 PM
BBBY	TEMARES STEVEN H	Chief Executive Officer	Jul 21	Sale	33.56	368,135	12,354,980	367,339	Jul 23 06:43 PM
APOL	SPERLING JOHN G	Exec Chrmn of the Board	Jul 24	Sale	66.92	165,000	11,041,425	12,770,991	Jul 27 07:41 PM
GILD	BISCHOFBERGER NORBERT W	EVP, R&D and CSO	Jul 24	Sale	48.00	180,448	8,661,324	1,050,156	Jul 28 06:32 PM
DGX	MOHAPATRA SURYA N	Chairman, President & CEO	Jul 23	Sale	55.56	152,000	8,444,700	225,202	Jul 27 04:54 PM
VFC	SHEARER ROBERT K	CFO	Jul 27	Sale	64.88	110,000	7,137,130	57,540	Jul 28 03:10 PM
PMCS	BAILEY ROBERT L	Director	Jul 24	Sale	9.01	733,200	6,606,132	30,222	Jul 28 05:00 PM
AAPL	MANSFIELD ROBERT J	Senior Vice President	Jul 24	Sale	158.84	40,000	6,353,600	17,576	Jul 28 06:11 PM
DGX	HAGEMANN ROBERT	SVP & Chief Financial Officer	Jul 23	Sale	55.61	112,218	6,240,214	85,803	Jul 27 04:50 PM
ITW	SMITH HAROLD B	Director	Jul 24	Sale	40.25	150,000	6,038,235	10,479,145	Jul 24 04:59 PM
PLCM	HAGERTY ROBERT C	President/CEO	Jul 20	Sale	24.12	250,000	6,029,164	71,418	Jul 22 07:10 PM
APOL	SPERLING PETER V	Vice Chrmn of the Board	Jul 21	Sale	67.46	82,500	5,565,054	5,423,826	Jul 22 06:20 PM
APOL	SPERLING JOHN G	Exec Chrmn of the Board	Jul 22	Sale	69.23	80,298	5,558,729	12,829,491	Jul 23 06:23 PM
APOL	SPERLING PETER V	Vice Chrmn of the Board	Jul 22	Sale	69.19	80,100	5,542,170	5,343,726	Jul 23 06:25 PM
CTXS	LEVINE PETER	SVP, Virtualization & Mgt	Jul 24	Sale	35.34	150,000	5,301,495	5,838	Jul 28 06:08 PM
SRE	SCHMALE NEAL E	President and COO	Jul 24	Sale	52.08	100,000	5,208,000	296,864	Jul 24 06:00 PM
BBBY	TEMARES STEVEN H	Chief Executive Officer	Jul 22	Sale	33.73	147,001	4,958,775	411,918	Jul 23 06:46 PM
SYK	STRYKER RONDA E	Director	Jul 27	Sale	39.25	120,000	4,709,604	18,136,682	Jul 28 11:46 AM
EQIX	VAN CAMP PETER	Director	Jul 23	Sale	80.00	57,314	4,585,120	63,478	Jul 27 05:54 PM
CMG	Ells Steve	Chairman & Co-CEO	Jul 28	Sale	94.21	39,300	3,702,616	55,100	Jul 28 05:33 PM
SRE	FELSINGER DONALD E	Chairman and CEO	Jul 23	Sale	50.00	69,200	3,460,000	408,491	Jul 24 05:58 PM
QCOM	JACOBS PAUL E	Chairman & CEO	Jul 21	Sale	47.96	72,000	3,453,192	1,061,814	Jul 23 02:22 PM
QCOM	ALTMAN STEVEN R	President	Jul 21	Sale	47.96	72,000	3,453,192	131,734	Jul 22 04:21 PM
ISRG	SMITH LONNIE M	CEO	Jul 27	Sale	217.65	15,000	3,264,773	413,931	Jul 28 04:10 PM
HPQ	ROBISON SHANE V	EVP & Chief Strategy & Tech	Jul 23	Sale	41.50	75,000	3,112,500	22,838	Jul 27 07:21 PM
SY	YATES LINDA K	Director	Jul 22	Sale	35.01	79,658	2,788,850	11,225	Jul 23 03:25 PM
APOL	SPERLING PETER V	Vice Chrmn of the Board	Jul 23	Sale	67.50	41,000	2,767,426	5,302,726	Jul 24 05:03 PM
QCOM	ALTMAN STEVEN R	President	Jul 20	Sale	47.09	56,000	2,636,760	131,734	Jul 22 04:21 PM
QCOM	ALTMAN STEVEN R	President	Jul 27	Sale	46.77	56,000	2,619,338	131,734	Jul 28 02:49 PM
APOL	SPERLING JOHN G	Exec Chrmn of the Board	Jul 23	Sale	67.50	38,500	2,598,688	12,790,991	Jul 24 05:03 PM
KMB	Bauer Joanne B	President, K-C Healthcare	Jul 24	Sale	57.90	44,865	2,597,698	14,495	Jul 27 03:27 PM
DHR	CULP H LAWRENCE JR	President and CEO	Jul 22	Sale	63.75	40,000	2,549,978	18,000	Jul 24 05:07 PM
SRE	FELSINGER DONALD E	Chairman and CEO	Jul 22	Sale	50.00	50,800	2,540,000	408,491	Jul 24 05:58 PM

Click for larger image

The following chart from insidercow shows just how anemic the insider buying has been in recent months. You'll notice that insiders haven't been substantial buyers since late last year and in early March of 2009 – both periods just prior to major market rallies.



Although the level of insider selling is certainly alarming it's important to note that the very low levels of buying are particularly alarming. Insiders sell stock for many reasons, but they generally only buy stock for one reason: they believe the stock is going up. Despite the fact the media is reporting an end to the recession, a bottom in housing and a trough in earnings we are seeing a vote of zero confidence from the people who know these companies better than anyone else. Could this be a sign that the underlying economy is still in fact very weak as we continue to see *in the trucking data*, *weekly rails data* and *weekly same store sales*?

Downloaded from *http://pragcap.com/insider-selling-soars-buying-still-at-record-lows* on September 24, 2009.

Dollar under scrutiny at G20 summit

by P.ParameswaranThu Sep 24, 7:45 am ET

PITTSBURGH, Pennsylvania (AFP) – The embattled US dollar is expected to come under scrutiny at a summit of developing and industrialized nations following China-led calls to review its role as a reserve currency.

The dollar issue is bound to surface at the two-day meeting in Pittsburgh as US President Barack Obama and other leaders of the Group of 20 economies debate a new framework for tackling the so called global "economic imbalances" blamed for fuelling the latest financial crisis.

"Though not clear how the plan would be enforced, it would involve measures such as the US cutting its deficits and saving more, China reducing its reliance on exports and Europe making structural changes to boost business investment," analysts at French bank Societe Generale said in a report.

Some argue that the financial crisis resulted from imbalances between savings and investment in major economies, which have led to large current deficits, as evident in the United States, and surpluses, as enjoyed by China.

Beijing was the first to call for a new global currency as an alternative to the US dollar as the US deficit rocketed -- the White House estimates it could reach nine trillion dollars over a decade.

Chinese Premier Wen Jiabao expressed concern as early as March over the safety of his country's huge US bond holdings now worth more than 800 billion dollars, making it the largest creditor to the United States.

Then, Chinese central bank governor Zhou Xiaochuan, who supervises more than two trillion dollars worth of dollar reserves, the world's largest, raised the stakes by calling for a new reserve currency in place of the dollar.

He wanted the new reserve unit to be based on the SDR, a "special drawing right" created by the International Monetary Fund, drawing immediate support fromRussia, Brazil and several other nations.

"These countries realize that they would suffer losses if inflation eroded the value of the dollar securities they own," said Richard Cooper, a professor of international economics at Harvard University.

But he said there were no feasible alternatives to the US dollar as a widely used international currency, discounting even IMF's synthetic SDR currency, comprising a basket of the dollar, euro, yen and the pound.

"The dollar will remain the dominant world currency, thanks to the stability of our political system and the rule of law that isn't a feature of many other economies," said Irwin Stelzer, director of economic-policy studies at the Washington-based Hudson Institute.

Some groups, he said, were buying euros and other currencies from time to time, "but not in amounts that threaten the dollar's primacy."

Even the Chinese are stuck with nearly a trillion dollars worth of US bonds and are not likely to drive down the value of that hoard by selling large amounts of dollar-denominated assets, Stelzer said.

But what is baffling analysts is that a key UN agency -- the United Nations Conference on Trade and Development, or UNCTAD -- has joined the chorus of calls for a new reserve currency.

An UNCTAD report this month endorsed a proposal that IMF-issued SDRs "could be used to settle international payments."

Until the current global economic crisis, SDRs issued by the IMF have been used by IMF member nation states "primarily as a reserve account to supportinternational trade transactions, not as an alternative international currency available to settle international debt transactions in danger of default," said political scientist Jerome Corsi in "Red Alert," a global financial newsletter.

China, meanwhile, continues to flex its muscle.

It has proposed that the G20 economies consider setting up an international wealth fund that would invest a portion of its members' current-account surpluses indeveloping economies.

"These comments reinforce their desire to diversify out of dollars and to encourage other nations to do so as well," said Kathy Lien, chief strategist for Global Forex Trading.

A few Chinese deals were recently seen accepting payment in the currency of the buyer rather than in dollars, especially with Brazil, which the Asian giant is wooing as a future oil supplier.

In addition, China -- the first nation to sign an agreement to buy IMF bonds -- took the unsual step of paying for the papers equivalent of 50 billion dollars with its yuan currency rather than dollars, which Beijing uses for much of its trade and other foreign transactions.

Carl Weinberg, chief economist of High Frequency Economics, said he was surprised by the move but did not see it having any major impact on the dollar.

"The transaction can now be clearly seen as a political move by Beijing to get more traction in the governance of the IMF, not as an effort by the PBOC (Chinese central bank) to reduce the share of dollars in its reserve asset," he said.

Downloaded from *http://news.yahoo.com/s/afp/financeeconomyg20forexuschina/print* on September 24, 2009.

HSBC bids farewell to dollar supremacy

The sun is setting on the US dollar as the ultra-loose monetary policy of the US Federal Reserve forces China and the vibrant economies of the emerging world to forge a new global currency order, according to a new report by HSBC.

By *Ambrose Evans-Pritchard*
Published: 7:14PM BST 20 Sep 2009

"The ***dollar*** looks awfully like sterling after the First World War," said David Bloom, the bank's currency chief.

"The whole picture of risk-reward for emerging market currencies has changed. It is not so much that they have risen to our standards, it is that we have fallen to theirs. It used to be that sovereign risk was mainly an emerging market issue but the events of the last year have shown that this is no longer the case. Look at the UK – debt is racing up to 100pc of GDP," he said

Crucially, China and rising Asia have reached the point where they can no longer keep holding down their ***currencies*** to boost exports because this is causing mayhem to their own economies, stoking asset bubbles. Asia's "mercantilist mindset" of recent decades is about to be broken by the spectre of an inflation spiral.

The policy headache was already becoming clear in the final phase of the global credit boom but the financial crisis temporarily masked the effect. The pressures will return with a vengeance as these countries roar back to life, leaving the US and other laggards of the old world far behind.

A monetary policy of near zero rates – further juiced by quantitative easing – is completely incompatible with circumstances in most of Asia, the Middle East, Latin America, and Africa. Divorce is inevitable. The US is expected to hold rates near zero through 2010 to tackle its own crisis.

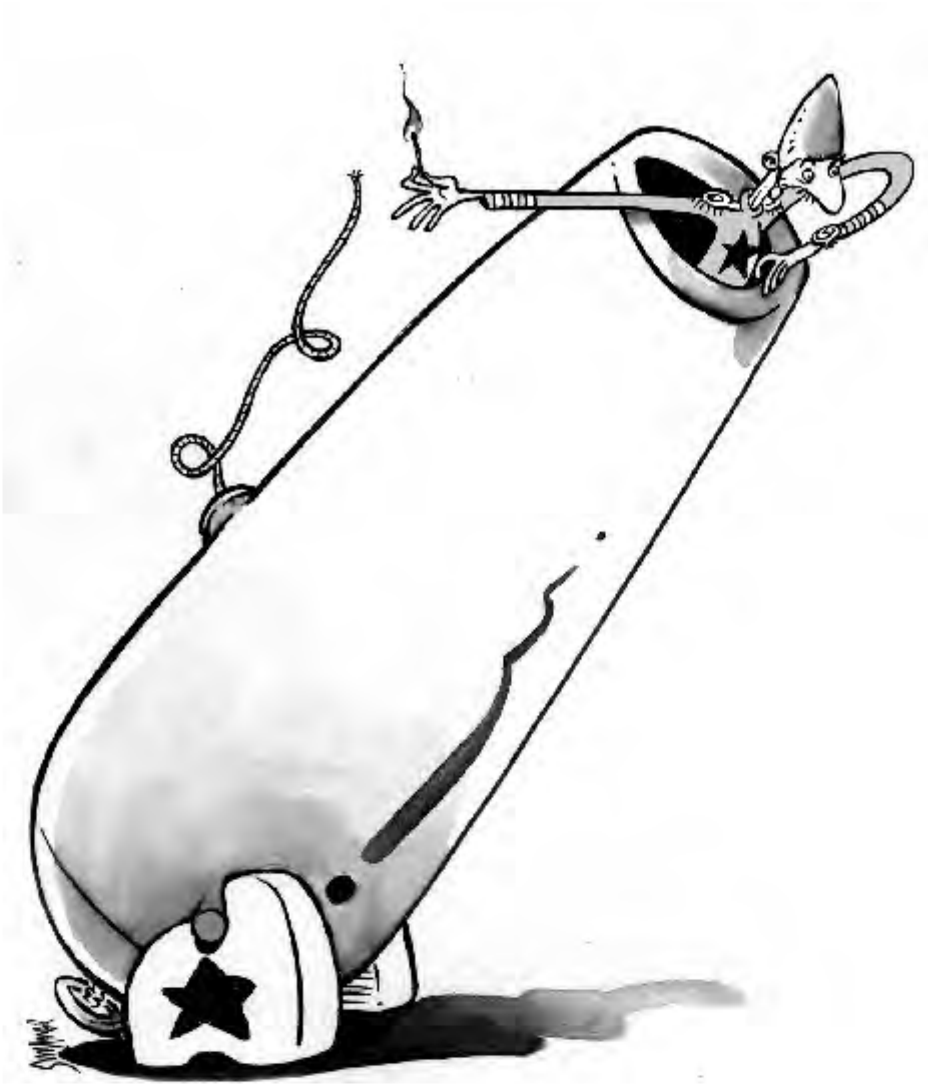
What is occurring is an epochal loss in the relative wealth and economic power of the old G10 bloc of rich countries compared to rising regions of the world. The euro, yen, sterling, Swiss franc and other mature currencies will be relegated along with the dollar in this great process of rebalancing, but the Greenback will bear the brunt.

The Fed's super-loose policy is turning the dollar into the key funding currency for the next phase of the global "carry trade", taking over the role of Japan during its period of emergency stimulus.

Mr Bloom said regional currencies would emerge as the anchor for their smaller trading partners, with China, Brazil, or South Africa substituting the role of the US. Australia is already linking its fortunes to China through commodity ties.

Downloaded from *http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/6211858/HSBC-bids-farewell-to-dollar-supremacy.html* on September 24, 2009.

Desperately seeking an exit strategy



Anthony Jenkins/The Globe and Mail

Getting the plan right is crucial. Errors would heighten the threat of a double-dip recession.

From [The Globe and Mail]

There's a general consensus that the massive monetary easing, fiscal stimulus and support of the financial system undertaken by governments and central banks around the world prevented the deep recession of 2008-2009 from devolving into the Second Great Depression.

Policy-makers were able to avoid a depression because they had learned from the policy mistakes made during the Great Depression of the 1930s and Japan's near depression of the 1990s. As a result, policy debates have shifted to arguments about what the recovery will look like: V-shaped (rapid return to potential growth), U-shaped (slow and anemic growth) or even

W-shaped (a double dip). During the global economic free fall between last fall and this spring, an L-shaped economic and financial Armageddon was still firmly in the mix of plausible scenarios.

But the crucial policy issue ahead is how to time and sequence the exit strategy from this massive monetary and fiscal easing. Clearly, the current fiscal path being pursued in most advanced economies – the reliance of the United States, the euro zone, the United Kingdom, Japan and others on very large budget deficits and rapid accumulation of public debt – is unsustainable.

Why the Dow Is Hitting 10,000 Even When Consumers Can't Buy and Business Cries "Socialism"

Tuesday 22 September 2009

by: Robert Reich | **Robert Reich's Blog**

While The Down Jones rises where is the money going? (Image: Troy Page / t r u t h o u t; Adaptod from Ben Brown / flickr)

So how can the Dow be flirting with 10,000 when consumers, who make up 70 percent of the economy, have had to cut way back on buying because they have no money? Jobs continue to disappear. One out of six Americans is either unemployed or underemployed. Homes can no longer function as piggy banks because they're worth almost a third less than they were two years ago. And for the first time in more than a decade, Americans are now having to pay down their debts and start to save.

Even more curious, how can the Dow be so far up when every business and Wall Street executive I come across tells me government is crushing the economy with its huge deficits, and its supposed "takeover" of health care, autos, housing, energy, and finance? Their anguished cries of "socialism" are almost drowning out all their cheering over the surging Dow.

The explanation is simple. The great consumer retreat from the market is being offset by government's advance into the market. Consumer debt is way down from its peak in 2006; government debt is way up. Consumer spending is down, government spending is up. Why have housing prices stopped falling and new housing starts begun? Because the Fed is keeping mortgage rates low by buying up Fannie and Freddie's paper, and Fannie and Freddie are now just about the only mortgage game in town.

Why is the health care sector booming? Because the government is about to expand coverage to tens of millions more Americans. Why are auto sales up? Because the cash-for-clunkers program has been subsidizing new car sales. Why is the financial sector surging? Because the Fed is keeping interest rates near zero, and the rest of the government is still guaranteeing any bank too big to fail will be bailed out. Why are federal contractors doing so well? Because the stimulus has kicked in.

In other words, the Dow is up despite the biggest consumer retreat from the market since the Great Depression because of the very thing so many executives are complaining about, which is government's expansion. And regardless of what you call it - Keynesianism, socialism, or just pragmatism - it's doing wonders for business, especially big business and Wall Street. Consumer spending is falling back to 60 to 65 percent of the economy, as government spending expands to fill the gap.

The problem is, our newly expanded government isn't doing much for average working Americans, who continue to lose their jobs and whose belts continue to tighten, and who are getting almost nothing out of the rising Dow because they own few if any shares of stock. Despite the happy Dow and notwithstanding the upbeat corporate earnings, most corporations are still shedding workers and slashing payrolls. And the banks still aren't lending to Main Street.

Trickle-down economics didn't work when the supply-siders were in charge, and it's not working now that -- despite all their cries of "socialism" -- big business and Wall Street are very quietly in charge.

Unemployment in California reaches 70-year high

21 September 2009

Official unemployment in California, the most populous state in the US, has reached a new historical milestone. At 12.2 percent in August, it is now at the highest level since 1940. It has risen 4.6 percentage points over the course of the last year alone.

The recently released unemployment figures from the Bureau of Labor Statistics reveal the social reality that lies behind official claims of an end to the economic downturn. Just last week, speaking before an audience at the Brookings Institution in Washington DC, US Federal Reserve Chairman Ben Bernanke claimed that the recession is "very likely over." For workers throughout the country, however, the crisis is intensifying.

As high as it is, the statistic fails to capture the true gravity of the jobs situation in California. The 2.5 million people represented in the August figure do not include those who are out of work but have given up looking for a job, or those who are involuntarily working part-time. By some estimates, when calculated together, the unemployment and underemployment rate in California stands at 23 percent.

Even this number, however, does not take into account the thousands of undocumented immigrants out of work in the state. Many immigrants are employed in the construction industry, which has been extremely hard hit by the downturn. Thus, the economic crisis in California affects workers in Mexico and Central and South America, as millions of families are dependent on remittances from relatives.

What is happening in California is not unique to the state. Nevada and Rhode Island both have even higher jobless rates. In Michigan, the forced bankruptcies of Chrysler and General Motors, which were planned, orchestrated, and overseen by the Obama administration, have contributed to an unemployment rate of 15.2 percent. In Ohio, another state that had been part of the country's industrial heartland, the unemployment now stands at 10.8 percent. Official unemployment for the US as a whole will soon reach double digits.

However, the unemployment rate in California has a special historical significance. Known as the "Golden State," California was once a symbol of post-war prosperity in the US. In addition to being a major agricultural producer, it was also home to a significant portion of the country's aerospace, shipping, automotive, and technology industries.

In the post-war period, millions of people flocked to the state. Between 1940 and 1960, the population grew by an unprecedented 128 percent. California's vast highway, higher education, public parks and recreation systems date from this period. Now, the entire infrastructure that was built up at that time is being effectively left to waste.

The social catastrophe now afflicting California is not simply the product of blind economic forces. It is a conscious class policy pursued by Republican Governor Arnold Schwarzenegger, the Democratic-controlled State Legislature, and the Obama administration, which is using widespread joblessness to drive down the living standards of the working population.

Facing a $45.5 billion budget shortfall, the state government recently approved more than $15 billion worth of budget cuts to education and social programs.

The Obama administration refused to bail out California, or any of the states facing budget shortfalls. While the administration insists that no money can be made available to prevent the destruction of California's public infrastructure, the US government has pledged trillions of dollars to rescue Wall Street. Bonuses paid out at the nine major banks, all beneficiaries of government largess, totaled $33 billion last year—a figure that would cover a significant portion of California's deficit by itself.

California programs gutted as a consequence of budget cuts include: Medi-Cal, supplemental social security payments, child welfare and health services, foster care, domestic violence shelters, and health care programs for HIV/AIDS patients and children with dental disease. In addition, cost-of-living adjustments for Cal-Works, the state welfare program, have been eliminated.

State workers have been furloughed three days a month, resulting in a 15 percent wage cut. The crisis has also reverberated down to local governments. In Los Angeles, the mayor recently announced thousands of layoffs and unpaid time off for city employees.

Meanwhile, cuts in public education have resulted in widespread job losses for teachers and school support staff in K-12 school districts. At the university level, well over half a million students are facing fee hikes of 30 percent or more at state-funded institutions, while thousands of staff and faculty have been laid off statewide.

Much of California's industrial base is being eliminated as a result of the economic crisis. Toyota has announced that it will shut down the NUMMI plant in Fremont, resulting in the elimination of 4,600 jobs and the closure of the state's last automobile manufacturing enterprise.

The return of unemployment to levels not seen since just after the Great Depression is a clear expression of the failure of American capitalism and the American political system.

The crisis in California underscores the necessity for the working class to adopt a new political strategy. The Socialist Equality Party (SEP) calls for the implementation of a multi-trillion dollar public works program nation-wide to guarantee employment and rebuild the state's infrastructure—roads, public schools, parks, community and cultural centers. This program would be aimed at real productive investment, and not the diversion of public money into financial speculation.

The SEP demands immediate relief for the unemployed, including an increase and extension of unemployment benefits to prevent the loss of income. There should be an end to all home foreclosures. Guaranteed health benefits should be made available to all laid off workers.
The realization of these basic social demands, however, requires a coordinated political struggle of the international working class. As a recent*WSWS perspective* made clear, the jobs crisis is a global crisis. It is the product of a ruthless offensive of the ruling class against the living standards of workers around the world.

The return of conditions of life not seen since the Great Depression is ultimately the product of a society that subordinates the needs of the vast majority to the profit interests of the giant banks and corporations. This crisis can be resolved only by building the Socialist Equality Party as the independent party of the working class, which has as its aim the socialist reorganization of economic life to meet social need, not private profit.

Andrea Peters

Downloaded from *http://www.wsws.org/articles/2009/sep2009/pers-s21.shtml* on September 24, 2009.

U.S. issues $7 trillion debt, supply to stabilize

On Wednesday September 23, 2009, 12:45 pm EDT
By Burton Frierson

NEW YORK (Reuters) - The U.S. government will have issued $7 trillion in bonds by the time the current fiscal year ends next week, but it expects the debt deluge to stabilize by mid 2010, a Treasury official said on Wednesday.

Though markets and the economy are improving, efforts to provide a firm foundation for recovery will require increases to the U.S. Treasury's conventional bonds going forward, as well as debt securities that are indexed to inflation.

However, this expansion may take place in an environment where investors consider leaving the safe-haven Treasury market for riskier assets, and debt issuance is likely to level off mid next year, said Treasury Acting Assistant Secretary for Financial Markets Karthik Ramanathan.

"In fiscal year 2009, which ends next week, Treasury will have issued $7 trillion in gross issuance -- that's in a 12-month period," Ramanathan told a financial markets conference in New York.

"This issuance was necessary to meet nearly $1.7 trillion in net marketable borrowing needs, nearly $1 trillion more than what we raised last year," he added.

DEMAND TO WANE

The heavily-indebted U.S. government has seen tremendous demand for Treasury debt securities this year due to a flight-to-quality into the safe haven assets.

However, Ramanathan said some of this demand would begin to taper off and investors were likely to favor other sectors as the financial markets recovery continues.

"Rather than being discouraged by this move to more risky assets we should actually be encouraged," he said. "It is the natural progression from the state we were in last year."

The collapse of Lehman Brothers investment bank in September 2008 sparked the massive migration toward safe-haven assets, though the stock market has been in a remarkable rally since the spring.

Investors have also returned in numbers to the corporate debt market, which suffered during last year's turmoil.

There is still a long way to go toward market and economic stabilization but good progress is taking place, Ramanathan said, adding that officials were no longer focused "on LIBOR/OIS spreads on a daily or hourly basis."

"We still have a long way to go and...there are going to be bumps along the way, but at least we're seeing the signs of traction," he added.

The LIBOR/OIS spread is a market measure that reflects the difference between the cost of so-called risk-free borrowing, such as that done by the U.S. Treasury, and lending to the private sector, which is normally considered less safe.

LONGER MATURITIES?

When asked whether the Treasury would consider offering a longer maturity bond in the future, Ramanathan said, "We are content with our current suite of securities."

The Treasury's longest maturity is the 30-year bond.

However, issuance will increase in the near term, as has been the case all year.

"Going forward we expect to increase both nominal and inflation indexed coupon issuance incrementally and gradually over the next nine months to extend the average maturity of the debt," he said.

Due to structural changes in the budget deficit, Ramanathan said he expected the average maturity of the debt to stabilize at six to seven years, exceeding historic averages of five years.

However, he said he expected coupon debt securities, or the bonds Treasury issues, to stabilize next summer and potentially go down toward the end of next year.

(Reporting by Burton Frierson; Editing by Andrew Hay)

Downloaded from *http://finance.yahoo.com/news/US-issues-7-trillion-debt-rb-118622363.html?x=0&.v=4* on September 24, 2009.

Card Defaults Surge in August to 11.49%, Moody's Says (Update1)

Sept. 23 (Bloomberg) -- U.S. credit-card defaults rose to a record in August and more losses may lie ahead as delinquencies climbed for the first time since March, according to Moody's Investors Service.

Write-offs rose to 11.49 percent from 10.52 percent in July, Moody's said today in a report. Loans at least 30 days delinquent rose to 5.8 percent from 5.73 percent. "Early- stage" delinquencies, or loans overdue 30 to 59 days, surged to 1.65 percent, from 1.41 percent, signaling higher losses in coming months. Banks typically write off loans after 180 days.

Card issuers have struggled with rising defaults as the recession drove up unemployment to 9.7 percent and the impact of income ***tax refunds*** waned. Credit-card defaults typically track the U.S. jobless rate since consumers tend to fall behind on payments when their income dries up.

"We continue to call for a recovery of the credit-card sector to begin once industry average charge-offs peak in mid- 2010 between 12 percent and 13 percent," said the Moody's report, which predicted unemployment may reach 10.5 percent.

JPMorgan Chase & Co.,Bank of America Corp. and ***Citigroup Inc.,*** the biggest U.S. credit-card lenders, said in federal filings on Sept. 15 that defaults climbed in August.

To contact the reporter on this story: ***Peter Eichenbaum*** in New York at***peichenbaum@bloomberg.net***

Downloaded from http://www.bloomberg.com/apps/news?pid=20601087&sid=aa71n7jSFj80# on September 24, 2009.

U.S. Debt Crisis May Cause 'Fall of Rome' Scenario, Duncan Says

Sept. 23 (Bloomberg) -- U.S. budget deficits will continue to pile up in the next decade, eventually reaching an unsustainable level that may result in an economic collapse, according to ***Richard Duncan***, author of "***The Dollar Crisis***."

The U.S. has little chance of resolving its deteriorating financial position because the manufacturing industry continues to shrink, leaving the nation with few goods to export, said Duncan, now at ***Singapore-based Blackhorse Asset Management***.

In "The Dollar Crisis," first published in 2003, Duncan argued that persistent current account deficits by the U.S. were creating an unsustainable boom in global credit that was destined to break down, resulting in a worldwide recession.

"The bad news is at the end of a 10-year period we're still not going to have fixed the problem," Duncan said in an interview in Hong Kong yesterday. "Eventually it will lead to high rates of inflation well down the line and really destabilize things to the point where there may be irreparable damage. A kind of 'Fall of Rome' scenario."

The federal budget deficit will total $1.6 trillion this year, while combined shortfalls are forecast to total $9.05 trillion in the next 10 years, according to projections from the nonpartisan ***Congressional Budget Office***.

The U.S. has run a ***current account deficit*** every year since 1982 except one, with a peak of $788 billion in 2006. Foreign purchases of U.S. debt has propped up the dollar and allowed a credit-fueled spending boom by the nation's consumers, according to Duncan.

Falling Wages

U.S. workers are now likely to face declining wages and that may create a political backlash against free-trade policies, he said. The nation's ***jobless rate*** jumped to a 26-year high of 9.7 percent in August, while wages logged a 2.6 percent increase from the previous year.

"As unemployment remains above 10 percent well into the foreseeable future, it won't be long before Americans start voting for protectionism," Duncan said. "That's going to be bad because protectionism will mean world trade will diminish and will overall reduce global prosperity."

Once the U.S. debt burden becomes too large and the government can no longer sell debt to the public the Federal Reserve will likely step in and monetize it, resulting in high levels of inflation, he said.

Economic Crisis

The MSCI World Index plunged by a record 42 percent last year as the collapse of Lehman Brothers Holdings Inc. triggered a credit crunch that forced financial institutions to post more than $1.6 trillion in losses and writedowns.

As an analyst, Duncan began warning of imbalances in Thailand's economy in 1993 that eventually led to the devaluation of the baht in 1997 and a regional economic crisis. The nation's ***SET Index*** dropped as much as 88 percent from its 1994 peak to a low in 1998.

Prior to joining Blackhorse, Duncan was the head of investment strategy at ABN Amro Asset Management. He has also held positions at James Capel, Indosuez W.I. Carr and Salomon Brothers.

New Deadly Dollar Carry Trade

Jim Willie CB
Jim Willie CB is the editor of the "Hat Trick Letter"
Sep 24, 2009

Use this link to subscribe to the paid research reports, which include coverage of several smallcap companies positioned to rise during the ongoing panicky attempt to sustain an unsustainable system burdened by numerous imbalances aggravated by global village forces. An historically unprecedented mess has been created by compromised central bankers and inept economic advisors, whose interference has irreversibly altered and damaged the world financial system, urgently pushed after the removed anchor of money to gold. Analysis features Gold, Crude Oil, USDollar, Treasury bonds, and inter-market dynamics with the US Economy and US Federal Reserve monetary policy.

A powerful hidden engine existed for close to 20 years called the Yen Carry Trade. The engine produced tainted trillion$ for its priviliged participants, whose access to cheap money was assured and whose control of government policy was tight. The engine served two important purposes. It kept the Japanese Yen currency exchange rate low, sufficient for maintaining the export juggernaut that sent products around global supply routes with names like Toyota, Honda, Komatsu, Mitsubishi, Nikon, Toshiba, and Fuji for a string of years. It also supplied a torrent of funds to feed both the Japanese and Western (think US, UK, Europe) financial markets its most important channel in existence. The Yen Carry Trade was that important. The Bank of Japan and a host of Tokyo-based financial firms relied upon this carry trade for basically free money. This important money making machine required Japanese interest rates and currency to remain low, and USTreasury Bond yields and US$ currency to remain high. **Those halcyon days are largely done, since the Yen is on a rising uptrend and the US$ is on the falling downtrend, even as US long-term rates are stuck below a defended steel bar.** Nowadays, the insider firms are struggling to avoid a wrestling match with the Grim Reaper. They are falling like flies.

In the last two to three years, a significant portion of this carry trade has been unwound. In fact, when the US stock market went from Dow 14000 to Dow 7000, it was widely believed that the unwind of the Yen Carry Trade coincided with the decline, thus ending an era. Not to be denied, foreigners tapped into the easy money game during the longstanding era. Wall Street, London, and several European finance centers exploited the opportunity also. When the US$ exchange rate topped in year 2001, and when the US stock market topped in year 2007, the exits became crowded with Japanese and Westerners alike, as they dismantled their leveraged machinery designed to capture the easiest money in modern history. If these firms entered the mortgage bond torture chambers, they had to contend with floors that vanished, as well as swinging axes. Survival is a grand challenge when removing leveraged machinery.

YEN CARRY TRADE DYNAMICS

The Yen Carry Trade worked like this in rough terms. The large financial firms borrowed Japanese money at the near 0% rate, a lot of money, and managed a Yen currency risk. They could either borrow cash from Japanese banks or integrate short Yen positions into contracts with equivalent risk exposure. They had liberty to invest in whatever instrument they wished, but the favorite in the last two decades had been the USTreasury long bond. They earned 4% to 5% vig on the difference, but required a rising USDollar and falling Japanese Yen. **The ruinous bursted bubble from Japan around 1990 and the seemingly endless years of 0% Japanese money enabled the Yen Carry Trade against a backdrop of a chronic insolvent Japanese bank system.** A critical characteristic of that carry trade was that is applied leveraged enormous pressure in a way so as to maintain the low Yen currency and the high US$ currency. The typical leverage acted like a crowbar (jimmybar) to apply 10x to 20x more force, deploying futures contracts. The leveraged gains were thus between 50% and 100% per year, dotted with some currency risk. Be sure to know that other objects of this leveraged game involved the purchase of US stocks, like in an S&P bundle, and UKGilt Bonds and even German Bunds. Speaking of German, the entire Yen Carry Trade concept was totally unknown to the venerable Kurt Richebächer, admitted in our conversations in August 2003. May he rest in peace.

The objective asset had to meet requirements. They required only strong currencies and hefty bond yields, an easy task to identify object assets to invest in. Since 2001 when the Gold price hit bottom, another object for investment had been the Gold asset. The Gold price has risen in part from the Yen Carry Trade. **In fact, the unwind of the Yen Carry Trade might be a key factor to explain the Gold price consolidation since January 2008, nearly a two-year period.** My belief is that the long consolidation has created a very**strong foundation** for a rise to $2000, **not a ceiling** to limit the Gold price as the clownish pundits claim who litter the compromised landscape. Since year 2003, when the USFed hit the floor with low interest rates, funds to power Gold investment have largely been drawn from the USDollar fountain. Since mid-2007 when the USFed took the official rate even lower, matching the 0% from Japan, against all promises to do so, the Gold investment has been powered clearly by funds in US$ denomination. That movement will surely accelerate.

The Yen Carry Trade decline and wind-down has been reported for the last few years. It has been attributed to the US stock downdrafts. It would be impossible to wind it down in a year or two, even three years. It was that big. Its size is estimated to be perhaps $2 trillion in magnitude. The unwind has a nasty blowback effect to be felt by Japan. The Yen currency rebounded in the last couple years, thus creating a foundation for a strong recovery. **In the process, the Japanese export trade is threatened by a rising Yen, rendering its exported products more expensive.** Japan must therefore manage a transition to a new major trade partner in China, which has actually eclipsed the US in recent months. During this transition process, Japan will gradually loosen high level corporate ties and important political ties with the Untied States. If the Yen rises faster than the Chinese Yuan, then the transition can be managed to mutual benefits between Japan and China. The only problem is that Japan might find itself becoming a Chinese Lackey in much the same way it was an American Lackey for 50 years. The new Japanese prime minister elect Hatoyama has publicly stated his intention to strive for more balance.

PILLAGE FROM GOLD CARRY TRADE

Welcome a new carry trade to town! Before introducing it, let it be known that the carry trade concept was not a foreign tool to Robert Rubin, former Goldman Sachs currency superstar and former Treasury Secy in the Clinton Admin. He was the initial Wall Street fox invited to serve in the Dept Treasury henhouse, the beginning of the financial structure ruin for the nation. He served as Treasury Secretary in the same sense that a armored truck heist serves a bank. **Rubin designed the Gold Carry Trade in the 1990 decade that took down the Gold price. He arranged for the USTreasury gold lease rate to be in the neighborhood of 1%, made available to Wall Street firms, but NOT YOU!** They leased the gold bullion from Fort Knox, the national treasury, and sold it into the market. With proceeds they bought USTreasury Bonds, and ushered in a decade of prosperity, as they like to call it, more like a Stolen Decade of Prosperity in Jackass parlance. They set up this Decade of Despair. The end result was the depletion of the USGovt gold treasure by Wall Street for their private gain, but NOT YOURS! To think Wall Street exists in order to facilitate capital formation for the USEconomy is a gross error of judgment, that misses the entire criminal syndicate function they serve, best described as a vast parasite. The public has finally seen it with the climax death of Lehman Brothers, the nationalizations of the Black Holes in AIG and Fannie Mae, the extortion for the TARP funds, the secrecy upheld for its slush fund distribution, and the defiant posture from the USFed when confronted with audits. The syndicate is showing itself more clearly.

The Gold Carry Trade served its purpose, enriching Goldman Sachs beyond its wildest dreams. They even orchestrated an IPO stock event in order to cash in but retain control from their own deep bounty. Gold descended from $400-450 per ounce down below $300, hitting the depth a year after Rubin's yeoman service. The USDollar peaked at the same time that gold bottomed. Now with insolvency of the US banks and US households, comes insolvency of the USGovt and the absence of its gold collateral for the USDollar itself, the consequence of Wall Street plunder and pillage.

Be sure to know that the natural order has unfolded the beginning of a quiet murder skein behind the scenes. It has been launched by the death of an ABN Amro banker in the Netherlands and the death of the Freddie Mac Chief Financial Officer, both last spring. Other deaths occurred just last week, four convenient ends for men who might have struck a plea bargain agreements with damning evidence, who might have been targeted by angry elite investment victims, and who might just have known too much about fraudulent money trails. Anyone who buys the suicide stories is dopey at best, a moron at worst. Recall that the businessman Al Capone attended church and gave money to ophanages.

THE USDOLLAR CARRY TRADE

Welcome a new carry trade to town! **Here in the present, the new carry trade has begun to take root with the USDollar as its basis.** Its requirements are simply stated. It needs a crippled bank system that offers a reliable 0% interest rate, a crippled currency that offers little risk of a rise in exchange rate, and plenty of targeted opportunities to invest in rising asset groups in competition. **The gold asset is one such object asset.** One is hard pressed to identify a sovereign bond security pitched by a government with any credibility. Their deficits, boatloads of bond issuance, and public statements in desire of weaker currencies tend to rule them out. So Govt Bonds are not a viable object. They are too busy ruining their currencies in the midst of the Competing Currency War. Why just two weeks ago, the Swiss Govt announced their frustration at a rising currency, despite all efforts to undermine their Franc currency. They will be forced to redouble their destructive efforts. The Europeans did NOT want to reduce interest rates a year ago, but they did, a correct Jackass forecast that went directly against some banker contacts. That shows the power of the Competing Currency War, since the Euro currency had risen to 160, sufficient to render considerable harm to the European Union Economy in its export trade. With numerous currencies 'frozen' from programmed destruction, the time is ripe for the USDollar Carry Trade to be launched. It has been launched. THIS CARRY TRADE WILL PUNISH THE USDOLLAR BADLY AS IT WEARS A BADGE OF SHAME!

The ruinous bursted bubble from Japan around 1990 and the seemingly endless years of 0% Japanese money enabled the Yen Carry Trade against a backdrop of a chronically insolvent Japanese bank system. A critical characteristic of that carry trade was that heavy leverage applied enormous pressure in a way so as to maintain the low Yen currency and the high US$ currency. In the summer 2008 when the USFed took the official interest down to 0.25% and stuck it there, the USDollar Carry Trade was assured of a vigorous run through the financial factories. Here is what is so important about its upcoming entrenchment. The US$ exchange rates will be heavily subdued, with any rebounds totally smothered, resulting in a relentless Gold rise with gusto. The shorting of the US$ is key for the supply of funds. It comes as borrowed US$ funds used outside the US Sphere, thus net bearish. It comes as leveraged instruments designed to capitalize on a continued US$ decline integrated into securities like with short DX contracts.

The coordinated and systematic ruin of major currencies, through monetizations, through vast federal deficits, through sustained near 0% official rates, and through chronically insolvent national bank systems, will assure that the Gold asset will be a favorite for the USDollar Carry Trade for at least a couple years, maybe more. **Furthermore, installation of the USDollar Carry Trade will assure that No Exit Strategy will be available to the USFed also.** Wall Street firms will participate in this free lunch carry trade, just like all others. **Wall Street will not permit a USFed rate hike to firm the US$ exchange rate.**Talk about a strong perverse factor behind the USDollar. This is every bit as powerful as the 'Beijing Gold Put' analyzed in the Hat Trick Letter issued in September.

Continued forces will be at work in a variety of ways to continue the thrust and duration of this new USDollar Carry Trade, sure to keep it badly subdued. **The risk is so great that a USTreasury Bond default could even become the last stop on its pathogenesis pathway.** Just today, the compromised erudite spokesman Lawrence Meyers actually said the USFed will probably remain on hold for its near 0% interest rate until the end of 2011. That is NOT a misprint!!! The USFed will justify its decision not to hike rates, not to halt money creation, all the while discussing theoretically an Exit Strategy. Try not to laugh too hard! Also, the US$ Swap Facilities are scheduled to end in October 2009. Their extension should be very harmful for the USDollar, from the bad publicity and the understood urgent implicit desperate need. The next wave of US bank losses will arrive to coincide with the falling of the leaves in autumn, an apt parallel. **The inability of the USFed to conduct and execute any Exit Strategy at all is powerful impetus behind the development of the USDollar Carry Trade, and the powerful lift it gives the Gold price.** They cannot raise interest rates. The Stimulus Bill has run its measly course. The monetary stimulus must remain in place. The Uncle Sam patient is imprisoned in the Intensive Care Ward.

THE YEN, USDOLLAR & GOLD

The Japanese Yen bottom occurred in summer 2007, just about the time of the US stock peak. That is not a coincidence, since Yen Carry Trade funds propelled the US financial markets in a general sense. The continued breakout in the Yen beyond the January 112 highs will amplify the USDollar bear market, and push the US$ DX index to multi-decade lows. A panic comes, coordinated with a rise in the Euro, Yen, and other currencies.

(Click on images to enlarge)

The USDollar DX index will probably head below the critical support at 70 sometime early next year, or late this year. Its movements are increasingly volatile, in a bad way. A global revolt against the US$ is underway with full speed. The only US$ support comes from monetization and deception, as the Printing Pre$$ is active. The nation is insolvent in most every respect. No return to normalcy will come, despite the hopes and dreams of US leaders, unfortunately trapped inside the USDome, where perceptions are flawed. The US financial structure is permanently broken. In reaction to today's FOMC decision to leave interest rates alone, the USDollar has resumed its decline. It will soon amplify its downward direction. While they spoke with optimistic words, the truth is that they are stuck without an Exit Strategy, which will become painfully clear over the passage of time.

Two weeks ago, a rather comprehensive list of reasons was provided for the Gold price breakout. Many factors were given to explain how and why the Gold price would march toward the $2000 level. THE ARRIVAL OF THE USDOLLAR CARRY TRADE IS A PRIMARY REASON FOR THE MARCH TO $2000 GOLD. Prepare for it, as the pundits will be made to squirm and eat crow! Almost all pronouncements, propaganda, and prattle must be ignored that come from the Pagan Paper Palaces that have wrought the current destruction and wreckage. The only factor they comprehend is the excessive printing of money and largesse from government budgets to aid the rescue and stimulate the moribund as well as to nationalize both the dead financial firms and their grotesque fraud laced with counterfeit.

CENTRAL BANKER DESTRUCTION OF CAPITAL

The phenomenon will be much like a flesh eating bacteria. **What is eaten during unbridled USFed money creation and USGovt debt issuance is the USEconomic capital, both industial capital and household capital.** The most misunderstood aspect of the profound accommodation with near 0% rate of interest (ZIRP) and enormous mountains of printed money (QE) is the destruction of USEconomic capital. Not only is new capital formation NOT possible, but capital is liquidated and banks are hesitant to lend even to good customers.**Zero Interest Rate Policy and Quantitative Easing serve as the most severe and formidable Weapons of Mass Destruction to capital that the modern world has ever seen.** See small business sector, see the car industry & supply lines, see construction sector, and much more. Both the ZIRP and QE are fuel and lubricant both to power gold to the $2000 level, serving as vivid battle cries!

The tragedy of modern day central banking, a franchise in total failure, has been the hidden destruction of capital with their full blessing. The central bankers cheered the dispatch of US factories to China so as to exploit cheaper labor, labeling ‘Low Cost Solutions’ as the myth chapter. Debt replaced income. They cheered the raid of equity from US homes after urging a housing bubble creation. Foreclosures resulted. They justified the absurd legitimacy of a USEconomy structured atop a housing bubble, calling home equity wealth, labeling ‘Asset

Economy' as the myth chapter. Bank system insolvency resulted. They justified the horrendous US trade gaps and current account deficits, recycled back to the US from Asian and OPEC finance of the USTreasurys, labeling 'Macro Economy' as the myth chapter. Credit dependence and now monetization dependence resulted. They cheered the ultra-low rates to stimulate an economic rebound that has not occurred, to their frustration. They endorsed the US bank stock rally, aided and abetted by fraudulent bank balance sheet accounting. Lofty stock valuations (amidst a 97% profit decline) and heavy executive insider selling resulted. They cheered the stupid Clunker Car program that used $9 of USGovt funds for every $1 in fuel costs. A Detroit basket case resulted.

The latest shameful disgraces for the USFed are three. 1) The USFed monetizes USTreasurys during auctions by using the primary dealers as temporary holders before permanent open market operations, and by using foreign central bank sales of USAgency Mortgage Bonds in addition to the USDollar Swap Facility. 2) The USFed just admitted publicly that it had consistently been hiding its Gold Swap Agreements, thus rendering Greenspan a perjury perpetrator and the institution in violation of its contract. 3) New York Fed president Jan Hatzius (another GSax plant) expects the USFed balance sheet to expand by over $1 trillion more. The transgressions of the USFed ensure gold will hit $2000.

The idiots in the room are central bankers. They hold invisible wrecking balls and vats of acid. They busily help to coordinate the newest initiatives from the group of many new USGovt czars, each with semi-dictatorial powers, answerable to almost nobody. The clueless American leaders and awestruck US corporate chieftains and victimized American citizens watch in horror as the **US Politburo is assembled toward creation of a communist state**. Liberties were shredded following a certain event of grand deception and subterfuge in september 2001. Let's just call it a Coup d'Etat, with the identities kept under wraps, since their hit squads are quite proficient and roam freely.

When Housing Is Priced in Gold (September 23, 2009)

Pricing U.S. homes in gold reveals that housing has fallen by two-thirds from its 2005 peak.

Frequent contributor Harun I. suggested an interesting relative-value experiment: how has housing performed in the past 20 years when priced in gold?Oftwominds.com readers know that relative performance/purchasing power has long been a theme of Harun's and of this site.

Considering all metrics of value in terms of purchasing power reveals much more insightful measures of value than nominal prices.

For instance, measuring the cost of housing in terms of "how many loaves of bread would be needed to buy a house?" is a more accurate measure of purchasing power and valuation than measuring housing in terms of dollars, which have lost 25% of their value to inflation in the past decade and much more when compared to other currencies.

Since gold is a universal metric of money, let's see how housing has done when priced in gold. Yes, I understand you can't live in gold or plant trees in gold, but the exercise isn't to suggest housing is "only" an investment like gold--the point is to seek an understanding of the relative peaks and valleys in housing valuation.

In other words, is housing "cheap" now? There are various accepted metrics of approaching this question, for instance, comparing the equivalent costs of renting versus buying. Another is to ask if buying a house and renting it out at current market rates would yield a profit, and if so, how does that profit compare to other alternative investments?

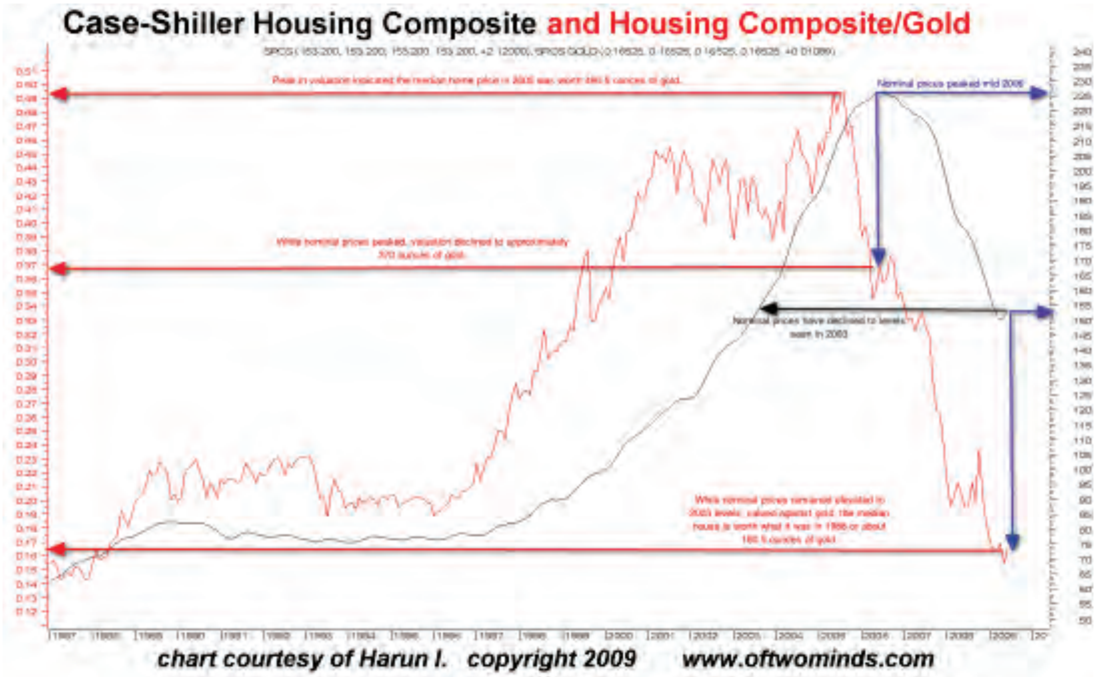
Priced in gold, housing has already fallen 2/3 from its 2005 peak when priced in gold.

Harun's charts are large-format, so I have posted thumbnail versions below. Just click on the thumbnail to open the full-sized chart in a new browser window.

The charts plot the well-known Case-Shiller Housing Composite as the proxy for the U.S. housing market.

Harun offered these comments on the charts and the housing/gold ratio (relative-strength).

The first chart is the S&P Case-Shiller House Price Composite (black line). The red line is an RS (relative-strength) of the composite to gold. Historical comparison suggests home prices are still overvalued. The red line indicates that homes are worth in gold what they were in the late 1980's while nominal prices remain elevated.



Click on chart for a full-sized version in a new browser window.

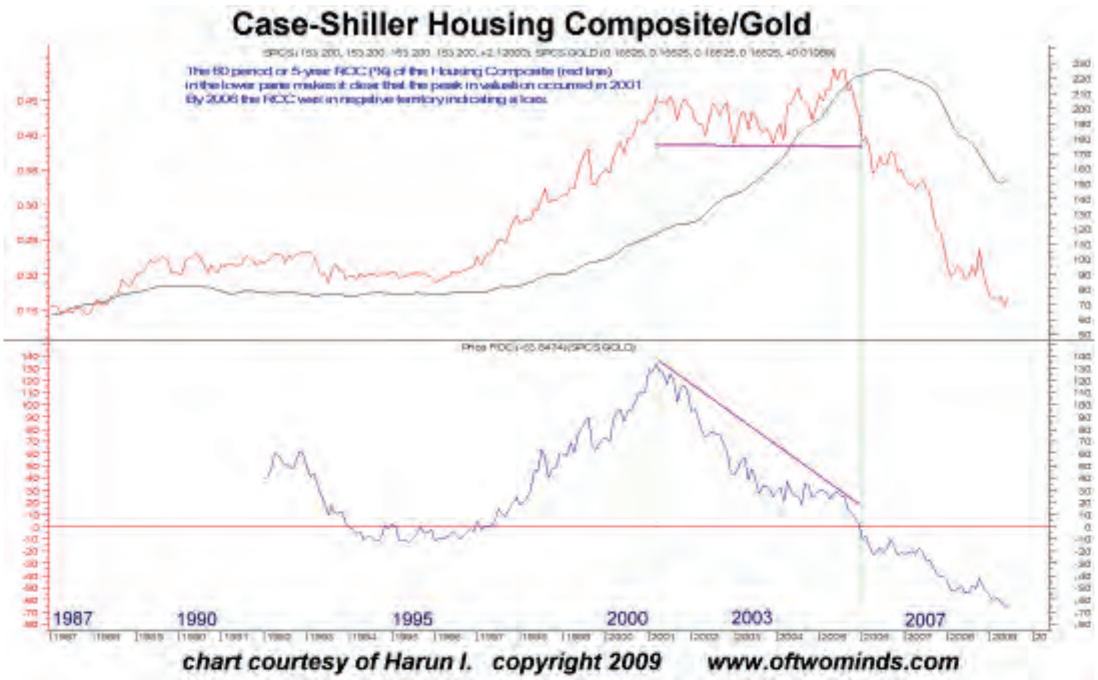
At the peak in 2005, the median home price equaled 490 ounces of gold. The present median price is worth about 160 ounces of gold, or roughly the same valuation as 1988.

Nominal housing prices have returned to 2003 levels. But when priced in gold, the 2003 valuation was 420 ounces of gold. Now that nominal prices have returned to that level today, the median house will only fetch 160 ounces of gold.

But if nominal prices revert to pre-bubble valuations (1997-98), which is the typical course of popped asset bubbles, then we could see housing become even cheaper when priced in gold.

That is, if gold continues rising and housing continues declining, then it is certainly possible that the median house price could fall to 100 ounces of gold--a mere 20% of its 2005 peak.

Harun's second chart plots the housing/gold ratio's rate-of-change.



Click on chart for a full-sized version in a new browser window.

Here are Harun's comments:

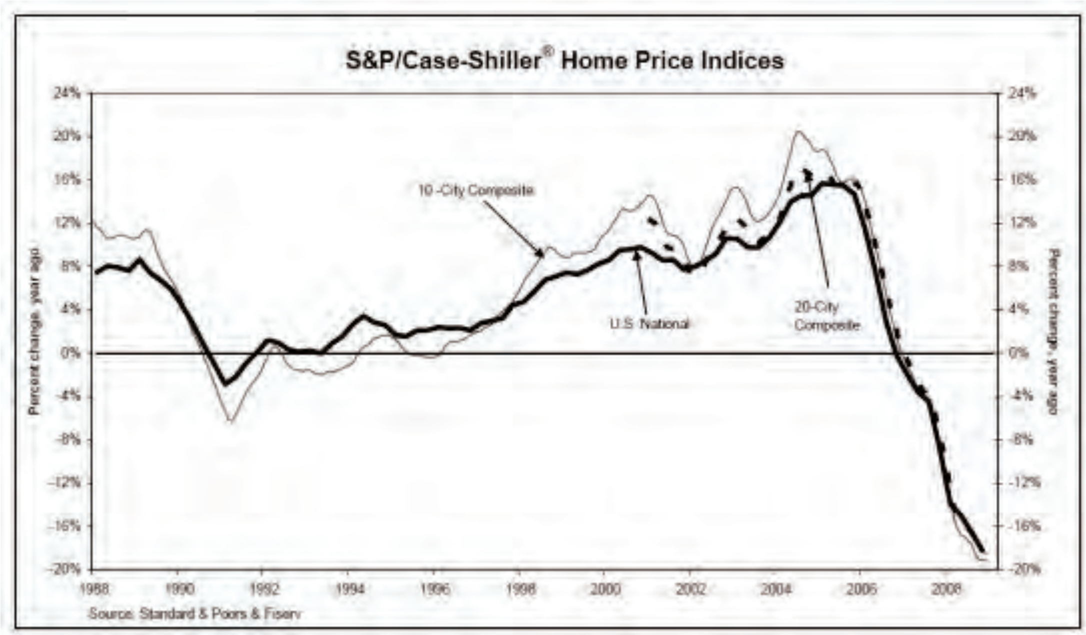
In 2001 the median house fetched 460 ounces of gold and the median price was about $115,000, a 4-to-1 ratio ounces of gold per dollar of house value. By the valuation peak in 2005 that ratio had fallen to 2.17-to-1. The boom period actually saw an overall loss in value.

Stated another way the best time to sell your home and buy gold actually occurred in 2001; you would have received twice the gold which would have seen very handsome appreciation. The truth: the boom was over by the time everyone thought it had begun.

Priced in gold, the median house bought 460 ounces of gold in 2001 and 490 ounces at the peak in 2005--a gain of 6%, considerably less than the nominal price in dollars.

Had a homeowner eschewed the blandishments of the housing bubble in 2001 and sold his/her home for 460 ounces of gold and rented for eight years, he/she could now buy a home for 160 ounces of gold and have 300 ounces in hand.

Here is a chart of the Case-Schiller Composite plotted in percentage points of rise or decline.



If we looked only at this chart, we might reach the conclusion that housing has "bottomed" and that it's "cheap." But if we price housing in loaves of bread or gold, we might reach a completely different conclusion: priced in commodities or gold, housing may not have reached its nadir, and other stores of value might retain more purchasing power than housing.

Should gold plummet, then of course housing would rise in relative performance even if it remained flatlined in nominal prices. If gold were about to fall dramatically, then this could be the relative valley in housing/gold valuations.

But the more likely scenario remains a continuing decline in nominal housing prices back to pre-bubble valuations. In this case, even if gold remains flatlined at $1,000 an ounce, then it will take fewer ounces of gold to buy a house in the future.

The point is to consider housing in relation to purchasing power/relative performance, not just in nominal dollar terms. Housing will always have value as shelter and land will always have value as productive dirt, but we must be skeptical of the constant hype that "a home is your best investment."

For the past eight years, when priced in gold, that has been patently false.

Downloaded from *http://www.oftwominds.com/blogsept09/housing-gold09-09.html?ref=patrick.net* on September 24, 2009.

Japan Abandons America
September 22, 2009 | From theTrumpet.com
The USS America is sinking—and Japan is getting off while it can.
For over 50 years, one party ruled Japan virtually uninterrupted. During that time, Japan remained a loyal ally and supporter of U.S. policy. This month, a historic event took place.

Japan has new leadership. In a landslide victory, a new party has done the seemingly impossible. A new freshman class of leaders now governs the Land of the Rising Sun. The effects are already rippling across the Pacific toward America.

Yukio Hatoyama is Japan's new leader. He officially took office last Wednesday, and he is already threatening to split with the United States.

Hatoyama blames America for the global economic crisis and says that the U.S. is responsible for "*the destruction of human dignity."* He campaigned on protecting traditional Japanese economic activities and reducing U.S.-led globalization.

During the run-up to the election, Hatoyama's finance minister told the BBC he was *worried about the future value of the dollar,* and that if his party were elected in the upcoming national elections, it would *refuse to purchase any more U.S. treasuries* unless they were denominated in Japanese yen.

Japan is the world's second-largest economy. It is also America's second-most-important creditor. The U.S. government owes Japan over $724 billion! The only nation America owes more money to is China ($800 billion). The U.S. also imports $140 billion worth of goods from Japan each year.

If Japan were to follow through with its threat to only lend in yen, the dollar would probably fall hard. What would that mean? America gets more expensive consumer goods, higher unemployment, and currency inflation. If other nations like China follow suit, we would be looking at a currency crisis—Zimbabwe-style.

The new government in Japan has also pledged to diversify its foreign currency reserves away from the dollar. This means that at some point, it will need to dramatically reduce how much money it lends to America. America is planning to borrow record amounts over the next couple of years, so something isn't adding up here. Where will the money come from?

"The financial crisis has suggested to many that the era of U.S. unilateralism may come to an end," Hatoyama wrote in an August 26 *New York Times* article titled "A New Path for Japan." "It has also raised doubts about the permanence of the dollar as the key global currency."

But Hatoyama isn't just charting a separate *economic* course for Japan. His campaign also promised a more "independent" *foreign policy* from Washington, and closer relations with Japan's Asian neighbors.

More alarming for American policymakers, Hatoyama has authorized a wide-ranging review of the U.S. military presence on Japanese soil. He is reexamining the agreementthat permits U.S. warships to dock at Japanese ports, and has said Japan should take a second look at why it is spending billions to house and transfer U.S. troops between its islands. Hatoyama has also moved to quickly end Japan's fueling support for the U.S. naval anti-terrorism efforts in Afghanistan and Pakistan.

On Wednesday, an even bigger torpedo hit. Both U.S. and Japanese officials confirmed that discussions were underway to *remove all U.S. fighter aircraft from Japan*.

So many alarm bells have been clanging in Washington that the *Australian* reports the U.S. administration has requested "immediate clarifying discussions" on just how far Japan wants to take the disengagement. But there may not be too much America can do if Japan is intent on reducing America's presence in Japanese territory. Regarding the U.S.-Japan security relationship, Richard Armitage, former U.S. deputy secretary of state, said: "If the government of Japan asked us to change things, we'd argue, we'd kick and scream, but ultimately we'd have to do it."

Japan is a major platform for American power projection. Losing it would be devastating to U.S. security.

Japan is America's most important forward base in the Pacific. It is an unsinkable aircraft carrier from which American task forces can operate to secure the flow of trade and resources across the Pacific.

At a time when China is increasingly challenging American authority in the East and South China Sea, when North Korea is brandishing nuclear weapons, and Islamic terrorism is on the upswing in the Philippines and Southeast Asia, America can ill afford to lose Japanese military and logistical support.

But it is losing it.

In his *New York Times* article, Prime Minister Hatoyama asked, "How should Japan maintain its political and economic independence and protect its national interest *when caught between the United States,* which is fighting to retain its position as the world's dominant power, and China, which is seeking ways to become dominant?" (emphasis mine throughout).

Being allied with America has become a problem for Japan.

The new prime minister is no doubt asking himself: *How do I protect Japan's interests?* The distant Americans sit 5,500 miles across the Pacific Ocean. One billion Chinese could fly to Tokyo for breakfast, Taiwan for lunch, and back home for kung pao dinner before America's fastest jets could make it much past Hawaii.

In the same article, Hatoyama answered his own question: "[*W*]*e must not forget our identity* as a nation located in Asia," he said. "I believe that the *East Asian region,* which is showing increasing vitality, *must be recognized as Japan's basic sphere of being."*

"I also feel that as a result of the failure of the Iraq war and the financial crisis, the era of U.S.-led globalism is coming to an end …." Hatoyama even said that Japan must "spare no effort to build the permanent security frameworks" essential to creating a new anti-dollar regional Asian currency shared by China, Japan, South Korea, Taiwan and Hong Kong.

Hatoyama doesn't just think America's economy and power are fading fast, he's publishing it in the *New York Times!* He sees Japan's future as being with Asia. And he's right.

There is a bold movement occurring in Asia. Old animosities are being forgotten, or resolved. "I believe that *regional integration* and collective security is the path we should follow," Hatoyama reiterated. Only "by moving toward greater integration" can Asia's problems be solved, he said.

This movement toward greater Asian cooperation will soon speed up drastically. Not only do the facts prove it, biblical prophecy forecasts it. A major military alliance between Russia, China and Japan is about to be locked in. (Read about this specific prophecy in *Russia and China in Prophecy*.)

Prime Minister Hatoyama may be the most pro-Asian Japanese prime minister yet. He has pledged to ignore Japan's World War II shrine that honors the country's war dead, to avoid offending Korea. His only son is attending a prestigious Russian engineering university. And he is the first Japanese prime minister to receive election coverage by any Chinese print media—and it was front-page news in the Communist Party's *People's Daily.* Also, for the first time, a Chinese television station provided live coverage of the election that saw Hatoyama take power.

Japan's new policy is focused on Asia—and winning friends on the Asian continent.

America is about to lose its Japanese ally. "The U.S. has been critical of new trends in Japan, but *we are not a colony* of Washington and we should be able to say what we want," said Makoto Watanabe, a professor of media and communication at Hokkaido Bunkyo University in Japan. "[W]hile under previous governments Japan had become a yes-man to the U.S., this suggests to me that *healthy* change is taking place."

But that change will not be healthy—especially for America.

The Bible describes a time when America will be besieged by its former trade partners. This siege, warned about in Deuteronomy 28:52, is both economic and military in nature. "And he shall *besiege thee in all thy gates,* until thy high and fenced walls come down, wherein thou trustedst, throughout all thy land: and he shall besiege thee *in all thy gates* throughout all thy land, which the Lord thy God hath given thee."

America is about to be blockaded. For this to occur, Japan would need to take a radical turn from its recent historical political and economic persuasions.

It is radically turning. Today we are witnessing a dramatic fulfillment of this prophecy. America is about to become perilously isolated. The nation with the single largest merchant fleet in the world will turn its back on an economically waterlogged America. And America, without its most important military bases in Asia, will be one step closer to being pushed right out of the Asia Pacific altogether.

America's ship of state is sinking. Japan's lifeboat has already left.

FDIC Is Broke, Taxpayers at Risk, Bair Muses: Jonathan Weil

Commentary by Jonathan Weil

Bair, the Federal Deposit Insurance Corp.'s chairman since 2006, says the agency has many options. One way to boost its coffers, now running low after a surge in bank failures, would be to charge banks higher premiums. It could make them pay future assessments in advance. Alternatively, the FDIC could borrow money from the banks it regulates. Or it could borrow from the Treasury, where it has a $500 billion line of credit.

"There's a philosophical question about the Treasury credit line, whether that is there for losses that we know we will have, or whether it's there for unexpected emergencies," Bair said Sept. 18 at a Georgetown University conference in Washington. "This is really a debate for Washington and for banks," she added.

Far be it from me to intrude on this closed-circuit conversation. The question Bair posed should be a no-brainer. Borrowing taxpayer money to bail out the FDIC should be an option of last resort reserved for unforeseen emergencies. That the agency would consider this now underscores how dire its financial condition has become.

Whatever path it chooses, we shouldn't lose sight of this: The FDIC has been mismanaged, and its credibility as a regulator is in tatters. Its insurance fund wouldn't be in this position today if the agency had been run well.

Flipping Out

Bair's comments last week reminded me of a year-old article by Bloomberg News reporter **David Evans**, who wrote that the FDIC soon could run out of money and might need a taxpayer bailout by the Treasury Department. Most revealing was the FDIC's reaction. It flipped out.

The day the story ran, the agency released an **open letter** to Bloomberg from a spokesman, **Andrew Gray**. He said the piece "does a serious disservice to your organization and your readers by painting a skewed picture of the FDIC insurance fund."

Gray said "the insurance fund is in a strong financial position to weather a significant upsurge in bank failures" and that he did not foresee "that taxpayers may have to foot the bill for a 'bailout.'" He said the fund "is 100 percent industry backed," and "our ability to raise premiums essentially means that the capital of the entire banking industry -- that's $1.3 trillion -- is available for support."

Tapping Capital

If needed, he said, the FDIC could borrow from the Treasury, noting that the funds by law would have to "be paid back from industry assessments." He stressed the FDIC had done this only once. It happened in the early 1990s, and the money was repaid with interest in less than two years.

Gray told me this week that he stands by his earlier remarks. His notion that the FDIC could tap the capital of the entire banking industry still baffles me. While hypothetically this might be true, I doubt all $1.3 trillion would be available in any practical sense.

The FDIC **said** its insurance fund's assets exceeded liabilities by $10.4 billion, a mere 0.22 percent of insured deposits, as of June 30. The liabilities included $32 billion of reserves the FDIC had set aside to cover bank failures that it believed were likely to occur during the next 12 months.

As recently as March 31, 2008, the FDIC had **earmarked** just $583 million of reserves for future failures. This was after the rest of the financial world already knew we were in a crisis. By the end of 2008, it had **boosted** these reserves to $24 billion.

Projected Losses

The balance-sheet reserves don't capture all the insurance fund's anticipated losses. In May, the FDIC **said** it was projecting $70 billion of losses during the next five years due to bank failures. The agency said it expects most of those collapses to occur in 2009 and 2010.

The FDIC's problem is that it didn't collect enough revenue over the years to cover today's losses. The blame lies partly with Congress. Until the law was **changed** in 2006, the FDIC was barred from charging premiums to banks that it classified as well-capitalized and well-managed. Consequently, the vast majority of banks weren't paying anything for deposit insurance.

Of course, we now know it means nothing when the FDIC or any other regulator labels a bank "well-capitalized." Most banks that failed during this crisis were considered well- capitalized just before their failure. After the law changed, the FDIC still didn't charge enough premiums.

So far this year, 94 banks have been shut, the fastest pace in almost two decades. Hundreds of others are in trouble. The FDIC said 416 banks were on its "problem" **list**, a 15-year high, as of June 30. That was up from 305 three months earlier.

Regardless of the law's requirements, if the FDIC starts tapping its credit line at the Treasury, there can be no assurance it would be able to pay back all the money through future assessments on banks. That's why it should be reluctant to borrow from taxpayers now, even though the banking industry whines that it can't afford any short-term cost increases.

At the rate it's going, though, the FDIC may not have a choice much longer. Perhaps Bair and the FDIC someday might see fit to deliver a full account of how the agency managed to mess itself up this badly. The country deserves an explanation.

Downloaded from
http://www.bloomberg.com/apps/news?pid=20601039&sid=aEKc7Yh8ogXw# on September 24, 2009.

Mission Accomplished – Part I: Wrecking of the world's greatest economy

When the people lose faith, they do not then believe in nothing. They believe in anything.

For a change of pace, today we present our two-part analysis as an interview of yours truly by an old friend of iTulip who has reported for several major news publications for more than 20 years. Our interviewer goes by the initials ND. If readers like the format, we'll do it again.

ND: Do you miss the old Hunter Thompson as much as I do?
EJ: Last week I listened to a recording of a lecture he gave at Boulder University in 1977 after

he published*Fear and Loathing in Las Vegas*. At one point a student in the audience asks if there is anything that he as a young person heading out into the world can do to help get the U.S. off the self-destructive course that Thompson describes in his book. Thompson is fatalistic. He says, no, there is not, that the crazed system is destined to go on and on until it blows itself up and burns itself out. Looks like he was right.

ND: We blew it. The media, I mean.
EJ: We use this catch phrase at iTulip: “Who could have known?” to refer to any obvious outcome of excess and fraud over the past 11 years that we've been in operation. Anyone reading our site—and plenty of others—since 1998 could see the current crisis coming down hard on us, but not if they only read mainstream papers or watched cable or network TV. After a string of failures to protect the public from cheats, crooks, and liars—the primary role of the media—a cloud of suspicion hangs over the whole industry. On top of the business model challenges created by the Internet, there’s a real crisis of credibility. Today they’re backpedaling as hard and fast as they can, and maybe readers will forget that the media hung them upside down to have their pockets picked by mortgage brokers and stock jobbers selling the American dream as a debt they can’t repay and a stock portfolio that vaporizes as soon as they reach retirement age. It's a safe bet they will forget.

ND: Who’s doing a good job today?
EJ: The *Wall Street Journal* is doing a good job of covering the crisis now that it’s here. Plenty of thoughtful skepticism about the recovery. But the fact remains that the savings of a generation of our middle class was wiped out by the stock and housing bubbles. Failure by the media to expose the frauds while they were being perpetrated has caused millions to lose faith in the mainstream media.

ND: Who will take its place? Glenn Beck and Alex Jones?
EJ: The average American doesn’t know how to be intelligently skeptical. They lack the tools. Their schooling taught them to believe what they read in the paper and watch on TV and are told by anyone in a uniform or anyone who makes more money than they do. For example, the mortgage broker in a suit who told them not to worry about exaggerating income in order to qualify for a ridiculously huge mortgage. You can say these people were stupid for trusting the brokers and the appraisers and the lawyers and all of the other conspirators to the gigantic fraud that came to be known as the housing bubble, including the media that used to quote the National Association of Realtors as a source of information about the safety of housing as an investment. That’s journalism? But who is the public supposed to trust? No one? So now the public doesn’t trust anyone. Why should they? But in the wake of these frauds they lack the tools necessary for critical evaluation of even the most basic data about their economy, never mind complicated issues like monetary policy, inflation, and employment. In this environment guys like Glenn Beck and Alex Jones thrive.

ND: Where is this headed?
EJ: When the people lose faith, they do not then believe in nothing. They believe in anything. Between an oligarchic government controlled media and a public unable to distinguish between an argument made on evidence and one based on speculation, I believe we are heading into an era of rising nationalism and unreason unlike anything we have seen since the 1930s. The

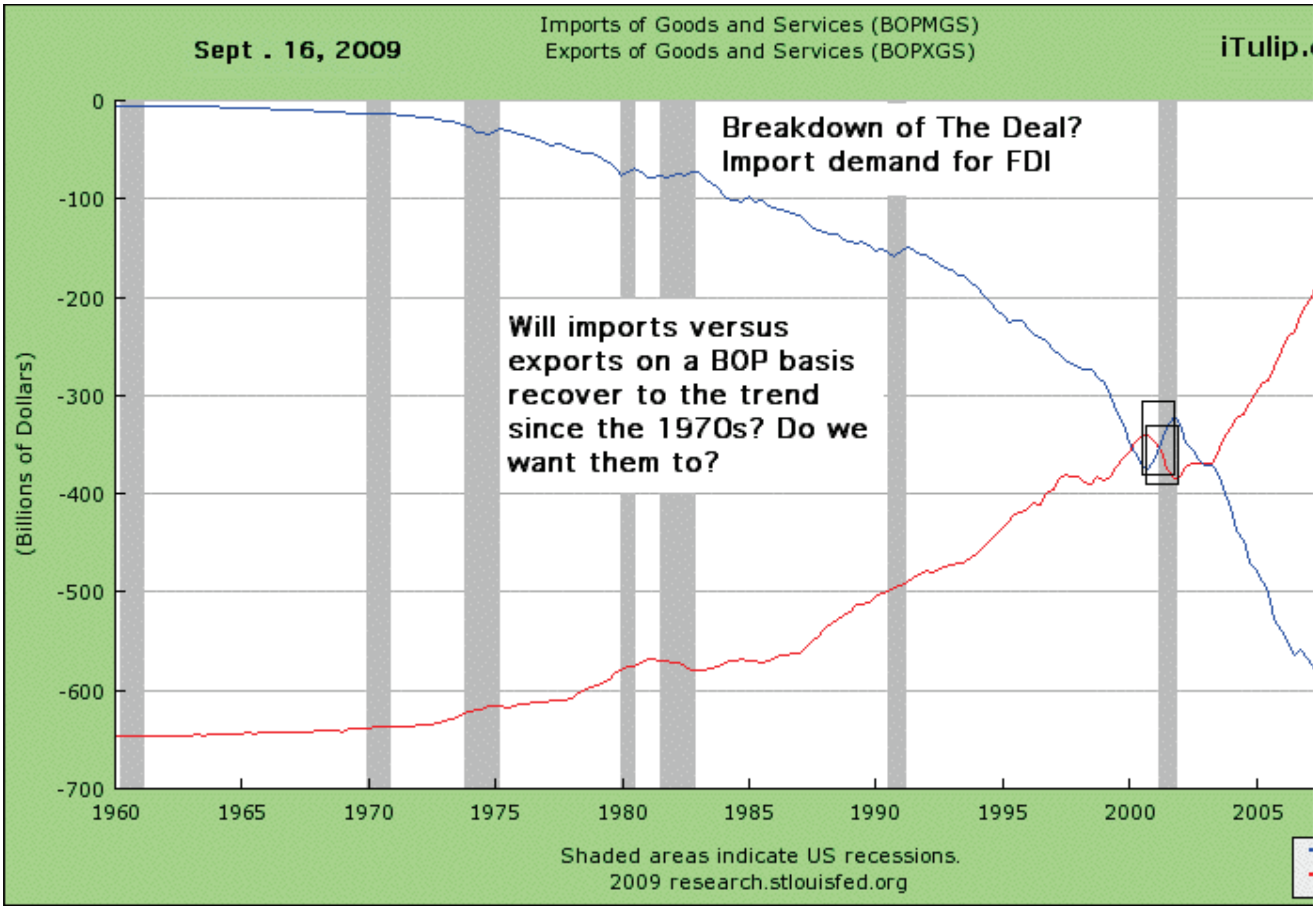
antecedents are exceedingly dangerous. Our polity can be whipped up into a frenzy to do just about anything.

ND: Where is the leading edge of rising nationalism?
EJ: Japan just elected the first government since the end of WWII that represents a break from alignment with the U.S. The election was a big deal in Asia. The winning platform was distance from Washington and separation from Wall Street.

ND: Japan was hit especially hard by the global recession that we caused.
EJ: True, but it's important to remember that our economic relationship with Japan has been difficult since at least the Kennedy administration.

For U.S trade partners like Japan, the U.S. has been like a very large and important customer that delivers most of the revenue to a goods manufacturer. Endlessly demanding, at times irrational and occasionally dangerous, our behavior was tolerated for one and only one reason: we, the customer, always placed our order by the end of the quarter. All was forgiven.

Then the 2008 crisis came. We, as a major customer to our global trade partners, have always been difficult to do business with, but at least we were worth it for the orders, even if they had to provide much of the financing. But since U.S. consumer demand for imports fell off a cliff last year, we're not worth the trouble.



Yet our demanding and irrational behavior continues as if we were still the world's most important customer or we will regain that status shortly, if only we print and borrow enough money to get households borrowing and buying again. The perpetuation of this delusion will end in tears.

ND: What did we do to Japan under the Kennedy administration? I don't remember that.
EJ: In my research I came across a reference on Sony Corporation's web site that stated that Japan's 1965 economic depression was rooted in the interest equalization tax instituted two years earlier by President John F. Kennedy. The U.S. economy was in recession and domestic capital was pouring out of the country. Kennedy imposed a 16.5% interest equalization tax on all capital leaving the U.S. to slow the outflow--basically, a capital control. The law succeeded in decreasing the outflow of U.S. capital but it also caused a panic in world stock markets. In 1965, Japan's securities market crashed and Japan had its worst depression since The Great Depression.

While it's tempting to see events like the election of an anti-U.S. government in Japan as a recent development, the issues between the two countries that led to that outcome have been brewing for decades. The 1980s bubble and crash was also a product of U.S. policy. Political change, such as shown in the election of a new government in Japan, appears sudden if you haven't followed the history and antecedents.

After this latest U.S. financial and economic debacle that cratered Japan's economy, the Japanese people decided they've had enough.

ND: Who's next?
EJ: Hard to say but my contacts tell me nationalism is rising in China in parallel with the decline of the Chinese economy. There are over 20 million officially unemployed and another 20 to 30 unofficially. There is a good video on the front of the site on the current unemployment crisis in China. Nationalism is a powerful tool of government to use to externalize blame for domestic governance mistakes. The CCP has used it in the past and there is no reason to think they will not use it again.

But the political shift away from the U.S. motivated by the global crash is not confined to Asia. I strongly recommend reading the August 24, 2009 letter *Farewell America* by Swiss investment bank Wegelin & Co. The letter reveals how much of Europe sees us as well, and will express if they calculate that the costs of a future business relationship outweigh the benefits. Here's an excerpt:
At the risk of once again winding up certain specialists in business ethics, let us briefly recall the sort of tax authorities we are dealing with, and the sort of state they serve: a country that, over the last 60 years, has unquestionably been one of the most aggressive nations in the world. The USA has fought by far the largest number of wars, sometimes with, but mostly without a UN mandate. It has broken the international laws of war, maintained secret prisons, and fought an absurd war against drugs, with serious consequences both abroad (Columbia, Afghanistan) and at home (according to reliable sources, the tentacles of the narcotics mafia now reach well into political circles).

With breathtaking moral duplicity, the USA maintains enormous offshore havens in Florida, Delaware and others of its states. The moralizers have joined sides with a nation that still makes extensive use of the death penalty, and that has a legal system under which lawyers can get rich on the misfortunes of their clients. Liability cases often end in verdicts with exorbitant damages, which makes business activity extremely risky, for medium-sized enterprises in particular. The moralizers provide intellectual support for a country that allows its infrastructure to collapse, and then stuffs convicts into hopelessly overfilled jails, after what are not infrequently dubious proceedings. They fund a nation that tolerates – or rather, causes – regular crises in the global financial system that it manages.

A country whose underclass enjoys neither the benefits of an adequate education, nor a halfway functional healthcare system; a country whose economic system is increasingly inclined to over-consumption, and in which saving and investing have increasingly become alien concepts, a situation that has undoubtedly been one of the driving forces behind the current recession, with all its catastrophic consequences for the whole world.
Read it if you want to know how a former "supplier" to USA, Inc.--in this case of specialized banking services--thinks of us but was not willing to say to our face before they gave up on us as a future customer. We've been written off. Think about it. We post the letter as a resource at the end of Part II.

Keep in mind that next year is an unusually active election year world wide, with more than 60 presidential, legislative, and parliamentary elections scheduled. If repudiation of political and financial relations with the U.S. takes off as a key election platform, it's bound to have an impact on us. If nothing else, it makes U.S. debt much harder to sell overseas and foreign direct investment more difficult to attract.

ND: In light of that, can we devalue the dollar? I've heard rumors.
EJ: We can't make any of the kinds of unilateral decisions we were able to make in the past when the U.S. was a net creditor, such as devaluing the dollar or imposing capital controls. If we tried to do any of that today we'd collapse our bond market and the dollar.

ND: You have stuck with a long-term forecast of inflation through two deflation scares, one in 2001 and another in 2008. How were you so sure we'd escape another deflationary era like the the 1930s?
EJ: We did a lot of research in 1998 and 1999, followed the process for over ten years, and tried to learn from our mistakes.

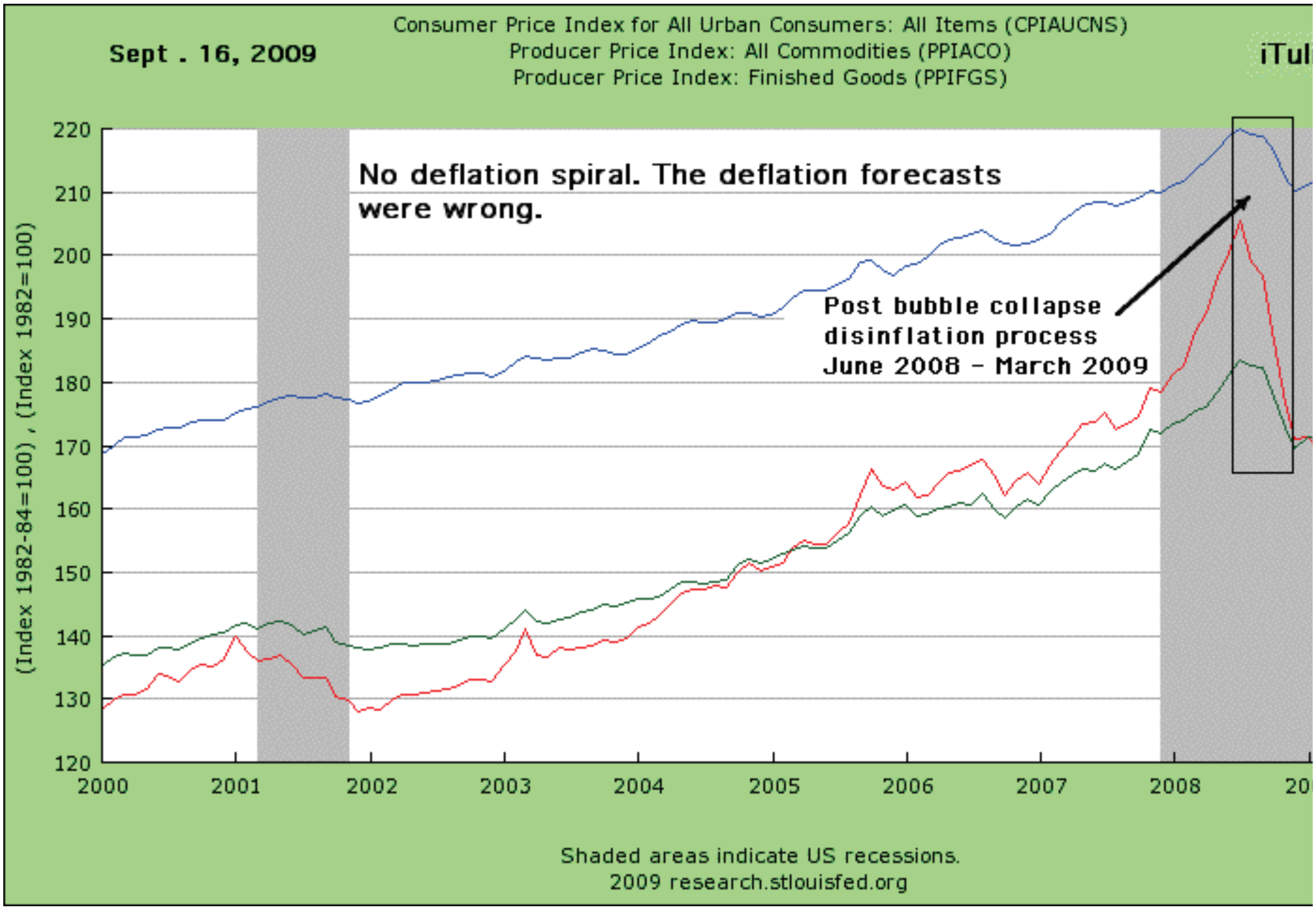
ND: What kind of mistakes?
EJ: In 2000 we did not completely accept the dedication of monetary authorities to act to halt asset price deflation in the FIRE Economy before it spills over into the Producer/Consumer Economy. We never doubted their ability, only the willingness to take it as far as they did because of the risks. To believe the Fed has limits is to not understand how modern credit and money work, or the relationship between asset prices and goods and services prices.

ND: For example...
EJ: The Fed adds $1 trillion one side of the balance sheet and puts $1 trillion in asset-backed securities on the other. Where is the constraint? What's going to stop them? The Fed doesn't have to back any of it with gold anymore as it did in the 1930s.

ND: So the deflationists just learned a principle that you learned seven years ago.
EJ: Heading into the 2001 recession we were skeptical that the Fed was prepared to use all of the expansionary tools and methods available to it. We thought we'd see dissent on the board and philosophical arguments against doing it. We used to track who's who on the FOMC, dove and hawk, to see if maybe an anti-inflationist voice sang there. But Greenspan is 100% opportunist whose guiding principle of operation was self-interest wrapped in Ayn Rand idealism. He didn't manage by consensus but by fiat. He dropped rates to 1% and let the mortgage market run amok for years on end, he thought to save his reputation.

Starting in 2003 the Fed issued a dozen papers that we used as the basis for our forecasts starting in 2006. When I was working for Trident Capital in 2005, I prepared an economic forecast for the firm's annual planning meeting. It forecast a housing market crash, credit crisis, and massive recession within three years, but without a deflationary outcome. (A Managing Director there who I worked for generously gave me permission to share it with subscribers, provided I mention that Trident underwrote the research. The presentation is available as a resource at the end of Part II.)

Starting in 2002, representatives of the Fed repeatedly stated in reports that if faced with asset price deflation the Fed planned to print money and buy assets. And that is just what they did. As a result, a deflation spiral was averted.



ND: So you were right about deflation. But where's the inflation? Summarize your inflation forecast for us.

EJ: The primary source of inflation we forecast last year will result from currency depreciation. After a nine-month to one-year lag, we are seeing cost-push inflation from rising energy costs, especially oil. The second key source is supply destruction caused by industry consolidation through mergers and bankruptcies. The surviving firms will have enough pricing power to pass on the higher input costs that the Fed created when it put a floor on commodity prices with its anti-asset price deflation policies. The third source is the money supply itself, which after a lag will begin to feed into prices by Q1 2010 at the latest. There are others, but those are the main ones.

ND: In Everyone is wrong, again – 1981 in Reverse Part I: The Great Divide you said you thought investors buying 10-year Treasury bonds that earn 4.5% today are just as wrong about long-term future inflation as investors in 1980 who did not want to buy 10-year Treasury bonds that earned 15%, but for the opposite reason. In 1980 they were underestimating the willingness of authorities to stop inflation. Today they are over-estimating the authorities' ability to tame inflation in the future. Do I have that right?

EJ: Bond markets have a poor record for forecasting future inflation at major geopolitical turning points. The last time this happened OPEC clouded the picture. This time domestic debt deflation and dubious economic reporting from China, our largest trade partner, and creditor are throwing everyone off.

We have a chart we update regularly called the Everyone is Wrong Again chart.

The long-term correlation between inflation expectations and CPI one year later has been strong since the University of Michigan began the survey in the 1970s. Yields on 10-year Treasury bonds also track well—except at major turning points in monetary and trade policy that impact the dollar such as in the early 1980s and today.

In 1980, a decade of inflation caused a general loss of confidence among foreign and domestic investors in the institutions that were capable of executing the necessarily politically painful changes needed to bring inflation under control. Today we have the different problem. Today investors believe that central banks are capable of executing on any plan they lay out before us. It’s odd because Paul Volcker himself said as recently as a few months ago, before the administration shut him up, that he could never execute today the kinds of policies that the Fed followed under his leadership, because the U.S. is a net debtor. Like Argentina, the U.S. no longer decides its economic policies independently. We gave that up when we took on all of the foreign debt. Every decision needs approval from foreign governments and institutions.

ND: Foreign lenders approve of inflationary policy?
EJ: They tolerate it with complaints. Policy is inflationary because in the short term nominal growth is better than no growth, and we need to attract capital. No growth is not an option; that's death for a net debtor. Now we're being asked by our creditors to raise taxes and cut our deficits, as if we were Argentina owing money to the IMF, because it looks like the slow growth will drag on. One thing leads to another.

ND: How do you see inflation in that graph above? It shows CPI inflation diving.
EJ: Yes, and you also see both 10-Year bond yields and inflation expectations rising. Not since the 1980s have we seen this kind of divergence, with inflation expectations and bond yields going in one direction and inflation in the other. There are two possible outcomes. Either bond yields and inflation expectations are wrong and reverse, or inflation will soon turn around and catch up with bond yields and inflation expectations. We're betting on the latter. So are the commodity markets.

ND: Where will we see inflation show up first?
EJ: It already has, all around us in its all its nefarious forms. Most people thought that when the inflation started this year—the inflation that we forecast last year to start in the second half of this year—it would arrive with fanfare, with interest rates spiking up and double digit increases in food prices. Interest rates are rising gradually, as are some producer prices, but nothing dramatic. So far it's a slow grinding away of purchasing power.

Inflation is the erosion of the purchasing power of income and savings. It can result from many causes. A decrease in supply of goods relative to demand or an increase in the supply of money relative to demand, to name two. This way of looking at inflation takes into account currency depreciation, productivity gains and losses, and the distribution of personal expenditures on domestic and imported goods and services. The inflation question is, What can your income and savings buy today compared to last year?

ND: What costs more?
EJ: Incomes have steadily deflated against energy since 2003. The average savings account, earning 2% or so over that period, has been losing purchasing power, too. Savings held as gold and silver has for more than eight years maintained domestic and international purchasing power better than savings in stocks, bonds, and CDs. It's a sad testimony to the mismanagement of our economy, but there it is for all to see.

ND: Why is the purchasing power of our currency falling?
EJ: It's easy to over-think the issue. I'm a businessperson. I think of the U.S. in business terms, as a business enterprise USA, Inc. I think of the dollar as representing a common share of that corporation. Its value is ultimately determined by the decisions of management, our elected officials. If they conduct the business badly—dilute shares, make decisions that cause the company to be less competitive, take on too much debt, and so on—the value of a share inevitably declines.

ND: How fast? Do you see a dollar crash?

EJ: Mostly a currency declines slowly as a result of an accumulation of errors over decades. Policies that led to decisions that were politically expedient in the short term result in long term structural impediments to growth. Through the 1960s and 1970s, spending on the Vietnam War and Great Society programs, a wage price spiral enabled by contractual wage price adjustments, and a weak geopolitical position with oil producers caused imbalances to build up and become self-reinforcing. Eventually a radical structural reset was needed, the kind the Reagan administration pulled off. To make a long story short we borrowed trillions of dollars to do in the Soviet empire. A new set of imbalances developed. Now we are heading toward a new reset. The difference is that we called the shots last time. This time our creditors will call the shots. If we want to go it alone we have to be prepared to see the dollar crash.

ND: What are the chances of that occurring?
EJ: There will be a reset. You can count on that. Our external debt will not double every five years ad infinitum to paper over our structural deficiencies. The ticking time bomb of foreign debt will run down sooner or later. The question is, Does a framework exist to defuse it? Is there time? I'm not as hopeful on this as I once was.

To begin with "management" needs to take on the politically difficult task of confronting the major source of our difficulties, inflated housing prices, the scene of the crime as it were. We spend three times more of our income every year on housing than we did 60 years ago. An automobile costs less of income but is 10 times better than 60 years ago. Food costs less, and our food supply is far safer than it was 60 years ago, despite what you might read. In fact, every other personal consumption expenditure—except for insurance and education—consumes either the same or less of our income than 60 years ago. Yet housing costs three times more. Has housing has improved as much as automobiles have over the same period? Of course not. They have been inflated by credit because mortgages were subsidized by government.

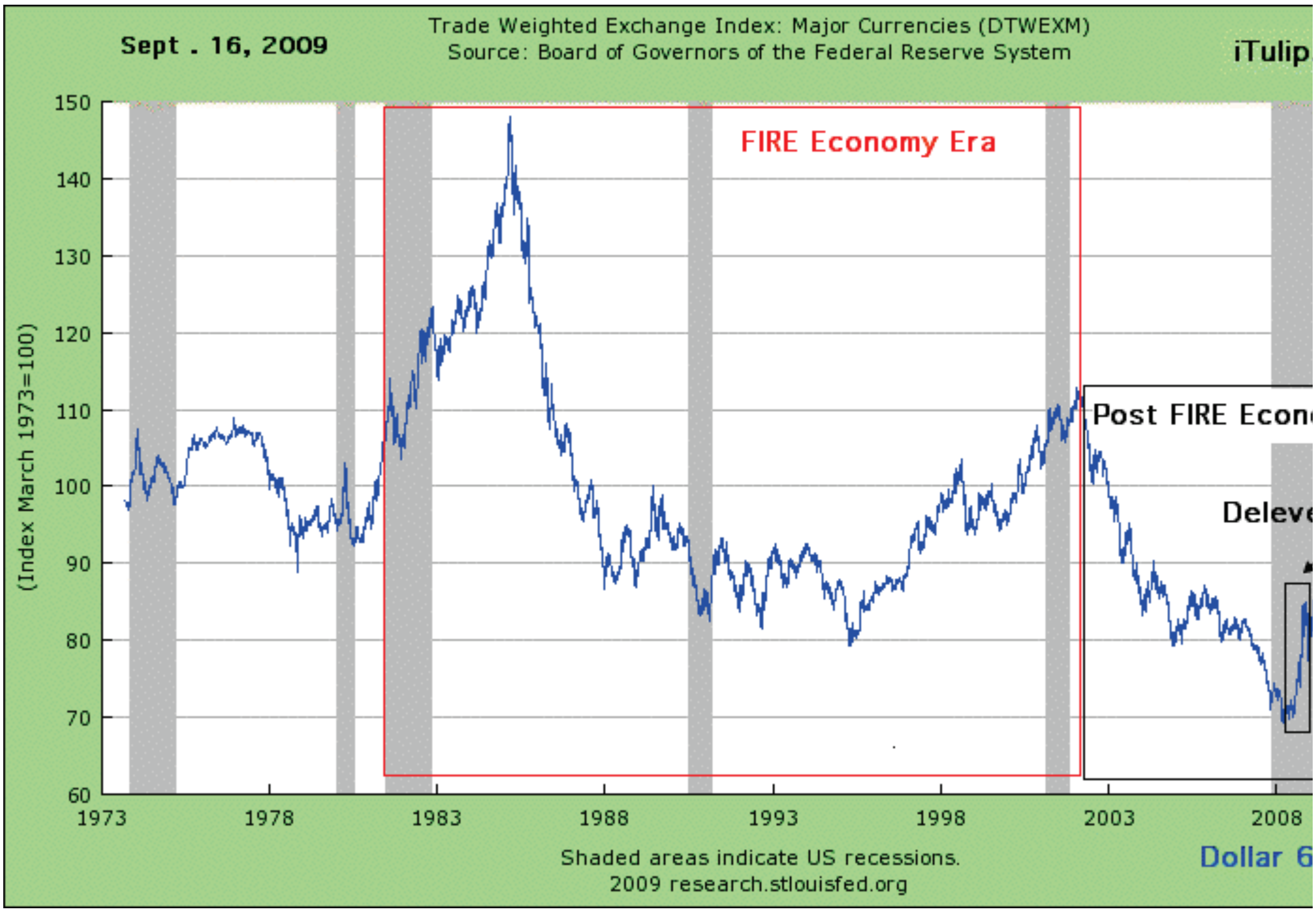
We need to undo the impact of decades of government subsidies of the housing industry. But I don't see it happening. Where will the political will come from to do it when millions of home owners are complicit in the scheme? Who wants to see the price of their home fall 70%? But that's what needs to happen to lower rents and mortgage payments enough to make U.S. labor competitive in the world. Housing costs are a major reason why a worker in India can live on $2,000 a year for the same job that pays $30,000 a year here that you can't live on.

ND: What is the structural reset that needs to happen this time?
EJ: A reset to end U.S. dependence on global capital exports to finance trade and fiscal deficits.

Getting back to the dollar, as I was saying usually the decline is gradual due to the accumulation of structural imbalances over decades but there are times when a rapid currency decline happens that can be directly attributed to a single, massive management blunder.

For example, the 40% decline in the dollar between 2003 and 2008, after the start of the Iraq War. Beginning in 2003 we spent $1 trillion dollars to fight the war. We didn't pay for the war out of savings and we didn't raise taxes. We borrowed the money to pay for the war. Then we lost the war. Global currency markets started to discount the dollar from the start. Needless to say, losing an expensive war is not good for a nation's currency, and any economist who thinks that a depreciating currency is deflationary should look back to the inflation data from 2003 to 2008, culminating in food riots in the Middle East and India. But the war was only one blunder by management during the period. Creating a housing bubble between 2002 and 2006 to pull the country out of the post stock market recession was another idiotic maneuver that weighs on the dollar.

ND: I see that you guys said in July 2008 to expect de-leveraging to go on for three to six months and for the dollar to stop rising and resume its decline after that.
EJ: We were close. The process took more like eight months. We didn't fall into the trap of thinking the dollar had entered a secular bull market.



ND: Where do you see the dollar going from here?
EJ: We're sticking with our dollar 60 by 2012 forecast that we made in March 2009.

ND: You don't see the new administration correcting the policy mistakes that are hurting the dollar?
EJ: No, they are compounding them. In the short term they didn't have much choice. If you inherit a corporation with the kinds of problems USA, Inc. had at the end of 2008, it's like taking over a ship that's been torpedoed. The first order of business is keeping it from sinking to the bottom of the sea. Measures required to keep it afloat in the short term made many problems worse in the long term. The biggest of them is the administration's response to the collapsed

housing bubble.

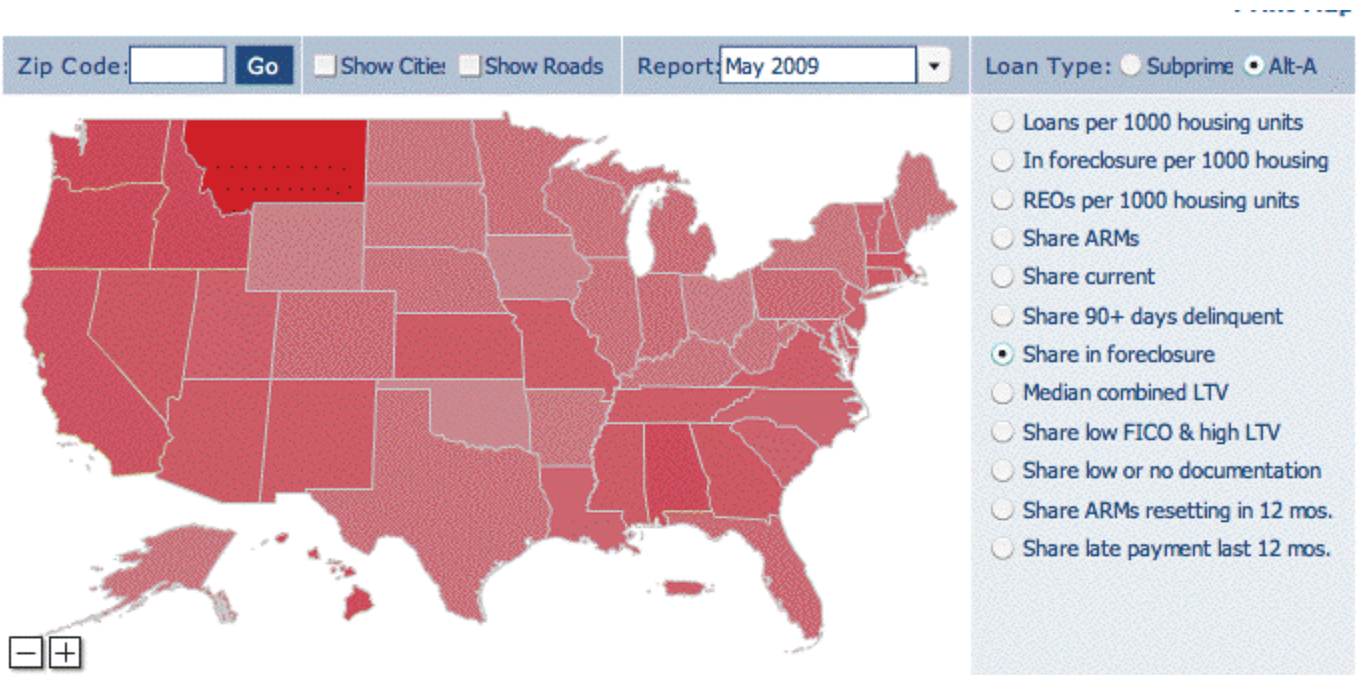
Here the difference between the management decision process in a corporation versus in a plutocracy becomes apparent and the analogy breaks down. If the USA were a corporation instead of a country, new management could evaluate the housing industry as a line of business, take a 50% haircut on assets and restructure the debt down to half and be done with it. One of the benefits would be a 50% reduction in rents and mortgage payments. This would act as a gigantic tax cut on the economy, freeing household income to be spent on other things and providing a huge boost to consumer spending. I believe this would outweigh the negative wealth effects.

You hear a lot of talk about tax cuts to stimulate the economy but no one talks about a debt cut, but a debt cut will free far more household and business cash flow then cutting taxes. That will never happen because the banks need the flow of mortgage payments to survive, and in case you hadn't noticed the banks have political influence in Congress that they are not giving up. So the government subsidizes mortgages to try to re-inflate housing prices.

DN: Is it working?
EJ: How could it not work, at least in the short term? Throw enough money at anything and it will rise in price, if only for a while.

A friend in the mortgage business sent us a note that explains that under the new Home Affordability program Fannie Mae is buying up first and second loans at what he describes as, "extremely dangerous and unprecedented levels." Once owned by Fannie, principal reductions of $200,000 or more are being provided to borrowers. He adds, "Surely, a $200,000 principal reduction makes the $600 stimulus checks look like peanuts." So after throwing trillions at the housing market to buy bad assets of lenders, back new mortgages through nationalized GSEs to absorb default risk that the private markets will not touch, and discount mortgages for new home purchases, we get an echo bubble that will last until either of two things happen, either employment rebounds so that more home owners can pay their mortgages or the U.S. government runs out of credit and can't continue financing the housing market.

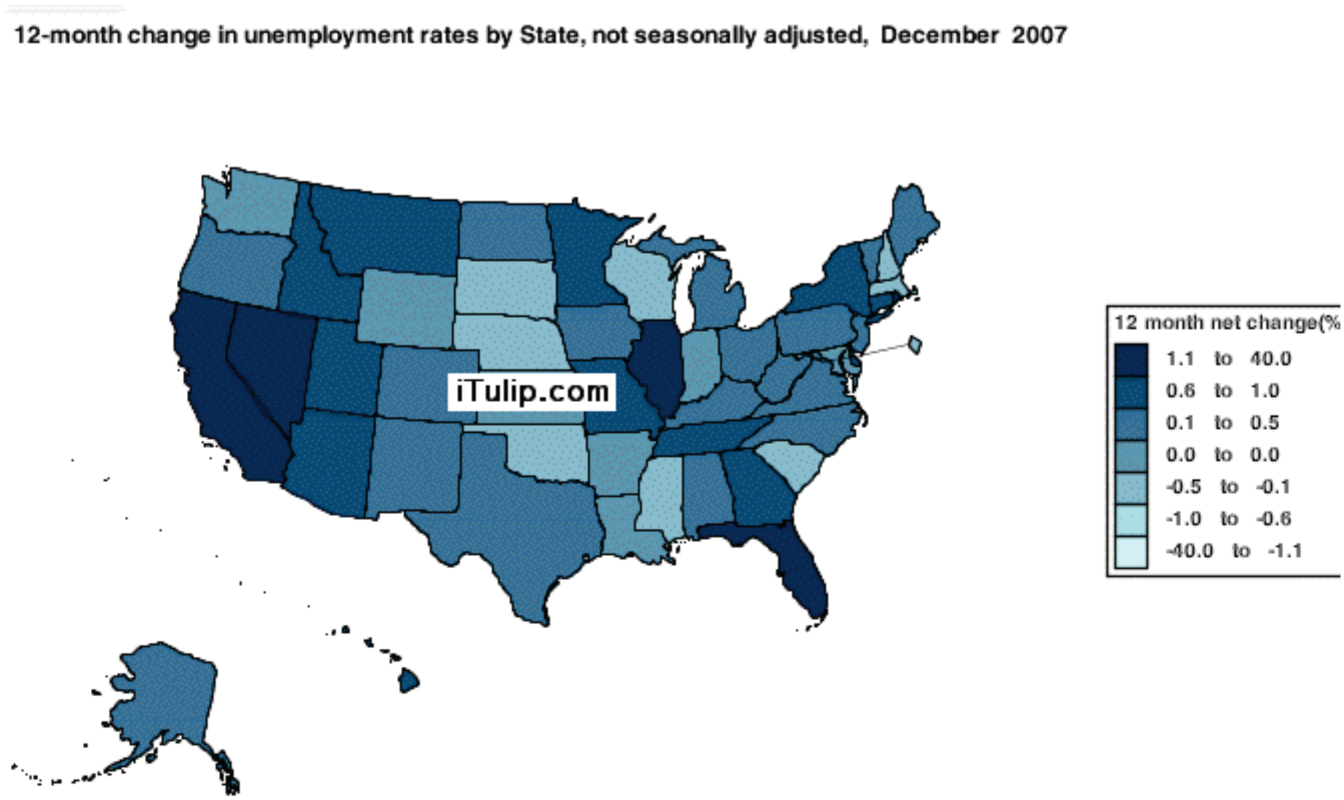
DN: You are not in the camp that says the U.S. housing market has turned around?
EJ: No. Later we'll get into the data on the economy and housing that we use to back up this argument, but it comes down to trends in foreclosures, mortgage defaults, unemployment, and incomes. They are still headed in the wrong direction. For example, foreclosures are rising in every state in the country.



Source: FirstAmerican CoreLogic, LoanPerformance Data.

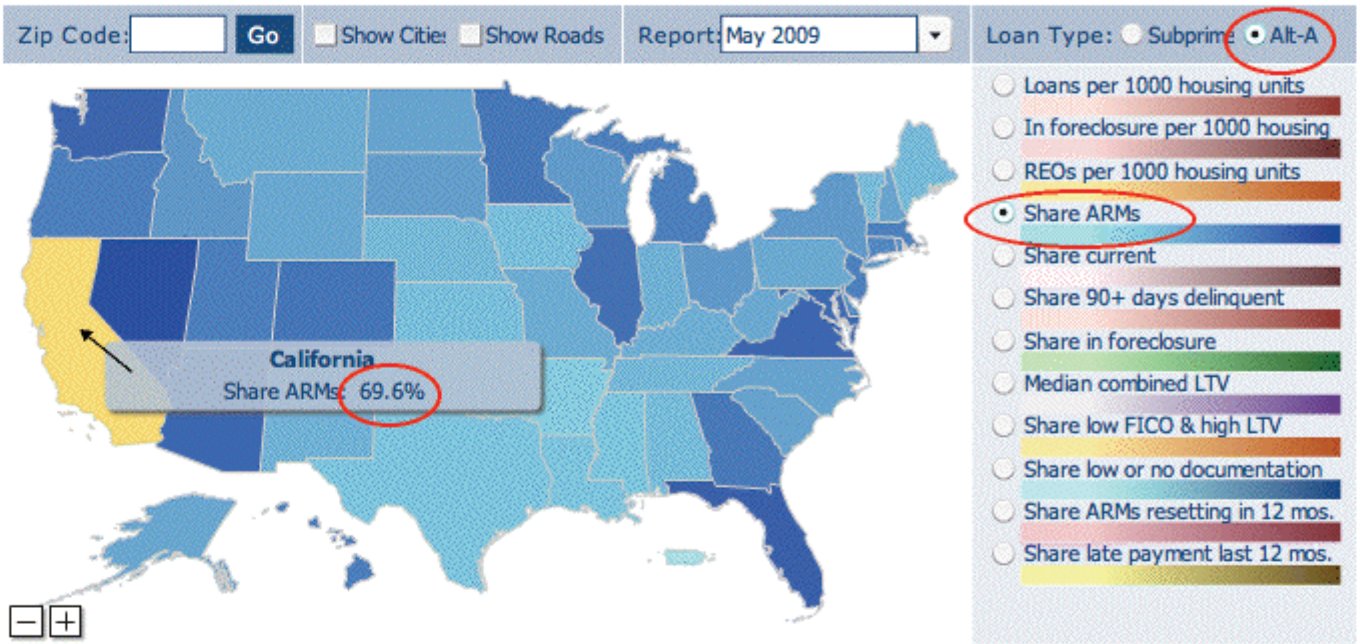
Note: Red - Conditions have worsened
Green - Conditions have improved
Yellow - No change (within 0.05%)
Six month changes are stated as percentage point differences from six months ago (or per 1000 point differences for the top three categories). The relative shade of each color is determined by the percentage change in each category, not the percentage point change.

If the rate of foreclosures merely stabilized anywhere in the U.S. we'd see a spot of yellow or two on the graph above created with the Fed's online dynamic housing conditions tools. Any shade of red indicates that conditions have worsened. This is not surprising given that unemployment has been rising in every state in the nation since January 2009.



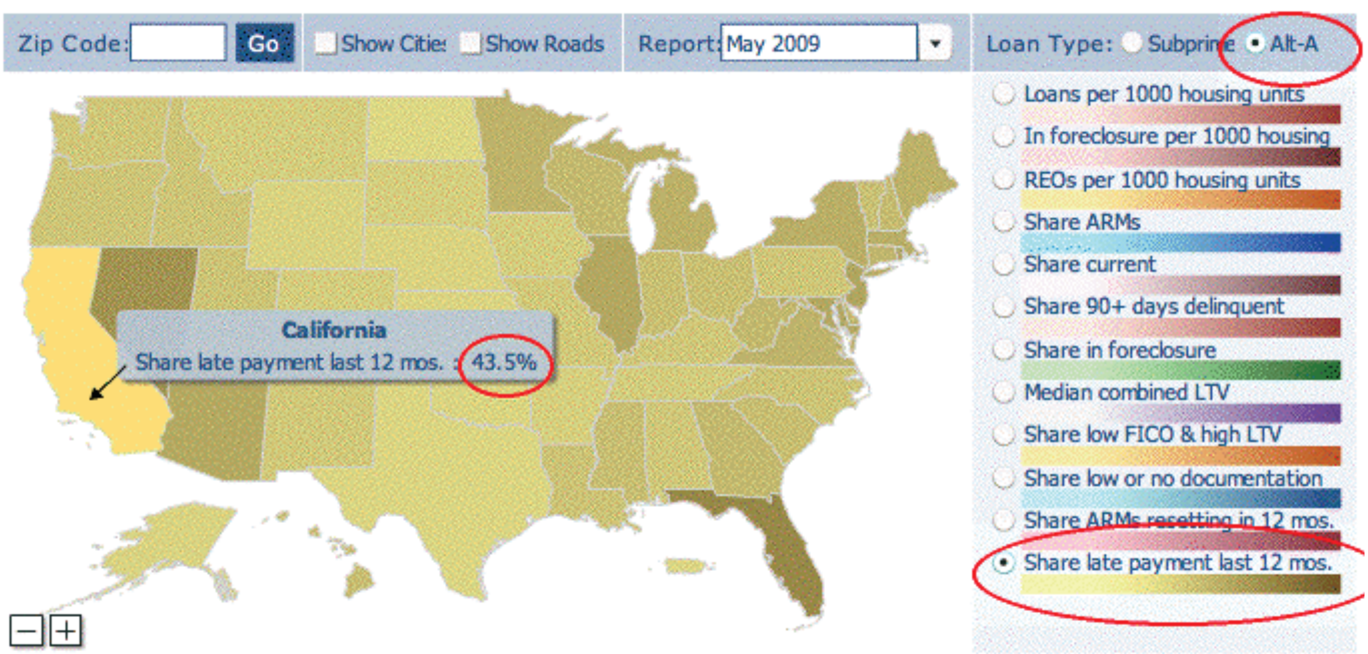
Dynamic map of year over year change in unemployment December 2007 to August 2009
Light blue = falling unemployment. **Dark blue** = rising unemployment.

Then there are the mortgages. Take California, the world's seventh largest nation by GDP.



Source: FirstAmerican CoreLogic, LoanPerformance Data.
Note: Darker shading indicates higher number, ratio or percentage.

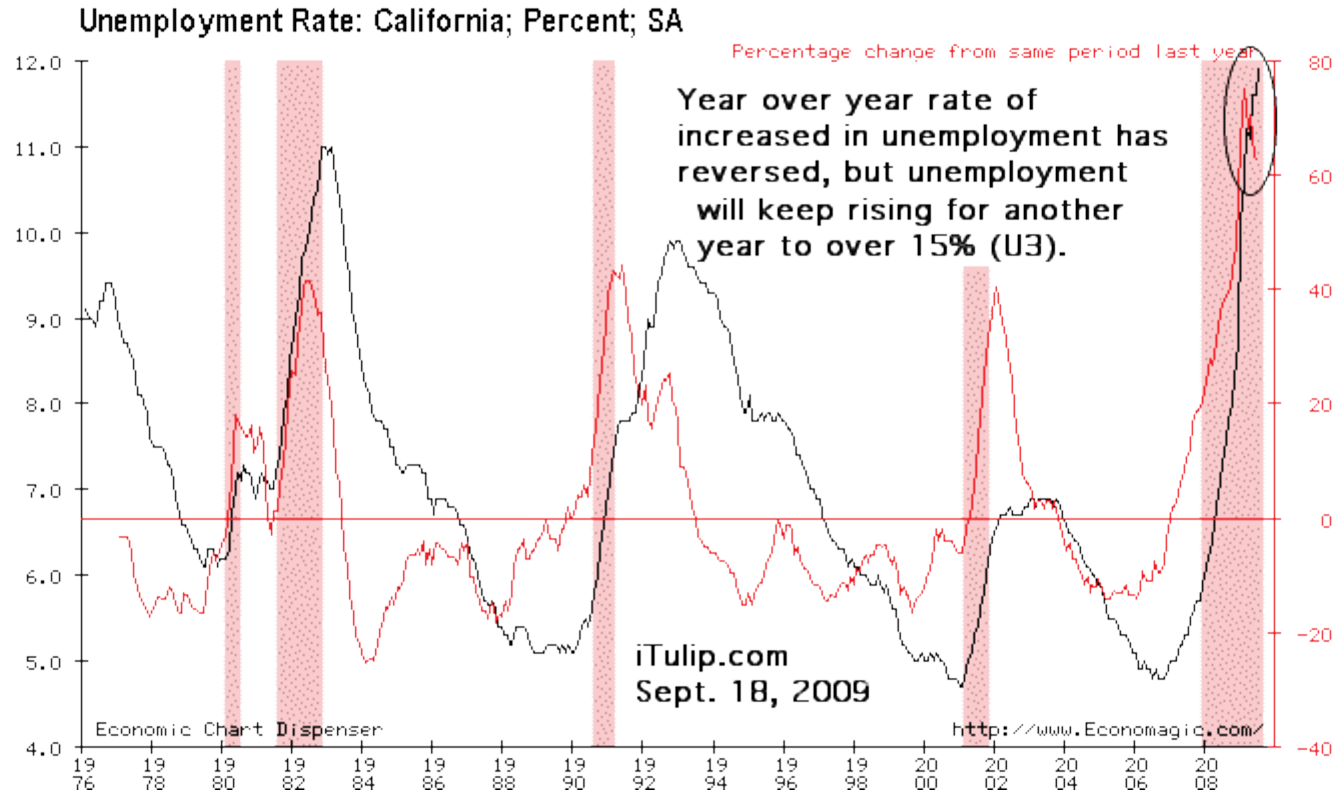
Just under 70% of ARMS in California are Alt-A, so-called prime not sub-prime mortgages.



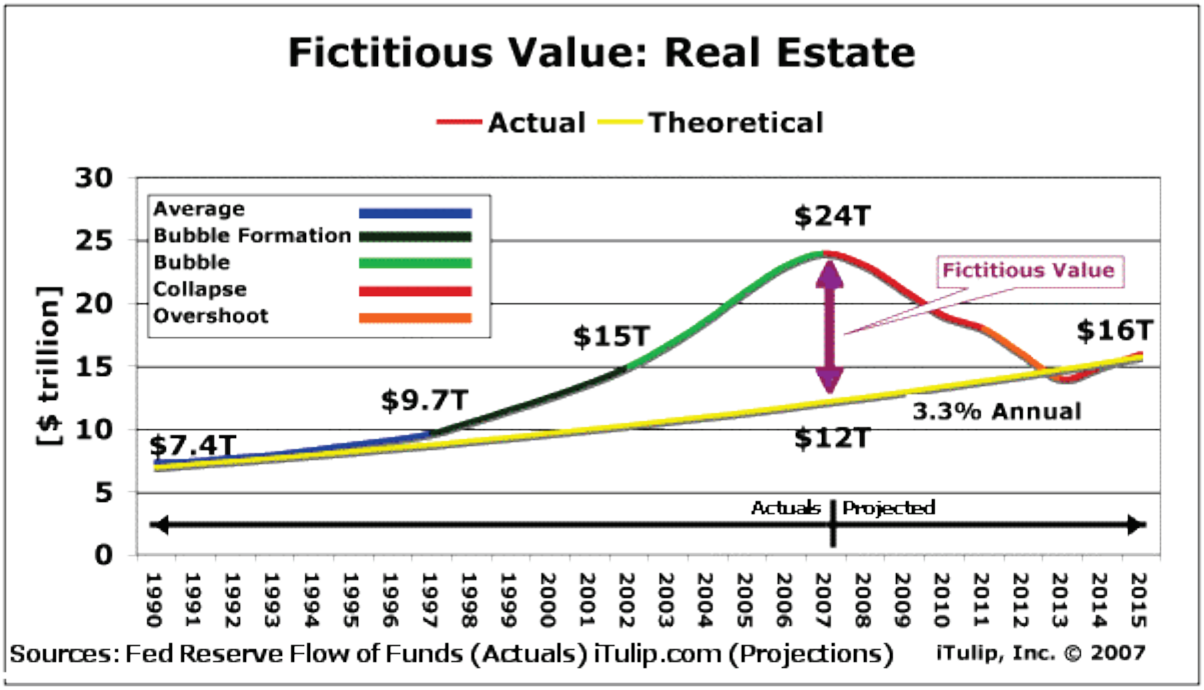
Source: FirstAmerican CoreLogic, LoanPerformance Data.
Note: Darker shading indicates higher number, ratio or percentage.

As of May, 44% of those mortgages were technically in default, of 70% of all ARMS; about 30% of all ARMS are in default.

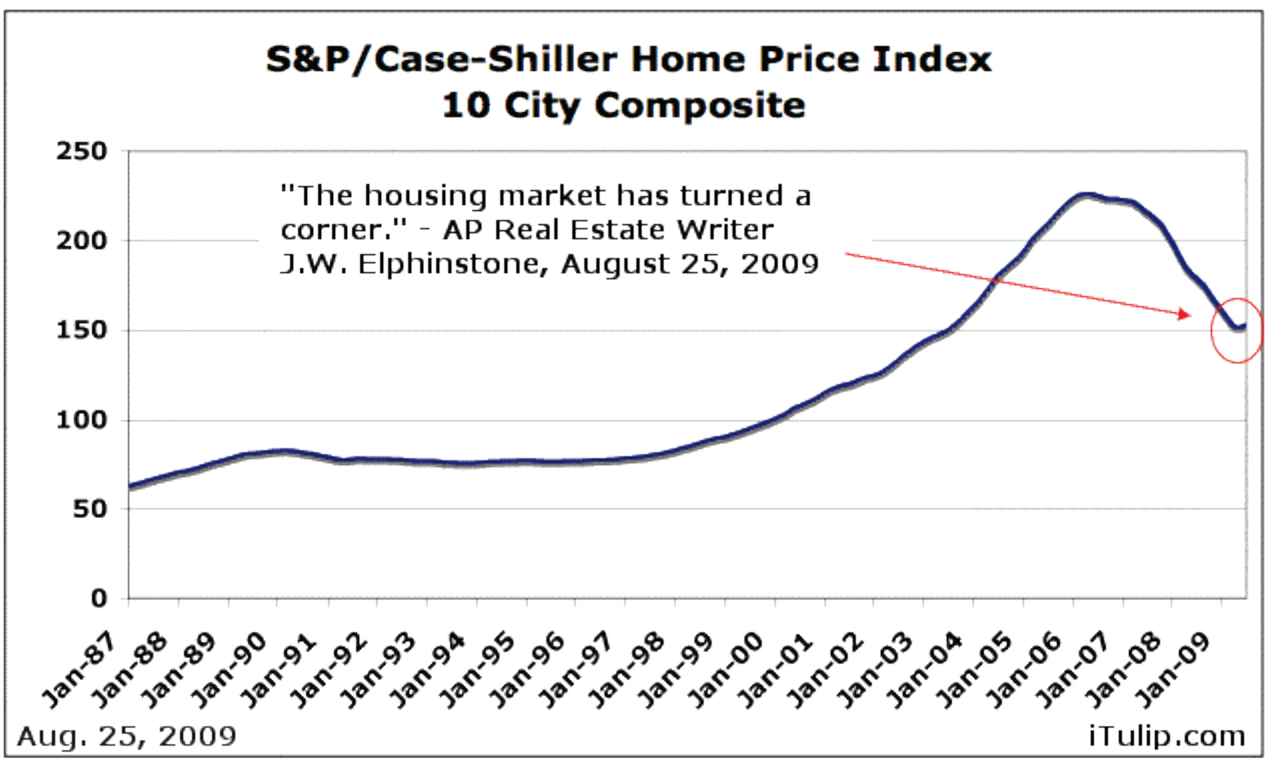
Meanwhile, unemployment continues to rise.



The heroic effort to rescue the housing market has produced a blip in the housing bubble reversion to the mean that we forecast in 2007.

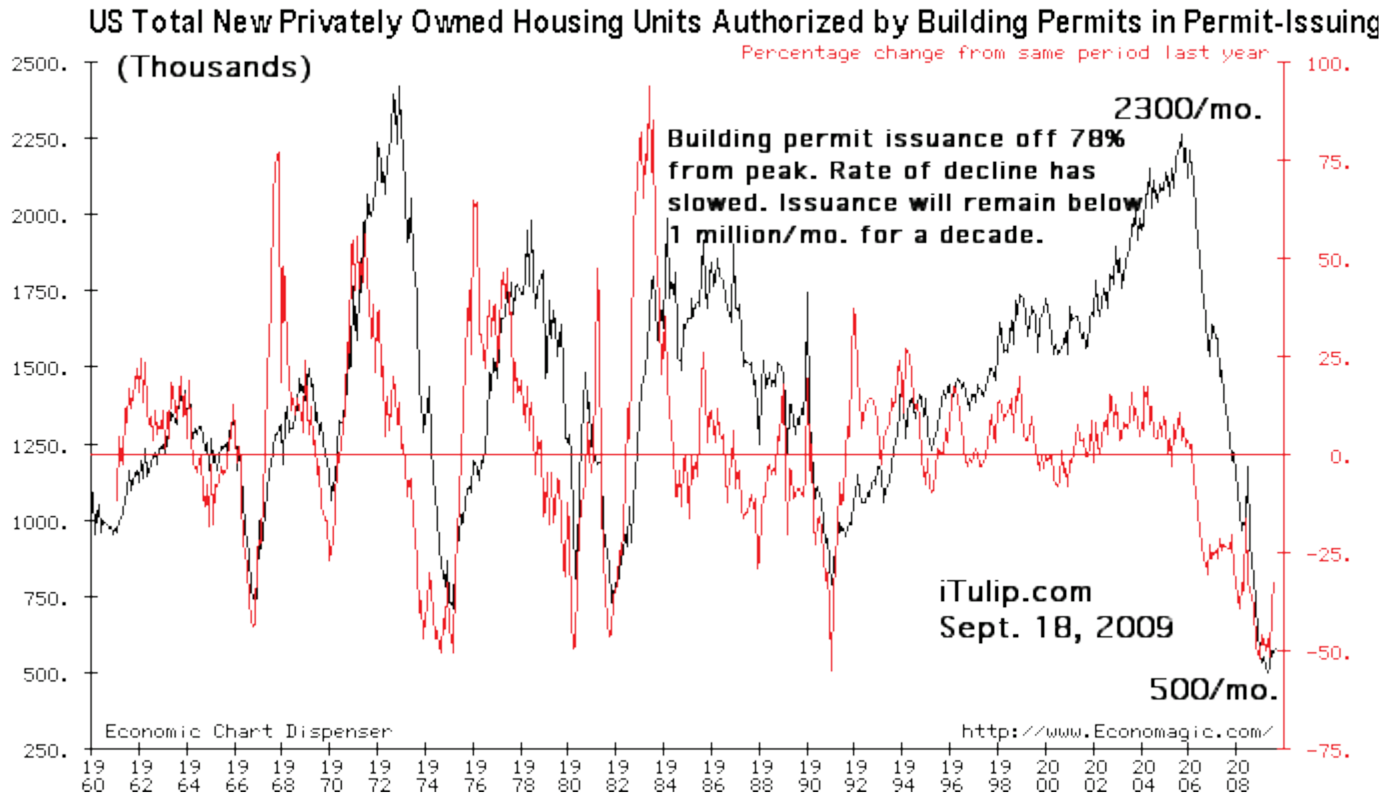


iTulip housing price forecast from 2007

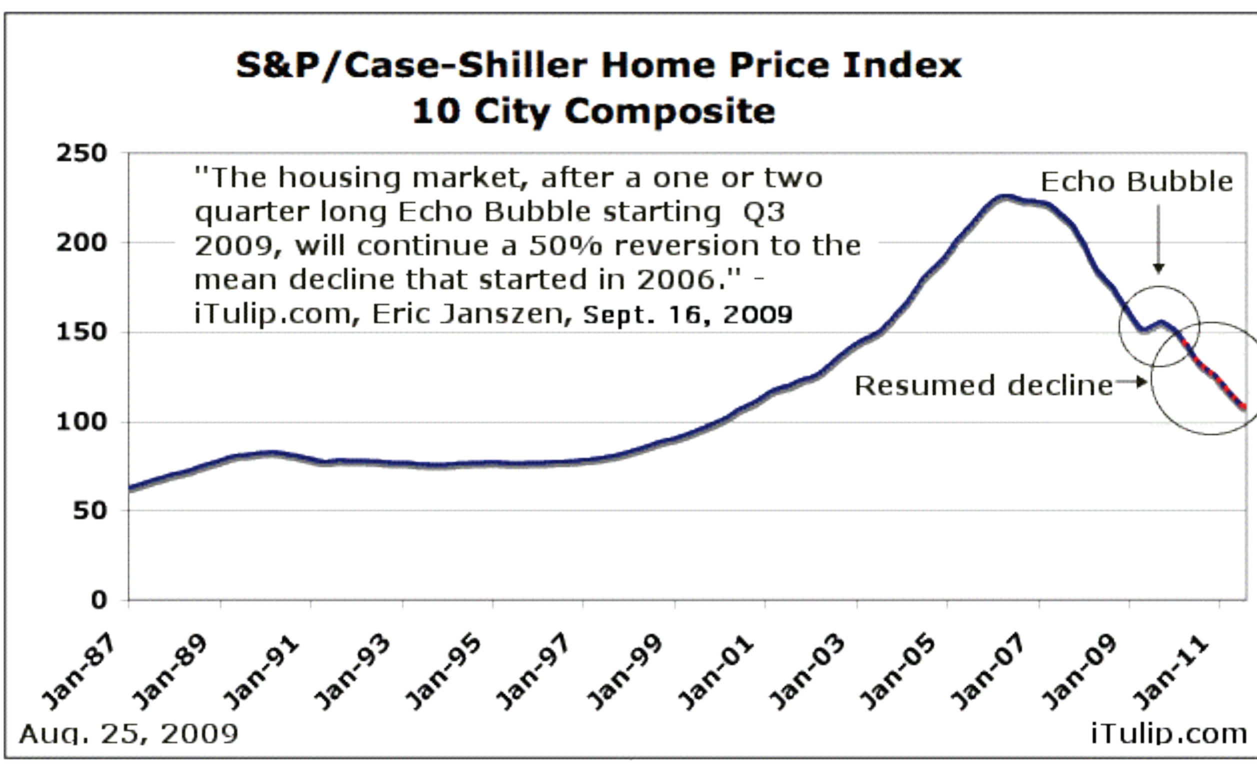


Actual home prices as of July 2009

We tracked housing permit issuance to forecast the end of the housing bubble in 2005, so we return to it to help guide our forecast from here.

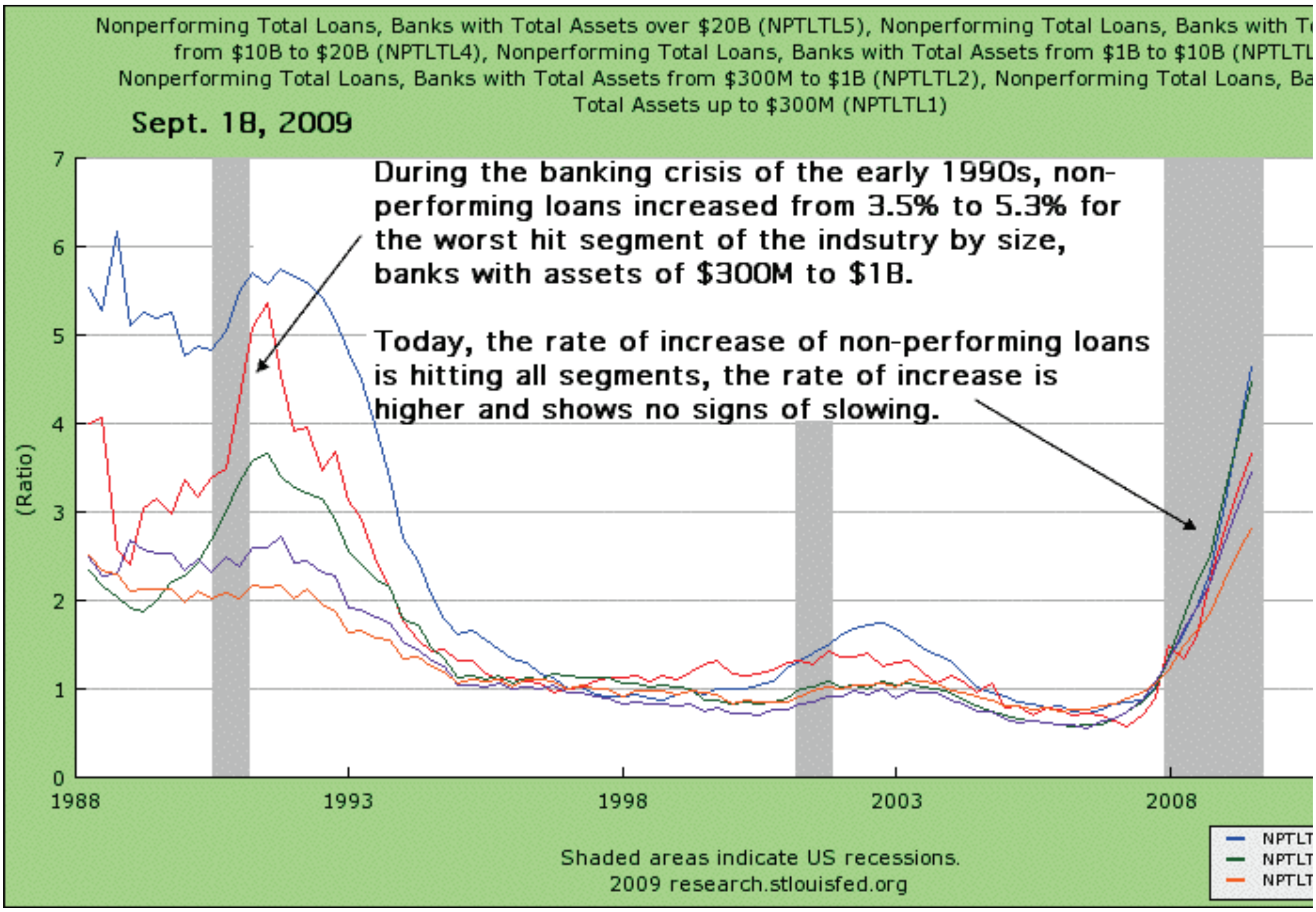


Building permit issuance has stopped declining year over year after falling 78% from the peak and may have stabilized. However, permit issuance will remain at early 1990s levels for the next decade.



The housing echo bubble will not last long without sustained government support or a robust improvement in jobs and incomes. We expect the reversion to the mean process to continue next year.

ND: Robert Shiller says the housing bubble can be restarted.
EJ: How? The housing bubble was financed with private credit issued by investment banks, purchased by foreign investors, and sold by unaccountable lenders, with an entire chain of craziness, from bent appraisers and real estate lawyers to over-zealous commercial banks. The entire system has broken down. It can't even function normally, never mind in hyper-drive to create a new bubble. Look at the rate of increase of loan losses for all sizes of banks.



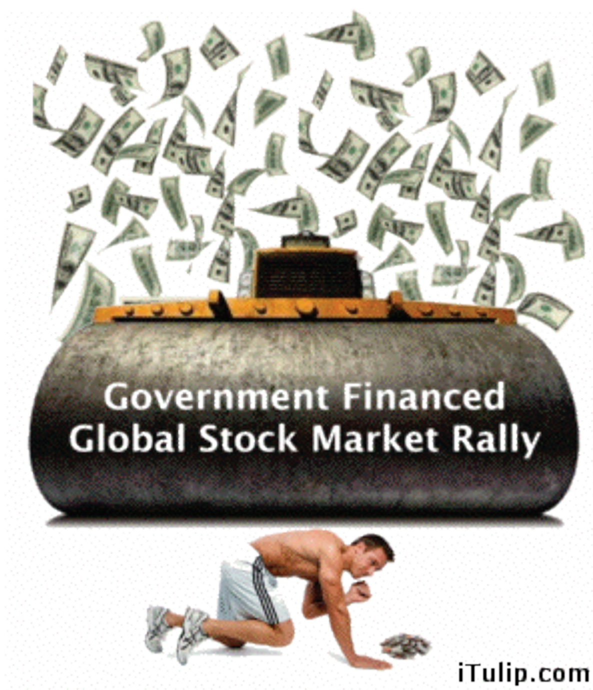
ND: That is one ugly chart.
EJ: Again, we have to keep this all in context. If we told readers in 2005 when we warned about the housing bubble that GSEs Fannie Mae and Freddie Mac were to be nationalized within three years, we'd have been called alarmist. But the *Wall Street Journal* reported on Tuesday that this year 80% of all mortgages were purchased in the secondary market by the FHA, versus 20% in 2006. What the chart above says to me is that some day down the road we may find a large segment of our banking industry has been nationalized much as we have for all intents and purposes nationalized the mortgage banking industry.

Think about what the virtual nationalization of mortgage debt means. It means that 80% of home sales that are occurring today would not occur except for the government's guarantee of mortgage credit. We have for all intents and purposes a nationalized housing market here in the U.S. And who is backing the mortgage debt? Not investors in mortgage-backed securities in Europe and Asia. In fact, the Treasury is busy buying back Agency debt from them, the bonds issued by the GSEs, with Treasury bonds. You can see the net decline in purchases in agency debt and the corresponding rise in net purchases of Treasury bonds in the data.

ND: We've effectively nationalized our housing market?
EJ: Yes.

ND: How do we re-privatize it?
EJ: In my opinion, and this goes back to analysis I did in 2005, by inflating the nominal incomes of mortgage payers. Politically, I don't see any other way.

ND: If the housing market resumes its decline, what happens to the recovery?
EJ: The housing bubble was financed with mortgages backed by securities sold to private and public investors all over the world. But these new mortgages are financed by the government. Each and every mortgage adds to our public debt. The administration's approach to the private credit crisis is to create a future soveriegn credit crisis.



Mission Accomplished – Part II: Wrecked markets ($ubscription)

• Nationalized economy not resuscitating the consumer
• Ongoing declines in consumer debt and income do not point to a V-shaped recovery
• Wage rates among the employed are rising steeply
• Inflation will rise across the board in Q1 2010

ND: What's with the stock market? In March you called this the "First Bounce of the Debt Deflation Bear Market" and in June said it was over, but after a dip it kept going up.
EJ: The First Bounce marked a new phase of post-FIRE Economy-based asset pricing and the start of re-inflation policy based asset pricing. The initial 30% plus gain off March panic lows represented a relief rally. Since then, many factors have combined to drive the market up, among them: funds playing the re-inflation trade, conservative long-short funds piling in to catch up to more aggressive funds that got back into the market in March, and retail investors chasing the recovery to name three.

ND: You have two apparently contradictory stock market forecasts. Late last year you said that in the second year of the Debt Deflation Bear Market the DJIA will rally to around 10,000 then

end the year around 8,500. Then in August 2009 you said you thought the S&P will fall to 500 to 600 at some point before the end of the year. Here it is mid September and the DJIA is only a couple of hundred points shy of 10,000 and the S&P over 1060 is nowhere near 600. Do you still see the DJIA falling back to 8,500 and the S&P falling 40% to 600 over the next two and a half months?
EJ: The DJIA traded down to 6,500 in March then reached 8,800 at the time I said the first bounce was over, a 26% gain. Since then it's up another 10%. So clearly it was not over. But here's why I'm not buying the rally.

The U.S. stock market is no more a market than the U.S. housing market is a market. There's just too much printed money floating around to forecast it they way are used to starting in 1999, as a private capital bubble market. Remember that the value-based stock market ended in 1996 and the asset price inflation market driven by private capital began. We started to cover that here in 1998. The private capital bubble market ended in 2008 and the government reflation market began in 2009.

Our 2009 Debt Deflation Bear Market year two forecast used the first year of the government reflation market in Japan as a guide to the processes involved. The theory was that markets can't tell the difference between government financed economic growth and organic economic growth.

Japan 1990 to 2008 versus U.S. 2008 to ???

Debt Deflation Bear Markets

Impact of monetary and fiscal stimulus

Correlation to stock prices and GDP

Update: Sept 16, 2009

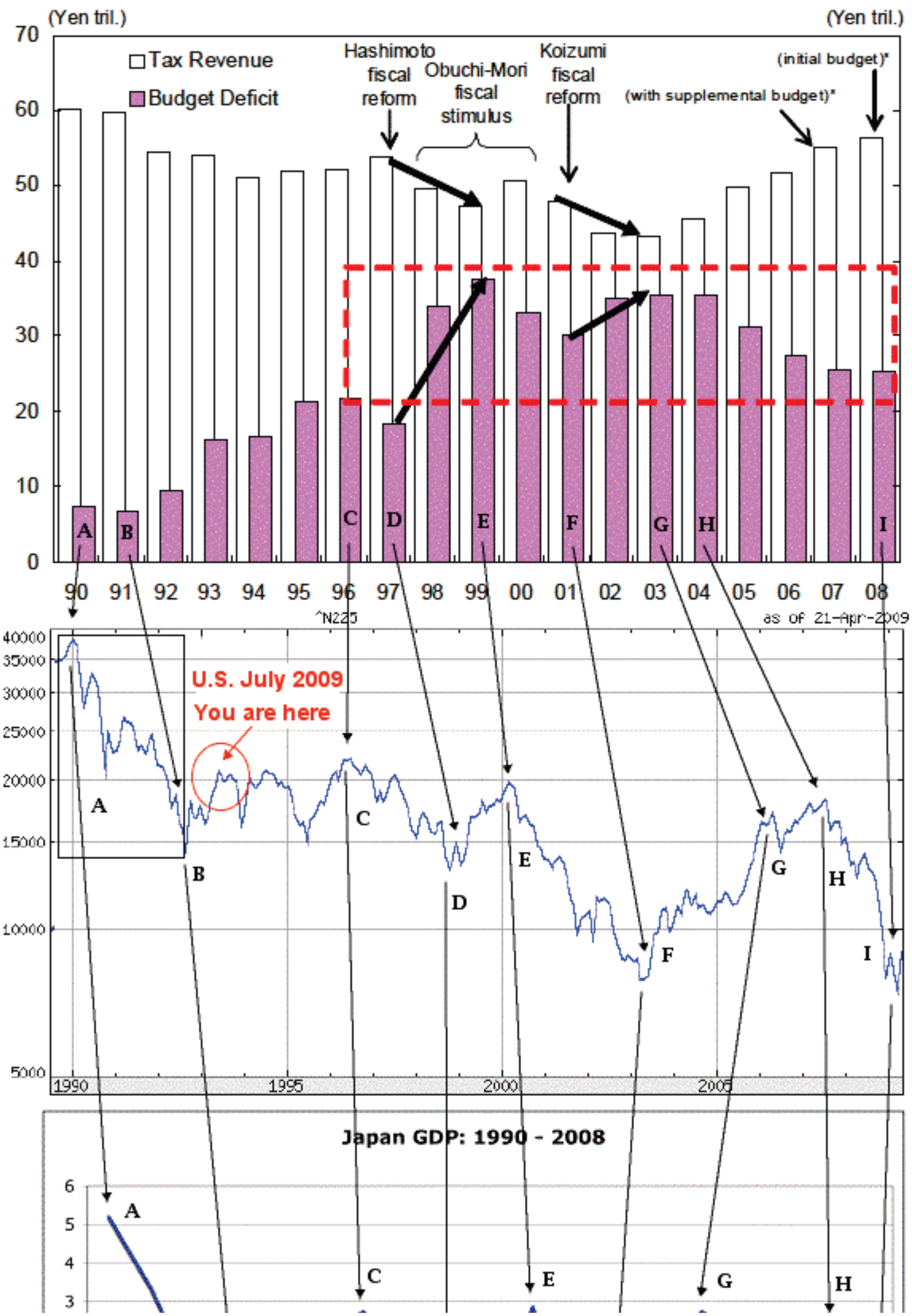
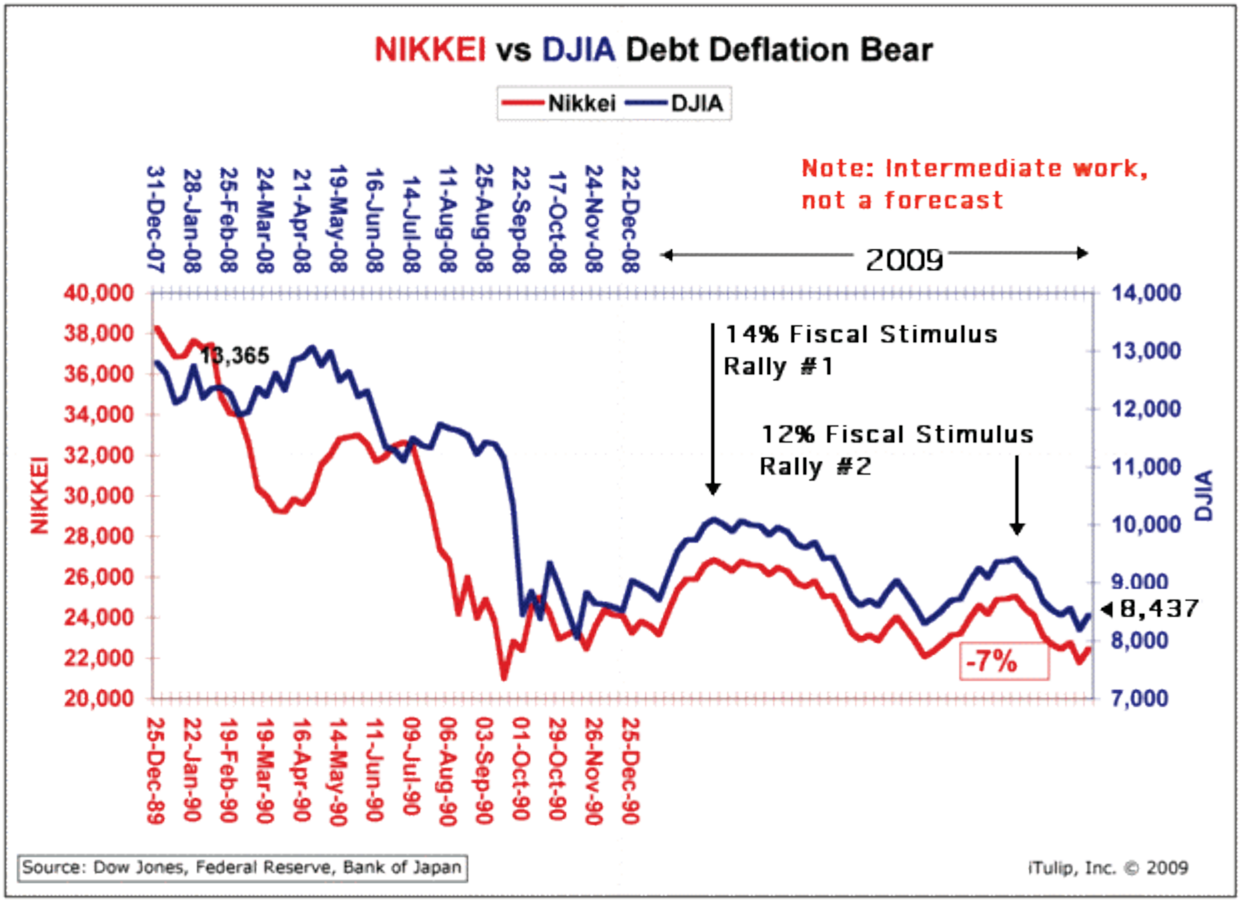


Chart correlates stimulus to GDP and stock prices

In December 2008, we applied this theory to the U.S. and estimate at the impact of fiscal spending in the second year of the Debt Deflation Bear Market.



We show two rallies in 2009 resulting from the stimulus, the first takes the DJIA to 10,000 and the second to 9500.

This forecast is highly speculative because there is no way of knowing how the effect of the stimulus will express itself in stock prices, but I believe the principle is correct, just as the principle of debt deflation enabled us to accurately forecast the 40% decline in stock prices in 2008. But instead of two rallies we got one big one. We should have known.

If we have learned anything over the past ten years it's this: Wall Street is very adept at taking a trend and turning into a bonus-packed juggernaut.

Take the commodity bull market in 2008, and especially oil. The weak dollar trend took oil from \$16 to around \$60. Wall Street then took it from \$60 to \$147. That game got cut off when capital inflows reversed. The liquidity drain crashed the securitized mortgage debt market in Q1 2007. The rest is history.

Home sales fall after 4 months of increases

US home resales take dip in August, ending 4-month winning streak

By Alan Zibel, AP Real Estate Writer
On Thursday September 24, 2009, 4:33 pm EDT

WASHINGTON (AP) -- Four steps forward, one step back.

Home resales dipped unexpectedly last month, falling 2.7 percent from a month earlier, the National Association of Realtors said Thursday, reversing steady monthly gains since April. Most economists, however, called the drop temporary and said they expected sales to strengthen later this fall.

"It doesn't change the underlying trend of improvement," said Dean Maki, chief U.S. economist at Barclays Capital.

But even if sales do turn upward again, Maki and other economists don't predict prices will follow. Though prices have stabilized this summer, many economists are forecasting a downward turn over the fall and winter and expect prices to finally hit bottom early next year.

Compared with a year ago, home sales are up 3.4 percent, and the inventory of unsold homes has been whittled down to an 8.5 month supply at the current sales pace. That's the lowest level in more than two years.

Fewer foreclosures have been coming on to the market in Phoenix, for example, cutting down the number of homes for sale from around 54,000 last year to about 31,000 today, said Floyd Scott, broker-owner of Century 21 Arizona-Foothills.

Sales this month should be ahead of August, Scott says. But he wonders whether they will drop after the Nov. 30 sunset of a tax credit of up to $8,000 for first-time homebuyers.

"It will be interesting to see what happens sometime around the first or second week of October," he said.

In Washington, real estate agents and home builders are lobbying hard for an extension of the credit. Without it, they argue, the housing market will take a sharp turn for the worse.

First-time buyers purchased almost one in three homes in August. Together with investors snapping up foreclosures, they have provided most of the momentum in the market this year.

"Prices have just gotten so low in some places that investors can't resist," said Dave Denslow, an economics professor at the University of Florida.

After a long period in which it was clear that housing was headed in one direction -- down -- some still doubt the market is truly in recovery mode. Optimists say the bottom was reached earlier this year, but pessimists say there are simply too many foreclosed properties that have yet to be dumped on the market.

Nearly 7 million homes are destined for foreclosure, making up a huge "shadow inventory" of homes that haven't gone on the market, according to a report by Laurie Goodman, an analyst with Amherst Securities Group.

"That housing overhang is the single largest impediment to a recovery in the housing market," Goodman wrote this week.

Nationwide, sales fell to a seasonally adjusted annual rate of 5.1 million in August, from a pace of 5.24 million. That surprised analysts, who had expected sales to rise to an annual pace of 5.35 million, according to Thomson Reuters.

Sales are up nearly 14 percent from their bottom in January, but are still down nearly 30 percent from their peak nearly four years ago.

For the housing market to return to normal, said Lawrence Yun, the Realtors' chief economist, sales would need to rise to a pace of around 5.5 million to 6 million per year.

If buyers see clear evidence of stable prices, the housing market recovery can be self-sustaining, Yun said, adding, "We are not there yet."

Nationally, the median sales price was $177,700, down 12.5 percent from the same month last year. Prices were also down 2 percent from a month earlier.

The drop in sales last month may reflect delays in completing sales due to tough lending standards and new rules for appraisals. Real estate agents say new rules, effective May 1, that were designed to limit conflicts of interest in the appraisal process are delaying or undermining sales because appraisals are coming in too low.

That's what happened to Maria Jose Garcia, who just bought a three-bedroom house with a garden in a quiet neighborhood in West Park, a suburb of Fort Lauderdale, Fla.

Garcia signed a contract to buy her first home in early July but closing was pushed back twice because two appraisals came in below the contract price. After negotiating with the seller, the price came down from $125,000 to $105,000.

"The whole time, I was worried, but those issues did not depend on me," said Garcia, 43, an office assistant at a rehabilitation center. "I was sure I was going to buy a house. It was just a matter of negotiating and keeping a good disposition."

Low mortgage rates are also helping more people afford a home. Freddie Mac said Thursday that the average rate on a 30-year fixed-rate loan was 5.04 percent this week, unchanged from a week earlier.

Foreclosures and other financially distressed sellers accounted for about 30 percent of the market last month. That's especially true in the West, where sales of homes under $100,000 were up 150 percent from a year ago.

Sales of homes priced at over $250,000 were down nationally, with the biggest drop of nearly 40 percent coming among homes priced over $2 million.

With unemployment and foreclosures rising in the upper end of the housing market, "there will be plenty of more pain for higher-priced properties," wrote Joshua Shapiro, chief U.S. economist with MFR Inc.

But the number of newly laid-off workers seeking unemployment benefits fell for the third straight week. The Labor Department's report Thursday was evidence that layoffs are continuing to ease in the earliest stages of an economic recovery.

Regionally, home sales were strongest in the West, up nearly 3 percent compared with year-ago levels. In the Midwest, they fell by nearly 7 percent, and by 3 percent in the South and by 2 percent in the Northeast.

Another reading on the state of the housing market will come Friday morning, when the government reports on new home sales for August. Sales are expected to rise 1.6 percent to an annual rate of 440,000, according to Thomson Reuters.

Downloaded from *http://finance.yahoo.com/news/Home-sales-fall-after-4-apf-2064841344.html?x=0* on September 25, 2009.

US May Face 'Armageddon' If China, Japan Don't Buy Debt

The US is too dependent on Japan and China buying up the country's debt and could face severe economic problems if that stops, Tiger Management founder and chairman Julian Robertson told CNBC.

"It's almost Armageddon if the Japanese and Chinese don't buy our debt," Robertson said in an interview. "I don't know where we could get the money. I think we've let ourselves get in a terrible situation and I think we ought to try and get out of it."

Robertson said inflation is a big risk if foreign countries were to stop buying bonds.

"If the Chinese and Japanese stop buying our bonds, we could easily see [inflation] go to 15 to 20 percent," he said. "It's not a question of the economy. It's a question of who will lend us the money if they don't. Imagine us getting ourselves in a situation where we're totally dependent on those two countries. It's crazy."

Robertson said while he doesn't think the Chinese will stop buying US bonds, the Japanese may eventually be forced to sell some of their long-term bonds.

"That's much worse than not buying," he said. "The other thing is, they're buying almost exclusively short-term debt. And that's what we are offering, because we can't sell the long-term debt. And you know, the history has been that people who borrow short term really get burned."

The only way to avoid the problem, he said, is to "grow and save our way out of it."

"The U.S. has to quit spending, cut back, start saving, and scale backward," Robertson said. "Until that happens, I don't think we're anywhere near out of the woods."

Robertson is not very optimistic about the short-term.

"We're in for some real rough sledding," he said. " I really do think the recession is at least temporarily over. But we haven't addressed so many of our problems and we are borrowing so much money that we can't possibly pay it back, unless the Chinese and Japanese buy our bonds."

Downloaded from *http://www.cnbc.com/id/33004753* on September 25, 2009.

No Sign That Bailout Will Expire at Year's End

Thursday, September 24, 2009 3:40 AM

WASHINGTON -- The Obama administration is signaling that it is in no hurry to let the $700 billion financial bailout program expire at year's end amid continuing stress on the economy and the banking system.

The rescue plan, known as the Troubled Asset Relief Program, is credited in part with pulling back the financial sector from near collapse last year. But its infusions of money into huge banks, the giant insurer AIG and the auto industry have been unpopular with the public and in Congress.

Nevertheless, the Treasury Department has the option of extending the program to October 2010, provided it justifies the continuation to Congress by Dec. 31.

"We still have a very damaged system," Treasury Secretary Timothy Geithner told lawmakers Wednesday when asked if he planned to end the program by the end of this year. "Important that we not declare victory too soon, (and) walk this back prematurely."

The program will be the subject of a hearing Thursday before the Senate Banking, Housing and Urban Affairs Committee.

TARP, as the program is commonly known, has been a difficult pill for politicians to swallow. Much of the money was used to assist the same institutions blamed for the financial crisis.

Moreover, Treasury has regularly sparred with the watchdog agency assigned to oversee it, and officials concede that the Treasury will not recover all of the money it has spent on the program.

"It is extremely unlikely that the taxpayer will see a full return on its TARP investment," Neil Barofsky, the program's special inspector general, says in testimony prepared for Thursday's hearing.

In his testimony, Barofsky also complains that Treasury's approach toward public accountability "remains a significant frustration." Barofsky has repeatedly asked Treasury to release more information about how banks are using their share of the TARP money.

Last week, 39 Senate Republicans and one Democrat wrote Geithner a letter urging him to end the program at the end of the year. They said the money had been used in ways not contemplated by Congress. But there is no provision for Congress to disapprove of an extension as there was when the Obama administration acted to spend the second half of the bailout fund earlier this year.

Industry experts and Obama administration officials warn that the financial sector, while more stable, is still vulnerable. Foreclosures are still rising, unemployment is expected to remain high for months, banks still hold bad assets on their balance sheets and the commercial real estate market poses a significant threat to small banks whose failure rate has not abated.

Many economists warn that a too-slow recovery could dip into recession again.

"It is too early for anyone to declare victory," Geithner told members of the House Financial Services Committee on Wednesday.

Speaking to reporters after the hearing, committee Chairman Barney Frank, D-Mass., said the program should be extended.

Congress approved TARP with bipartisan support in October 2008 at the request of then-President George W. Bush during the height of the financial crisis. Bush administration officials initially said the money would be spent to buy up bad assets from financial institutions. Under Bush and Obama, however, the rescue fund has also been used to bail out the auto industry and to obtain ownership interests in banks and insurance giant American International Group.

According to the administration's latest report on TARP, the Treasury has obligated $443.8 billion from the fund to specific institutions. Banks have paid back the Treasury $70.3 billion of the assistance they received, and they have paid nearly $9.4 billion in dividends and interest payments.

Downloaded from *http://www.newsmax.com/us/us_financial_bailout/2009/09/24/264070.html* on September 25, 2009.

Swine Flu Surge Closes Schools, Tests Hospitals

By Rob Stein
Washington Post Staff Writer
Sunday, September 27, 2009

In Austin, so many parents are rushing their children to the Dell Children's Medical Center of Central Texas with swine flu symptoms that the hospital had to set up tents in the parking lot to cope with the onslaught.

In Memphis, the Le Bonheur Children's Medical Center emergency room got so crowded with feverish, miserable youngsters that it had to do the same thing.

And in Manning, S.C., a private school where an 11-year-old girl died shut down after the number of students who were out sick with similar symptoms reached nearly a third of the student body.

"It just kind of snowballed," said Kim Jordan, a teacher at the Laurence Manning Academy, which closed Wednesday after Ashlie Pipkin died, and the number of ill students hit 287. "We had several teachers out also. That was the reason to close the school -- so everyone could just be away from one another for a few days."

After months of warnings and frantic preparations, the second wave of the swine flu pandemic is starting to be felt around the country, as doctors, health clinics, hospitals and schools are reporting rapidly increasing numbers of patients experiencing flu symptoms.

"H1N1 is spreading widely throughout the U.S.," said Thomas R. Frieden, director of the federal Centers for Disease Control and Prevention in Atlanta during a briefing on Friday. At least 26 states, including Maryland and Virginia, are now reporting widespread flu activity, up from 21 a week earlier, the CDC reported. "H1N1 activity is now widespread," Frieden said.

While so far most cases are mild, and the health-care system is handling the load, officials say the number of people seeking treatment for the flu is unprecedented for this time of year. Even though some parts of the Southeast that started seeing a surge of cases first now seem to be showing a decline in cases, that could be a temporary reprieve, Frieden said. And other parts of the country are likely just starting to feel the second wave.

Maryland health authorities on Friday said a Baltimore-area youth with an underlying health problem had died of swine flu, the state's first such fatality involving a youth.

Despite new federal guidelines aimed at keeping schools open, the pandemic has already prompted scattered school closings around the country in recent weeks, including 42 schools that closed in eight states on Friday, affecting more than 16,000 students.

Many colleges and universities have been hit particularly hard, forcing some to open separate dorms for sick students. Ninety-one percent of the 267 colleges and universities being surveyed by the American College Health Association are now reporting cases.

At the Le Bonheur Children's Medical Center, the number of patients coming in each day shot up from about 180 to a peak of more than 400, prompting officials to erect a 2,500-square foot tent in the parking lot to handle the surge. More than 300 patients are still coming in every day.

"What we initially did was try to bring in extra folks, but you soon run out of extra people and extra spaces to put people," said Barry Gilmore, the hospital's medical director for emergency services.

Doctors, nurses, paramedics or other workers screen patients in the tent and decide who can safely go home. Anyone with other health problems that put them at risk, such as asthma, heart disease or kidney disease, is sent immediately to the emergency room. All patients who are sent home are contacted within 24 to 48 hours to make sure they are recovering.

"We are mostly dealing with the worried well or kids who are mildly ill but not severely ill," he said.

At least 14 patients, however, were admitted to the hospital and perhaps six required intensive care, he said. One teenager died.

Swine flu, also known as H1N1, tends to strike more younger people than the usual seasonal flu. At least 49 children have died from complications caused by the virus so far in the United States.

At the Dell Children's Medical Center, the number of patients coming in each day shot up from about 180 to more than 340, prompting the hospital to require staff to work extra shifts and erect two tents outside the emergency room to handle the overflow and keep possibly infected patients separate from others.

"We are able to take care of them really rapidly without a long wait, and they don't have to be mixed in with other patients who do not have the flu," said Pat Crocker, chief of emergency medicine. "It's been highly efficient."

But Crocker, noting that the hospital is already busier than it was in the wake of hurricanes Katrina and Rita, said the hospital has a third tent ready to be set up.

Individual doctors' offices are also reporting a surge of patients in many parts of the country.

"We're completely swamped," said Ari Brown, an Austin pediatrician whose office had to call in extra nurses to handle the volume of patients. "It's been extraordinarily busy. We have a small parking lot to begin with. People now are circulating the neighborhood to try to find a place to park and the waiting room is completely packed."

Unless patients are seriously ill or have other conditions that put them at risk, Brown and other doctors say they tell parents to take their children home, give them Motrin or Tylenol for their fevers, headaches and body aches, and lots of fluids, and wait it out. Some doctors report that children tend to recover within about four days, a day or two shorter than with the typical flu.

Nevertheless, "people are so worried about this," Brown said. "There's clearly a certain level of hysteria."

Although no hospitals in the Washington region have yet had to activate their emergency plans, many are reporting an increase in patients, as are individual doctors.

"Some of that is because of the swine flu and some of it is because of phobia about the flu," said Steven Mumbauer, a Waynesboro, Va., pediatrician. "But we definitely are seeing sicker kids and have treated more kids with pneumonia than we typically would this time of the year. There have been some days where we've been absolutely swamped."

At the University of Maryland Medical Center in Baltimore, some children have gotten so sick that they have required intensive care, and that includes some children with no other health problems.

"We have some very sick children," said Ina Stephens, a pediatric infectious disease specialist at the hospital. "I'm concerned it's just the tip of the iceberg -- that we're just seeing the beginning of it."

Downloaded from *http://www.washingtonpost.com/wp-dyn/content/article/2009/09/26/AR2009092601254_pf.html* on September 28, 2009.

Faber: Fed Will Destroy Dollar, Buy Gold

Wednesday, September 23, 2009 9:38 AM

By: Julie Crawshaw

Investing guru Marc Faber advises investors to switch off Ben Bernanke, ignore his government-sponsored "We will keep inflation in check" line — and be sure to buy gold to protect yourself.

"Government is there to do something for itself, not for people," he observes.

Faber says the government will have no choice but to print money like crazy and soon.

He points out the huge existing debt and the financial crunch that's coming by 2018 when more retiring Baby Boomers make demands on Social Security and Medicare.

Don't buy bonds or keep your money in cash, Faber counsels: Put money instead into things that will hold their value, like gold, preferably stored outside the U.S.

"With a chairman like Mr. Bernanke, I would assume that cash will be worth zero," he says.

"Gold … has been a relatively stable commodity, unlike oil, which (last year) went from $147 to $32 a barrel."

"I repeat what I have said in the past," Faber says.

"No decent citizen should trust the Federal Reserve for one second. It's very important that everyone own some gold because the government will make the dollar useless."

President Barack Obama said that when it comes to declaring the recession over, he'll defer to Federal Reserve Chairman Ben Bernanke, The Wall Street Journal reports.

"I'll leave that up to the Fed chairman to pronounce whether it's officially over or not," Obama told CNN.

"What's absolutely clear is that the financial markets are working again."

Downloaded from *http://moneynews.com/streettalk/faber_fed_dollar_gold/2009/09/23/263581.html* on September 28, 2009.

Social Security strained by early retirements

Sep 27, 4:29 AM (ET)

By STEPHEN OHLEMACHER

WASHINGTON (AP) - Big job losses and a spike in early retirement claims from laid-off seniors will force Social Security to pay out more in benefits than it collects in taxes the next two years, the first time that's happened since the 1980s.

The deficits - $10 billion in 2010 and $9 billion in 2011 - won't affect payments to retirees because Social Security has accumulated surpluses from previous years totaling $2.5 trillion. But they will add to the overall federal deficit.

Applications for retirement benefits are 23 percent higher than last year, while disability claims have risen by about 20 percent. Social Security officials had expected applications to increase from the growing number of baby boomers reaching retirement, but they didn't expect the increase to be so large.

What happened? The recession hit and many older workers suddenly found themselves laid off with no place to turn but Social Security.

"A lot of people who in better times would have continued working are opting to retire," said Alan J. Auerbach, an economics and law professor at the University of California, Berkeley. "If they were younger, we would call them unemployed."

Job losses are forcing more retirements even though an increasing number of older people want to keep working. Many can't afford to retire, especially after the financial collapse demolished their nest eggs.

Some have no choice.

Marylyn Kish turns 62 in December, making her eligible for early benefits. She wants to put off applying for Social Security until she is at least 67 because the longer you wait, the larger your monthly check.

But she first needs to find a job.

Kish lives in tiny Concord Township in Lake County, Ohio, northeast of Cleveland. The region, like many others, has been hit hard by the recession.

She was laid off about a year ago from her job as an office manager at an employment agency and now spends hours each morning scouring job sites on the Internet. Neither she nor her husband, Raymond, has health insurance.

"I want to work," she said. "I have a brain and I want to use it."

Kish is far from alone. The share of U.S. residents in their 60s either working or looking for work has climbed steadily since the mid-1990s, according to data from the Bureau of Labor Statistics. This year, more than 55 percent of people age 60 to 64 are still in the labor force, compared with about 46 percent a decade ago.

Kish said her husband already gets early benefits. She will have to apply, too, if she doesn't soon find a job.

"We won't starve," she said. "But I want more than that. I want to be able to do more than just pay my bills."

Nearly 2.2 million people applied for Social Security retirement benefits from start of the budget year in October through July, compared with just under 1.8 million in the same period last year.

The increase in early retirements is hurting Social Security's short-term finances, already strained from the loss of 6.9 million U.S. jobs. Social Security is funded through payroll taxes, which are down because of so many lost jobs.

The Congressional Budget Office is projecting that Social Security will pay out more in benefits than it collects in taxes next year and in 2011, a first since the early 1980s, when Congress last overhauled Social Security.

Social Security is projected to start generating surpluses again in 2012 before permanently returning to deficits in 2016 unless Congress acts again to shore up the program. Without a new fix, the $2.5 trillion in Social Security's trust funds will be exhausted in 2037. Those funds have actually been spent over the years on other government programs. They are now represented by government bonds, or IOUs, that will have to be repaid as Social Security draws down its trust fund.

President Barack Obama has said he would like to tackle Social Security next year.

"The thing to keep in mind is that it's unlikely we are going to pull out (of the recession) with a strong recovery," said Kent Smetters, an associate professor at the University of Pennsylvania's Wharton School. "These deficits may last longer than a year or two."

About 43 million retirees and their dependents receive Social Security benefits. An additional 9.5 million receive disability benefits. The average monthly benefit for retirees is $1,100 while the average disability benefit is about $920.

The recession is also fueling applications for disability benefits, said Stephen C. Goss, the Social Security Administration's chief actuary. In a typical year, about 2.5 million people apply for disability benefits, including Supplemental Security Income. Applications are on pace to reach 3 million in the budget year that ends this month and even more are expected next year, Goss said.

A lot of people who had been working despite their disabilities are applying for benefits after losing their jobs. "When there's a bad recession and we lose 6 million jobs, people of all types are going to be part of that," Goss said.

Nancy Rhoades said she dreads applying for disability benefits because of her multiple sclerosis. Rhoades, who lives in Orange, Va., about 75 miles northwest of Richmond, said her illness is physically draining, but she takes pride in working and caring for herself.

In June, however, her hours were cut in half - to just 10 a week - at a community services organization. She lost her health benefits, though she is able to buy insurance through work, for about $530 a month.

"I've had to go into my retirement annuity for medical costs," she said.

Her husband, Wayne, turned 62 on Sunday, and has applied for early Social Security benefits. He still works part time.

Nancy Rhoades is just 56, so she won't be eligible for retirement benefits for six more years. She's pretty confident she would qualify for disability benefits, but would rather work.

"You don't think of things like this happening to you," she said. "You want to be in a position to work until retirement, and even after retirement."

Downloaded from *http://apnews.myway.com/article/20090927/D9AVHRDG0.html* on September 28, 2009.

Mich. stares down 2nd govt. shutdown in 3 years

Sep 26, 5:54 PM (ET)

By KATHY BARKS HOFFMAN

LAINGSBURG, Mich. (AP) - Economically beleaguered Michigan faces a possible government shutdown - shuttering highway rest areas, state parks, construction projects and the state lottery - if lawmakers fail to reach a budget deal in the next few days.

The state with the nation's highest unemployment rate has a nearly $3 billion shortfall. Federal recovery act money will fill more than half the gap, but the spending cuts or tax increases needed to fill the rest have caused bitter infighting at the state Capitol.

Michigan is one of just two states whose budget year starts Oct. 1. The other, Alabama, already has a spending plan in place, according to the National Conference of State Legislatures. If lawmakers in Lansing don't make progress soon, Michigan could join the eight other states that failed to meet budget deadlines - but did not shut down - this year.

That's something neither Democratic Gov. Jennifer Granholm nor lawmakers want to do. They're haunted by memories of the fallout from an hours-long government shutdown in 2007 and want to avoid the resulting voter disgust and national derision.

Darin and Jenni Johnson of Howell were told to leave their campsite at Sleepy Hollow State Park near Laingsburg on a Sunday night two years ago as the state headed toward a shutdown.

"We had to cut our weekend short because they kicked everyone out. It was a gorgeous weekend," said Jenni Johnson, who was back at the park northeast of Lansing with her husband Thursday for an extended weekend in their pop-up trailer.

She recalled one couple from out of state who had planned to stay another week.

"I'm sure it didn't leave them with a good impression," Jenni Johnson said.

Bob Terranova worries any lottery suspension could cost him business at the convenience store he owns in the town of DeWitt just north of Lansing.

"It keeps your customer count down ... (and) may take away from your retail sales," he said.

One state lawmaker, Republican Rep. Ken Horn, introduced legislation that would give residents a grace period to renew licenses, apply for benefits and let businesses operate under existing permits if there's a government shutdown. The legislation hasn't had a hearing.

About the only thing Republicans and Democrats have agreed on is tapping up to $1.5 billion in federal recovery dollars to fill part of the $2.8 billion budget gap. A continuation budget could be put in place to avoid a shutdown, but one approved Friday by Senate Republicans is opposed by Democrats, and it can't be voted on by the Democratic-led House until one day before the Oct. 1 deadline under legislative rules.

Senate and House Republicans say they can deal with the shortfall with deep cuts to schools, college scholarship programs, Medicaid reimbursement rates for doctors, and money for local police and firefighters and the poor. They argue a cuts-only will prevent even deeper slashing in the next budget year when federal recovery dollars dry up.

Granholm and many Democratic lawmakers say cuts too deep will hurt the state's ability to educate students, retrain unemployed workers, help the poor and mentally ill and protect public safety.

With the Senate in Republican hands and Democrats holding a House majority, and the Democratic governor and House speaker disagreeing, a compromise has been slow in coming. Legislative leaders did report some progress Friday, but hurdles remain.

Republicans want Democratic lawmakers to propose and pass tax increases, giving the GOP possible fodder to use against Democrats in next year's elections. Democrats hope to get a leg up by painting GOP lawmakers as willing to hurt children rather than reinstate estate taxes on the rich.

The question now is whether Michigan will follow the path of the eight other states that failed to pass budgets on time: Arizona, California, Connecticut, Illinois, Mississippi, North Carolina, Ohio and Pennsylvania.

California's budget impasse lasted so long the state had to issue IOUs to cover debts. Connecticut Gov. Jodi Rendell had to issue an executive order keeping the government running past June 30 and only recently agreed to let a budget become law without her signature.

Pennsylvania didn't get a budget deal in place until about a week ago. It has operated since June under a stopgap measure that is paying state workers and allowing billions in other government spending while details are hammered out.

Bill Rustem of Public Sector Consultants, a nonpartisan Lansing think tank, sees a broken Michigan budget process.

"It's the same thing that happened in 2007. The game has become more important than the results. Having an issue has become more important than having a solution," he said. "That's not the way democracy was designed to work."

Downloaded from *http://apnews.myway.com/article/20090926/D9AV8QVG0.html* on September 28, 2009.

The dead end kids
By RICHARD WILNER
Last Updated: 4:45 AM, September 27, 2009

Posted: 1:34 AM, September 27, 2009
The unemployment rate for young Americans has exploded to 52.2 percent -- a post-World War II high, according to the Labor Dept. -- meaning millions of Americans are staring at the likelihood that their lifetime earning potential will be diminished and, combined with the predicted slow economic recovery, their transition into productive members of society could be put on hold for an extended period of time.

And worse, without a clear economic recovery plan aimed at creating entry-level jobs, the odds of many of these young adults -- aged 16 to 24, excluding students -- getting a job and moving out of their parents' houses are long. Young workers have been among the hardest hit during the current recession -- in which a total of 9.5 million jobs have been lost.

"It's an extremely dire situation in the short run," said Heidi Shierholz, an economist with the Washington-based Economic Policy Institute. "This group won't do as well as their parents unless the jobs situation changes."

Al Angrisani, the former assistant Labor Department secretary under President Reagan, doesn't see a turnaround in the jobs picture for entry-level workers and places the blame squarely on the Obama administration and the construction of its stimulus bill.

"There is no assistance provided for the development of job growth through small businesses, which create 70 percent of the jobs in the country," Angrisani said in an interview last week. "All those [unemployed young people] should be getting hired by small businesses."

There are six million small businesses in the country, those that employ less than 100 people, and a jobs stimulus bill should include tax credits to give incentives to those businesses to hire people, the former Labor official said.

"If each of the businesses hired just one person, we would go a long way in growing ourselves back to where we were before the recession," Angrisani noted.

During previous recessions, in the early '80s, early '90s and after Sept. 11, 2001, unemployment among 16-to-24 year olds never went above 50 percent. Except after 9/11, jobs growth followed within two years.

A much slower recovery is forecast today. Shierholz believes it could take four or five years to ramp up jobs again.

A study from the National Longitudinal Survey of Youth, a government database, said the damage to a new career by a recession can last 15 years. And if young Americans are not working and becoming productive members of society, they are less likely to make major purchases -- from cars to homes -- thus putting the US economy further behind the eight ball.

Angrisani said he believes that Obama's economic team, led by Larry Summers, has a blind spot for small business because no senior member of the team -- dominated by academics and veterans of big business -- has ever started and grown a business.

"The Reagan administration had people who knew of small business," he said.

"They should carve out $100 billion right now and create something like $5,000 to $6,000 job credits that would drive the hiring of young, idled workers by small business."

Angrisani said the stimulus money going to extending unemployment benefits is like a narcotic that is keeping the unemployed content -- but doing little to get them jobs.

Labor Dept. statistics also show that the number of chronically unemployed -- those without a job for 27 weeks or more -- has also hit a post-WWII high.

Downloaded from http://www.nypost.com/f/print/news/business/the_dead_end_kids_AnwaWNOGqsXMuIlGONNX1K on September 28, 2009.

On Wall St: Sentiment remains fragile
By Henny Sender
Published: September 25 2009 16:45 | Last updated: September 25 2009 16:45
Until the last day or two, Wall Street was producing lots of cheerful charts with the lines pointing happily skywards. The stock market is up, and the high yield debt market, where poorly rated companies raise money, is "on fire", according to the analysts at Citigroup.

The Federal Reserve, along with other central banks, seems to have successfully flooded the markets with cheap capital, buoying most asset markets in the process. "The Fed is the Great Enabler," says one senior Treasury official.

"The recovery and asset reflation trade continues to work in tandem to push up asset prices across the world," the economists at JPMorgan Securities in London noted on September 18. They wrote as the stock market continued to rebound and the gap between the yields on Treasury securities and corporate debt continued to narrow. Evidence of this improvement in the corporate debt markets can be illustrated by the reception recently given to a sale by Blockbuster.

Two months ago, debt capital markets people at JPMorgan were doubtful the retail chain, which rents out DVDs, could raise any money at all from the debt market. Then, two weeks ago, they thought that maybe $340m was possible. When the deal came to market in recent days the offer size was increased to $675m. Every day it seems projections of default rates are being slashed thanks to such refinancings, which offer the hope that companies can survive until the economy gets better. Globally, companies issued $1,500bn worth of bonds, year to date.

Meanwhile, government programs are single-handedly supporting other asset classes. Indeed, the government has become everyone's favorite prime broker, financing buyers who would otherwise remain on the sidelines, in an effort to support asset prices.

"Wherever the government is, there is a rally," says the head of one private equity firm. "Wall Street is out of sync with the fundamentals but if you fight it, you die."

Still, the correction in equity markets at the end of this week shows just how fragile sentiment is beneath the easy money now sloshing around the globe. This is largely because investors perceive that the government is the only source of liquidity, and that liquidity has to be temporary.

Sadly, the government isn't just everyone's favorite financier, it is virtually the only financier around. And there is a limit to how much the central bank and the government can, and should, do. Underneath the euphoria, is a certain ambivalence and even schizophrenia. The securitization market, for example, was at the heart of the crisis. Complicated structured financing with super high – and undeserved – ratings fuelled the huge growth in credit, was largely responsible for asset bubbles and allowed banks to leverage up way beyond what was prudent and sustainable. It was the perfect example of bad money driving out good.

"CDOs destroyed prudent lending in America," says this private equity executive. "It was like a nuclear bomb to good lenders."

Now, the government is keeping the securitisation market alive – at least the secondary market. And the few new securitisations getting done are also getting done with government support. There were about $1,000bn in new issues in 2007 and this year the figure is likely to be less than 20 per cent of that. "Without government leverage, there is no securitisation," says this Treasury official. That in turn suggests that any lift to asset prices may well prove temporary.

At some point, given the constraints on the government and the moribund state of the securitisation market, the banks will need to pick up the baton to facilitate growth. But at the moment, banks are more likely to be a drag on growth.

One chart that makes for particularly sober reading comes from JPMorgan's Eye on the Markets dated September 23, which shows bank lending growth has collapsed to a fifty-year low. It makes sense on an individual basis for banks to rebuild their capital. But their (belated) search for more stability and safety comes with certain costs. Until the banks begin lending again, the sense of fragility is bound to increase.

Downloaded from *http://www.ft.com/cms/s/0/c2f7e3d4-a9e9-11de-a3ce-00144feabdc0.html?nclick_check=1* on September 28, 2009.

World bids farewell to U.S. dollar
Largest bank, U.N. seek replacement for global reserve currency

---

Posted: September 25, 2009
12:50 am Eastern

By Jerome Corsi and Chelsea Schilling
© 2009 WorldNetDaily

One of the world's largest banks is bidding farewell to the U.S. dollar – just as the dollar faces intense scrutiny at today's G-20 summit and the United Nations announces it wants a new global reserve currency replacement.

"The dollar looks awfully like sterling after the First World War," David Bloom, HSBC currency chief, told London's Telegraph.

"The whole picture of risk-reward for emerging market currencies has changed. It is not so much that they have risen to our standards, it is that we have fallen to theirs. It used to be that sovereign risk was mainly an emerging market issue but the events of the last year have shown that this is no longer the case. Look at the U.K. – debt is racing up to 100 percent of GDP," he said

China and rising Asia can no longer continue holding down their currencies to boost exports because it's hurting their own economies, creating asset bubbles, the Telegraph reported.

"The policy headache was already becoming clear in the final phase of the global credit boom but the financial crisis temporarily masked the effect," the report states. "The pressures will return with a vengeance as these countries roar back to life, leaving the U.S. and other laggards of the old world far behind."

Bloom told the newspaper that regional currencies will emerge as the anchor for HSBC's smaller trading partners, with China, Brazil, or South Africa filling the role of the U.S. Australia has been linking its fortunes to China through commodity ties.

The news comes on the heels of a *recent Red Alert report* that world organizations, including the United Nations, are openly calling for the creation of a one-world currency to replace the dollar – and the Obama administration's trillion-dollar deficits are serving as a trigger for the currency switch.

A United Nations report recommended that a new one-world currency should be created to replace the dollar as the standard for foreign-exchange holdings in international trade.

"If the plan succeeds, the United Nations would effectively end up replacing the United States as the issuer of the one-world international currency used as the standard of foreign exchange to settle international trade transactions," Red Alert reported. "The move would obviate the need for any nation state in the future to be the arbiter of world trade, marking yet another blow to national sovereignty on the path to one-world government."

The report, released by the United Nations Conference on Trade and Development, or UNCTAD, endorsed a proposal that Special Drawing Rights, or SDRs, issued by the International Monetary Fund, or IMF, "could be used to settle international payments."

The dollar is also expected to come under intense scrutiny at the today's G-20 Pittsburgh summit. China is leading calls for reconsideration of the dollar as a reserve currency. The country was first to call for a new global currency as an alternative to the dollar as the U.S. deficit began multiplying.

Red Alert has also reported that Russia and China championed the idea to use the IMF's Special Drawing Rights as a new international currency as a proposal that was adopted by the 2009 G-20 London summit held last April.

The G20 summit meeting took a step toward creating a new one-world currency through the International Monetary Fund that is designed to replace the dollar as the world's foreign exchange reserve currency of choice.

Point 19 of the final communiqué from the G20 summit in London on April 2 stated, "We have agreed to support a general SDR which will inject $250 billion into the world economy and increase global liquidity," taking the first steps forward to implement China's proposal that Special Drawing Rights at the International Monetary Fund should be created as a foreign-exchange currency to replace the dollar.

The IMF created SDRs in 1969 to support the Bretton Woods fixed exchange-rate system.

"The international supply of two key reserve assets – gold and the U.S. dollar – proved inadequate for supporting the expansion of world trade and financial development that was taking place," a document on the IMF website explains. "Therefore, the international community decided to create a new international reserve asset under the auspices of the IMF."

When the Bretton Woods fixed-rate system collapsed, major world currencies, including the dollar, shifted to a floating exchange-rate system where the price of the dollar and other major world currencies was created by trading on international currency exchanges.

Until the current global economic crisis, SDRs issued by the IMF have been used by IMF member nation states primarily as a reserve account to support international trade transactions, not as an alternative international currency available to settle international debt transactions in danger of default.

Some say the discussion of using SDRs at the IMF as an international reserve payment system is further evidence that the momentum to create a one-world currency is gaining among not only among academic economists, but also among and professional economists holding prominent government positions.

Red Alert previously reported that strong support for the idea of a one-world currency has recently come from Canadian economist Robert Mundell, who won a Nobel-prize in 1999, for his work formulating the intellectual basis for creating the euro.

Mundell endorsed the idea of Kazakhstan President Nursultan Nazarbayev to create the "acmetal" as a world currency, according to the Australian News.

Craig Smith, president and CEO of Swiss America Trading Corporation, a national investment firm specializing in U.S. gold and silver coins, has been warning about the decline of the dollar for many years.

"It is now happening before our eyes," Smith said. "The dollar is getting ready to get hammered, and there is no way for the Fed to stop it."

Smith, author of "*Rediscovering Gold in the 21st Century*," has argued that the simplest solution for Americans looking to protect their wealth is to convert it from unstable dollars into gold, "the most stable currency in the world."

Downloaded from *http://www.wnd.com/index.php?fa=PAGE.view&pageId=110913* on September 28, 2009.

Durable goods orders, new home sales disappoint

By CHRISTOPHER S. RUGABER, AP Economics Writer
Fri Sep 25, 11:24 am ET

WASHINGTON – Orders for durable goods like aircraft and electronics fell unexpectedly in August, while sales of new homes rose less than expected. The weak reports renewed concerns about whether the economy can sustain a recovery with consumer spending held back by job losses, tight credit and falling home values.

Still, economists said the figures — which follow weaker-than-expected data on existing home sales Thursday — also reflect a volatile economy emerging from the worst recession since the 1930s.

"No one said this would be a smooth recovery," Benjamin Reitzes, an economist at BMO Capital Markets, wrote in a note to clients. "The data will likely continue to improve in fits and starts."

Orders for durable goods dropped 2.4 percent in August, after rising a revised 4.8 percent in July, the Commerce Department said Friday. Economists had expected a 0.5 percent increase, according to a survey by Thomson Reuters. It was the second drop in three months in orders for goods expected to last at least three years.

A category known as "non-defense capital goods, excluding aircraft," a gauge of business investment in machinery and other items, fell 0.4 percent, its second straight drop. It fell 1.3 percent in July.

Some economists said they were concerned that the two straight declines show businesses aren't confident enough in the recovery to boost their investment in equipment.

Kurt Karl, chief U.S. economist at Swiss Re, said businesses likely are just replacing worn-out equipment, rather than investing in new capacity. Most factories are running at near record-low levels, and extra capacity isn't needed, he said.

But several economists noted that the three-month average of business spending, which smooths volatility, is rising.

"Business equipment spending is still on track to post a solid gain in the third quarter, but perhaps not quite as robust as earlier thought," Brian Bethune, chief U.S. financial economist at IHS Global Insight, said in a note to clients.

The department also said new U.S. home sales inched up 0.7 percent last month to a seasonally adjusted annual rate of 429,000 from a downwardly revised 426,000 in July. Economists had expected a pace of 440,000.

Sales have risen 30 percent from the bottom in January, but are off about 70 percent from the peak of four years ago.

The report was the second straight disappointing sign for the U.S. housing market. The National Association of Realtors on Thursday said sales of previously occupied homes, which make up the bulk of the market, dipped 2.7 percent last month.

Builders continue to make severe cuts in prices to attract buyers. The median sales price of $195,200 was 9.5 percent below July's $215,600. That was the largest monthly drop on records dating to 1963.

The stock market fell in midday trading. The Dow Jones industrial average dropped about 11 points, while broader indexes also dipped.

Orders for commercial aircraft and parts, an especially volatile category, sank 42.2 percent in August after nearly doubling in July.

Excluding aircraft and other transportation goods, orders were flat in August — below analysts' expectations of a 0.5 percent rise. Transportation goods orders dropped 9.3 percent.

The Boeing Co. said earlier this month that its August orders fell 11 percent, as weaker demand for air travel forces airlines to scale back plans to buy new planes.

The Chicago-based airplane maker also said commercial jet deliveries tumbled 22 percent last month compared with August 2008. Still, Boeing says it remains on track to deliver 480-485 planes this year, up from 375 in 2008.

Autos and auto parts orders posted a 0.4 percent gain in August, after rising 1.6 percent in July, according to the government data. The sector received a major boost last month from the Cash for Clunkers program, which gave consumers rebates of up to $4,500 for trading in older cars for newer, more fuel-efficient models. The program, which ended last month, boosted auto sales 30 percent in August.

Several other categories posted weak results. Orders for computers and electronic products dropped 0.7 percent, after rising for two straight months. Electrical equipment and appliance orders fell 0.5 percent, after jumping 4.2 percent in July.

Still, other recent measures of manufacturing output have been positive. The Federal Reserve said last week that industrial production rose for the second straight month in August.

And the Institute for Supply Management, a trade group, said earlier this month that its gauge of manufacturing activity signaled growth in August for the first time in 19 months.

Financial groups hit by surge in loan losses
By Sarah O'Connor in Washington and Francesco Guerrera in New York
Published: September 25 2009 01:09 | Last updated: September 25 2009 01:09
The US financial sector's losses on large loans exploded over the past year, exceeding the combined losses since 2001, with hedge funds and other members of the "shadow banking system" hit the hardest, official figures revealed on Thursday.

Regulators' annual review of "shared national credits" – loans larger than $20m shared by three or more federally regulated institutions – highlighted the toll taken by the crisis on financial groups outside the traditional banking sector.

More than one in three dollars lent by non-bank institutions such as hedge funds, securitization vehicles and pension funds, went sour, according to the figures, compared with 11.5 per cent for US banks.

The results will increase fears that, in spite of a recovery in the shares and balance sheets of many banks, the epicentre of the crisis has moved to the hedge funds and investors that gorged on cheap credit in the run-up to the turmoil.

The importance of these non-bank institutions was underlined by the review's finding that they held 47 per cent of problem loans, in spite of accounting for only 21.2 per cent of the total loan pool.

Overall, the US financial sector's losses on loans in early 2009 reached a record of $53bn, almost triple the previous high in 2002.

The number of loans edging into the danger zone has also surged.

Some 15 per cent of the $2,900bn SNC portfolio was classified as "substandard" – the second of the four categories used by regulators – and worse, up from 5.8 per cent in 2008.

The pace at which loans got into serious trouble accelerated significantly. The dollar volume classed as "doubtful" or loss-making increased 14-fold over the past year to $110bn. "Doubtful" loans are so weak that collection or liquidation is highly improbable.

The review is conducted each year by the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

They look at a sample of banks' and non-banks' shared loans to check that they are marking them in the same way.

This review found that loans to media and telecommunications companies were proving the most troublesome, followed by the finance and insurance sector and real estate.

The review said that underwriting standards had improved last year, but loans originated in the credit boom years before mid-2007 had continued to drag down the quality of the SNC portfolio.

More than one fifth of the portfolio fell into "criticized assets" category, which includes loans that are potentially weak but not yet of serious concern.

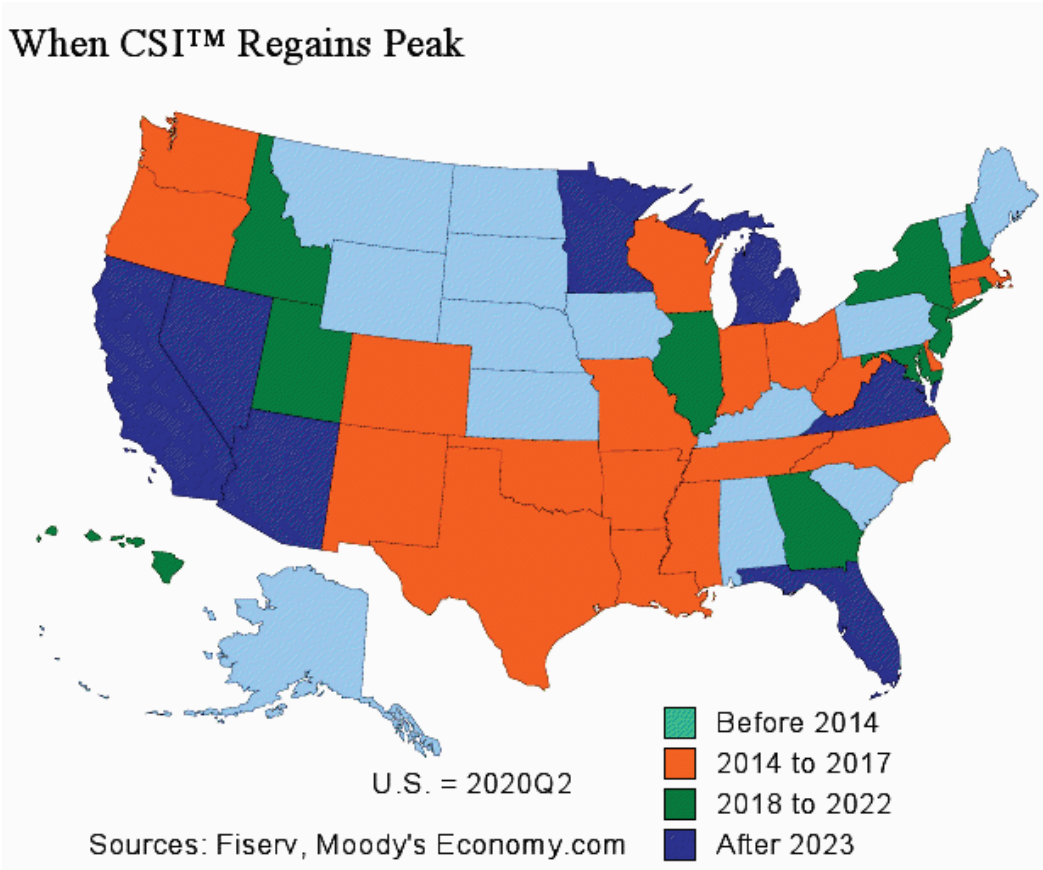
Some 40 per cent of that chunk was in the form of leveraged finance loans.

Downloaded from *http://www.ft.com/cms/s/0/fae38354-a960-11de-9b7f-00144feabdc0.html?nclick_check=1* on September 28, 2009.

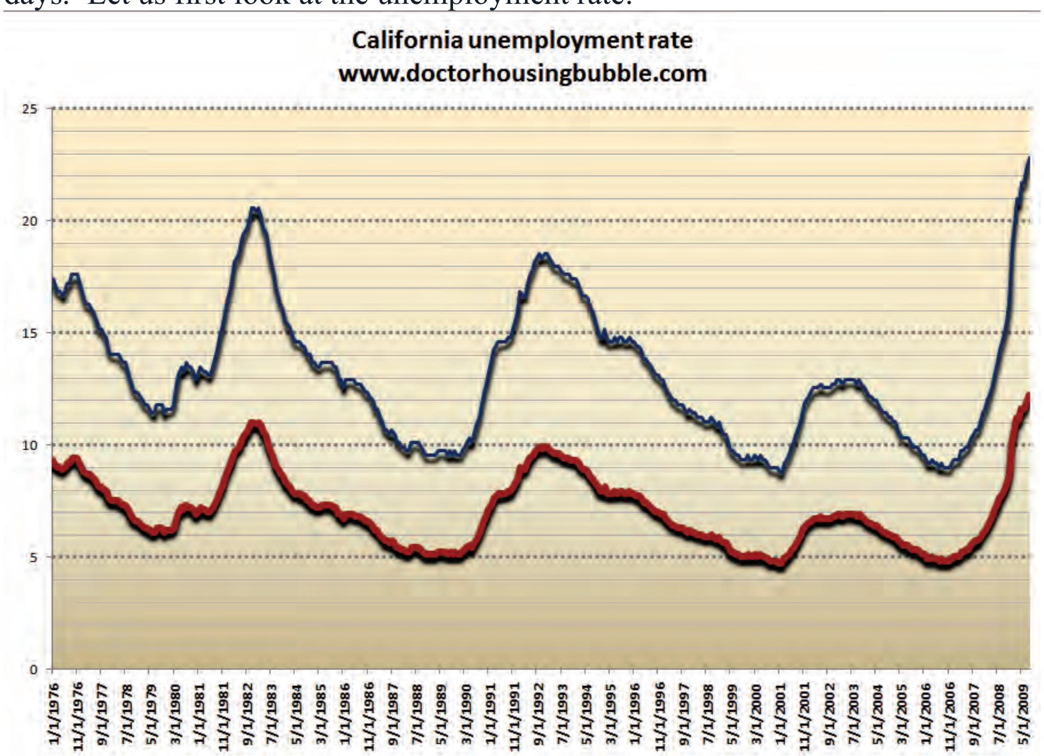
California's Financial Depression: Unemployment and Underemployment rate at Great Depression Levels. 23 Percent Unemployment for Biggest State in the Nation. California Will not see Housing Peak until 2030.

California has now reached *Great Depression* unemployment levels. Many are now calling the end of the recession but there is no sign that California is inching closer to prosperity. Last month the unemployment rate shot up to a post-World War II high of 12.2 percent. This is only the official headline number. The unemployment and underemployment rate is up to 23 percent putting California into its own mini depression. The great housing bubble is still beating down on the state economy. *Alt-A and option ARM products* are staring us squarely in the eyes for 2010. Many of the banks and lenders were probably assuming that somehow by this point in the cycle that the economy in California would be bottoming out. It is not. What this means is housing will take another leg down.

When will California see peak housing prices again? According to Moody's, not until 2030:



If that is the case you probably shouldn't hold your breath on going back to the bubble halcyon days. Let us first look at the unemployment rate:



The only data that we have for California is the official headline number. However, we are also able to access U-6 data from the BLS for previous quarters to arrive at our current U-6 figure. Officially 2,248,000 Californians are out of work completely. That is where the 12.2 percent figure is derived from. But how many are working part-time for economic reasons?

Working part-time for economic reasons	July-08	July-09	Increase
Usually full-time	309,000	476,000	53.8%
Usually part-time	494,000	879,000	77.9%
TOTAL	803,000	1.355 million	68.6%

Source: California Employment Development Department

Source: *OC Register*

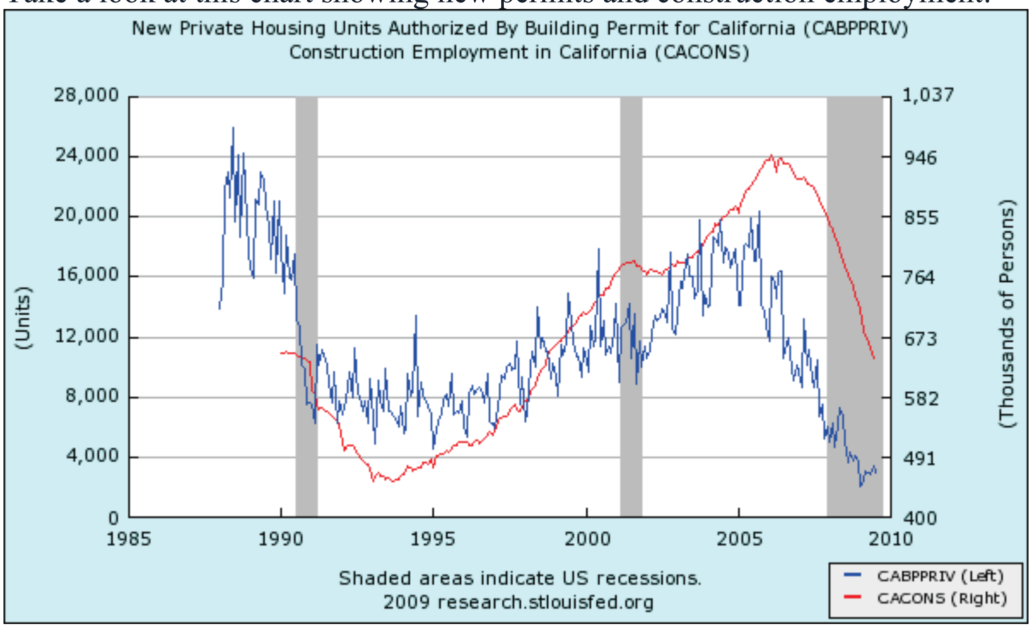
Add these two groups together and you will find that 3,603,000 California are either fully unemployed or are working part-time for economic reasons. These are levels reminiscent of the *Great Depression*. If you factor in those who are discouraged and have left the work force it is readily easy to see why the U-6 figure would be at 23 percent. Yet those in the housing industry are quick to say this is a housing bottom. This notion is simply misguided. They are focusing completely on the buying and selling side of the equation. What many fail to understand is that much of the bubble was also related to the selling, flipping, manufacturing, and finance side of real estate. Those industries are still bleeding jobs:

PAYROLL EMPLOYMENT, SEASONALLY ADJUSTED DATA[2]
(Amounts in thousands)

Industrial Classification	August 2009 (prelim.)	July 2009 (revised)	August 2008	Change Over 12 Months (Percent)
Nonagricultural Wage and Salary Workers	14,234.1	14,246.4	14,975.6	-5.0
Natural resources and mining	26.7	26.9	28.7	-7.0
Construction	625.4	632.4	767.4	-18.5
Manufacturing	1,299.5	1,302.3	1,421.5	-8.6
Trade, transportation and utilities	2,666.6	2,673.7	2,857.3	-6.7
Information	446.3	442.9	475.3	-6.1
Financial activities	800.8	801.8	843.0	-5.0
Professional and business services	2,111.5	2,112.2	2,244.9	-5.9
Educational and health services	1,744.4	1,738.4	1,730.2	0.8
Leisure and hospitality	1,514.7	1,516.7	1,572.3	-3.7
Other services	496.0	498.9	514.5	-3.6
Government*	2,502.2	2,500.2	2,520.5	-0.7
Agriculture	390.0	392.0	391.6	-0.4

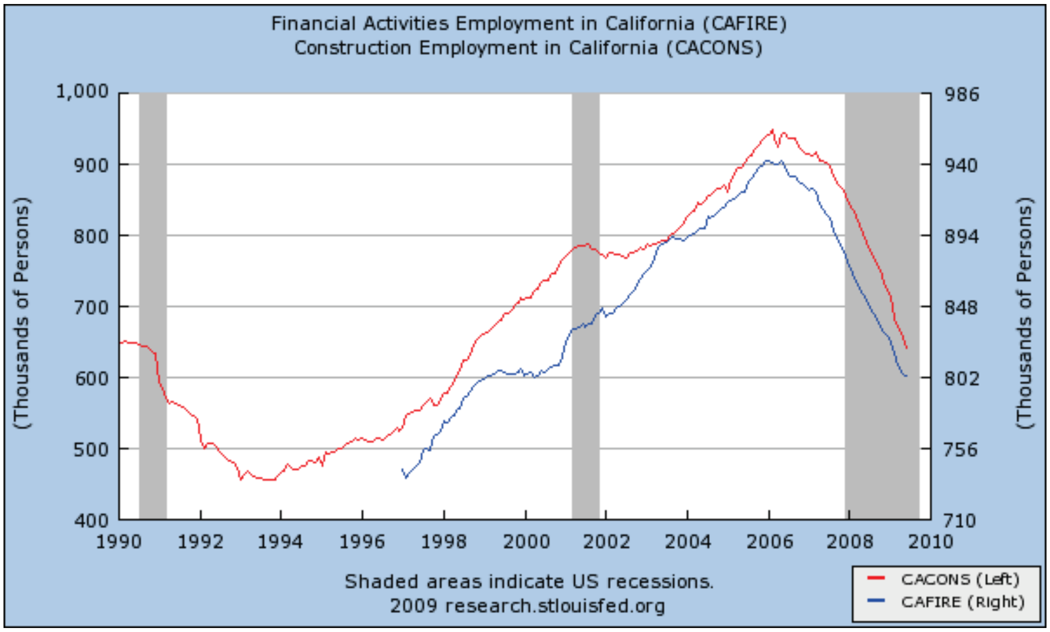
This makes perfect sense. If 50 percent of homes being sold in the last year are foreclosure resales in the state, these are homes that are already built and chances are will only turn out one transaction. Meaning? These are one and done sales. In more normal markets you will typically see someone sell a home and then, purchase another. Each sale in effect created two transactions. That does not occur with first time buyers and investors who have been lured into the market with gimmicks like the $8,000 tax credit.

Take a look at this chart showing new permits and construction employment:



We are now working the years of bubble excess out of the market. California is still seeing record amounts of foreclosure activity. So even though sales got a temporary boost, employment in these sectors is still at a bottom. And keep in mind that we have hundreds of thousands of mortgages in the *Alt-A and option ARM* category that will go bad from 2010 to 2012.

If you want to look even closer, let us look at jobs in the financial sector:



The trend is very clear here. We are losing jobs in sectors directly linked to housing. Many times, these were the same people buying the mid to upper tier market homes. So you are losing customers as the months roll along.

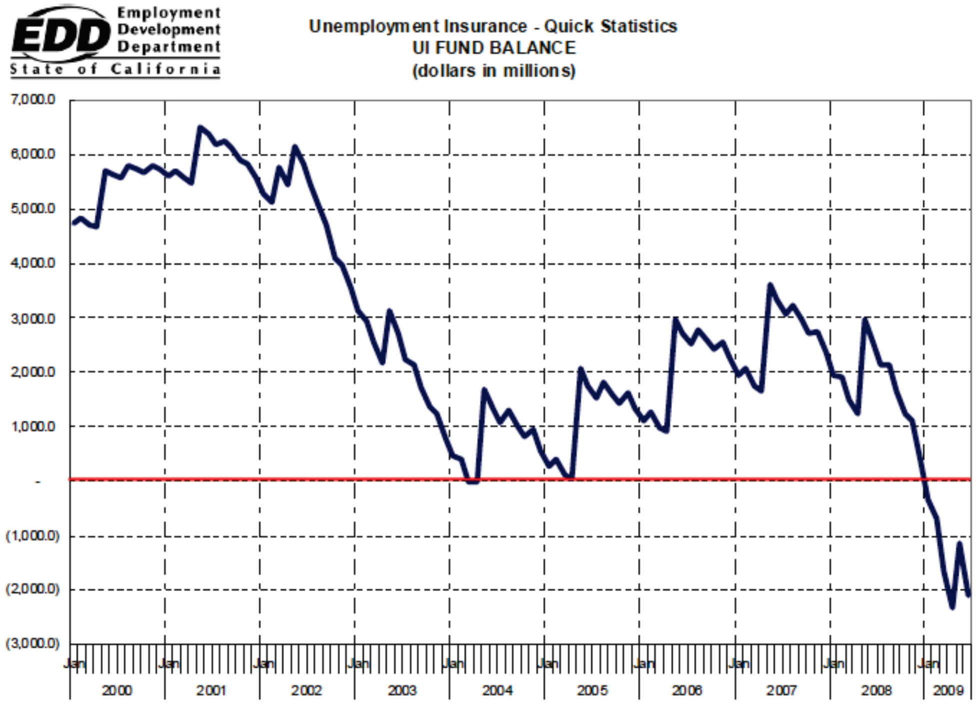
And we are already seeing some gas running out of the California buying spree. Here is recent California sales data:

July 2009 Sales: 45,079

August 2009 Sales: 39,811

This includes resale homes and condos. This is a drop of 11.7 percent. This is incredible especially the amount of homes being sold at lower prices. But again, you are selling homes in a state that is in a financial depression. And for perspective on those sales figures, the August peak was reached in 2005 with sales at a stunning 73,285. The average August sales figure for the state going back to 1988 is 49,467. So even with a 50 percent price drop in the state, the $8,000 tax credit, and real estate pundits cheerleading home sales the market still can't make a 21 year average. Now we enter the fall and winter selling seasons that are slower and exhaustion is creeping into the markets. Add the *Alt-A and option ARMs* into the mix for 2010 and you can understand why we are starring at a second leg down. For last month, the median price dropped to $249,000 but keep in mind, when you see many of those mid to upper tier markets taking hits you might see the median price creep up even though prices are falling.

But a simple thing anyone should understand is that anyone that is unemployed or underemployed is not in the mood to buy a home. The state is borrowing money from the Federal government to pay out unemployment insurance since it has gone broke in its fund:



And if you think this trend is reversing, it isn't. A *senior job fair* in Irvine pulled in 700 people. The parking lot was over filled.

"(OC Register) Seniors seeking jobs increased 40 percent this year, the Pew Research Center reports. Sixty-eight percent of research participants said they work because they want to, and job satisfaction was cited even when jobs were "dumbed-downed".

But that leaves 32 percent of seniors who work because they have to. Sandie Monnier, 62, said she has been out of work for more than a year and her unemployment benefits expire soon.

"I will probably work until I am 70," she said. "I've lost my 401-k."

While the Census Bureau's poverty rate for seniors was revised this week from 10 percent to nearly 18 percent, Pew's data say adults 65 and over have already downsized their lifestyles and are dealing with the recession better than any other age group.

Peter Chiarle, a general contractor, says he's doing all right since his construction company closed it doors. But he is not ready to retire.

"I've built thousands of homes and worked my way up through the trades. Plumbing, electrical, you name it. But I'm not finding jobs that require construction skills," Chiarle said."

This is impacting all age groups. So the Pollyanna talk from the housing and financial industry is unwarranted. The only reason we are seeing minor moves up is due to the *U.S. Treasury and Federal Reserve* juicing up the market with easy credit and every other imaginable gimmick. Let us run down a brief list:

-HOPE Now

-Stimulus Bill (~$700 billion)

-Tax Rebate #1 (~$168 billion)

- TARP (~$700 billion)

- **Banking Bailouts and Backstops (~$12 trillion)**

- Cash for clunkers (~$3 billion)

- Home tax credit (~$15 billion)

Yet unemployment is at record levels and foreclosures are still sky high. If you haven't caught on after two years, the pretext of the bailouts was to help the American public especially the homeowner but all this money was laundered into bailing out the *crony Wall Street financial* industry.

So as California is experiencing its own depression we have a group of people trying to sucker people back into buying homes. The rhetoric seems eerily familiar to the bubble days. "If you don't buy you'll be priced out!" or "you'll miss the next move up!" and people jump on this. Many are going to be shocked as 2010 rolls around. Anyone can logically understand that an economy with depression like unemployment is not a good place for a housing market.

Downloaded from *http://www.doctorhousingbubble.com/californias-financial-depression-unemployment-and-underemployment-rate-at-great-depression-levels-23-percent-unemployment-for-biggest-state-in-the-nation-california-will-not-see-housing/* on September 28, 2009.

Oil Options Hit Highs as Verleger Predicts 44% Plunge (Update3)

By Alexander Kwiatkowski and Grant Smith

Sept. 21 (Bloomberg) -- Oil traders are paying more than ever in the options market to protect against a plunge in crude prices.

The gap between prices of options betting on a decline and those that would profit from a rise in oil widened to a record 10 percentage points, according to five years of data compiled by Banc of America Securities-Merrill Lynch. Crude ***stockpiles*** in the U.S. are 14 percent larger than a year ago and OPEC is pumping 600,000 barrels a day more than the world needs, according to the International Energy Agency.

While the recovery from the first global recession since World War II pushed oil up 62 percent this year to $72.04 a barrel in New York, growth alone isn't likely to erode the glut by the end of next year because production exceeds demand, data from the Paris-based IEA shows. A drop in prices would penalize companies from Exxon Mobil Corp. to BP Plc and exporters Russia and Saudi Arabia.

"If ever there was going to be a retreat below $60 a barrel, it is now," ***Stephen Schork***, president of consultant Schork Group Inc. in Villanova, Pennsylvania, said in a telephone interview. "It was a very weak summer. We came out with more gasoline than we started."

Right to Sell

Options granting the right to sell, or put, oil in December below current prices have a so-called implied volatility of 54.3 percent, compared with 43.3 percent for the equivalent options to buy, or call, data from the New York Mercantile Exchange show.

The premium for December and other put options shows "the market is worried," said ***Harry Tchilinguirian***, a senior oil analyst at BNP Paribas SA in London. "If puts are pricing higher than calls, we are looking at a situation where the market is more averse to the downside and is looking for more compensation" for the option, he said.

Demand for puts may be caused by speculators betting on lower prices or by producers hedging against a decline in the value of their oil, Tchilinguirian said.

Oil inventories totaled about 2.8 billion barrels at the end of July within the 30 nations of the Organization for Economic Cooperation and Development, according to the IEA. The total is equal to 62 days of demand, and 4.6 percent more than the same time last year.

Brimming Stockpiles

Supplies are brimming on both sides of the Atlantic. U.S. distillate fuel inventories, which include heating oil and jet fuel, are the highest since 1983 at 167.8 million barrels, according to the Energy Department. U.S. gasoline supplies are 2.2 percent ***greater*** than they were in late May, the start of the peak-demand summer driving season, at 207.7 million barrels.

Gasoil ***stockpiles***, the European equivalent of heating oil, near Europe's refining hub of Rotterdam reached a record 3.03 million tons (23 million barrels) on Sept. 10, according to PJK International BV of Oosterhout, the Netherlands.

More than 60 million barrels of fuel is stored on tankers offshore, according to the IEA.

"There's all this heating oil with no place to go," ***Philip Verleger***, a professor at the University of Calgary and head of consultant PKVerleger LLC, said in a phone interview. "I'm fairly certain we'll see prices in the $30s this year."

Crude rose as high as $75 a barrel on Aug. 25 as government spending to revive growth spurred demand around the world. Oil for October delivery slumped as much as $2.94, 4.3 percent, today to $68.96 a barrel on the New York Mercantile Exchange.

Gross domestic product in the U.S., the world's biggest energy consumer, will expand by 2.4 percent in 2010, after shrinking 2.6 percent this year, according to the median estimate of 57 forecasters surveyed by Bloomberg.

Al-Naimi's View

Saudi Arabia's oil minister said stockpiles have become irrelevant to crude prices because of the rebound.

"Economic growth is the name of the game," ***Ali al-Naimi*** told reporters in Vienna on Sept. 9 before a meeting of the Organization of Petroleum Exporting Countries. "Oil today is a commodity. As long as economic growth is there, the price is going to go up."

Traders are betting with al-Naimi. Hedge-fund managers and other large speculators increased their net-long position in New York crude-oil futures 38 percent in the week ended Sept. 15 to 45,557 contracts, according to U.S. Commodity Futures Trading Commission data.

OPEC, whose members supply about a 40 percent of the world's oil, agreed at the meeting in Vienna to maintain current production quotas and eliminate surplus production.

Above Target

The group pumped 1.2 million barrels a day above its target of 24.845 million barrels a day in August, according to Bloomberg estimates, and more is on the way. The group will increase shipments by almost 1 percent this month, according to Halifax, England-based consultant Oil Movements.

Kuwait's OPEC delegate, ***Mohammed al-Shatti***, said Sept. 17 a "small" reduction in output will be needed next year because of lower demand. The group agreed to record production cuts of 4.2 million barrels a day through December of last year.

Stockpiles would need to shrink by almost 1.1 million barrels a day in the OECD, close to the combined production of OPEC members Qatar and Ecuador, to get inventories to OPEC's targeted levels a year from now, IEA data show.

The glut will cut demand at refiners from ***Valero Energy Corp.*** to Total SA as the seasonal peak in consumption approaches. The profit from turning West Texas Intermediate crude into gasoline and heating oil fell last week to $3.42 a barrel, the lowest since December. Plants in the U.S. and Europe are being idled.

Valero Energy

San Antonio, Texas-based Valero, the largest U.S. refiner, shut its plant in Aruba and is idling operations in Delaware City, Delaware. France's Total, Repsol YPF SA of Madrid and Zug, Switzerland-based Petroplus Holdings AG have switched off refinery units in Europe.

"Combined refining margins for gasoline and heating oil have fallen to their lowest level since 2000 and refiners are going to respond by cutting runs, and cutting back on crude purchases," said Verleger, a former U.S. Treasury adviser.

While Verleger has dropped a forecast made in July that oil would sink to $20 a barrel, traders are anticipating a decline. The Nymex's most popular option is the right to sell December crude at $60 a barrel, with 69,244 contracts outstanding, exchange data show. The right to sell at $50 a barrel is the second most widely held. The December 60 put option rose today 47 percent to $1.66.

California must go bankrupt
Commentary: The only salvation from the inevitable is the inevitable

By John C. Dvorak

Sept. 18, 2009, 2:36 p.m. EDT

BERKELEY, Calif. (MarketWatch) -- Various economic reports have come and gone over the past few months, but the worst so far, at least for California, is the latest UCLA Anderson Forecast. It painted a grim picture for the Golden State, with unemployment going above 12% and lingering in the double digits until 2012.

The Anderson report, which comes out quarterly, pretty much says the state is in a tailspin -- something we've actually known all along. *Read the full report.*
Only the technology sector is likely to grow and serve as the foundation of California's overall recovery, according to the report's authors. Most of the great high-tech companies in the United States are scattered around Palo Alto, such as Apple Inc. in Cupertino; Oracle Corp. in Redwood Shores; and Intel Corp. in Santa Clara. Hewlett-Packard Co. is in Palo Alto itself.

When you include parts of Silicon Valley stretching from San Francisco down to Los Gatos and back up through Milpitas, there are literally thousands of companies, big and small, involved in high-tech development and manufacturing.

There even are pockets of similar tech-related companies throughout California in somewhat remote spots, such as Carlsbad.

The state is awash in technology.

But will the all-important tech firms abandon the state if the situation continues to deteriorate? This should be a major concern.

I was alarmed visiting the once-bustling 4th Street corridor in Berkeley, where the largest restaurant in the area was shuttered, as were numerous boutiques and small shops. This has driven all the stores to adopt shorter hours, so by 6 p.m. on weekdays it's a ghost town.

Except for the University of California itself, the city of Berkeley seems as if it's decaying. I'd advise a drive along University Avenue from the freeway up to the campus. I've been on dirt roads in Mexico that are in better condition than much of University Avenue. In fact, the entire street looks and feels more like the outskirts of Henderson, Nev., than anything in the San Francisco Bay Area. It's scary.

This is due in part to the antibusiness policies long employed and revered by Berkeley. The resulting mix of businesses includes tattoo parlors, fortune tellers, check-cashing joints and struggling small storefronts. A couple of strip clubs would fit right in.

UC Berkeley has one of the greatest engineering departments in the world. Now name one high-tech company in Berkeley. You can't; tech companies scramble out of there as fast as they can. (There *is* a burrito place called High Tech Burrito. That's about it.)

But the city is a microcosm of the state's larger problems and of the great Catch-22. California cannot get out of debt without drastic cuts in spending, meaning layoffs and higher unemployment, meaning less cash flow back into businesses. The state cannot get out of debt without higher taxes, which means borderline businesses folding, creating more unemployment and depressing revenues.

Reuters
A foreclosed home in Stockton, Calif.

California already has issued IOUs to employees, which were eventually refused by the banks and ironically refused by the state itself.

The only real solution to save California from the inevitable actually is the inevitable: Declare bankruptcy, and reset the system.

What will then emerge will be as important as the process and recovery. We will finally get to see, as the saga unfolds, what we saw in the city of Vallejo, Calif., during its bankruptcy proceedings -- a pattern of corruption, cronyism, abuse and the defrauding of the taxpaying public. City officials making more than $300,000 a year, firemen making more than $200,000, friends hiring friends.

Government work should be a refuge, not a gold mine.

California is being broken by its own government, state and local. You can see it when you live in other states.

I have a place in Washington state. There is no personal income tax; property taxes are lower, and the sales tax is lower. The government services are better and more efficient, and the roads are nothing like University Avenue or the Nimitz Freeway. The public schools are not in shambles.

There is a recurring thought when comparing the Golden State to Washington: "What's wrong with this picture?"

UCLA's Anderson report finally concludes that California will not recover as quickly as the rest of the nation. Gee, I wonder why?

Bankruptcy should help. Just do it.

Can Economies Function without Growth?

By Alexander Jung

Faith in unlimited growth has been shaken since the start of the financial crisis. Some economists are already questioning the wisdom of the more-is-more philosophy, with its emphasis on constantly rising economic output. But just how important is growth to an economy, and does it actually make people any happier?

How is the German economy doing? Has it emerged from the worst of the *economic crisis?*

There is probably no one in Germany who can answer those questions -- questions which are currently on everyone's mind -- quicker or more precisely than Norbert Räth. His response consists of a single number.

Räth, a white-haired economist in his late 50s, is sitting in his corner office on the eighth floor of the Federal Statistical Office in the German city of Wiesbaden. He is in charge of the agency's Group III A, which addresses issues relating to the national accounts, used to measure the country's economic activity. If the national accounts can be characterized as Germany's balance sheet, then Räth is the country's senior accountant.

His office compiles all key economic data relating to Germany, including figures on building permits and hotel stays, poultry slaughter and automobile repair, even data on the amount of tax paid on sparkling wine by wineries. "We have data on every payment made," says Räth.

The sources of all this information include tax offices, associations and a monthly survey of 23,500 production companies. In the past, the data arrived in Wiesbaden on tons of paper, but today everything is done electronically. Once every three months, Räth recompiles the data and comes up with a figure representing the value of all goods and services produced in Germany: the gross domestic product, or GDP. In the second quarter of this year, German GDP amounted to €596.67 billion ($875 billion), up from the previous quarter's figure of €593.3 billion.

While the absolute totals are only of interest to the professional world, what makes headlines is the rate at which GDP changes. According to Räth's latest figures, Germany's GDP increased in the second quarter of 2009 by 0.3 percent compared to the previous quarter. It's a figure which is of vital importance to the country.

Everything revolves around this number, and everyone is fixated on it. Hardly any politician, whether they are from the center-right Christian Democrats or the center-left Social Democrats, much less the pro-business Free Democratic Party, would ever think to seriously question it. Growth generates jobs, growth produces social wellbeing, and growth creates affluence for all. This, at least, is the economic policy gospel, proclaimed and eulogized on every market square in Germany during the current election campaign. And at this week's *G-20 summit in Pittsburgh,* the heads of state and government in attendance will once again be invoking the dynamics of growth. But the good news has lost some of its luster.

Not Just Cranks

There are now plenty of skeptics who seriously question the value of constantly rising economic output. And these critics are not simply cranks who are opposed to change in general. In fact, they are respected individuals who have the courage to reflect on whether growth is always synonymous with progress -- and whether stagnation automatically implies regression.

"Our affluence has quadrupled in the last 40 years. But at what price?" asks Kurt Biedenkopf, a member of the Christian Democratic Union (CDU) and the former governor of the eastern state of Saxony. The growth rate is "no longer a clear indicator of rising affluence," Biedenkopf told SPIEGEL in a recent interview.

Even German President Horst Köhler is suspicious of politicians' assurances that growth is indisputably beneficial to society. "We have convinced ourselves that permanent economic growth is the answer to everything," Köhler said in March, in the midst of the financial crisis. It was an astonishing statement, coming as it did from a professional economist and former head of the International Monetary Fund. And yet Köhler did not reveal what the correct answer could be. Stagnation, perhaps? Or even contraction?

Apparent certainties are now beginning to falter, as a broad front of critics of the system develops. They question whether it is really necessary for consumers who already have everything they need, to consume -- and throw away -- more and more each year. And they are also searching for new methods of measuring well-being, applying criteria like healthcare and level of education. French President Nicolas Sarkozy attracted attention last week when he proposed such an*alternative way of measuring wealth.*

Bigger, Faster, More

We have become used to a constant thirst for growth. We constantly want more of everything, and we want it faster. But where does that all lead? From a purely mathematical perspective, a growth rate of 3 percent -- a target for many industrialized nations -- means that economic output doubles in just 24 years. To take a concrete example, if a German consumer currently buys six pairs of shoes a year, he or she would buy 12 pairs in 2033. Assuming the same rate of growth, does this mean that they would buy two dozen pairs in 2057?

Nowadays people in the West "have more food, more clothes, more cars, bigger houses, more central heating, more foreign holidays, a shorter working week, nicer work, and, above all, better health," writes British economist Richard Layard in his book "Happiness: Lessons from a New Science." "And yet they are not happier," he continues. This raises a simple question: What is the purpose of growth in the first place? And why is there such a cult based around GDP?

To answer these questions, we simply have to imagine the consequences if there were to be a long period with no growth. If that happened, all of the vital functions of society would soon collapse. In other words, Germany is more or less doomed to continue growing.

The German economy has to grow to offset constantly rising productivity and the resulting decline in demand for labor, otherwise there is the risk of higher unemployment. It has to grow so that incomes can rise each year, or else societal conflicts over income distribution will intensify. It has to grow to pay for the social welfare state, or else society's safety net against illness, unemployment and poverty in old age will become unaffordable. Finally, it has to grow so that the state can continue to service its debt, or it will lose its ability to manage its own affairs.

Banks, in particular, are dependent on growth. They are only willing to lend money to companies who want to invest if they can expect to be repaid with interest, so that they can then lend the money to others. This system of permanent money creation only functions in an expanding economy. For generations, everything in Germany has been geared toward constant growth and expansion.

Symbol of a Better Life

Rising GDP has served as a benchmark of performance for every German government since that of West Germany's first chancellor, Konrad Adenauer. Economic success not only provided postwar German society with material affluence -- it also helped to shape its identity. Growth signified a better life, and the more the nation progressed economically, the more it could distance itself from its Nazi past.

The wealth creation machine continued along this path year after year until 1967, when the country experienced its first recession. That downturn came as such a shock that, without further ado, the parliament in Bonn wrote "constant and appropriate growth" into law as a goal of national economic policy. Legislators had imposed on the German economy, by decree as it were, a constant rise in the output of goods and services.

It was not until the famous report to the Club of Rome in 1972, titled "The Limits to Growth," that many began to seriously reflect upon how far growth could go. The timing of the study, in the midst of the oil crisis and a recession, was perfect.

Sense of Unease

Today, once again, concerns over declining natural resources and the future of the global economy have revived that vague sense of unease over the concept of growth. For many, the world economic crisis comes as a wakeup call. In industrialized countries, faith in material wealth has been shaken since the financial markets almost collapsed and plunged the world into recession.

Many believe that unfettered capitalism, driven by a more-is-more philosophy, that values higher returns, more risk and more debt, is ultimately responsible for the debacle. The world has experienced the "elimination of upper limits on every scale," writes Karlsruhe philosopher Peter Sloterdijk, describing the disastrous consequences of the convergence of greed and megalomania.

The critics of growth now advocate modesty, saying that affluence breeds contempt. Consumption, they argue, clouds our perspective on the important things in life. And it's not just young, left-leaning members of society who feel this way. "Growth is a completely useless concept to describe well-being," says Klaus Wiegandt, 70. For anyone familiar with Wiegandt's past career, this statement is nothing short of astonishing.

Until 1998, Wiegandt was CEO of Metro, a diversified German retail group that included the Kaufhof department store chain and the Saturn and Media Markt consumer electronics retail chains. Before that, he was responsible for the rise of the Rewe supermarket chain, increasing its sales tenfold. Wiegandt set the pace in the industry, based on the principle that growth was essential to survival.

At the time, regional dairies and breweries were disappearing en masse in Germany as retail purchasing became increasingly globalized. Nowadays lamb is imported to Germany from New Zealand, flowers are flown in from Africa and German lumber is shipped to China, where it is made into furniture which is then shipped back to Europe. What is Wiegandt's assessment of these developments today? "It's completely idiotic!" he says indignantly. "Later generations will ask themselves: Who were these people?"

'Quality of Life Doesn't Mean Consuming More and More'

The former top executive readily admits that he has discovered his conscience in old age. He is sitting in the garden of his house near Seeheim-Jugenheim, a town in the German state of Hesse, sipping a glass of locally produced sparkling water. He refuses to drink Italian Pellegrino water, he says, and anyone who tries to serve him imported water in a restaurant is promptly told to take the bottle away.

Wiegandt is now an environmental activist and gives talks at universities on the scarcity of resources. He has published a well-regarded series of books on sustainability and subsidized the retail price so that each book costs less than €10 ($15). He turns down consulting contracts worth millions, a stance that lends him credibility when he says things like: "Quality of life doesn't mean consuming more and more every day." In the past, such a statement would have cost him his job.

Only in his final years as CEO of Metro, says Wiegandt, did he begin to have "this uncomfortable feeling" about the consequences of his growth strategy. He saw how his big-box stores threatened an old bazaar in Ankara, and how Western models of consumption swept away traditional cultures. In all the previous years, he says, he never thought about the consequences of his actions, and he did not even pay much attention to the Club of Rome report when it came out.

Scarce Resources

A full generation has passed since the publication of the Club of Rome study. The world has not collapsed, but it has changed. Since the Chinese, Indians and Russians have entered the market economy, the number of employed people worldwide has doubled, to about 3 billion. Vast new markets and low-wage production countries have developed, with serious consequences for the consumption of energy and water.

Oil consumption has increased by more than 25 percent since 1990, while the consumption of natural gas has grown by more than 50 percent. Fossil fuel production is becoming more and more difficult and costly.

The scarcity of water is even more serious. Global water use has doubled since 1950, and even as large segments of the world population lack adequate access to clean water, more and more water is being used in food production. For example, more than 1,000 liters of water are consumed to produce one kilogram (2.2 lbs.) of bread, while producing a kilo of beef uses up almost 16,000 liters of water.

The limits to growth are exemplified by the giant desalination plants between Abu Dhabi and Dubai, built to supply the new desert metropolises with water, by Vietnam's hundreds of textile factories, where sewing machines hum day and night, and by the world's largest coalfields in northern China, where fires blaze in the seams.

We have reached the point at which the Earth's regeneration capacity is being stretched too thin. Theoretically, humanity today already needs 1.3 planets to maintain its lifestyle. If everyone were as wasteful as the Americas, five planets would be needed. To make matters worse, by 2050 the world's population will have increased by 2 billion -- people who will also need food, clothing and shelter. How is this even feasible?

The Contradictions of Growth

Given the Earth's limited system, the economy clearly cannot grow indefinitely. From an ecological perspective, this is the fundamental contradiction within the logic of growth. But there is also another problem, a mathematical problem, as it were.

As economies mature, it automatically becomes more difficult for them to sustain their rates of growth. Essentially this is merely a question of mathematics, as a simple calculation serves to show.

The young Chinese market economy is expected to grow by about 8 percent this year. Because the standard of living in China is so low, however, this translates into $260 in per capita growth.

On the other hand Germany, an established industrialized nation, would be more than pleased with 1 percent growth in crisis-ridden 2009.

To achieve this much growth in Germany, however, each and every citizen -- in a population only one-16th the size of China's -- would have to produce an additional $447 worth of goods and services. In other words, the Germans need to make a tremendous effort to keep their economy growing. Does this mean that the growth rate is destined to decline to zero in the future, or perhaps even descend into negative figures?

New Innovations

Paul Welfens, an economist in the western German city of Wuppertal, considers this idea erroneous. He is convinced that "economic growth in Europe and worldwide can continue for centuries," that is, for as long as the world continues to move, change and develop. And as long as competition continues to produce surprising innovations, like the shipping container, the computer, the satellite and the Internet.

Whenever people believed that humanity's creativity had been exhausted once and for all, some groundbreaking new innovation emerged. These goods and services generate needs and desires, so that a saturation limit is never reached. This is the reason why companies, in order to survive, are constantly investing in new ideas. Progress is what allows the economy to grow to a practically unlimited extent.

And because the new and improved displaces the old and outdated in this productive process, manufacturers can usually charge higher prices for their innovations, thereby increasing GDP. The car manufacturer Daimler, for example, has charged more for each new model in its E Class series, because the new model always includes a qualitative improvement over the old model -- features like airbags, ABS or, more recently, a warning system to combat driver fatigue.

Thus, growth does not stem solely from the fact that workers are producing more products, thereby increasing the volume of goods produced. Instead, the critical factor is the value of goods. This leads to an important realization: A growing economy does not necessarily need to consume more resources. In other words, our goal should not be to achieve less growth but better growth, and not to forego consumption but to improve the quality of that consumption.

Shifting Focus

A company like IBM is an example of how this can work. IBM has radically changed its business, moving away from material products and the production of more and more powerful computers. Today, the company focuses on a non-material resource: knowledge. IBM has shifted its emphasis to consulting and IT services and, as a result, has seen its profits grow despite the economic crisis.

A less-is-more strategy also works on the national scale. German GDP has grown by close to a third since 1990. At the same time, however, the country's energy consumption has declined by 7 percent. Cars are now more fuel-efficient, ships consume less heavy fuel oil and businesses use less electricity. However, one of the reasons Germany is in a relatively good position is that it has outsourced much of the dirtier aspects of its production to Eastern Europe or South-East Asia.

Of course, businesses and consumers have not changed their production and consumption behavior entirely on their own -- government has given them a helping hand. To a certain degree, lawmakers can promote the desired kind of growth through the use of well-designed incentives.

For instance, they can require vehicle manufacturers to reduce average emissions to less than 120 grams of CO_2 per kilometer driven, thereby stimulating the development of low-emission vehicles. Or they can attach suitable prices to a valuable resource like clean air which was previously available free of charge, by way of emissions trading -- thereby forcing companies to invest in climate protection.

Better Recipes

The principle is clear: Resource consumption must be decoupled from growth. The respected US economist Paul Romer employs a kitchen metaphor to illustrate the concept. "Economic growth springs from better recipes," he says, "not just from more cooking."

This is effectively what representatives of the world's governments will be discussing when they meet in Copenhagen for the United Nations Climate Change Conference in December. But the world is still a long way from this goal.

Emissions trading is still limited to Europe, and the system can only become fully effective once every country on Earth is included. The entire global economy still depends almost entirely on fossil fuels, as evidenced by the fact that seven of the world's 10 biggest corporations are involved in the oil business. More importantly, most people probably couldn't care less how their economies achieve growth, as long as the growth figures they see are in positive territory.

Wiesbaden economist Norbert Räth, at any rate, is amazed at the seemingly miraculous powers of the number he calculates each quarter. When he announced the most recent figure of 0.3 percent growth in GDP, which took many by surprise, politicians, business executives and academics promptly interpreted the number as clear evidence that Germany is now squarely on the road to recovery.

"We weren't at all happy about that," he says, sighing. He would feel more comfortable if his calculations were not used to support all kinds of different interpretations. "Growth is undoubtedly a central variable," says Räth. "But it doesn't explain everything."

Downloaded from http://www.spiegel.de/international/business/0,1518,druck-650520,00.html *on September 28, 2009.*

Economy

The US has the largest and most technologically powerful economy in the world, with a per capita GDP of $48,000. In this market-oriented economy, private individuals and business firms make most of the decisions, and the federal and state governments buy needed goods and services predominantly in the private marketplace. US business firms enjoy greater flexibility than their counterparts in Western Europe and Japan in decisions to expand capital plant, to lay off surplus workers, and to develop new products. At the same time, they face higher barriers to enter their rivals' home markets than foreign firms face entering US markets. US firms are at or near the forefront in technological advances, especially in computers and in medical, aerospace, and military equipment; their advantage has narrowed since the end of World War II. The onrush of technology largely explains the gradual development of a "two-tier labor market" in which those at the bottom lack the education and the professional/technical skills of those at the top and, more and more, fail to get comparable pay raises, health insurance coverage, and other benefits. Since 1975, practically all the gains in household income have gone to the top 20% of households. The war in March-April 2003 between a US-led coalition and Iraq, and the subsequent occupation of Iraq, required major shifts in national resources to the military. Hurricane Katrina caused extensive damage in the Gulf Coast region in August 2005, but had a small impact on overall GDP growth for the year. Soaring oil prices between 2005 and the first half of 2008 threatened inflation and unemployment, as higher gasoline prices ate into consumers' budgets. Imported oil accounts for about two-thirds of US consumption. Long-term problems include inadequate investment in economic infrastructure, rapidly rising medical and pension costs of an aging population, sizable trade and budget deficits, and stagnation of family income in the lower economic groups. The merchandise trade deficit reached a record $847 billion in 2007, but declined to $810 billion in 2008, as a depreciating exchange rate for the dollar against most major currencies discouraged US imports and made US exports more competitive abroad. The global economic downturn, the sub-prime mortgage crisis, investment bank failures, falling home prices, and tight credit pushed the United States into a recession by mid-2008. To help stabilize financial markets, the US Congress established a $700 billion Troubled Asset Relief Program (TARP) in October 2008. The government used some of these funds to purchase equity in US banks and other industrial corporations. In January 2009 the US Congress passed and President Barack OBAMA signed a bill providing an additional $787 billion fiscal stimulus - two-thirds on additional spending and one-third on tax cuts - to create jobs and to help the economy recover.

GDP (purchasing power parity):	$14.29 trillion (2008 est.) $14.11 trillion (2007) $13.83 trillion (2006)
GDP (official exchange rate):	$14.33 trillion (2008 est.)
GDP - real growth rate:	1.3% (2008 est.)
GDP - per capita (PPP):	$47,000 (2008 est.)
GDP - composition by sector:	agriculture: 1.2% industry: 19.6% services: 79.2% (2008 est.)
Labor force:	155.2 million (includes unemployed) (2008 est.)

Labor force - by occupation:	farming, forestry, and fishing 0.6%, manufacturing, extraction, transportation, and crafts 22.6%, managerial, professional, and technical 35.5%, sales and office 24.8%, other services 16.5% note: figures exclude the unemployed (2007)
Unemployment rate:	7.2% (December 2008 est.)
Population below poverty line:	12% (2004 est.)
Household income or consumption by percentage share:	lowest 10%: 2% highest 10%: 30% (2007 est.)
Distribution of family income - Gini index:	45 (2007)
Inflation rate (consumer prices):	4.2% (2008 est.)
Investment (gross fixed):	14.6% of GDP (2008 est.)
Budget:	revenues: $2.524 trillion expenditures: $2.979 trillion (2008 est.)
Public debt:	60.8% of GDP (2007 est.)
Agriculture - products:	wheat, corn, other grains, fruits, vegetables, cotton; beef, pork, poultry, dairy products; fish; forest products
Industries:	leading industrial power in the world, highly diversified and technologically advanced; petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber, mining
Industrial production growth rate:	0.2% (2008 est.)
Electricity - production:	4.167 trillion kWh (2007 est.)
Electricity - consumption:	3.892 trillion kWh (2007 est.)
Electricity - exports:	20.14 billion kWh (2007 est.)
Electricity - imports:	51.4 billion kWh (2007 est.)
Oil - production:	8.457 million bbl/day (2007 est.)
Oil - consumption:	20.68 million bbl/day (2007 est.)
Oil - exports:	1.165 million bbl/day (2005)
Oil - imports:	13.71 million bbl/day (2005)
Oil - proved reserves:	20.97 billion bbl (1 January 2008 est.)

Natural gas - production:	545.9 billion cu m (2007 est.)
Natural gas - consumption:	652.9 billion cu m (2007 est.)
Natural gas - exports:	23.28 billion cu m (2007 est.)
Natural gas - imports:	130.3 billion cu m (2007 est.)
Natural gas - proved reserves:	5.977 trillion cu m (1 January 2008 est.)
Current account balance:	-$568.8 billion (2008 est.)
Exports:	$1.377 trillion f.o.b. (2008 est.)
Exports - commodities:	agricultural products (soybeans, fruit, corn) 9.2%, industrial supplies (organic chemicals) 26.8%, capital goods (transistors, aircraft, motor vehicle parts, computers, telecommunications equipment) 49.0%, consumer goods (automobiles, medicines) 15.0% (2003)
Exports - partners:	Canada 21.4%, Mexico 11.7%, China 5.6%, Japan 5.4%, UK 4.3%, Germany 4.3% (2007)
Imports:	$2.19 trillion f.o.b. (2008 est.)
Imports - commodities:	agricultural products 4.9%, industrial supplies 32.9% (crude oil 8.2%), capital goods 30.4% (computers, telecommunications equipment, motor vehicle parts, office machines, electric power machinery), consumer goods 31.8% (automobiles, clothing, medicines, furniture, toys) (2003)
Imports - partners:	China 16.9%, Canada 15.7%, Mexico 10.6%, Japan 7.4%, Germany 4.8% (2007)
Reserves of foreign exchange and gold:	$70.57 billion (31 December 2007 est.)
Debt - external:	$12.25 trillion (30 June 2007)
Stock of direct foreign investment - at home:	$2.22 trillion (2008 est.)
Stock of direct foreign investment - abroad:	$2.751 trillion (2008 est.)
Market value of publicly traded shares:	$19.95 trillion (31 December 2007)

Downloaded from http://flagcounter.com/factbook/us on September 28, 2009.

2008 List by the *International Monetary Fund*[1]

Rank	Country	GDP (millions of USD)

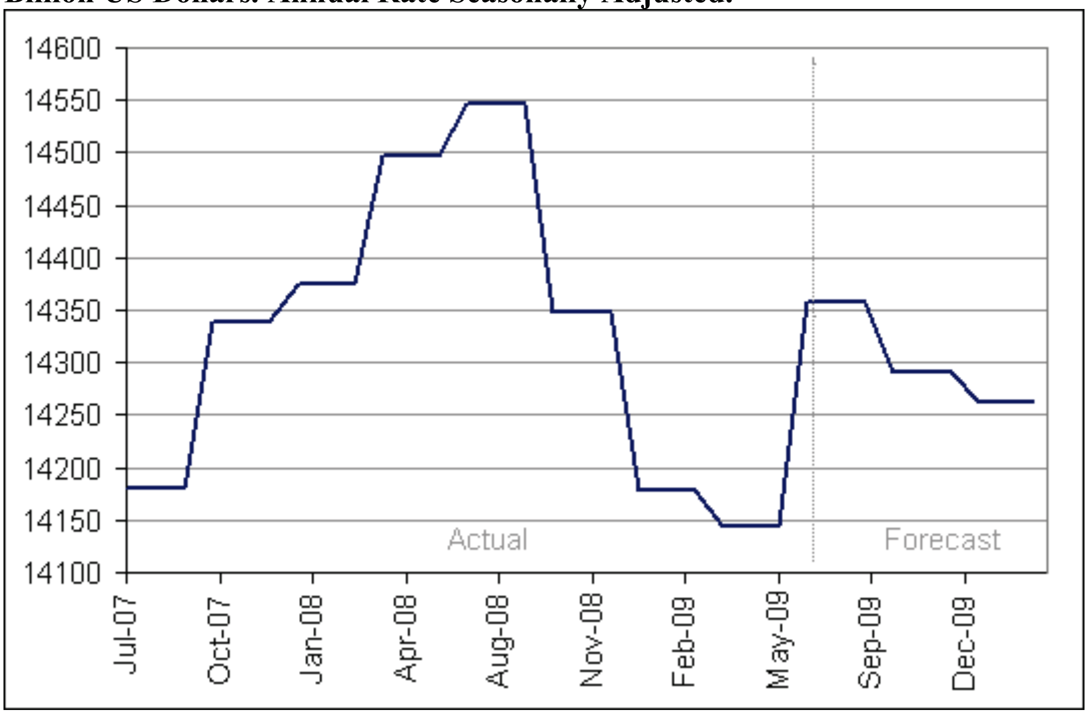
—	***World***	**60,689,812**[4]
—	*European Union*	18,394,115[4]
1	United States	14,264,600
2	Japan	4,923,761
3	People's Republic of China	4,401,614[h]
4	Germany	3,667,513
5	France	2,865,737
6	United Kingdom	2,674,085
7	Italy	2,313,893
8	Russia	1,676,586
9	Spain	1,611,767
10	Brazil	1,572,839
11	Canada	1,510,957
12	India	1,209,686

13	Mexico	1,088,128
14	Australia	1,010,699
15	South Korea	947,010

Downloaded from *http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)* on September 28, 2009.

U.S. GDP Gross Domestic Product

Past Trend Present Value & Future Projection
Billion US Dollars. Annual Rate Seasonally Adjusted.



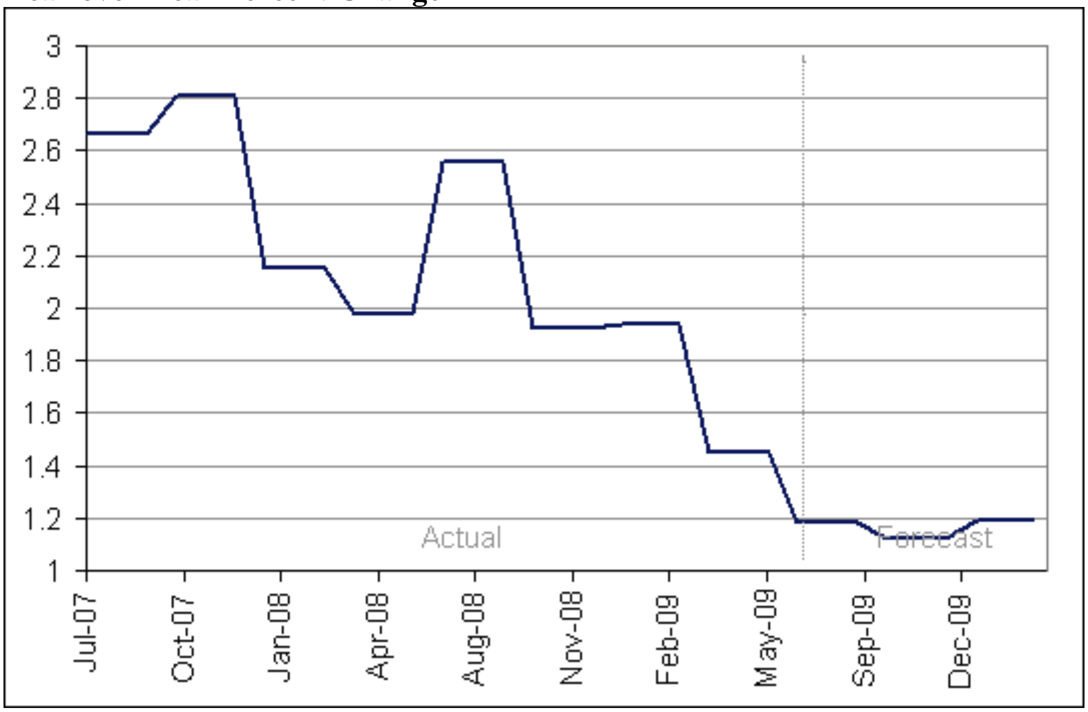
Current Economic Indicators	
September 24, 2009 (Close of Day)	
Indicator	Value
Inflation %	-1.44
GDP Growth %	-1.02
Unemployment %	9.70
Gold $/oz	1,009.75

Oil $/bbl	65.65
Prime %	3.25

Downloaded from http://www.forecasts.org/gdp.htm on September 28, 2009.

U.S. GDP Inflation Component

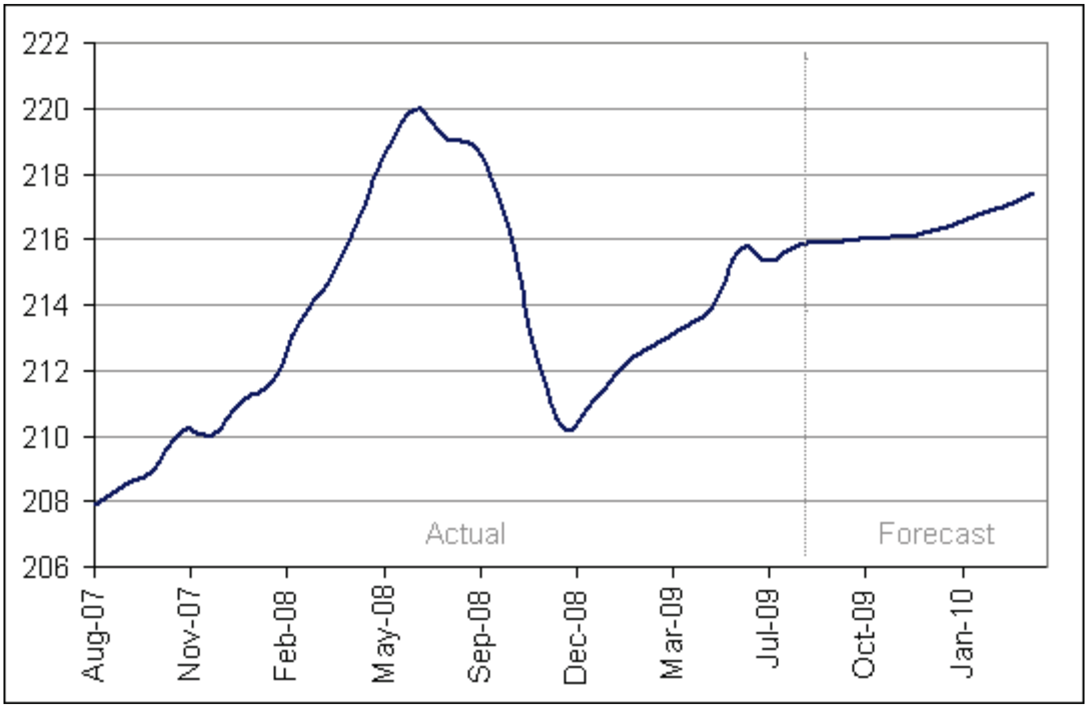
Past Trend, Present Value and Future Projection
Year over Year Percent Change



Downloaded from http://www.forecasts.org/gdpdef.htm on September 28, 2009.

U.S. Consumer Price Index CPI

Past Trend Present Value & Future Projection
Index Value. 1982-1984=100.



Downloaded from http://www.forecasts.org/cpi.htm on September 28, 2009.

U.S. poverty rises as median household income falls
by Timothy R. Homan and Mike Dorning Bloomberg News

Consumer spending may play limited role in recovery
September 10, 2009 3:33 PM CDT
Household incomes decreased in 2008, the first full year of the recession, and the poverty rate rose to the highest since 1997, government data showed.

The **median** household **income** fell 3.6 percent to $50,303, snapping three years of increases, the Census Bureau said Thursday in its annual report on incomes, poverty and health insurance. The poverty rate climbed to 13.2 percent from 12.5 percent. The number of people living in poverty rose to 39.8 million last year, an increase of 2.6 million from 2007.

Thursday's report highlights concerns that consumer spending will play a limited role in leading any recovery from the worst recession since the 1930s. Plunging home values and stock prices have fueled a record $13.9 trillion loss in household wealth in the United States since the middle of 2007.

"The decline in incomes we're seeing certainly has implications for consumer spending, particularly post-housing bubble when families can't tap into home equity through loans," said Heather Boushey, a senior economist at the Center for American Progress, a research organization headed by John Podesta, a leader of the Obama administration transition team.

The poverty rate is likely to keep rising through 2012, even after the recession ends, adding to pressure on the Obama administration to enact a second economic stimulus package, said Isabel Sawhill, a senior fellow at the Brookings Institution in Washington, a policy research group.

"We will likely have not only a jobless recovery but also a poverty-ridden recovery," Sawhill said. "The stimulus money is going to go away long before the poverty rate peaks."
She noted that the unemployment rate in 2008, the year covered by the census study, averaged just 5.8 percent, compared with 8.9 percent so far this year. The rate last month jumped to 9.7 percent, the highest in 26 years.

Sawhill is among analysts forecasting a further drop in incomes this year, reflecting the worst job losses of any recession since World War II. Since the slump began in December 2007, the **U.S**. has lost 6.9 million jobs. Payroll cuts peaked at 741,000 in January and have since subsided, with 216,000 job losses in August, according to the Labor Department.

Economists surveyed by Bloomberg **forecast** unemployment to reach 10 percent early next year, even as they predict the worst recession in seven decades will come to an end in the second half of 2009.

President Barack Obama in February signed into law a $787 billion stimulus package aimed at stabilizing the economy and creating or saving about 3.5 million jobs. So far, the bill has created or saved as many as 1.1 million jobs, the White House said today.

The number of people without health insurance coverage rose to 46.3 million last year from 45.7 million in 2007, the census report also said. The uninsured still accounted for 15.4 percent of the population, the same as in 2007, according to the Census figures.

In order to cut health-care costs and make health care accessible to all Americans, Obama and Democratic lawmakers have proposed taxing private insurers, trimming spending in the federal Medicare program for the elderly and disabled and creating a more affordable public plan to expand coverage.

The poverty threshold in 2008 was defined as $22,025 in **income** for a family of four.

The poverty rate typically rises during a recession and continues to climb even as the recovery begins, Census Bureau figures show.

During the economic expansion of the 1990s, the poverty rate declined each year from 15.1 percent in 1993 to 11.3 percent in 2000. It then climbed to 11.7 percent in 2001, as the nation slid into recession, and continued its ascent to 12.7 percent in 2004.
Downloaded from *http://74.125.113.132/search?q=cache:qAIj8WpdscAJ:www.finance-commerce.com/article.cfm/2009/09/11/US-poverty-rises-as-median-household-income-falls-Consumer-spending-may-play-limited-role-in-recover+us+median+income+forecast&cd=4&hl=en&ct=clnk&gl=us* on September 28, 2009.

WHITHER THE MIDDLE CLASS?

By Jack H. Swift, Esq.
July 18, 2009
NewsWithViews.com

Historically, the fuel that fired the flame in Miss Liberty's beacon to the world was opportunity. The struggling masses that traveled to this land and made it great did not undertake that venture in search of food stamps, free health care, and subsidized housing. They came because they saw this country as one in which there was no caste system. In this country there were three classes:

the rich, the middle class, and the poor but there were no barriers erected locking anyone into any of those classes. Rather, this country's economy provided a conveyor belt of progression from one to the next and ultimately on to the next. Yes, there was the issue of snobbery in the Ivy League and the Hamptons establishing a social elitism in "old money" but the issue of wealth was ultimately one of money talks and the other stuff walks. This country's economy afforded a trail to wealth and the trail head was found on Ellis Island.

For decades now it has been apparent that the historic conveyor belt of financial progression has broken down. For years we have heard the lament that the middle class is being squeezed out.

Although we have been generating more new millionaires than ever, the ranks of the poor have been swelling while the ranks of the middle class are ever dwindling. Usually, this has been in a political context making the argument that taxation is destroying the middle class. This analysis completely misses the mark and fails to accurately characterize the problem. Until this year there has been no aspect of the economy or politics that has destroyed any sector of the middle class, rendering them poor. The problem has been one of lack of replenishment. The opportunity for the poor to enter the middle class has largely disappeared. The ranks of the middle class have been consistently depleted by the exit of those transitioning to the rich but those ranks have not been augmented by the poor transitioning to the middle class. That is the problem of the disappearing middle class and until it is addressed no amount of welfare will correct it. The only economic effect of increasing welfare benefits is an enlargement of the welfare roles.

Having decided that the fundamental economic problem in the country is a breakdown of the economic progression from poor to middle class to rich, the question becomes "What is wrong?"

Whether one is talking auto mechanics, electrical engineering or economics, until one correctly identifies the source of the problem, one cannot fix it.

The overwhelming strategy of the government's current stimulus plans is aimed at augmenting consumption. Our president has told us we need to consume more. The working economy is a function of both production and consumption. If the problem is lack of production, a concentration on consumption will not set anything straight. It will only produce a price inflation. In a free market if there is sufficient demand for consumption, the necessary production will occur. But if the problem is an artificial restraint upon production, all the consumption demand in the world will not correct the problem.

In our current governmental scheme of regulation there are two economically artificial factors at work, both of which are highly suspect. Each has created an effective barrier to the poor attempting to enter the middle class.

The first and fundamental factor is that we aren't producing anything. Wealth in whatever magnitude is created by applying inspiration and labor to a resource, converting it to a marketable product, and selling that product. At the latest report, 46% of the employment in the United States is found in government civil service. Government civil service provides us with a wealth of services hopefully facilitating profitable production in the private sector but it doesn't generate any product on its own. Worse, its expense is a direct burden upon the producing sector.

It is also reported that currently 16% of the income received by our citizens monthly in America is in the form of welfare. This is, of course, the worst possible burden upon the economy.

Welfare recipients produce nothing and make no contribution to any possible profitable production in the working sector. The result is that only 38% of our employed population is possibly producing anything.

Most recently it has been reported by the Institute for Supply Management in Arizona that 90% of private employment in the U.S. is in the non-manufacturing sector. That means 90% of private employment (apart from agriculture) is engaged in transferring wealth, not producing it.

This is important in that services are provided that again facilitate production by providing the sales, the services and repairs, and even medical services that keep the producers working. But these people are not producing anything or creating any new wealth. Our national production capacity, apart from agriculture, is effectively driven by, at best, 4% of the employed population.

Is it any wonder that we find ourselves broke?

Why is production important? Because any monetary system, be it based upon fiat money, specie, script or wampum, is only a mechanism to facilitate barter. The value of any particular currency is measured in what product the issuer can exchange for its tender. In the absence of meaningful production by the issuer, the currency is ultimately worthless.

Prior to World War II the United States was the manufacturing powerhouse of the world. At the beginning of the war Churchill referred to us as the arsenal of democracy and we were able to decisively win that war because of our overwhelming manufacturing capacity. At that time, our big manufacturers, GM, Remington, Dupont, Boeing, Douglas, Northrup, U.S. Steel, were able to retool for war production that sustained the free world. Since then, we have dismantled that capacity and in large measure sold it oversees. What do we suppose the "rust belt" is all about?

Do we suppose it is a coincidence that while we have been complaining about demise of the middle class we have also seen a shift of emphasis in our government to the importance of small business? It is no accident. Big business in the form of large manufacturers requires lots of skilled employees. Small business is by definition small. Lots of big business affords lots of opportunity for employment of the poor and training in a particular profession. Small business, even if there are lots of them, in turn have relatively smaller profits and necessarily cannot pay as much or provide such extensive benefits as big business. How many small business jobs are minimum wage?

To enter the middle class, the poor must have the opportunity for employment and employment at a wage that will afford in turn the opportunity for the acquisition of assets. Growth and appreciation of the assets acquired in turn moves the middle class down the conveyor belt to becoming rich. But it all begins with the opportunity afforded by big business, not small.

Besides being a direct contributor to the opportunity of the poor, big business also supports small business. The reason GM has been deemed too big to allow to fail is that if GM goes down it will take thousands of small businesses with it.

The importance of big business manufacturing cannot be disputed. Its disappearance is a fact.

The resultant negative impact on our economy is clear. The question is how did this happen?

Simply it was a governmental policy decision.

In the sixties environmentalists began to clamor for a protection of the environment. Great alarm was taken to the pollution side effects of large scale manufacturing. Rather than pursue a policy demanding responsible mitigation by the manufacturers, a political decision was taken to prevent the pollution in the first instance and/or impose mitigation factors so exorbitant as to be impossible of compliance. In concert with that objective, the Environmental Protection Agency has driven big business off shore. At the same time, great excitement was aroused to preserve our natural resources. A powerful response was accomplished by the Endangered Species Act.

Because Congress judged that endangered species were of “incalculable” value, their preservation was deemed more important that the utilization of resources, regardless of the impact upon the economy. Because production begins with a nation’s resources, the wealth of a nation is generally equated in terms of the natural resources available to it. Third world countries are by definition those lacking in such natural resources. The combined effect of the EPA and the ESA, as implemented, has been the destruction of the manufacturing capacity of this nation. The policy decisions behind them are the ultimate cause of the disappearance of the middle class.

A secondary contributor to the frustration of the poor attempting to find a place in the middle class has been planned land use regulation aimed at the preservation of the natural. The direct impact of such policies is the disappearance of what is called “affordable housing.” In Oregon, such regulation has led to the creation of two zones of land use: concentrated urban development and rural land reserved for farming and forestry. It is backed by an excellent theory of open land preservation. But it necessarily renders affordable housing and the acquisition of real property assets next to impossible for the poor.

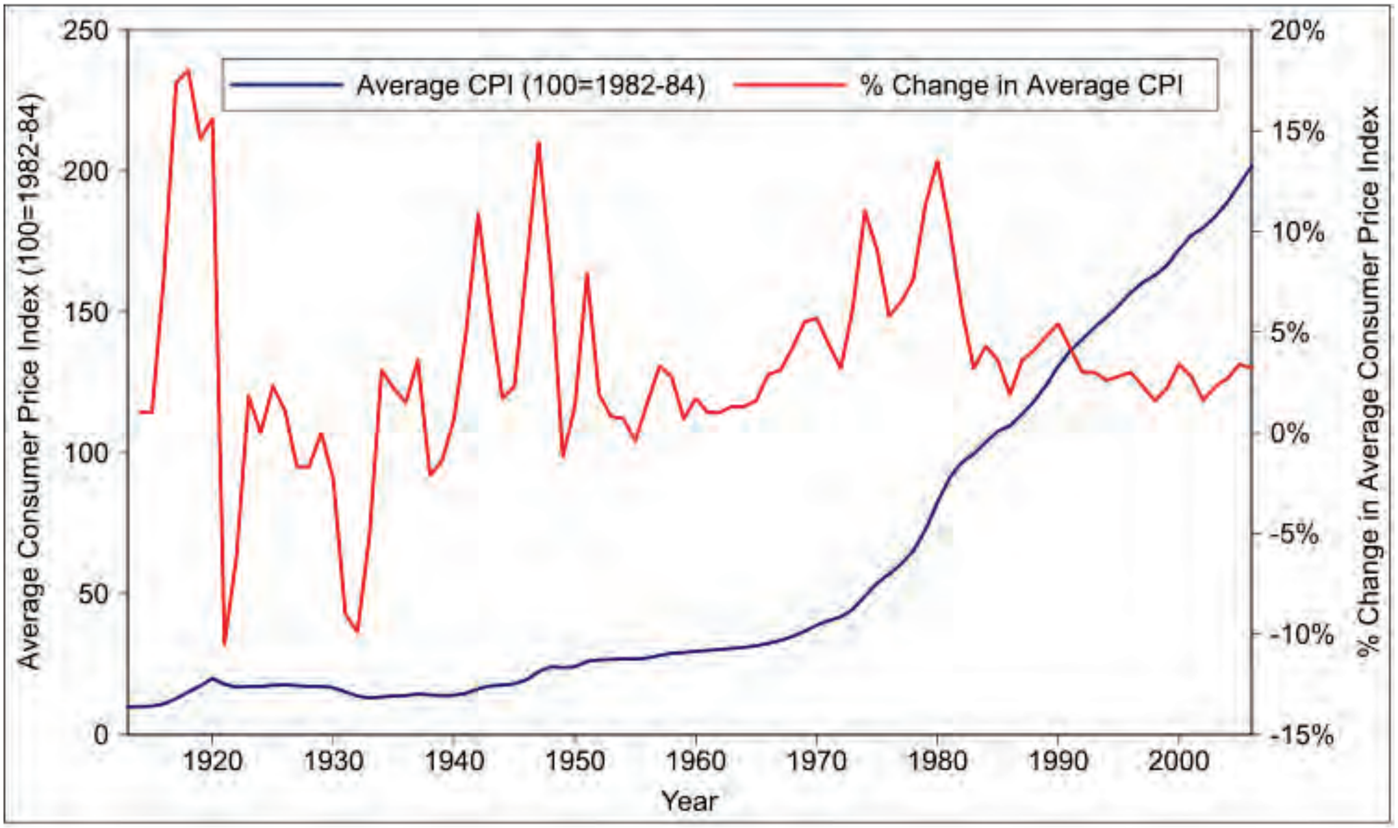
In the normal course of development, commerce, business, and manufacturing take place in an urban center. Residential utilization of urban land in the midst of such commerce is generally less desirable and to that extent less expensive. Those with means seek a nearby residence somewhat remote from the urban activity affording larger tracts with room for lawns, yards, gardens, and a modicum of privacy. Because of their enhanced desirability such lands sell for more those in the inner city. Beyond that interface lie the true rural lands devoted to agriculture and the like.

Agriculture requires vast tracts of low cost land. As a community grows, developers can acquire large parcels at relatively low cost, divide them into smaller ones which can be sold for a greater price affording a continuing market for those seeking to escape the city. Of necessity, as they are sold, the value of residential sites within the city dwindles by comparison. That dwindling in the inner city provides a constant opportunity for the poor to acquire an affordable yet appreciating asset. When the government arbitrarily closes down the rural interface to residential development there is no egress from the urban area and urban property values necessarily remain high based simply upon a supply constraint. Result: no affordable housing for the poor.

Today, the poor that would transition into the middle class need two things. They need the opportunity for employment at something above minimum wage and they need the opportunity to acquire assets that will appreciate. Our two national policies of arbitrarily closing down big business manufacturing and arbitrarily limiting the availability of residential land serve only to shut the poor out forever.

If the free market is to succeed, we need to make it free. Compel it to pay for any harm done, but allow it to provide for our prosperity. If we continue to prevent it from functioning, we will necessarily render ourselves a third world country, and a broke one.

United States Consumer Price Index 1913-2006



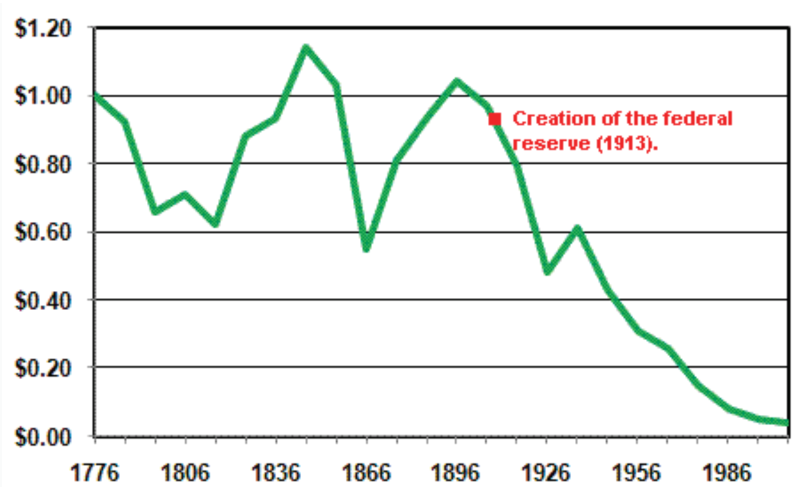
Downloaded from http://en.wikipedia.org/wiki/File:US_Consumer_Price_Index_Graph.svg on September 28, 2009.

The following table shows the equivalent amount of goods, in a particular year, that could be purchased with $1.[17]

Buying power compared to 1980 USD

Year	Equivalent buying power	Year	Equivalent buying power	Year	Equivalent buying power
1774	$10.53	1860	$10.22	1950	$3.42
1780	$6.20	1870	$6.51	1960	$2.78

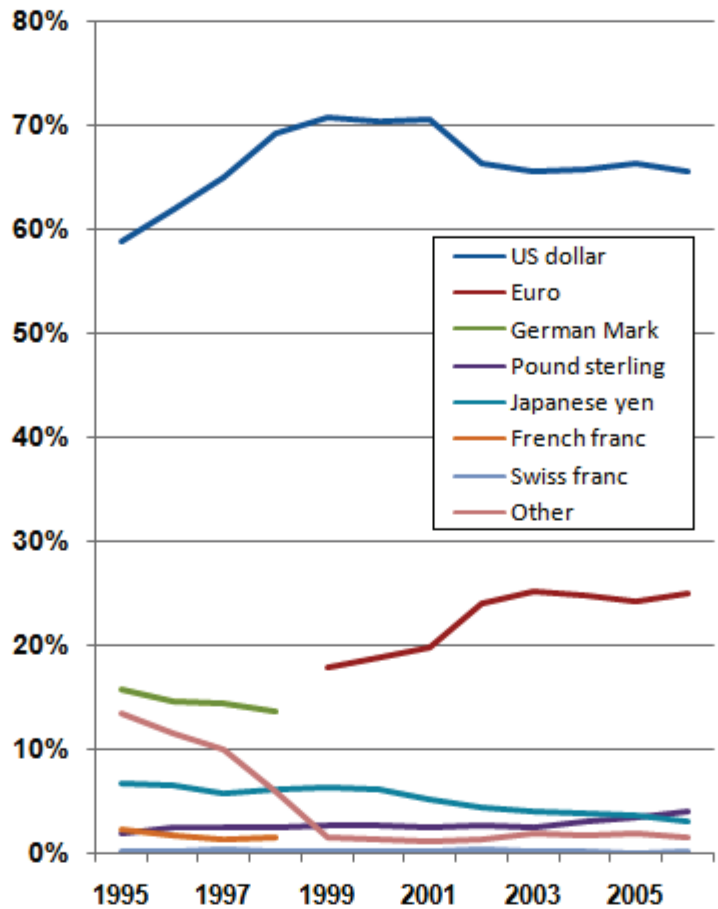
1790	$9.30	1880	$8.31	1970	$2.12
1800	$6.77	1890	$9.34	1980	$1.00
1810	$6.91	1900	$10.12	1990	$0.63
1820	$7.25	1910	$8.94	2000	$0.48
1830	$9.21	1920	$4.11	2007	$0.40
1840	$9.83	1930	$4.93	2008	$0.38
1850	$10.88	1940	$5.87		



The value of $1 over time, in 1776 dollars.[18]

Downloaded from http://en.wikipedia.org/wiki/United_States_dollar on September 28, 2009.

Percentage of global currency (2007)



Downloaded from http://en.wikipedia.org/wiki/File:Percentage_of_global_currency.PNG on September 28, 2009.

CORPORATE INSIDERS STILL VOTE NO ON U.S. MARKET APPRECIATION

28 SEPTEMBER 2009 BY TPC 0 COMMENTS

The relentless selling by insiders continued in the most recent week. According to data compiled by Finviz insiders sold $641MM worth of stock in the last two weeks while purchasing just $112MM worth of stock. The data on insider buying is skewed by the large purchases in PALM which accounted for over $100MM worth of purchases. *The buying and selling are slight improvements over last weeks data*, but still represent an environment in which corporate insiders are hesitant to bet on the future price appreciation of their own stock.

As we've mentioned previously, insiders sell stock for a varying number of reasons, but generally only purchase stock for one reason – they believe the stock will rise in the future. As of now, it's safe to say that insiders aren't confident enough to put their personal fortunes behind their own firms – *a trend we're also seeing in terms of corporate buybacks*. This has to make one wonder just how strong the recovery is in terms of corporate earnings. While the stimulus based recovery may appear strong on the surface, the long-term sustainability is certainly being questioned by those on the inside….

Surveys predicting grim holiday shopping season
By MARIA PANARITIS The Philadelphia Inquirer - Published: September 27, 2009

PHILADELPHIA — The predictions are in, and the outlook is dim: Shoppers will not break the bank this holiday season, according to surveys released this week, and retail employment will drop, according to one forecast.

Total holiday sales are expected to be the same as or less than in 2008, despite signs of an easing recession heading into the industry's most critical quarter, according to a survey released by Philadelphia's Hay Group Inc. and two others earlier in the week from Deloitte and Retail Forward Inc.

If sales remain flat, as the reports predict, the quarter will rank as the second-worst in 52 years, according to Retail Forward, of Columbus, Ohio. And one of the reports suggests a sales drop from last year's pace is even possible.

Deloitte said sales unchanged from last year would mean about $810 billion for the November through January period. Last holiday season, sales fell 2.4 percent from the year before.

"Retailers are planning for a challenging Christmas season," said Craig Rowley, vice president and global practice leader for Hay Group's retail practice in Dallas.

Deloitte based its forecast on high unemployment, tight consumer credit, and continuing home foreclosures, said Tara Weiner, managing partner of its Greater Philadelphia office.

"In any recession, the consumer is the last to feel the recession and the last to recover," said Weiner, adding that consumer attitudes may improve in mid-2010.

Hay Group's data came from 25 U.S. retailers — including American Eagle Outfitters Inc., Best Buy Co. Inc., Saks Inc., and Target Corp. — that replied to its annual survey.

Seventy-two percent said they expected sales would be the same as or lower than last year. More than half have made plans to reduce staffing levels, even though the number of job applicants is up. Twenty-eight percent expect sales to grow.

Retailers will spread sales over the entire season and de-emphasize Black Friday a bit, Hay Group said, referring to the day after Thanksgiving. They also will limit inventory and payroll to contain costs, said Maryam Morse, Hay Group's national retail-practice leader.

But the deals for shoppers may not be as great as last year, when the stock market crash left retailers desperate to unload mounds of unsold merchandise at deep discounts.

"I don't think you're going to see the same kind of desperation you saw last year," Morse said. "Just enough markdowns and promotions to get you in the store, and it's going to be on key items that are going to draw you in."

Downloaded from
http://www.timesargus.com/article/20090927/BUSINESS/909279995/1006/BUSINESS on September 28, 2009.

U.S. Dollar Crash in September/ October 2009 Rumours

There have been disturbing stories/rumors going around that the USD is poised for a crash episode in the Fall. The stories are basically anecdotal. One suggests that US embassies have been told to gather a year's local currency in their host country. That is one example.

That story has also been denied by others in the US embassy organization, again, not officially, but anecdotally to me. We view these particular stories as more or less just rumors.

Putting that aside for a moment, the reality is that the USD has fared far better than a lot of people thought by now. It's around 78 on the USDX (US Dollar currency basket index, heavily Euro weighted). If you remember in 08, the USD went do around 70/72 around June/July, then bounced eventually up to 88 amidst that commodity crash after Summer 08.

Before we continue, consider this:

If the USD is on the verge of a real crisis, and not just a fall in value, then why is it that:

- US Treasury rates are still at historic lows (yes I know the Fed is buying them)?
- The USD is still at 78 on the USDX, where the last low point was about 70 a year ago?
- There is still a huge demand for USD currency to unwind bets overseas?
- And more, these are just a few major points

Now, although the USD has some terrible issues, it has done well despite them, and in fact, from what I can tell, was the only thing that held the world banks from collapsing twice in the last two years, mainly by the Fed/US Treasury backstopping everything out there – every market- with about $13 trillion of various bailouts and guarantees. That was done not only here in the US financial world, but in every major other economy with US money.

For example, when the first panics started in Fall 07, then repeated in Fall 08, there was a run into the USD as European banks and such all saw USD denominated debt and investments unwinding they needed hundreds of billions of USD each month, not rolling over, and the Fed did huge currency swaps (swapping USD for Euros etc) to help the EU/ECB cover that. Those amounted to near $1 trillion or more if my memory serves.

If you recall then, there were two instances in Fall 07 and Fall 08 going to the end of the year where there were runs so bad on European banks that they just about shut down en masse. The US had its own version of this in Fall 08, where a clearly panicky Paulson told the US congress that unless the US backstopped its banks and such, that we were within days of a total bank collapse, bank holiday, and shutdown of the US economy – with unimaginable consequences for not only the US but the rest of the world economy.

The $2 trillion US bank run

In fact, one astonishing story by a US congressman later on the events was that one fateful day in Fall 08, there was a run on US money market funds and banks to the incredible tune of $2 trillion in a mere two hours! And until the US Treasury stated they would guarantee US MMFs, the Fed and Treasury stated they were going to see a $5 trillion run on US financial institutions by the end of that day. $5 trillion in one day. The Fed stated they were not going to be able to stop it until the MMF guarantees stopped it. We were that close to financial Armageddon, and that congressman got in a bit of hot water for letting that out 6 months later in an interview.

If you remember, the UK banks and EU banks had their own versions of this around the same time.

In fact, we have basically made a profession of tracking this mess for two years, and our own counts of the money the US threw at the problems were always ahead of the media, first $2 trillion, then 3, 4, 5, 8, 12, 13 trillion… and counting. Pretty soon, even our heads were spinning, things were happening so fast.

But, rather than recap all this, what I want to do is jump ahead to why I think the USD will hold together, albeit with ongoing scares for a while.

If you can imagine the amount of money the US stood behind the world financial system with, you will perhaps appreciate why the USD is as strong and influential as it is. That is not to say its days are not numbered, just why its still alive and kicking…The USD has the size to accomplish these feats.

If any other central bank had tried to backstop the world financial system to the tune of $13 trillion, often at the drop of a hat, we would have never made it past bank holidays and a total world economic collapse. No other financial entity on the planet has the size and big enough footprint to have done that so quickly.

Albeit, the US did that by basically doubling the national debt. And, believe it or not, the US can still borrow and can still carry on, with heavy strain. But, the doomsday is not yet here. Frankly, that is good news although the new debt is horrifying.

If you look at the thousands of stories of the evolution of this massive USD based world financial bailout, it's clear that the USD was used to:

- Backstop every market out there and every bank/institution who needed it
- Got every other central bank/treasury out there who had any money to get behind the USD and backstop it as well, basically like everyone holding hands together, looking over a chasm. So far, it worked, although the ultimate outcomes are not good. But, I am not sure we had a choice, unless you are like the purists who believe that letting a bankruptcy happen is ultimately the only solution.

But, in this case we were talking the complete bankruptcy (insolvency actually) of the entire world, with for sure worldwide anarchy that might have taken 3 decades to get under control, if it ever was got control of. I am not exaggerating.

I know Paulson, with the immense bailouts he scared the US congress into, is vilified as the prime villain of public bailouts, but he was asked recently by Congress what would have happened if he did not do what he did. He simply stated, well put in my view, 'that he did not know, but fortunately did not have to find out and did not even want to think of what would have happened, and that we would never know since those episodes have passed us. ' (my paraphrase)

But from what we know, there would have been a total world financial collapse on two occasions, actually more than two, but I specifically remember two in 07 and 08. And, if you wonder what would have happened if every financial institution had a run on it, and basically went insolvent, imagine food stores running out in less than 3 days, with more or less permanent shortages and riots, and no gasoline either, etcetera, you get the idea. That threat was real enough that the US Congress had a meeting in secret about it, the details of which come out now that they were planning for a possible US insurrection based on a financial collapse and supply chain collapse. Yes, the threat was right on our backs- it was real.

The USD, the US Fed and the US Treasury stopped it from happening. Albeit at great cost. Between massive guarantees of not only US banks but foreign banks, $trillion dollar currency swaps as needed to Europe and the world, and whatever trillions here and there, the mess was averted. Granted, the ECB and others did their parts too, spending way more than they ever wanted to. Recently, the ECB for example just offered unlimited credit to EU institutions, for the same reasons as the last two years, to make them flush with money for the end of the year run on cash. That was $600 billion alone. So the bailouts and backstops are continuing apace.

So, the Western financial system basically slammed down the public credit card when the mess appeared, and is still using it heavily. Let's not get caught up in the other part of the story, namely that these huge bailouts will probably lead to world stagflation – that is another issue. Getting food on the table now was and is the issue for the immediate term.

So how is it the USD is going to collapse in the Fall?

But, to get back to our story, only the USD had the size and footprint big enough to accomplish that. And here is the point, **if the USD is in such a mess (and it is) then how in the hell did it get used to save the world from a total financial meltdown on two occasions? It did get used to do that, and it did work – sort of. That tells me the USD is not right at its final point of collapse. That makes it very unlikely in my view that we are going to see a USD collapse this Fall, although we cannot ever rule out more USD scares and chaos. And we cannot ever lose sight of the ongoing risk of an out of control USD crisis itself appearing either, but this is better than what the alternatives appeared to be at the time. The other central banks voted clearly on that and helped support the USD. And I expect that to continue for a while too.**

Now, if the rest of the world had not supported the USD amidst these crises, we would have seen a total world economic collapse. I am not talking about a mere recession or depression, I'm talking empty stores for God knows how long and riots world wide. The US Congress knew this, the ECB knew it, China knew it, and Japan, and everyone else. That became rather clear at the time it was happening. So everyone pulled out all the stops to avert it, even breaking their own financial laws to get it done fast.

Downloaded from *http://www.marketoracle.co.uk/Article12574.html* on September 28, 2009.

Rampant Debt Monetization Means U.S. Financial System is Doomed

Economics / *US Debt***Sep 27, 2009 - 05:25 AM**

Nearly half the nation's 25 biggest retail chains expect to hire fewer holiday workers this season than they did last year, another sign that retailers aren't counting on recession-strained shoppers to relax the tight grip on their pocketbooks this year.

About 40% of stores surveyed across a broad swath of retailing, including consumer-electronic chain Best Buy Inc., teen-retailer American Eagle Outfitters Inc., and luxury-goods seller Saks Inc., told the Hay Group, a human resources consulting firm, that they expect to hire between 5% and 25% fewer temporary workers this year than last, when the recession forced many retailers to trim staff in response to falling sales. That's a grimmer outlook than the Hay survey found a year ago, when 29% of retailers said they would be slashing their holiday workforce.

Gross debt issuance will reach $7 trillion when the current fiscal year ends this month, Treasury Acting Assistant Secretary for Financial Markets Karthik Ramanathan, said on Wednesday.

In fiscal year 2009, which ends next week, Treasury will have issued $7 trillion in gross issuance that's in a 12-month period, Ramanathan said in a speech at a financial markets conference in New York.

This issuance was necessary to meet nearly $1.7 trillion in net marketable borrowing needs, nearly $1 trillion more than what we raised last year. He said that demand for Treasuries this year had been tremendous but expected some flight-to-quality flows into government debt to begin going to other sectors as the financial markets recovery continues.

There is still a long way to go toward market and economic stabilization but good progress is taking place, Ramanathan said, adding that officials were no longer focused "on LIBOR/OIS spreads on a daily or hourly basis."

The FBI is investigating the hanging death of a U.S. Census worker near a Kentucky cemetery. A law enforcement official says the word "fed" was scrawled on his chest.

The body of Bill Sparkman, a 51-year-old Census field worker and occasional teacher, was found Sept. 12 in the Daniel Boone National Forest in rural southeast Kentucky.

Investigators have said little about the case. A law enforcement official, who was not authorized to discuss the case and requested anonymity, tells The Associated Press the word "fed" was written on the dead man's chest.

FBI spokesman David Beyer said the bureau is helping state police determine if Sparkman's death was the result of foul play, and if so, whether it was related to his census work.

Resales of U.S. homes dropped 2.7% in August to a seasonally adjusted annual rate of 5.10 million, the first decline in five months, the National Association of Realtors reported Thursday. Inventories of unsold homes on the market declined by 10.8% to 3.62 million, representing an 8.5-month supply at the August sales pace, the lowest since April 2007. The decline in sales was unexpected by most economists. The median forecast by economists surveyed by MarketWatch was for a small gain to a 5.40 million annual rate from 5.24 million in July.

The two most important features of the Fed’s communiqué are: quantitative easing via Treasuries will end as scheduled in October but the quantitative easing via MBS and agency debt will be extended through Q1 2010 instead of ending at year end. The Fed must accommodate foreigners as they keep jettisoning agency debt.

The most salient part of the FOMC Communiqué: To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt. The Committee will gradually slow the pace of these purchases in order to promote a smooth transition in markets and anticipates that they will be executed by the end of the first quarter of 2010. As previously announced, the Federal Reserve’s purchases of $300 billion of Treasury securities will be completed by the end of October 2009.

The Fed has monetized $862B of its $1.25 trillion MBS plan, and $129.2 B of its $200B agency program.

Nearly half the nation's 25 biggest retail chains expect to hire fewer holiday workers this season than they did last year, another sign that retailers aren't counting on recession-strained shoppers to relax the tight grip on their pocketbooks...

About 40% of stores surveyed across a broad swath of retailing, including consumer-electronic chain Best Buy Inc., teen-retailer American Eagle Outfitters Inc., and luxury-goods seller Saks Inc., told the Hay Group that they expect to hire between 5% and 25% fewer temporary workers this year than last, when the recession forced many retailers to trim staff in response to falling sales.

That's a grimmer outlook than the Hay survey found a year ago, when 29% of retailers said they would be slashing their holiday workforce.

HANK Paulson has admitted that he kept in touch with "market participants" on Wall Street when he was Treasury secretary.

But did the former head of Goldman Sachs use his government position to enrich his friends during one of the most tumultuous times in US financial history?

Paulson's phone logs, which I obtained after a Freedom of Information Act request, show that the Treasury chief kept in frequent touch with a virtual Who's Who of Wall Street's power players. But a half- hour block of time could prove to be the most intriguing bit of non-information in his schedule.

The stock market had been in a free fall all that day, but at around 3:10 p.m. on Aug. 16 -- less than three hours after the Bernanke/Paulson lunch, the stock market turned on a dime.

This sort of "very illegal" inside information trading has been part and parcel of this entire mess. It is part and parcel of how we have a couple of firms, one in particular (cough-Goldman-cough!) who manage to make money on their "proprietary trading" virtually every day in a quarter, a statistically-improbable outcome akin to that of getting hit in the head by a meteorite when one goes to get their mail.

The trading patterns make crystal clear that certain market participants knew in front of the announcement what was to come in each and every case. The bets placed were enormous and one-sided.

But when the law only applies to "the little people" we indict Martha Stewart while some of the biggest firms on Wall Street do the same sort of thing literally every day - with impunity.

President Obama is exploring alternatives to a major troop increase in Afghanistan, including a plan advocated by Vice President Joseph R. Biden Jr. to scale back American forces and focus more on rooting out Al Qaeda there and in Pakistan, officials said Tuesday.

In looking at other options, aides said, Mr. Obama might just be testing assumptions — and assuring liberals in his own party that he was not rushing into a further expansion of the war — before ultimately agreeing to the anticipated troop request from General McChrystal. But the review suggests the president is having second thoughts about how deeply to engage in an intractable eight-year conflict that is not going well.

The Fed and the government sent a message to companies that “the bigger that you are, the more problems that you get yourself into, the more likely the government is to bail you out,” Palin said in the closed door speech, according to a tape of the event given to Bloomberg News. “Of course the little guys are left out then. We’re left holding the bag, all the moms and pops all over America.”

Palin criticized Obama’s plan to give the Fed powers to monitor risks to the financial system. A meltdown last year led to $1.6 trillion of bank losses and writedowns and triggered a global recession.

“How can we think that setting up the Fed as monitor of systemic risk in the financial sector will result in meaningful reform,” she said. “The words ‘fox’ and ‘henhouse’ come to mind.”

Existing-home sales in the U.S. unexpectedly fell in August, breaking a string of four increases as the housing market struggles to recover.

Home resales decreased by 2.7% to a 5.10 million annual rate, the National Association of Realtors said Thursday.

Wall Street expected a sales rate of 5.39 million sales rate for previously owned homes. It was a mild retreat from a very strong gain, NAR economist Lawrence Yun said, adding the sales pace in August was the second highest in nearly two years. The highest was in July, when sales rose to 5.24 million, capping four increases in a row.

Distressed property sales have pushed prices lower, year over year. The median price for an existing home last month was $177,700, down 12.5% from $203,200 in August 2008. Existing home sales have gone up four times in six months as a nascent economic recovery, rising affordability, and a big tax break offset tight financing conditions and a jobless rate expected to top 10%.

The number of U.S. workers filing new claims for jobless benefits unexpectedly declined last week, according to a Labor Department report Thursday.

Meanwhile, total claims lasting more than one week also decreased.

Initial claims for jobless benefits fell 21,000 to 530,000 in the week ended Sept. 19, the department said in its weekly report.

Economists surveyed by Dow Jones Newswires had expected a rise of 5,000. The previous week's level was revised from 545,000 to 551,000.

The four-week moving average of new claims, which aims to smooth volatility in the data, fell by 11,000 to 553,500 from the previous week's revised figure of 564,500.

This latest data still leaves claims at a fairly high level, reinforcing the view shared by most economists that the job market will take longer to heal. The August monthly jobs report recently found that while job losses softened, the unemployment rate had also climbed to 9.7% -- the highest level in 26 years.

The fact we are not improving faster has been an ongoing disappointment, Wrightson ICAP economist Lou Crandall said in a Wednesday interview, adding that other employment indicators have proved more encouraging than jobless claims.

But the unexpected drop in last week's claims also may suggest that the labor market is improving, albeit slowly.

When I think you step back and look at everything that has happened since March when claims peaked, I would say the trend has generally been down since then," JP Morgan Chase & Co. economist Abiel Reinhart said Wednesday.

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 Sept. 12 - fell by 123,000 to 6,138,000 from the preceding week's revised level of 6,261,000.

The unemployment rate for workers with unemployment insurance for the week ended Sept. 12 was 4.6%, a 0.1 percentage point decrease from the prior week's unrevised rate of 4.7%

The largest increases in initial claims for the week ending Sept. 12 were in Wisconsin, Oregon and Kansas. The largest decreases in initial claims were in Texas, Illinois, Pennsylvania, Michigan and Massachusetts.

Luxury hotel owners risk defaulting on their debt as the recession cuts occupancies and the credit crunch constrains refinancing.

Loans secured by more than 1,500 hotels with a total outstanding balance of $24.5 billion may be in danger of default, according to Realpoint LLC, a credit rating company that tracks commercial mortgage-backed securities. Some of the biggest loans, put on the company’s watch list because of late payments, decreasing occupancies or cash flow, were made to luxury properties where rooms can cost more than $850 a night.

Babson Capital Management LLC and GoldenTree Asset Management LP are among investors bargain- hunting in the $650 billion market for collateralized debt obligations linked to corporate debt as credit markets open.

An estimated $11 billion of CDOs backed by high-yield, high-risk loans or linked to corporate bonds using credit derivatives, have exchanged hands this year, according to Morgan Stanley and JPMorgan Chase & Co.

Trading in CDOs that contributed to $1.6 trillion of writedowns and credit losses at banks worldwide increased after the Federal Reserve doubled its balance sheet to more than $2 trillion to rescue financial institutions. Prices have more than tripled since May for some securities tied to company debt as analysts and investors lowered their predictions for defaults and the economy showed signs of emerging from the longest recession since the Great Depression.

CDO trading activity has been huge since May, said Joseph Naggar, a partner at GoldenTree in New York, which oversees $11 billion and has bought loan CDOs and so-called synthetic CDOs composed of credit-default swaps. "Access to the capital markets has dramatically improved for companies. As some of the underlying corporate assets have improved, CDOs have followed.

The market for buying and selling CDOs, which repackage assets such as mortgage bonds and loans used in corporate buyouts into new debt with varying degrees of risk, was shut down last year in the wake of Lehman Brothers Holdings Inc.'s bankruptcy filing, Naggar said. (You would think that these greeting morons would have learned their lesson, but no they haven't).

As ABC news reported last night, the special inspector of the government's $700 billion TARP program said in prepared testimony that the chances of taxpayers recovering their investment are extremely unlikely.

Neil Barofsky said today.

While several TARP recipients have repaid funds for what has widely been reported as a 17 percent profit, it is extremely unlikely that the taxpayer will see a full return on its TARP investment. For example, certain TARP programs, such as the mortgage modification program which is scheduled to use $50 billion of TARP funds, will yield no direct return, and for others, including the extraordinary assistance programs to AIG and the auto companies, full recovery is far from certain.

When we look at companies as we have told you over and over again, it is the fundamentals. When we look at government statistics we see something totally different. The reporting is so outrageous that it is purely disgraceful. The latest scam from the BLS is that the subsidy in the "Cash for Clunkers" program will be deducted from the CPI. This is being done to artificially reduce the CPI and reduce pension payout, as well as Social Security payout. It is outright theft. If we did this we would be thrown in jail.

The FDIC has 400 banks in its watch list, but further examination sees 2,256. That means at least 900 more banks will fail in this cycle. These banks are using mark-to-model, so there is really no knowing whether the failure figure during the cycle will be 3,200 or 4,200. On just 900 banks, which are certain to go under, the loss figure will be at least $300 billion. Incidentally top banking professionals have verified these figures. They say one of the biggest problems is that solvent banks, some of who received TARP funds, are refusing to accept failing banks no matter what federal guarantees. They tell us that they believe that once a solvent bank is loaded up with failing banks they will then be taken over by bigger banks.

Historically losses for failed bank resolutions have been about 11%. Today they are 25%. Thus, far losses are estimated at more than $300 billion. The FDIC believes, although they won't tell you this that more than 1,000 banks will fail at a cost of $500 billion. The FDIC has $10 billion. the FDIC will borrow $100 billion from the Treasury and borrow additional funds from insolvent banks that have received loans from the Treasury and the Fed. You might call this a financial daisy chain.

In addition to the foregoing problems the commercial real estate industry is facing $500 billion in losses to be absorbed by banks. That means the FDIC will have to borrow $1 trillion from some of the institutions they are trying to save.

Facing these problems and others tells us that one-year recovery we foresee will be tepid at best and what will be left for an encore?

On another note 73% of NYSE volume is in front running trades. The SEC says they'll end flash trading. If they do the market is going to fall, perhaps a big fall.

The Treasury's 5-year auction was held with a bid to cover of 2.4 to 1. Indirect participation, foreign central banks, took 44.8% of the action. The bid to cover disappointed.

The Fed has started talks with bond dealers about withdrawing an unprecedented amount of cash injected into the financial system the last two years. Evidentially some of the $1 trillion may be removed from the system. The only effective way they can do that is by buying paper bank and pay for it with more money created out of thin air, which is further monetization.

Credit card charge-offs rose to a record high in August. Consumers are under fierce stress. Moody's Index rose to 11.9% from 10.52% in July. Delinquencies more than 30-days late, rose to 5.8% from 5.73%.

Mass layoffs rose by 533 in August from July. The number rose to 2,690 last month; affecting 259,307 workers. That brought the total of mass layoffs this year to 21,184; 279 were in manufacturing. In 21 months that is events of 44,669 or over 4.56 million jobs. That is official; can you imagine what the real numbers are?

The FOMC left Fed funds unchanged at 0% to 0.25%. They said they will gradually slow the pace of mortgage-related debt. They have already bought $300 billion of longer-dated US government bonds, and $1.45 trillion of mortgage-related debt to keep lending rates low.

The U.S. government will have issued $7 trillion in bonds by the time the current fiscal year ends next week, but it expects the debt deluge to stabilize by mid 2010, a Treasury official said on Wednesday.

The Fed balance sheet increased $18.860B for the week ended 9/23 due to the monetization of $8.539B of MBS, $4.04B of agencies and $5.849B of Treasury notes.

The government is failing to disclose the full details of how the $700 billion bailout of the financial sector has been implemented, the program's top government watchdog will say on Thursday.

Neil Barofsky, the Special Inspector General over the Troubled Asset Relief Program (TARP), will testify to Congress that the government's "basic attitude" on the transparency and accountability of the program "remains a significant frustration."

Stimulus funds boost number of federal jobs That's helped fuel the continued growth of the federal government, which increased by more than 25,000 employees, or 1.3%, since December 2008.

Over the past several weeks we have noted that the Baltic Dry Freight Index, which has led commodities and stocks, topped in June and has been declining sharply. The past two days, commodities have declined sharply, producing a very ugly technical picture. It appears that commodities and stocks will now reconnect to some degree with the real economy as reflected by the Baltic Dry Freight Index.

G20 should tax financial trades: The prologue to the crisis was a combination of cheap money, deregulation, and a race for returns by executives undeterred by the risks.

Despite all this pain, the remaining financial market participants gained significant benefits from government bailouts. The Group of 20 nations' average support for the financial sector is more than 30 per cent of gross domestic product (including capital injections, guarantees, treasury lending and asset purchases, liquidity provision, and other central bank support). In our political response to this crisis, new forms of fiscal burden-sharing will be needed. One of these is a global financial-transaction tax.

Remaining financial market participants are not pulling their weight in this crisis. But Main Street sees what happens on Wall Street – and in London and Frankfurt. Citizens are aware of the hundreds of billions of euros and dollars used to prop up banks. Bonus payments in the financial sector now go hand in glove with massive job losses in the real economy.

A global financial-transaction tax, applied uniformly across the G20 countries, is the obvious instrument to ensure that all financial-market participants contribute equally. German Foreign Minister Frank-Walter Steinmeier and I suggest the G20 take concrete steps toward implementing a tax of 0.05 percent on all trades of financial products within their jurisdictions, regardless of whether these trades occur on an exchange. Retail investors could be exempt.

http://www.ft.com/cms/s/0/25afd1d4-a905-11de-b8bd-00144feabdc0.html?ftcamp=rss&nclick_check=1
The Group of 20 nations is close to an agreement to improve global coordination of economic policies, a significant change to the world economy that would envision member countries monitoring each others' commitments, according to G-20 officials.

The U.S. came into the summit seeking a commitment to "rebalance" the world economy. Under the concept being discussed, the Chinese would boost domestic demand, the world would reduce its reliance on U.S. consumers, and the Europeans would encourage investment.

How far reaching the agreement will be depends on how -- and whether -- it is enforced. The potential agreement envisions a "peer review" system, with G-20 countries assessing whether each others' policies are working, and the International Monetary Fund likely providing technical help. Not included are any enforcement mechanisms such as sanctions or other financial penalties.

European differences with the Obama administration threaten to overshadow Friday's G20 summit in Pittsburgh, with Britain and France resisting US plans to overhaul the International Monetary Fund.

UK and French officials were exasperated on Thursday by US proposals that could threaten both countries' seats on the IMF board of directors, the Financial Times has learnt. Under the US plans, the IMF board would be cut from 24 seats to 20 with fewer European representatives.

The US financial sector's losses on large loans exploded over the past year, exceeding the combined losses since 2001, with hedge funds and other members of the "shadow banking system" hit the hardest, official figures revealed on Thursday.

The importance of these non-bank institutions was underlined by the review's finding that they held 47 percent of problem loans, in spite of accounting for only 21.2 per cent of the total loan pool.

Overall, the US financial sector's losses on loans in early 2009 reached a record of $53bn, almost triple the previous high in 2002.

The U.S. financial system remains fragile a year after launching a $700 billion bailout fund and the government may need to extend the program into next year, a senior U.S. Treasury department official said on Thursday. Herbert Allison, the Treasury's assistant secretary for financial stability, said credit and securitization markets have not recovered, and U.S. Treasury Secretary Timothy Geithner will consider these factors as he decides whether to extend the program.

"A lot of people are still suffering in the American public, there is still concern by many people about losing their homes and losing their jobs," Allison told the U.S. Senate Banking Committee. "There are improvements in parts of the economy that are dramatic but we still have a long way to go," he said.

A former analyst with Moody's Corp has accused the credit ratings agency of issuing inflated ratings, and has taken his concerns to U.S. congressional investigators, the Wall Street Journal reported on Wednesday.

In a letter dated July, obtained by the paper, Eric Kolchinsky accused Moody's Investor Service of issuing a high rating to a complicated debt security in January, in spite of it being aware it was planning to downgrade assets backing the securities.

Moody's issued an opinion which was known to be wrong, Kolchinsky wrote, along with detailing other instances of inflated ratings issuance, according to the paper.

The paper said a Moody's spokesman declined to comment on the January rating under scrutiny, but had said Kolchinsky refused to cooperate with an investigation into the issues he raised, and was suspended with pay.

Kolchinsky is scheduled to testify on ratings firm reform before the House Committee on Oversight and Government Reform on Thursday, the paper said.

Consumer confidence levels jumped in September compared with the previous month, a report Friday said.

The Reuters/University of Michigan consumer sentiment index for September moved up to 73.5 - the highest reading since January 2008 - from 65.7 in August and 66.0 in July. The end-September figure was higher than the 70.2 in the preliminary September index.

Economists surveyed by Dow Jones Newswires had expected a lower end-September reading of 70.5. The current conditions index for September was 73.4, compared with a reading of 66.6 in August and 70.5 in July, while the expectations index was 73.5 in September from 65.0 in August and after a reading of 63.2 in July. The expectations index was at its highest since September 2007.

The one-year inflation expectations reading was 2.2% in September after 2.8% in August, and the five-year inflation reading was 2.8% after 2.8% last month.

Demand for U.S. durable goods unexpectedly fell in August and sales of new homes rose less than forecast, restraining the pace of the economic recovery.

Orders for goods made to last several years dropped 2.4 percent, the biggest decline since January, the Commerce Department said today in Washington. Consumer sentiment improved, a separate report showed.

Regulators say that the level of losses from syndicated loans facing banks and other financial institutions tripled to $53 billion in 2009, due to poor underwriting standards and the continuing weakness in economic conditions.

According to the Shared National Credit Program (SNC) 2009 Review, an annual inter-agency report released on Thursday, credit quality deteriorated to record levels with respect to large loans and loan commitments.

The Shared National Credit Program which was set up in 1977 to review large syndicated loans now reviews and classifies all institutional loans of at least $20 million that are shared by three or more supervised institutions.

According to the report, criticized assets rated 'special mention', 'substandard', 'doubtful' and 'loss', touched $642 billion, representing 22.3 percent of the SNC portfolio, compared with 13.4 percent a year ago.

Classified assets rated 'substandard', 'doubtful', and 'loss,' rose to $447 billion from $163 billion in 2008.

The volume of SNCs rated 'doubtful' and 'loss' in 2009 rose almost 14-fold to $110 billion, while non-accrual loans touched $172 billion, up from $22 billion in 2008.

The report also said foreign banks held about 38 percent of the $2.9 trillion in loans, while hedge funds, pension funds, insurance companies and other entities held about 21 percent.

The report also said that non-banks continued to hold a "disproportionate share" of classified assets compared with their total share of the SNC portfolio. They hold 47 percent of loans seen as 'substandard', 'doubtful' and 'loss'.

The SNC review is prepared by the Federal Reserve Board of Governors, Federal Deposit Insurance Corp (FDIC), Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS)

Confidence among U.S. consumers rose this month to the highest level since January 2008 as the pace of job losses slowed and the economy started to pull out of the worst recession since the Great Depression.

The Reuters/University of Michigan final index of consumer sentiment increased to 73.5 in September, more than forecast, from 65.7 in August. A preliminary September reading was 70.2.

Commercial paper rose $22.5 billion last week versus $16.1 billion the prior week. Total CP was $1.212 trillion. The ABC CP was $520.8 billion versus $501.5 billion. Unsecured CP rose $14.4 billion versus a fall of $9.7 billion.

Those who are still long the market should consider that the S&P is priced for 4% real GDP economic growth, which is unattainable. 1% to 2% late next year might be attainable. The market is 26 times operating profit, which is very expensive. The market is 4 times overvalued, just as it was in the dotcom tech bubble. Trailing P/E is now 24 times earnings, which is absurd. The Baa corporate bonds were pricing GDP contraction of 10% at the widest spread levels, not 2.5% as the stock market was discounting at the lows. Even at that the market is pricing in 2% GDP growth, not 4%. It looks like the first stop down will be 7800 not 8500 on the Dow. That is a 20% market correction. Except for gold and silver shares, get out.

As the yen carry trade winds down the Japanese yen rises, threatening their export trade. That means the Japanese must keep the yen low in terms of the Chinese yuan. China is now their main trading partner. As this occurs the strong master salve relationship with the US will end. The hangover of WWII is in the process of ending.

Those of you who didn't subscribe to the IF the 1990s are probably unfamiliar with the gold carry trade, where central banks lend gold at 1% interest to bullion banks, which sold it into the market depressing gold prices and allowing Wall Street to take the funds, leverage them and gamble in world markets for little overhead costs. Now that the gold is gone, or central banks want to keep what they have left, the criminal syndicate has little left to lend, or to suppress the gold market with.

We now have zero percent money, which is even better than the ½% charged by Japanese banks or 1% charged by central banks to lease gold. But that few sovereign bonds are attractive today's borrowers are going into junk bonds, stock markets and even gold and silver. That will continue as long as interest rates remain at current levels in the US. Despite efforts by some central banks, such as the Swiss and Canadians to hold the value of their currencies down, they continue to appreciate. As the Fed has said, zero interest rates will prevail for sometime to come. That means perpetual downward pressure on the dollar and continued upward pressure on gold and silver. Low rates will last at least two more years, as will increasing money and credit in spite of all the rubbish we hear of exit strategies we hear from the Fed and the G20. Just pipe dreams and lies. The nations are all trapped in a box and none of them can escape, unless they own gold and silver. Eventually the US bond market will collapse, as Wall Street believes what the Fed says.

The intersession of the Fed into markets has to continue or the system will collapse and deflation will take over. This desperate situation will force more and more players into the dollar carry trade into gold and silver. Monetary stimulus is the only thing that can keep the ship from sinking.

The dollar as we predicted will test USDX 71.18 by the end of October or at least by the end of the year.

The dollar is being dumped wholesale, something that should have happened ten years ago. It didn't happen because of massive US pressure on all nations not to jump and play along within the game. During the first six months of next year 71.18 will be broken. First to 65, then 60, then 55, then to 50 and perhaps to 40 giving new and greater impetus to higher and higher gold and silver prices as the dollar carry trade goes wild.

That means that probably the dollar will be officially devalued and debt will go to default in 2011. They won't be alone. There will be another Smithsonian or Plaza type meeting and all currencies will be officially devalued or revalued against one another and all debt will be reduced by 2/3's. A new international trading unit will be formed and three old dollars will be replaced by one new dollar. Do not ask how domestic debt will be settled because we do not know. Logically it should be on the same basis as international settlements, but who knows what these criminals will do. Not only is the US financial structure doomed but also so is that of the entire world. That is why gold and silver investments are so important. Gold and silver are breaking out because in part we have a carry trade that is looking for action and gold and silver markets are not reflecting their intrinsic value. They are way under priced due to the criminal activity of central banks, all of which are controlled by the Illuminists. Eventually zero interest rates and the dollar carry trade, just like with the yen, will cause terrible distortion. Inflation since 1980, real inflation, demands gold over $6,000 an ounce. The question is how far will it go? Markets have a way of getting way overpriced and that could happen to gold and silver. You say to yourself how could this happen? It didn't just happen it was planned that way to force the world's inhabitants to accept world government. Zero interest rates guarantees the destruction of new capital formation as money runs to asset accumulation or preservation of wealth.

Monetization is running rampant even at Treasury auctions as dealers buy for the Fed, the Fed buys through the Cayman Island and their swap partners use swap dollars to buy at the auctions as well.

We just found out from the Fed that they lied about gold swaps. What do you think the percentages are that they are lying about currency swaps and secret Fed buying of Treasuries from secret offshore locations? All this means gold will quickly hit $2,000 and climb to $3,000 in 2010. 2011 will be another doubling, and the end of phase 3. The question is will we have a phase 4? If we had to bet on it we'd say yes. Would you believe $12,000 or more? As this all transpires only about 15% of Americans will catch on and the rest will lose almost everything. Or perhaps, revolution will change that.

Julian Robertson, founder of Tiger Mgt. told CNBC, if the Chinese and Japanese do not buy our debt inflation could go to 15% to 20%. "It is a question of who would lend us the money if they don't. They really control our destiny. They own almost exclusively short-term debt, because we cannot sell long-term debt. Americans need to start saving and we have to grow out of the problem."

Incomes of young in 8-year nose dive

By Dennis Cauchon, USA TODAY
The incomes of the young and middle-aged — especially men — have fallen off a cliff since 2000, leaving many age groups poorer than they were even in the 1970s, a USA TODAY analysis of new Census data found.

People 54 or younger are losing ground financially at an unprecedented rate in this recession, widening a gap between young and old that had been expanding for years.

While the young have lost ground, older people have grown more prosperous over the years and the decades. Older women have done best of all.

The dividing line between those getting richer or poorer: the year 1955. If you were born before that, you're part of a generation enjoying a four-decade run of historic income growth. Every generation after that is now sinking economically.

Household income for people in their peak earning years — between ages 45 and 54 — plunged $7,700 to $64,349 from 2000 through 2008, after adjusting for inflation. People in their 20s and 30s suffered similar drops. Older people enjoyed all the gains.

The line between the haves and have-nots runs through the middle of the Baby Boom, the population explosion 1946-64.

"The second half of the Baby Boom may be in the worst shape of all," says demographer Cheryl Russell of New Strategist Publications, a research firm. "They're loaded with expenses for housing, cars and kids, but they will never generate the income that their parents enjoyed."

What caused the income gap:

•**Waiting line for good jobs.** Older people are working longer, crowding out young people from the best-paying jobs while boosting the incomes of older workers and seniors.

•**Global competition.** Low-income workers in other nations have pushed down wages in the USA. Newly hired workers — generally younger people — experience the wage decline first, says economist Dean Baker of the Center for Economic and Policy Research, a liberal-leaning think tank.

•**Golden age of retirement.** Social Security and private pensions have elevated the incomes of retired people to record levels and reduced poverty among the elderly.

One bright sign: Women have boosted income by holding half the USA's jobs, working longer hours and narrowing the gender pay gap from 2000, when women made 25% less than men, to

2008, when they made 23% less. Older, college-educated career women have had the biggest gains.

Terry Neese, founder of a human resources firm in Oklahoma City, says income shifts partly reflect changing gender roles and values.

As women bring in more income, men can work less or stay home with children, she says. Neese says her own daughter, who now runs the family firm, worked less and went to more kids' soccer games. "My daughter says, 'I'm not going to work like you worked,' " says Neese, 60.

Downloaded from *http://www.usatoday.com/news/nation/census/2009-09-17-young-people_N.htm* on September 28, 2009.

A **Minsky moment** is the point in a credit cycle or business cycle when investors have cash flow problems due to spiraling debt they have incurred in order to finance speculative investments. At this point, a major selloff begins due to the fact that no counterparty can be found to bid at the high asking prices previously quoted, leading to a sudden and precipitous collapse in market clearing asset prices and a sharp drop in market liquidity.[1]

The term was coined by Paul McCulley of PIMCO in 1998, to describe the 1998 Russian financial crisis,[2] and was named after economist Hyman Minsky. The Minsky moment comes after a long period of prosperity and increasing values of investments, which has encouraged increasing amounts of speculation using borrowed money.

Downloaded from *http://en.wikipedia.org/wiki/Minsky_moment* on September 28, 2009.

In economics, a **sudden stop** is a sudden large reversal of net capital inflows.[1] It may result from a decrease in capital inflows, an increase in capital flight, or most likely both.

Downloaded from *http://en.wikipedia.org/wiki/Sudden_stop_(economics)* on September 28, 2009.

Almost everyone believes that the US current account deficit must eventually end, and that this end will involve dollar depreciation. However, many believe that this depreciation will take place gradually. This paper shows that any process of gradual dollar decline fast enough to prevent the accumulation of implausible levels of US external debt would impose capital losses on investors much larger than they currently expect. As a result, there will at some point have to be a 'Wile E. Coyote moment' – a point at which expectations are revised, and the dollar drops sharply. It is much less clear, however, whether this 'crisis' will produce macroeconomic problems.

-Paul Krugman

Downloaded from http://www.economic-policy.org/article1.asp?src=bpl&aid=183&iid=51&vid=22&id= on September 28, 2009.

Self-Organized Criticality and Economic Fluctuations

http://www.jstor.org/pss/2117870

Self-organization in Agricultural Sectors and the Relevance

of Complex Systems Approaches for Applied Economics

http://www.jstor.org/pss/2117870 or http://ageconsearch.umn.edu/bitstream/25516/1/cp061054.pdf

Why Do Societies Collapse?: A Theory Based on Self-Organized Criticality

http://jtp.sagepub.com/cgi/reprint/14/2/195

In *physics*, **self-organized criticality (SOC)** is a property of (classes of) *dynamical systems* which have a *critical point* as an *attractor*. Their macroscopic behaviour thus displays the spatial and/or temporal *scale-invariance* characteristic of the *critical point* of a *phase transition*, but without the need to tune control parameters to precise values.

The concept was put forward by *Per Bak*, *Chao Tang* and *Kurt Wiesenfeld* ("BTW") in a paper[1] published in 1987 in Physical Review Letters, and is considered to be one of the mechanisms by which *complexity* arises in nature. Its concepts have been enthusiastically applied across fields as diverse as *geophysics*, *physical cosmology*, *evolutionary biology* and *ecology*, *economics*, *quantum gravity*, *sociology*, *solar physics*, *plasma physics*, *neurobiology* [2] [3] [4] [5] [6] [7]

and others.

SOC is typically observed in slowly-driven *non-equilibrium* systems with extended *degrees of freedom* and a high level of *nonlinearity*. Many individual examples have been identified since BTW's original paper, but to date there is no known set of general characteristics that *guarantee* a system will display SOC.

Downloaded from http://en.wikipedia.org/wiki/Self-organized_criticality on September 28, 2009.

Chaos theory is a branch of *mathematics* which studies the behavior of certain *dynamical systems* that may be highly sensitive to initial conditions. This sensitivity is popularly referred to as the *butterfly effect*. As a result of this sensitivity, which manifests itself as an exponential growth of error, the behavior of chaotic systems appears to be *random*. That is, tiny differences in the starting state of the system can lead to enormous differences in the final state of the system even over fairly small timescales. This gives the impression that the system is behaving randomly. This happens even though these systems are *deterministic*, meaning that their future dynamics are fully determined by their initial conditions with no random elements involved. This behavior is known as deterministic chaos, or simply chaos.

Chaotic behavior is also observed in natural systems, such as weather. This may be explained by analysis of a chaotic*mathematical model* which represents such a system. *Quantum chaos* investigates the relationship between chaos and*quantum mechanics*.

Nonlinear Dynamics and Chaos Theory in Economics: a Historical Perspective

The Long Slog: Out of Work, Out of Hope

By CONOR DOUGHERTY

As Bill Jacobs hunted fruitlessly for work nine months after his layoff, it dawned on him that those nine months might, themselves, be part of his problem.

One clue was the conversation the computer specialist had with a job recruiter this summer. "The first question was, 'When did you get laid off?' The next one was, 'How come you haven't had a job since then?'"

Nearly 15 million Americans are jobless, and the number is widely expected to remain high even as the economy slowly begins to recover. Part of the problem many of the unemployed face: the very fact that they have been out of work a long time.

About five million of the jobless are what economists class as "long-term unemployed," people who have been out of work for 27 weeks or more. As challenging as it is for anyone to find a good job in this economy, it can be even harder for people out of work a long time.

Skills atrophy. Demoralization sets in and can become permanent. Some potential employers shy away.

Discouraged, some workers who have spent many months on the sidelines simply fade out of the work force, applying for union pensions or Social Security benefits they didn't intend to take until much later, or trying to get in on other government programs such as Social Security disability benefits.

The probability that a laid-off worker will find a job grows smaller the longer people have been out of work, according to studies in the 1980s by economists Lawrence Katz of Harvard University and Bruce Meyer of the University of Chicago. "Someone unemployed for six months is much less likely to find a job in the next month than someone unemployed for one month," Mr. Katz says.

The problem today: The proportion of the unemployed who have been out of work for over 26 weeks, at one-third, is the highest since World War II.

Mr. Katz, Mr. Meyer and other researchers also have found that wages the laid-off can expect when they do find a new job also tend to be lower the longer they were without work.

Scott Thompson has an on-the-ground view of their prospects. He is president of Lexicon Staffing, a technology recruiting firm in Portland, Ore. Employers he deals with don't ever explicitly say they are less interested in people who have been out of work for an extended period, "but their actions tell me exactly that," Mr. Thompson says. "We will send two or three candidates for a job. More often than not, the guy who has recent experience up to last month is the guy that gets the interview."

A growing number of long-out-of-work adults facing these odds appear to be giving up. The labor-force participation rate -- the proportion of working-age people who either have jobs or are actively looking for one -- was 65.5% in August. That was the lowest in 22 years, according to the Labor Department.

Increasing numbers are filing for Social Security disability, available to people who can show they have a medical condition that is likely to keep them out of work for at least a year. While the program's rolls were already rising before the recession, as baby boomers aged, the pace of applications sped up with the economy's downturn. The Social Security Administration received 1.9 million applications for disability benefits in the first eight months of this year, up 23% from a year earlier.

"Having a very severe recession is going to cause a lot of people who would have stayed in the labor force to apply for disability," says David Autor, an economist at the Massachusetts Institute of Technology. "It's a one-way ticket out of the work force and into public assistance."

Paul Harrison worked for years manufacturing cables for oil rigs, working in the Tulsa, Okla., area. Early this spring, he was laid off. Since then, he has applied without success to big nationwide retailers, a burger-and-ice-cream place and a host of other employers, nearly always for jobs that would have paid much less than the roughly $60,000 a year he earned before.

As the family's finances deteriorated, his wife's car was repossessed. The couple pawned an exercise machine for $200. They haven't gone to see a 2-year-old granddaughter since July 4 because of the cost of gasoline to drive the 85 miles to where she lives.

Many mornings, Mr. Harrison goes around collecting cans and scrap metal to sell to recycling centers.

He says pride compels him to continue applying for jobs. "I can't see myself not working," he says through tears. "I feel emotionally hurt to not be able to provide for my family after doing it for so long."

Years of lifting during his former manufacturing job left Mr. Harrison with two ruptured and bulging spinal discs, which required surgery last year. His employer accommodated him for a time, keeping him on but with a 50-pound limit on what he could lift on the job.

Recently, Mr. Harrison applied for Social Security disability, which pays recipients an average of about $1,000 a month and puts them on a path to become eligible for Medicare before they are 65.

He is 57. Given his back problems, his age and the difficulty of his job search, if he gets into the disability program, he says, "that would be retirement for me."

One thing this kind of move affects is federal spending. Last year, the Social Security Administration paid out about $106 billion in disability benefits, equal to nearly 4% of the federal budget. The payout was up about a third from four years earlier.

The agency projects it will receive roughly a million more disability applications from 2009 through 2011 than it would have without the recession, says Stephen Goss, its chief actuary. If acceptance rates stay the same, this would add roughly 500,000 more people to the rolls by the end of 2011.

So far, much of the government's response to long-term unemployment has been to extend jobless benefits, a support that keeps workers off the streets but can lead some to languish in unemployment instead of searching for work as if it were a full-time job.

The federal government extended the standard 26 weeks of benefits by 20 weeks, and to as much as a total of 79 weeks for some workers in high-unemployment states.

Phillip Lawrence, a Maine electrician who has been out of work for 15 months, has had his final extension, and is running out of options.

Mr. Lawrence spent most of his career at a paper mill in Brewer, Maine. He was working at a boatyard for $16 an hour when he was laid off in June 2008. Like Mr. Harrison in Oklahoma, he has applied for jobs with retailers, as well as hospitals and schools, trying for work in heating, plumbing or other trades.

Through much of Maine, health care has replaced manufacturing as the dominant industry. "You look for work and it all has to do with medical," he says. At 59, he feels too young to retire but too old to learn a new skill. "At my age, I can't see going back to school for four years," he says.

Mr. Lawrence receives $340 a week in unemployment benefits and also has some home-equity cash he took out in a refinancing last year. He saves on expenses by heating his home with wood. To keep busy, he does projects like renovating a bathroom and building a new porch. "Just trying to keep my sanity," he says.

If he were to retire, Mr. Lawrence could collect $340 a month in a union pension, but he would incur a penalty for collecting it early. The money from his home refinancing "is the only thing keeping me going right now," he says.

Says Mr. Katz, the Harvard labor economist: "The big worry is even after the economy recovers, we are going to see a huge group of individuals who are disconnected from the labor market."

Retraining is the remedy being tried by many states, such as California, where the unemployment rate is 12.2%.

"If you're unemployed, at this point the likelihood is that you may be unemployed for a significant period of time," says Geneva Robinson, a division chief for the state's Employment Development Department. "We're trying to encourage them to get training so that when the labor market does come back, they'll be prepared."

In Michigan -- jobless rate 15.2% -- a state-supported nonprofit organization has started a peer-to-peer networking program, which pays laid-off and retired workers to call up old colleagues and prod them to make use of state education and training services.

"It's not part of people's nature to take advantage unless there is someone pushing them," says John Kreucher, who manages the program for Human Resources Development Inc., the nonprofit. "There is just so much inertia built in. It's easier to sit home rather than go out and pull things together for themselves. They need mentoring, and [the mentors] can't be bureaucrats."

In a shuttered General Motors metal-stamping plant in Grand Rapids the other day, Jerry Brower and Gary Haskell, both once employees at the plant but now paid by the nonprofit, sat at desks calling other laid-off workers to coax them to keep applying for jobs or to sign up for retraining programs.

"You get your tractor running?" Mr. Haskell began one phone call to a former colleague, before segueing into: "The last time I called, you were interested in getting some training..."

To get through to other laid-off workers, he talks about things like fishing, in the voice of an old friend. One program he pushes is called "No Worker Left Behind," which helps eligible workers with community-college tuition and other training. "We don't want anybody opting out for the easy way," Mr. Haskell said. "You put a bug in their ear."

Long-unemployed people who do find jobs often spend years working to get back to their old wages. In the early 1990s, Tom Stillman lost a good job at a Duluth, Minn., tool company. He spent a year out of work, eventually finding a job at an outdoor-equipment retailer, where he still works.

It took Mr. Stillman about 12 years to get his inflation-adjusted compensation back to what he had in his final year at the tool company.

"That's where you're losing money. When you start off [in a new job] you're making a lot less," says Mr. Stillman, 57.

He is far from impoverished. But after the uncertainty of a year-long layoff and spending over a decade climbing back up the financial ladder, he says his expectations have been diminished. When he finally retires, it will probably be in the same two-bedroom house he and his wife bought in 1977. Back then, they called it a starter home.

Downloaded from
http://online.wsj.com/article/SB125383516043639305.html?mod=WSJ_hpp_sections_careerjournal#printMode on September 29, 2009.

Japanese prices post record decline in August

SAN FRANCISCO (MarketWatch) -- Japanese consumer prices posted their sharpest monthly drop in August since at least 1971, according to government data released Tuesday.

Japan's core consumer price index fell 2.4% in August compared to the same month last year, to 100.1, the steepest drop since comparable data was first gathered in 1971, according to the Ministry of Internal Affairs.

The monthly decline marked the sixth straight for the index, following a then-record 2.2% decline in July.

Core prices in the Tokyo metropolitan area fell 2.1% in September to 99.7, the government said. That also marked the sharpest decline since 1971.

Downloaded from *http://www.marketwatch.com/story/japanese-prices-set-record-decline-in-august-2009-09-28?siteid=rss&rss=1* on September 29, 2009.

U.S. auto sales in September slump post-"clunkers"

Mon Sep 28, 2009 4:09pm EDT

By *David Bailey*

DETROIT (Reuters) - U.S. auto sales likely fell in September back to the nearly three-decade lows of early 2009 without government incentives to spur buying, leaving in doubt the timing and pace of a recovery for the battered industry.

Nearly 700,000 new cars and trucks were bought by U.S. customers through the government "cash for clunkers" incentive program from late July through the first three weeks of August, a leap from recession-stunted sales earlier in 2009.

The massive jump in buying versus earlier in 2009 depleted the stores for all the major auto manufacturers, leaving industry inventories at historically low levels.

Major automakers made sharp production cuts due to the economic downturn in general. Chrysler, now under management control of Italy's Fiat SpA
(FIA.MI: *Quote*, *Profile*, *Research*, *Stock Buzz*), and GM, also broadly halted output around their restructurings in bankruptcy.

The exhaustion of the government incentive program and a dearth of key vehicles at dealerships curtailed activity at many dealerships through the first half of September, but there have been some signs of sales improving late in the month.

"We have started to get little rumblings that maybe the consumer isn't quite so flat on their back, that they have been responding to some of the incentive programs and the fact that leasing is coming back," said Rebecca Lindland, an automotive research director at IHS Global Insight.

Lindland said the General Motors Co GM.UL 60-day return guarantee program has attracted consumer attention, Chrysler's return to leasing earlier in September should provide support and other automakers have brought back some incentives.

"There are some little tiny slivers of hope," she said. "There are still a lot of obstacles out there," she said. "I think we are still going to see the hangover from 'cash for clunkers' both in September and almost potentially through the end of the year."

SALES DROPS AT ALL MAJOR AUTOMAKERS

U.S. auto industry sales rose 1 percent to more than 1.2 million vehicles in August from a year earlier under the "clunkers" program, the first time monthly sales pierced the 1 million mark in a year.

However, none of the largest manufacturers are expected to post sales gains in September, and Edmunds has forecast a 23 percent industry sales decline for the month.

Edmunds expects Ford Motor Co (F.N: *Quote*, *Profile*, *Research*, *Stock Buzz*) to post a 9.7 percent sales drop, GM a 46.1 percent drop and Chrysler a 48.7 percent decline among the Detroit automakers.

Edmunds expects Toyota Motor Corp (7203.T: *Quote*, *Profile*, *Research*,*Stock Buzz*) to post a 9.7 percent sales decline, Honda Motor Co Ltd (7267.T: *Quote*, *Profile*, *Research*, *Stock Buzz*) an 8.3 percent drop and Nissan Motor Co Ltd (7201.T: *Quote*, *Profile*, *Research*, *Stock Buzz*) a 1.1 percent drop among Japan-based automakers.

The August sales gain represented a seasonally adjusted annualized rate of 14.1 million vehicles, but did little to turn the tide on annual sales. U.S. auto industry sales were down nearly 28 percent through August 2009 versus last year.

Global Insight expects U.S. September auto sales to come in at a 9.33 million seasonally adjusted annualized rate, or well below the 12.5 million unit rate from a year ago when credit markets froze in the wake of the Lehman Brothers collapse.

The median forecast for U.S. auto industry sales was 9.5 million vehicles from 41 economists surveyed by Reuters, while J.P. Morgan believes the annualized rate could drop to 8.9 million vehicles -- the lowest month since December 1981.

"We continue to believe (the monthly annualized rate) will hover around 9 million through year-end, but we remain confident in a gradual recovery in the first half of 2010 given strong evidence of a bottoming pre-clunkers," J.P. Morgan analyst Himanshu Patel said in a note to clients on Monday.

Influential industry forecaster J.D. Power and Associates expects a 9.2 million vehicle annualized sales rate, but believes improving consumer confidence and credit conditions could rebuild retail sales in the coming months.

Downloaded from http://www.reuters.com/articlePrint?articleId=USTRE58R55B20090928 on September 29, 2009.

US giant bunker-buster bomb project rushed since Iran's Qom site discovered
September 28, 2009, 6:26 PM (GMT+02:00)

The Pentagon has brought forward to December 2009 the target-date for producing the first 15-ton super bunker-buster bomb (GBU-57A/B) Massive Ordinance Penetrator, which can reach a depth of 60.09 meters underground before exploding. DEBKAfile's military sources report that top defense agencies and air force units were also working against the clock to adapt the bay of a B2a Stealth bomber for carrying and delivering the bomb.
The Pentagon has ordered the number of bombs rolling off the production line increased from four to ten - a rush job triggered in May by the discovery that Iran was hiding a second uranium enrichment plant under a mountain near Qom - a discovery which prompted this week's international outcry.
Congress has since quietly inserted the necessary funding in the 2009 budget.
All this urgency indicates that the Obama administration has been preparing military muscle to back up the international condemnation of Iran's concealed nuclear bomb program, its sanctions threat and his willingness to join the negotiations with Iran opening on Oct. 1 in Geneva. Tehran may have to take into account a possible one-time surgical strike against its underground enrichment facility as a warning shot should its defiance continue. In particular, the world powers this week demanded that Iran open up all its nuclear facilities and programs to full and immediate international inspection. Failure to do so could bring forth further US military action.
According to our military sources, the earliest date for the accelerated Pentagon program to produce a super bunker buster bomb mounted on a stealth bomber is December 2009 or January 2010. This too is three years ahead of its original schedule.
Pressed into service are two US Air Force research centers for work on adapting the radar-evading stealth bomber to the giant bomb: the Air Force Research Laboratory at Wright Patterson Air Force Base and the Munitions Directorate and Air Armament Center, both headquartered at Eglin Air Force Base in Florida.
Last month, DEBKAfile quoted Air Force Lt. Gen. Mark Shackelford as disclosing that the Pentagon had decided to accelerate the production of 10-12 giant bunker buster bombs in response to intelligence received of Iranian and North Korean underground nuclear plants.
Downloaded from http://www.debka.com/headline.php?hid=6288 on September 29, 2009.

COST OF STATE REGULATIONS ON CALIFORNIA SMALL BUSINESSES STUDY

This study measures and reports the cost of regulation to small business in the State of California. It uses original analyses and a general equilibrium framework to identify and measure the cost of regulation as measured by the loss of economic output to the State's gross product, after controlling for variables known to influence output. It also measures second order costs resulting from regulatory activity by studying the total impact – direct, indirect, and induced. The study finds that the total cost of regulation to the State of California is $492.994 billion which is almost five times the State's general fund budget, and almost a third of the State's gross product. The cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State's population. Since small business constitute 99.2% of all employer businesses in California, and all of non-employer business, the regulatory cost is borne almost completely by small business. The total cost of regulation was $134,122.48 per small business in California in 2007, labor income not created or lost was $4,359.55 per small business, indirect business taxes not generated or lost were $57,260.15 per small business, and finally roughly one job lost per small business. This study provides the most comprehensive and complete analysis of the total regulatory burden in California.

Downloaded from http://www.sba.ca.gov/Cost%20of%20Regulation%20Study%20-%20Final.pdf on September 29, 2009.

World Bank Head Sees Dollar's Role Diminishing
By *EDMUND L. ANDREWS*

WASHINGTON — The president of the *World Bank* said on Monday that America's days as an unchallenged economic superpower might be numbered and that *the dollar* was likely to lose its favored position as *the euro* and the Chinese renminbi assume bigger roles.

"The United States would be mistaken to take for granted the dollar's place as the world's predominant reserve currency," the World Bank president, *Robert B. Zoellick*, said *in a speech* at the School for Advanced International Studies at Johns Hopkins. "Looking forward, there will increasingly be other options to the dollar."

Mr. Zoellick, who previously served as the United States trade representative and as deputy secretary of state under President *George W. Bush*, said that the euro provided a "respectable alternative" for financing international transactions and that there was "every reason to believe that the euro's acceptability could grow."

In the next 10 to 20 years, he said, the dollar will face growing competition from China's currency, the renminbi. Though Chinese leaders have minimized their currency's use in international transactions, largely so they could keep greater control over exchange rates, Mr. Zoellick said the renminbi would "evolve into a force in financial markets."

The World Bank, which is financed by governments around the globe and lends money primarily to poor countries, has no say over the economic policies of large nations or over currency matters.

But Mr. Zoellick's comments were unusual, in part because he seemed intent on being provocative. He argued that the United States and a handful of other rich nations could no longer dominate the world economy and suggested that America was losing its clout. He also took issue with a central piece of the Obama administration's proposal regarding the country's *financial regulatory system*.

"The greenback's fortunes will depend heavily on U.S. choices," Mr. Zoellick said. "Will the United States resolve its debt problems without a resort to inflation? Can America establish long-term discipline over spending and its budget deficit?"

Mr. Zoellick criticized *President Obama*'s plan to put the *Federal Reserve* in charge of reducing "systemic risk" and to regulate institutions considered too big to fail. Saying that Congress had become uneasy about the Fed's exercise of emergency powers to bail out financial institutions and prop up credit markets, Mr. Zoellick argued that the *Treasury* rather than the Fed should get more power because the Treasury was more accountable to Congress.

"In the United States, it will be difficult to vest the independent and powerful technocrats at the Federal Reserve with more authority," Mr. Zoellick said, adding that "the Treasury is an executive department, and therefore Congress and the public can more directly oversee how it uses any added authority."

Downloaded from
http://www.nytimes.com/2009/09/29/business/economy/29dollar.html?_r=1&adxnnl=1&adxnnlx=1254224038-tT9/lCxJVOeM2ri6mTDI8A&pagewanted=print on September 29, 2009.

Recession results in steep fall in emissions
By Fiona Harvey, Environment Correspondent
Published: September 20 2009 23:30 | Last updated: September 21 2009 11:15
The ***recession*** has resulted in an unparalleled fall in greenhouse gas emissions, providing a "unique opportunity" to move the world away from high-carbon growth, an ***International Energy Agency*** study has found.

In the first big study of the impact of the recession on climate change, the IEA found that CO_2 emissions from burning fossil fuels had undergone “a significant decline” this year – further than in any year in the past 40. The fall will exceed the drop in the 1981 recession that followed the oil crisis.

Falling industrial output is largely responsible for the plunge in CO_2, but other factors have played a role, including the shelving of many plans for new ***coal-fired power stations*** owing to falling demand and lack of financing.

For the first time, government policies to cut emissions have also had a significant impact. The IEA estimates that about a quarter of the reduction is the result of regulation, an “unprecedented” proportion. Three initiatives had a particular effect: Europe’s target to cut emissions by ***20 per cent by 2020***; US car emission standards; and China’s energy efficiency policies.

Fatih Birol, chief IEA economist, said the fall was “surprising” and would make it “less difficult” to achieve the emissions reductions scientists say are needed to avoid dangerous global warming. “We have a new situation, with the changes in energy demand and the postponement of many energy investments,” he said. “But this only has meaning if we can make use of this unique window of opportunity. [That means] a deal in Copenhagen.”

The IEA’s study of energy-related CO_2 emissions, which make up two-thirds of greenhouse gases, is an excerpt from its annual World Energy Outlook, to be published in November. The excerpt will be released early next month to reach policymakers in time for the final negotiating sessions before the climate-change conference in Copenhagen in December.

On Tuesday, heads of government will gather in New York for a climate-change summit held by Ban Ki-moon, United Nations secretary-general.

Mr Birol said a global agreement was needed to create clarity for companies and encourage them to cut emissions.

“We hope that an agreement in Copenhagen would give a signal for new investments to go in [an environmentally] sustainable direction,” he said. “If we miss this opportunity, it will be much more expensive and therefore harder than ever to bring the world’ s energy system on to a sustainable path.”

Mr Birol’s call for a strong agreement at Copenhagen has been echoed by an increasing number of business leaders.

A group of 181 investors with $13,000bn under management last week demanded a deal requiring stringent emissions cuts, and on Tuesday 500 companiesincluding General Electric, Coca-Cola and Procter & Gamble will make a similar call.

Chad Holliday, chief executive of DuPont, said most business leaders were expecting to come under “some form of carbon trading” and were awaiting details. “If you had some very clear goals [set at Copenhagen] businesses would extrapolate from that what they need to do as an individual company."

Downloaded from *http://www.ft.com/cms/s/0/a0f0331c-a611-11de-8c92-00144feabdc0.html?nclick_check=1* on September 29, 2009.

Daniel Amerman vs. Mish: Reflections on the Great Inflation/Deflation Debate

Last week I was in an **inflation vs. deflation debate on Financial Sense** with **Daniel Amerman**. The debate was moderated by Jim Puplava. It is a credit to Jim that he is willing to entertain both sides of an argument even though he himself is an inflationist.

Amerman took the inflation side, and of course I took the deflation side.

One of the main rules of any debate is to agree on definitions. In this case, there was no agreement.

I believe inflation is an increase in money supply and credit while Amerman considers inflation to be a purchasing power phenomenon. This lead to different opinions as to whether or not we are in deflation.

Furthermore, as with any audio discussion, there was an inability to point to charts or written material to make a case.

Let's now explore some of the issues that came up in the debate starting with Amerman's post **Puncturing Deflation Myths**

Japan & "Where's The Beef"?

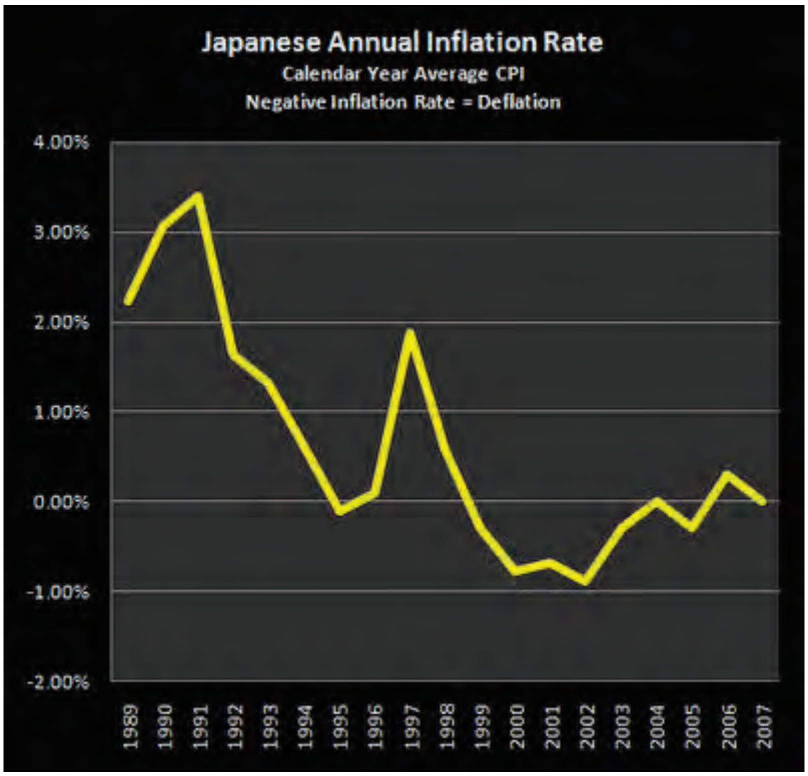
As discussed in Part One, someone who had attended one of my inflation solutions workshops asked me to debate deflation theory with him. I said "fine" but with one condition: before I would debate theory, he needed to first provide a real word example of this problem actually having happened. Could he answer this simple, real world question:

Name an example of a modern, major nation where the domestic purchasing power (as measured by CPI) of its purely symbolic & independent currency uncontrollably grew in value at a rapid rate over a sustained period, despite the best efforts of the nation to stop this rapid deflation?

The problem with this line of reasoning is agreement on the definition. One could just as easily define inflation as the number of meteors visible to the naked eye at nightime and conclude inflation is a cyclical phenomena that peaks every August in conjunction with the annual Perseids Meteor Shower.

Amerman did not "puncture deflation myths" because there is no agreement that his definition is the correct one.

Interestingly, he does post this chart that shows, even by his definition that Japan had 5 years of negative CPI inflation.



By his own chart, Japan spent a fair amount of time with a negative CPI yet Amerman dismisses the results because the CPI was not plunging "uncontrollably".

Six Fallacies

Amerman goes on debunking 6 fallacies of his own making as if they represented some sort of deflationist viewpoint.

- Fallacy One. The belief that a "dollar" is a "dollar" and that the deflationary history of gold standard currencies applies to symbolic currencies (an "apples to oranges" fallacy).
- Fallacy Two. The belief that the US Great Depression proves the case for unstoppable monetary deflation during depressions, when it in fact proves that a sufficiently determined

government can immediately break monetary deflation at will, even in the midst of depression.

- Fallacy Three. The belief that inflation and deflation take wealth from all of us equally, when what they actually do is redistribute the wealth among us.
- Fallacy Four. The widespread belief that Japan experienced powerful price deflation that the government was powerless to fight. It didn't.
- Fallacy Five. The fundamental mistake of thinking that "deflation" is "deflation", which leads to confusing price deflation with asset deflation, and means missing the real lessons and dangers of what happened in Japan, which is the persistent asset deflation that has defeated all government interventions (another "apples to oranges" fallacy).
- Fallacy Six. The dangerous belief that deflation protects you from inflation.

Those are not six fallacies. Those represent a strawman that does not exist.

In regards to Fallacy Six Amerman says "*Collapsing credit availability and the resulting collapsing money supply leading to an unstoppable and rapidly rising value for a symbolic currency (price deflation) is a popular theory – but it has never happened in the real world.*"

If that is such a popular theory then let's see who said it. I sure didn't!

These "deflationists say" kind of arguments need a quote to show they really do exist. I would like to see a "Weiss said" or a "Prechter said" or a "Mish said" so as we can see who, if anyone is holding such views.

Yes, I am aware that Weiss has recently changed his tune from deflation to inflation. After this length of time, it is more likely to be a contrary indicator as opposed to anything else.

What Does and Should the CPI Reflect?

In regards to the CPI, I pointed out during the debate that the CPI was currently way overstated because it did not include housing prices. Amerman objected because homes are assets.

Yes they are. However, motorcycles, autos, frozen pizzas, and even tomatoes are assets. Land is also an asset, and so are stocks and bonds. Of those, only land, stocks, and bonds are not consumables.

Autos and motorcycles are in the CPI, so should houses. A house not maintained (heated, painted, air conditioned, etc), will quickly deteriorate with one or more of the following: dry rot, mold, mildew, termites, etc. A house not maintained will quickly be "consumed".

One might argue that homes are a very long term asset, but so is a bag of rice or a can of tomatoes or a that might last 20 years on a shelf. Clearly, longevity is a poor measure of what belongs in the CPI.

Indeed, one of the biggest mistakes the Greenspan Fed made was ignoring rapidly rising home prices and its effect on the economy. Had the Fed properly included home prices in the CPI, it would not have left interest rates as low and as long as he did, unless of course his action was to purposely create a bubble.

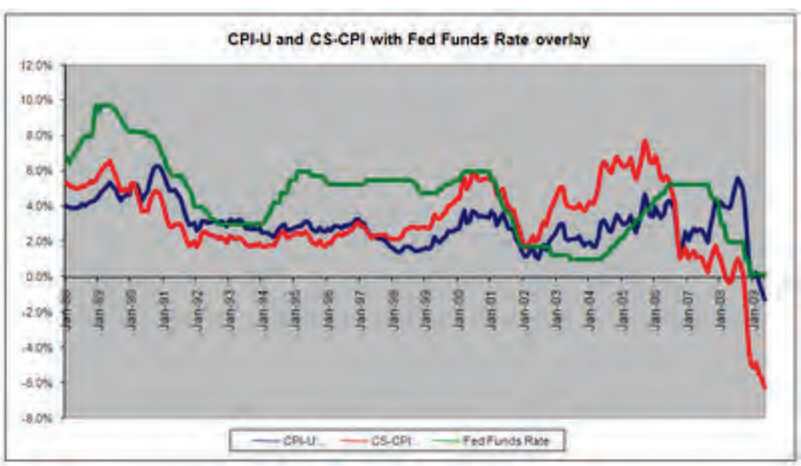
What's the Real CPI?

Inquiring minds are thus wondering **What's the Real CPI?**

OER, Owner's Equivalent Rent (rental prices) is the largest component in the CPI, weighing in at 24.433%.

Watch what happens when the Case-Shiller Housing Index is substituted for Owner's Equivalent Rent (OER) in the CPI.

Case Shiller CPI vs. CPI-U



click on chart for sharper image

The above chart is courtesy of my friend "TC".

CS-CPI fell at the fastest pace on record to measure at -6.2% year over year (YOY). Meanwhile the government's CPI-U declined at the fastest rate since the 1950s at a -1.3% YOY pace.

Since the housing market peak in June 2006 OER is up +7.6%, while the Case-Shiller index is down -32.6%, an amazing 4020 basis point divergence!

CS-CPI Year over year has now fallen for 8 consecutive months and 11 of the past 15. High Year over year comparison data points for the next several months will likely result in CPI deflation coming in at -7% to -8% in the coming months.

Closer Look At "Uncontrollable"

The above chart certainly looks like an uncontrollable plunge in the CPI. Moreover, in Japan, the Japanese central bank tried for a decade to get prices to go up and stay up. The Bank of Japan failed.

Clearly, neither the Bank of Japan, nor the Fed is in "control" of anything. Yet, as I have pointed out on many occasions, **Belief In Wizards Runs Deep**.

The most amazing thing about this persistent belief in wizards is**Bernanke's Deflation Preventing Scorecard** is a perfect zero!

Indeed Bernanke tried all 12 things he said in his famous helicopter speech on preventing deflation, yet deflation by any practical measure arrived anyway.

Is Bernanke a Wizard?

Bernanke is not a wizard and neither is Greenspan. The difference is Greenspan had the wind of consumption blowing briskly at his back. Bernanke is on the backside of **Peak Credit** with a **breeze of frugality** blowing briskly in his face.

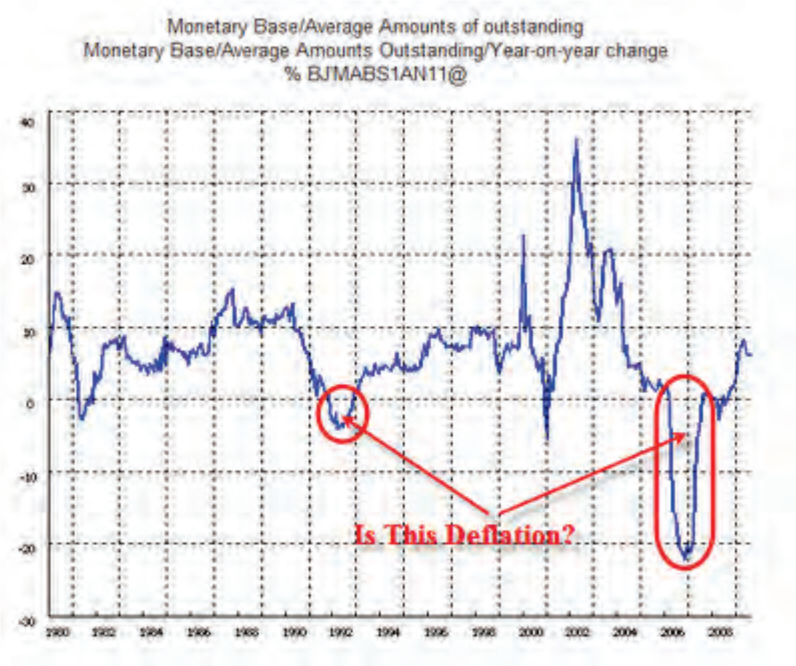
Attitudes make all the difference in the world.

Money Supply Argument

Others have attempted to make the case that Japan never went into deflation on the basis of money supply. For those in the strict monetarist camp, the only thing that matters is a growing money supply.

Some interesting things appear when using that line of reasoning. Please consider the following chart.

Rate of Change In Monetary Base



Using rate of change in base money supply as a measure of inflation and deflation would have one conclude that Japan went into deflation between 2005 and 2007 even though the stock market was soaring as shown in the following chart.

Nikkei Stock Index

Humpty Dumpty On Inflation

I believe a definition should be practical.

Assuming we can all agree that the US was in deflation in the 1930's, then let's discuss the conditions at the time as well as what happened to cause those conditions.

Please consider **Humpty Dumpty on Inflation**

Practical Definitions Of Inflation And Deflation

Most know my definitions by now but here they are again for convenience.

- Inflation is a net increase in money supply and credit.
- Deflation is a net decrease in money supply and credit.

In both cases credit must be marked to market to make any practical sense out of what is happening. Those who focus solely on money supply cannot easily explain stock markets that have fallen in half (this does not happen in disinflation), TIPs yields, a global race to ZIRP, or many other events that are happening.

Humpty Dumpty Defines Inflation

Unfortunately there are many definitions of inflation and deflation strewn about. Some play the role of **Humpty Dumpty** changing meanings at whim, switching from commodity prices, to consumer prices, to expansion of base money or M3 or whatever measure of money seems to be expanding at the fastest rate.

Some do the **inflationista two-step** to avoid admitting that we are indeed in deflation, choosing instead to call it "disinflation"

In short: "We are going to have a period of deflation that we will instead call disinflation."

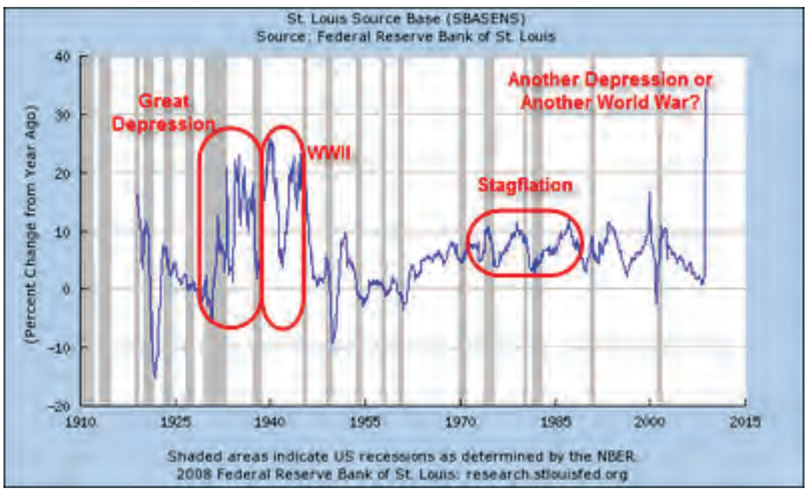
'When I use a word,' Humpty Dumpty said, in a rather scornful tone,' it means just what I choose it to mean, neither more nor less.'

'The question is,' said Alice, 'whether you can make words mean so many different things.'

'The question is,' said Humpty Dumpty, 'which is to be master - that's all.'

In Humpty Dumpty I posted the following chart:

Base Money % Change From A Year Ago



That chart would look much worse now at the right end.

The important take-away however, is the similarity between the spike in money supply in the great depression and the current spike.

As noted in the above Japanese money supply chart, Japan went through spikes as well as collapses in money supply. The second huge collapse came as Japan temporarily came OUT of deflation. (Of course Japan is back in deflation again after a brief sit on the sidelines.)

Be Mindful of the Fed

One reasonable indicator of deflation is what the Fed and Central Banks are doing to fight it. The reason the Fed is fighting deflation with an alphabet soup of lending facilities and other programs is simple: The US is in deflation.

At some point the Fed will, just as Japan did, reduce the money supply. If and when that happens it will mark the Fed's belief that deflation is no longer a threat.

Ironically, those who consider inflation as a strict expansion/contraction of money kind of thing might conclude the US is going into deflation just as it is coming out of deflation.

A Practical Look At "Flation"

Here is a table of conditions from the Humpty Dumpty article as to what one might expect to see during periods of inflation, deflation, stagflation, hyperinflation, and disinflation. Some expectations are debatable so I left those blank.

1		Inflation	Disinflation	Hyperinflation	Stagflation	Deflation	CC***
2	Falling Treasury Yields	N	Y	N	N	Y	Y
3	Falling Home Prices	N	N	N		Y	Y
4	Rising Corporate Bond Yields	Y	N	Y	Y	Y	Y
5	Rising Dollar			N	N	Y	Y
6	Falling Commodity Prices	Y	Y	N	N	Y	Y
7	Falling Consumer Prices	N	N	N	N	Y	Y
8	Rising Unemployment	N	N		Y	Y	Y
9	Negative GDP	N	N		Y	Y	Y
10	Falling Stock Market	N	N	N	Y	Y	Y
11	Falling Credit Marked To Market	N	N			Y	Y
12	Slowly Rising Base Money Supply	Y	Y	N	N	N	N
13	Spiking Base Money Supply %wise**	N	N	Y	Y	Y	Y
14	Banks Hoard Cash	N	N			Y	Y
15	Rising Savings Rate		N	N		Y	Y
16	Purchasing Power Of Gold Rises*		N			Y	Y
17	Rising Numbers Of Bank Failures	N	N		Y	Y	Y
18							
19	* Relative to other commodities						
20	** This Happened In Great Depression						
21	*** Current Conditions						

click on chart for sharper image

That chart is from December 11,2008 thus some may disagree with where a few of the marks are.

Still others might suggest that treasury yields are now rising and the bottom in treasury yields is in. Certainly at 0% the short end of the curve has bottomed, and perhaps the long end has too.

However, as a practical matter, the 10-year treasury yield at 3.37% is amazingly low, especially in light of the fact that hard-core inflationists expected yields to do be soaring to 10% based on misconceptions about the CPI and/or money supply.

Symptoms vs. Definition

Bear in mind the above table is a table of *symptoms* one would expect to see in deflation. A practical test of a good definition inflation and deflation is whether or not one would have predicted those symptoms based on their definition.

Those following money supply or the CPI certainly could not have reasonably expected a simultaneous massacre in both the stock market and treasury yields in conjunction with rising corporate bond yields.

Those who could see and understand what a collapse in credit would do, had no such problems. Amerman and other try and skirt this issue by distinguishing between monetary deflation and asset deflation.

The fact of the matter is, in a credit based economy, deflation will always manifest itself as "asset deflation". Yet, not all "asset deflations" constitute deflation. A good example of this is the stagflationary conditions of the 70's where stock prices fell but interest rates soared. Clearly, those times were not a period of deflation.

Those focusing on credit do not have to go through hoops explaining such things away, and as noted above, only those who considered credit in their analysis of the situation got both assets and interest rates correct, ahead of the pack.

Definitions that rely on one symptom, when there is a plethora of symptoms related to deflation are more than suspect, they are out and out faulty.

Mish Treasury Calls

So as to show I am not perpetually bullish on treasuries, here are a few links describing my positions and how they have changed.

Sunday, January 20, 2008: **Time To Short Treasuries?**

Kass Says **Sell Bonds Short**.

Kass: The bond market is in a bubble that is reminiscent of (and quite possibly as extreme as) other bubbles during previous eras. From my perch, the only issue is the timing of this trade.

Mish: Timing is indeed everything and perhaps there is a temporary selloff. But the primary trend is for lower yields. Perhaps much lower yields. There is no bubble in bonds. Not yet.

There is no bubble in treasuries if you look closely at the fundamental issues. Those who want to see how low treasury yields can get and stay there, need to look at Japan. Yields in the US are going to go far lower and stay lower longer than nearly everyone thinks.

Thursday, June 26, 2008: **Is The Inflation Scare Over Yet?**

Those focused on the CPI failed to see any chance of the Fed Fund's Rate at 2.00 again. On the other hand, those focused on the destruction of credit from an Austrian economic perspective got this correct. That is just one reason why it makes more sense to watch the credit markets than the CPI. The second is the CPI is so distorted it is useless.

In my opinion, it is very likely new all time lows in the 10-year treasury yield and 30-year long bond are coming up.

Tuesday, January 06, 2009: **Reflections On 2008, Themes For 2009**

It is quite *possible* the lows in treasury yields are in. Unlike 2008 where I was constantly beating the drums for lower yields, 2009 could be different. Here are the facts: 3 month and 6 month yields hit 0% and the 10 year came close to hitting 2%. Could there be lower yields still? Yes, quite easily. Is it worth playing for other than as a hedge or part of an overall investment strategy? No.

I am now bullish on treasuries again. It will not be for forever.

Comparison To April 1930

In regards to the current reflation effort,
One must make allowances for "short-term noise". There was a huge stock market rally in 1930 as well. Please consider the following charts from **Strenuously Overbought But ...?**

S&P Weekly Chart December 2005 - Present

Dow Weekly 1928 - Spring 1930

The preceding two charts are courtesy of John Hussman as noted in the article.

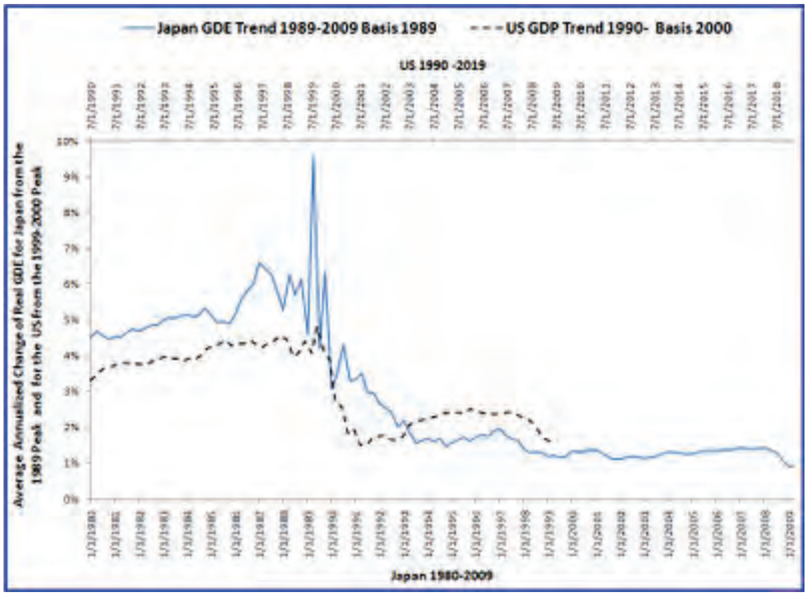
Simply put, 6 months is hardly a reasonable timeframe in which to declare "Goodbye Deflation, We Hardly Knew You"

Looking Ahead

Looking ahead, as I noted Thursday morning, it should be clear we are**Following the Footsteps of Japan**.

Japanese GDE from the 1989 peak to Present
US GDP 1999 peak to Present

Offset is 10 Years



See above link for further discussion.

Yet, as noted above, the situation is dynamic, and can change at any time. To stay ahead of the game, one needs to monitor credit conditions not just the CPI or money supply.

I cast my lot with Australian Economist Steve Keen as noted in **Global Debt Bubble, Causes and Solutions**.

Discussion of Unfunded Liabilities

One of the topics of discussion in the debate was on unfunded liabilities such as Medicare, Medicaid, and Social Security.

Jim Puplava, Daniel Amerman, and I all think this is a problem. Indeed I do not know of anyone, deflationist or inflationist who does not see it as a future problem.

The real question is the timing of the problem. I would argue, as I believe Prechter would, that the far bigger problem NOW, is the ongoing destruction of debt on the balance sheets of banks, and the consumer defaults, bankruptcies, and foreclosures that will continue unabated along with rising unemployment.

Only after the repudiation of consumer and commercial debt (especially commercial real estate debt) should one expect significant market ramifications of those unfunded liabilities.

Can Government Inflate the Debt Away?

Amerman suggested that government would inflate those unfunded liabilities away by further cheapening the US dollar so that it is only worth a nickel. Such arguments show a lack of understanding about the ongoing dynamics of the situation.

The reality is is it impossible to inflate those liabilities away. The reason is simple. As the value of the dollar sinks, the amount of liabilites rise. Unfunded liabilities are a current "estimate" as to what future costs will be, not a fixed price that can magically be inflated away.

Moreover, such arguments ignore things like interest on the national debt.

Finally there is another dynamic at play: demographics. At some point, after enough boomers die, boomers will no longer be the largest demographic group. When that occurs and after we have a new Congress more concerned about their generation than the baby boomers, we could see huge shift in attitudes towards defaults, as well as shifts in priorities as to what gets funded or not.

Whether that attitude shift occurs is debatable, but what is not debatable is the situation is not only dynamic, but dynamic on multiple fronts.

Do the Symptoms Match the Definition of the Disease?

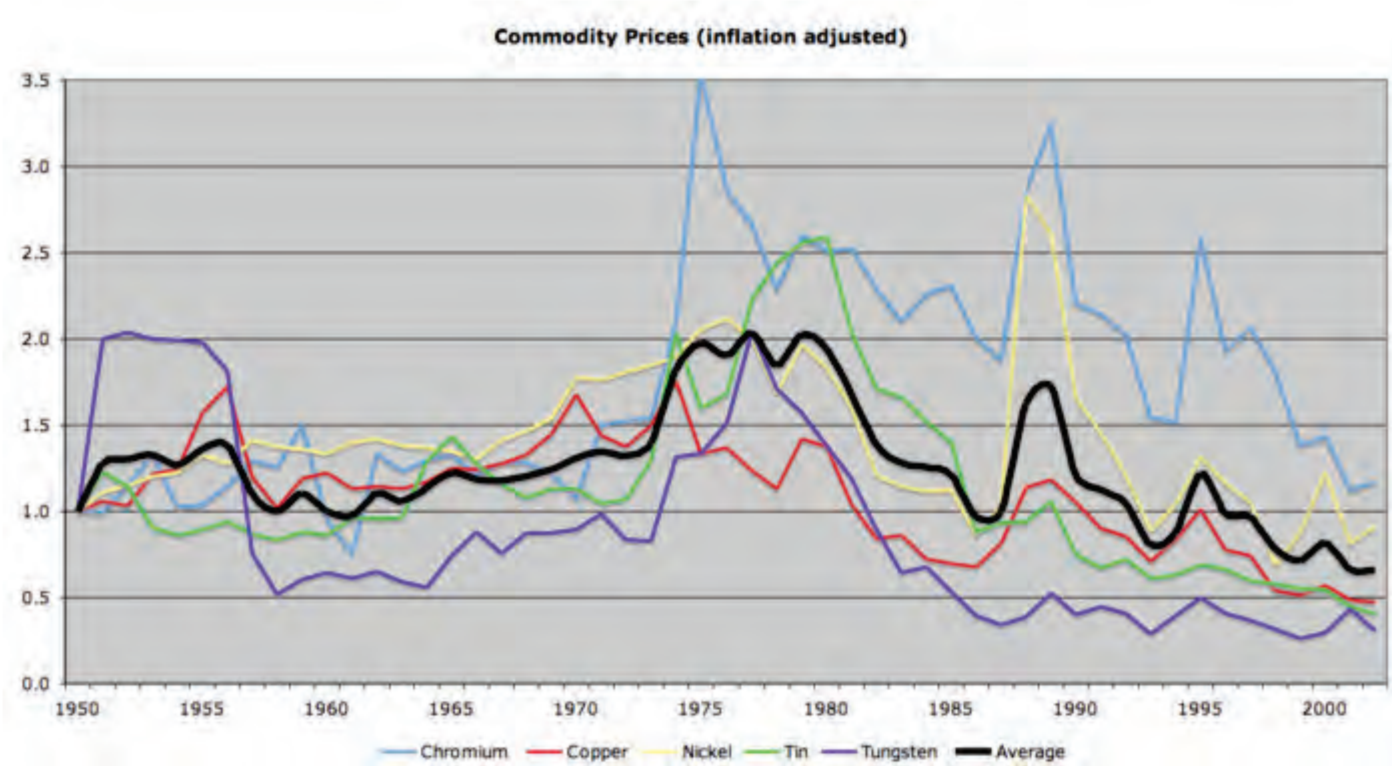
When it comes to inflation and deflation, if the symptoms fit the disease and the definition predicts the symptoms in advance, the definition is reasonable. If not, then something is wrong.

I am sticking with my definition as noted in **Fiat World Mathematical Model**.

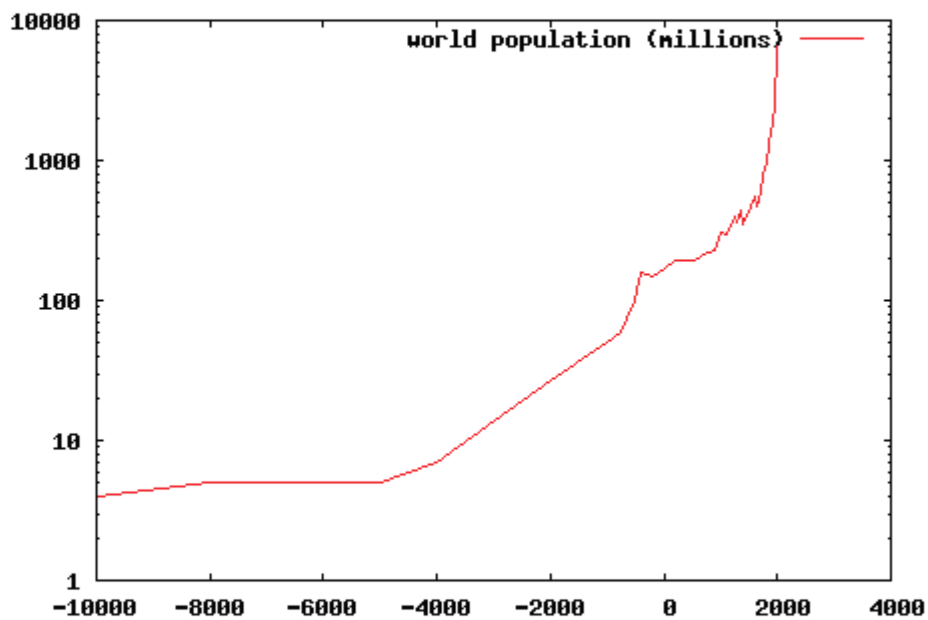
Amerman's definition falls flat, he did not debunk deflation myths anymore than a definition basted on meteors would. Moreover, most economists would agree that Japan went through a period of deflation. Finally, based on an analysis of conditions one would expect to see in deflation, the US is in a period of deflation now.

There is no other reasonable conclusion, unless one is Humpty Dumpty. The debate now is not whether we are in deflation or not, but rather how long it lasts and why.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com



Downloaded from *http://en.wikipedia.org/wiki/Simon-Ehrlich_wager* on September 29, 2009.



Downloaded from *http://commons.wikimedia.org/wiki/File:World_population_curve_-_log_y_scale.png* on September 29, 2009.

Peak oil? Global warming? No, it's 'Boomsday!'
Five reasons 'population explosion' is world's biggest economic problem

Jan. 26, 2009, 6:55 p.m. EST
By *Paul B. Farrell*, MarketWatch
ARROYO GRANDE, Calif. (MarketWatch) -- Six years ago, Peter Orszag, President Obama's new budget director, co-authored a Brookings Institution study that concluded: "Balancing the budget would require a 41% cut in spending on Social Security and Medicare, a 47% cut in discretionary spending, or a 17% cut in all non-interest spending." It's getting worse: Today entitlements eat up 40% of the federal budget and are growing.

No doubt Orszag's earlier thinking had a lot to do with why Obama picked him. But it's also a signal of what we can expect when a Social Security reform bill is sent to Congress during Obama's "first 100 days." And that will trigger a brutal battle. Why? Because AARP's 35 million members will fight all benefits reductions while young voters who put Obama in office will fight any new Social Security taxes.

Bruising battle? It won't matter. In the long term, reforming entitlements will be like rearranging deck chairs on the Titanic. Remember, Obama's adding a $1 trillion stimulus package on top of what Nobel economist Joseph Stiglitz calls a "$10 trillion hangover" of debt left by former President Bush and the economic meltdown. And all that's on top of the massive $60 trillion to $75 trillion of unfunded Social Security and Medicare liabilities.

To get perspective, let's shift our thinking into a parallel universe: Into Chris Buckley's satirical novel "Boomsday," which goes way beyond acceptable government policies. He offers a bizarre solution to reforming Social Security, a solution that forces all of us to focus, and not just on the out-of-control economics of retirement entitlements. He forces us to focus on the one core problem overshadowing all other global economic issues: Population growth.

Too many boomers and babies in this equation

Yes, population is the core problem that, unless confronted and dealt with, will render all solutions to all other problems irrelevant. Population is the one variable in an economic equation that impacts, aggravates, irritates and accelerates all other problems. Imagine you're on a call with the Oval Office:

"Listen to me," the frustrated U.S. president says on the phone in "Boomsday:" "I got a collapsing economy. I'm fighting four wars -- and looks like another is on the way." Agitated. "I got melting ice caps on both poles. Florida just lost another two feet of waterfront. Hundred square miles of Mississippi just went under." Faster. "I got a drought in the West the Interior Department says is going to make Colorado and Wyoming into another dust bowl." Breathless. "Pakistan and India are going at each other like a couple of wet cats. The CIA's telling me Israel's preparing to launch nuclear weapons." He's shaking. "I don't have time to take on a onelegged senator who says the solution to Social Security is for us to kill ourselves at age 70. The way I'm feeling now, I may shoot myself. And I may not wait until I'm 70."

Yes, you heard right. He's reacting to a proposal made by Cassandra Devine, a character in "Boomsday." She's a young, hot PR hustler running a "must read" blog. She resents the fact that her generation is getting stuck with the tax bill to pay Social Security benefits for retiring boomers. At first, her proposal was just a wake-up call, a shocker to get attention, to get Washington to deal with a hot-button issue politicians refuse to face. Her plan: Reduce population by encouraging suicides for aging boomers.

Bogus math and economic equations

OK, so suicide's a bizarre, unacceptable solution. But "Boomsday" does put the problem in sharp focus: No, it's not "peak oil." Not global warming. It's the population explosion: Too many people, old and young, boomers and babies too. More and more people filling up our little planet.

And while she proposes eliminating boomers, throughout history other writers, warriors and governments have dealt with the other end, limiting births -- from family planning, infanticide, even genocide. Yet few expect change at either end of this spectrum. Indeed, a United Nation's study estimates the world population will continue exploding, from 6.6 billion to 9.3 billion by 2050!

And not only will there be about 50% more people on the planet before today's kids reach the age of the youngest boomers today, but every year they'll also be demanding more opportunities, more benefits and more resources for their personal economic growth as well as for the expansion of their national economies. Warning: by 2050 America's 400 million will be vastly outnumbered by 8.9 billion others across the planet, all competing with America.

In short, within four decades human demands will easily double. That makes population growth the key variable in every economic equation ... impacting every other major issue facing world economies ... from peak oil to global warming ... from foreign policy to nuclear threats ... from religion to science ... everything. Population is the No. 1 variable in the economic equation.

And here's how an exploding population will remain the key variable driving all other major economic issues in the next four short decades:

1. Global wars ... over food, water and energy

Five years ago Fortune reported on "The Pentagon's Weather Nightmare." Yes, from inside our military comes a warning of "the mother of all national security issues." As "the planet's carrying capacity shrinks, an ancient pattern reemerges: the eruption of desperate all-out wars over food, water, and energy supplies." But ask yourself: What if nations prioritized population control policies to minimize growth and reduce demand?

2. 'Global warming' ... and nuclear threats

Will it work? In the latest Foreign Policy magazine, environmental economist Bill McKibben, author of "The End of Nature," warns: "It might already be too late ... to save the planet from a climate catastrophe." The International Energy Agency's answer is more supply to feed exploding demand: The world must spend "$45 trillion to build 1,400 nuclear power plants and vastly expand wind power" in order to "halve greenhouse gas emissions by 2050." Their supply-side obsession assumes three billion more people. But what if we focused on cutting demand by stabilizing world population at 6 billion?

3. 'Peak oil' ... versus 'peak population'

Experts warn that "The Age of Oil" is over. Soon the marginal cost of extracting a barrel will equal the sale price. We are on the downside of the bell curve. Special interests like Exxon-Mobil and the Saudis disagree.

But check sites like LifeAftertheOilCrash.com: "Civilization as we know it is coming to an end soon. This is not the wacky proclamation of a doomsday cult, apocalypse bible prophecy sect, or conspiracy theory society. Rather, it is the scientific conclusion of the best paid, most widely respected geologists, physicists, bankers and investors in the world. These are rational, professional, conservative individuals who are absolutely terrified by a phenomenon known as global 'peak oil.'" Warning: We're near the tipping point: Stabilize population or self-destruct.

4. Alternative energies, 'political will' and lobbyists

Wall Street, Washington and Corporate America hustle the myth that we must become "energy independent." History suggests narrow special-interest lobbyists will dull the "political will to act" till we pass the point of no return. Our population will grow from 300 million to 400 million by 2050, but the rest of the world will add another 3 billion, with all demanding more economic resources to meet burgeoning demands for energy, food and water. If the world's population isn't addressed, we'll be outnumbered and outgunned.

5. The mythological math of 'economic growth'

Economic equations stumble on bogus data. Last spring political historian Kevin Phillips wrote a brilliant Harper's article "Numbers Racket" warning us that "the economy is worse than we know." Politicians use "deceptive statistics" to sell "Americans that the U.S. economy is stronger, fairer, more productive, more dominant, and richer with opportunity than it really is. The corruption has tainted the very measures that most shape public perception of the economy."

Making matters worse, economists are part of this conspiracy, tacitly endorsing government propaganda about progress.

Evolutionary geologist Jared Diamond put all this in perspective in his Pulitzer Prize-winning "Collapse: How Societies Choose to Fail or Succeed:" "One of the disturbing facts of history is that so many civilizations collapse. Few people, however, least of all our politicians, realize that a primary cause of the collapse of those societies has been the destruction of the natural resources on which they depend. Fewer still appreciate that many of those civilizations share a sharp curve of decline. Indeed, a society's demise may begin only a decade or two after it reaches its peak population, wealth and power."

What's the one common reason societies, cultures, nations have collapsed across the world and throughout history? Leaders "focused only on issues likely to blow up in the next 90 days," lacking the will "to make bold, courageous, anticipatory decisions." Their short-term thinking, unfortunately, sets the stage for a rapid "sharp curve of decline."

Downloaded from *http://www.marketwatch.com/story/story/print?guid=66A7D394-5E73-4D74-8C22-4E1BC7BFB98B* on September 29, 2009.

Global Debt Bubble, Causes and Solutions

Monday, August 24, 2009

Australian economist Steve Keen is one of the very few who have called this economic crisis correctly. What distinguishes Keen is that his economic forecasts are based on levels of debt and changes in levels of debt as opposed to money supply, output capacity and other things that led most economists astray.

"If you have a sane economy, and by sane economy I mean one which is not addicted to debt, not a Ponzi economy, then the change in debt each year should contribute a minor amount to demand. Therefore, if you tried to correlate debt to the level of unemployment you would not find much of a correlation. Unfortunately that is not the economy we live in."

"The red line shows the percent contribution that debt contributes to demand and the blue line which is inverted is the unemployment rate."

"There should be no correlation if the economy is operating sensibly. Correlation is now at the level of 83%. Because we have a debt driven economy, the change in debt levels each year is the major determinant in the change in economic performance."

"Neoclassical economic theory is dangerous. Neoclassical economists completely missed this crisis. My favorite statement comes from the OECD in its June 2007 report"

" A recent survey trying to find economists who predicted this found 12. And there are 10,000-15,000 economists in the US alone which is why I don't particularly accept their assurances that everything is OK from now on."

"Now why are economists so ignorant? Two major reasons. First of all the type of modeling they do is static where you ignore time, or if you have dynamics you assume they are converging to some nice stable situation in the future. And they ignore almost completely the role of credit and debt."

"I probably win the Dr. Doom award around the planet these days now that Nouriel Roubini is expecting the recession will end in about 6 months time. I think it's got a lot longer to go than that."

"What we are going through is a deleveraging crisis and we haven't experienced one of those since 1930. Last time it took 10 years and a world war to get rid of it, and this time we are staring up with 1.7 times the level of debt in America, not even mentioning the derivatives catastrophe that is also there."

"And deleveraging which is the attempt by the private sector to reduce its debt level can overwhelm the government's stimulus. The whole problem was caused by irresponsible lending and the only way out of this ultimately is to eliminate that debt. The debt has to be written off"

Powerpoint Presentation

The above text is a partial transcript from his presentation and the slides are two of many slides from the accompanying Powerpoint presentation. You can download the presentation on ***Steve Keen's Debtwatch Blog***. You will need to listen to the video to understand some of the slides.

Australian readers will want to pay particular attention as Australia is certainly not out of the woods.

Keen's Proposed Solutions

Steve Keen has some interesting proposals for solutions. He spoke of nationalizing banks which I have sided against. However, Keen also wanted to wipe out the shareholders and repudiate the bondholders by turning the assets over to the bondholders in a bankruptcy process. That is something I certainly do agree with. The problem here is probably the word "nationalization"

One thing is certain, US taxpayers got the worst of all worlds by nationalizing Fannie Mae and Freddie Mac, and taking over the liabilities (at taxpayer expense) while making the bondholders whole. To top off the madness, Fannie and Freddie increased lending limits, putting taxpayers at further risk. This is exactly the wrong "nationalization" approach and I am sure Keen would agree.

Keen has an interesting idea that mortgages on houses ought to be based on what rent they could fetch. Clearly the credit bubble never would have escalated to the point it did if lenders had the common sense to lend based on how much rent a house could fetch.

As it was, debt upon debt upon debt piled up until we had the ***Collapse Of The "Ownership Society"***.

Supposedly no one saw this coming. A chart in the preceding link proves otherwise.

Fed and Fractional Reserve Lending at Heart of the Issue

In regards to Keen's solutions, I believe the free market should make these decisions, not government bureaucrats. And in that regard, Keen never touched on what I think are the two root causes of this mess:

1) Micro-mismanagement of interest rates by central bankers in general and the Fed in particular.
2) Fractional reserve lending gone mad.

Free Market Forces Should Decide

It was not lack of regulation that got us into this mess, but rather regulation, going back to 1913 and the creation of the Fed. Making matters worse, Congress authorized Fannie Mae and Freddie Mac and hundreds of "affordable housing" programs all designed to pressure people into buying houses.

Let's not forget the misguided regulation that created FDIC.

Inquiring mind will want to consider ***As of Friday August 14, 2009, FDIC is Bankrupt*** and followup ***Emails from a Bank Owner regarding FDIC and Under-Capitalized Banks***.

If we eliminate FDIC, Fannie Mae, Freddie Mac, and all the housing subsidies authorized by Congress and the states, then the free market may very well decide that Keen's model of pricing houses is the correct one.

As it sits, there are too many factors other than rent that affect home prices, such as federal income tax deductions, affordable housing programs, proposition 13 in California, Fannie and Freddie, etc . Attempting to control those forces with more regulation is the wrong way to go. However, there is no reason why banks could not and should not (on their own accord) start making lending decisions based on rental values.

When it comes to the writeoff of debt and the need to prevent another debt bubble, I certainly side with Keen vs. Krugman, Mankiw, and even Roubini who all prescribe variations of "Neoclassical Nonsense" hoping to spur more bank lending and consumer borrowing by throwing money at the problem.

My own theory on credit and debt is contained in ***Fiat World Mathematical Model***. Thanks go to Steve Keen for helping me finalize that model.

I have some emails from Steve Keen regarding my model, Keynesian clowns, and other things. I will share some of those emails later this week.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com

Collapse Of The "Ownership Society"

Bush's "ownership society" has collapsed under the dead weight of debt. There is too much debt and too little income to support it. Please consider**President shifts focus to renting, not owning**.

The Obama administration, in a major shift on housing policy, is abandoning George W. Bush's vision of creating an "ownership society'' and instead plans to pump $4.25 billion of economic stimulus money into creating tens of thousands of federally subsidized rental units in American cities.

The idea is to pay for the construction of low-rise rental apartment buildings and town houses, as well as the purchase of foreclosed homes that can be refurbished and rented to low- and moderate-income families at affordable rates.

Analysts say the approach takes a wrecking ball to Bush's heavy emphasis on encouraging homeownership as a way to create national wealth and provide upward mobility for low- and working-class families, especially minorities. Housing and Urban Development Secretary Shaun Donovan's recalibration of federal housing policy, they said, shows that the Obama White House has acknowledged that not everyone can or should own a home.

In addition to an ideological shift, the move is a practical response to skyrocketing foreclosure rates, tight credit, and the economic crisis.

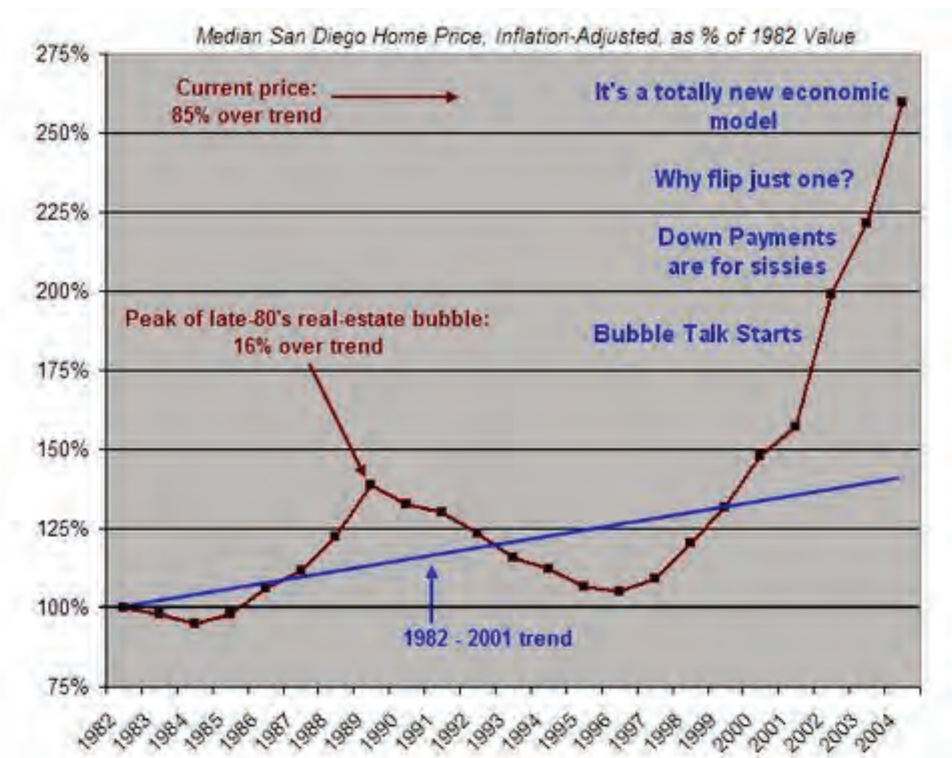
Barney Frank The Hypocrite

"I've always said the American dream should be a home - not homeownership," said Representative Barney Frank, chairman of the House Financial Services Committee and one of the earliest critics of the Bush administration's push to put mortgages in the hands of low- and moderate-income people.

What a distortion of reality. Barney Frank was in the pocket of Fannie Mae and Freddie make and their biggest supporter for years. Now he plays on semantics in an unbelievable lie. He would have been better off keeping his mouth shut, but political hacks seldom if ever can.

It's Better To Rent

The "**Rentership Society**" as Calculated Risk dubs it, reminds me of a chart I put together way back in Spring of 2005. Note the lower right hand corner of the top chart.



San Diego Home Prices (with thanks to piggington)

The above charts are from **It's a Totally New Paradigm** written March 26, 2005. Here are some excerpts from that post.

- Ron Shuffield, president of Esslinger-Wooten-Maxwell Realtors says that "South Florida is working off of a totally new economic model than any of us have ever experienced in the past." He predicts that a limited supply of land coupled with demand from baby boomers and foreigners will prolong the boom indefinitely.

- "I just don't think we have what it takes to prick the bubble," said Diane C. Swonk, chief economist at Mesirow Financial in Chicago, who was an optimist during the 90's. "I don't think prices are going to fall, and I don't think they're even going to be flat."

- Gregory J. Heym, the chief economist at Brown Harris Stevens, is not sold on the inevitability of a downturn. He bases his confidence in the market on things like continuing low mortgage rates, high Wall Street bonuses and the tax benefits of home ownership. "**It is a new paradigm**" he said.

Flash Forward: July 13, 2009

Housing Update - How Far To The Bottom?

Please consider **Housing Update - How Far To The Bottom?** for a current look at where home prices are.

Using the Japan Nationwide Land Prices model as my guide, here is how I have called things in real time.

click on chart for sharper image

My previous update was was on December 1 ,2008 in a post with the same name as this one **Housing Update - How Far To The Bottom?**

I just added the Summer 2009 arrow. Housing prices are now one notch closer to their final destination. The US Timeline scale is compressed. At the current pace, housing will take about 7 years total to bottom vs. 14 years in Japan.

The formation of the "Rentership Society" shows just how much things have changed. However the idea is not pervasive yet. Sentiment still has a ways to go to reach the bottom. However, I may soon need to move the arrow another notch.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com

Downloaded from *http://globaleconomicanalysis.blogspot.com/2009/08/collapse-of-ownership-society.html* on September 29, 2009.

Manhattan Commercial Real Estate Office Sales Plunge 91%

In Manhattan, commercial real estate **office sales reach standstill**.

Only three Manhattan office buildings worth more than $30 million were sold in the first half of year, as buyer and sellers failed to agree on pricing and credit stayed tight, according to a report by real estate services company CB Richard Ellis Group Inc(CBG).

"Buyers are seeking distressed pricing," said the report released on Tuesday. "Owners do not want to sell at distressed pricing, and lenders have largely withdrawn from the market."

"When the CMBS market shut down, that really shut off the financing mechanism that allowed a lot of these large transactions to get done," Enoch Lawrence, senior vice president, CBRE Capital Markets, said in a statement.

The three sales compare with an average 32 seen in the first half of the past five years, the report said. Sales of office buildings valued at more than $30 million, fell to a total of $767.5 million in the first half of the year, 91 percent off the five-year average of $8.2 billion.

Fed Extends TALF Program for Commercial Real Estate

Given the preceding story, one should not be too surprised by this headline: **Fed Extends TALF Program for Commercial Real Estate**.

The Federal Reserve extended by three to six months an emergency program aimed at restarting credit markets, a move that may cushion the commercial real- estate industry from rising defaults and falling prices.

The Term Asset-Backed Securities Loan Facility, with a capacity of as much as $1 trillion, will expire June 30 for newly issued commercial mortgage-backed securities, instead of Dec. 31, the Fed and U.S. Treasury said today in a statement in Washington. For other asset-backed securities and CMBS sold before Jan. 1, the plan was extended three months to March 31.

Policy makers also left the door open to prolonging the program beyond the new expiration dates, saying they “will consider in the future whether unusual and exigent circumstances warrant a further extension.”

Separately, the Fed is buying as much as $1.25 trillion of residential MBS this year to lower interest rates in housing.

Buyer of Only Resort to the Rescue

The Fed along with government owned Fannie Mae and Freddie Mac, and the FHA (Ginnie Mae) are the buyers of only resort for residential mortgages.

Now the Fed is looking to pour a $trillion into commercial real estate.

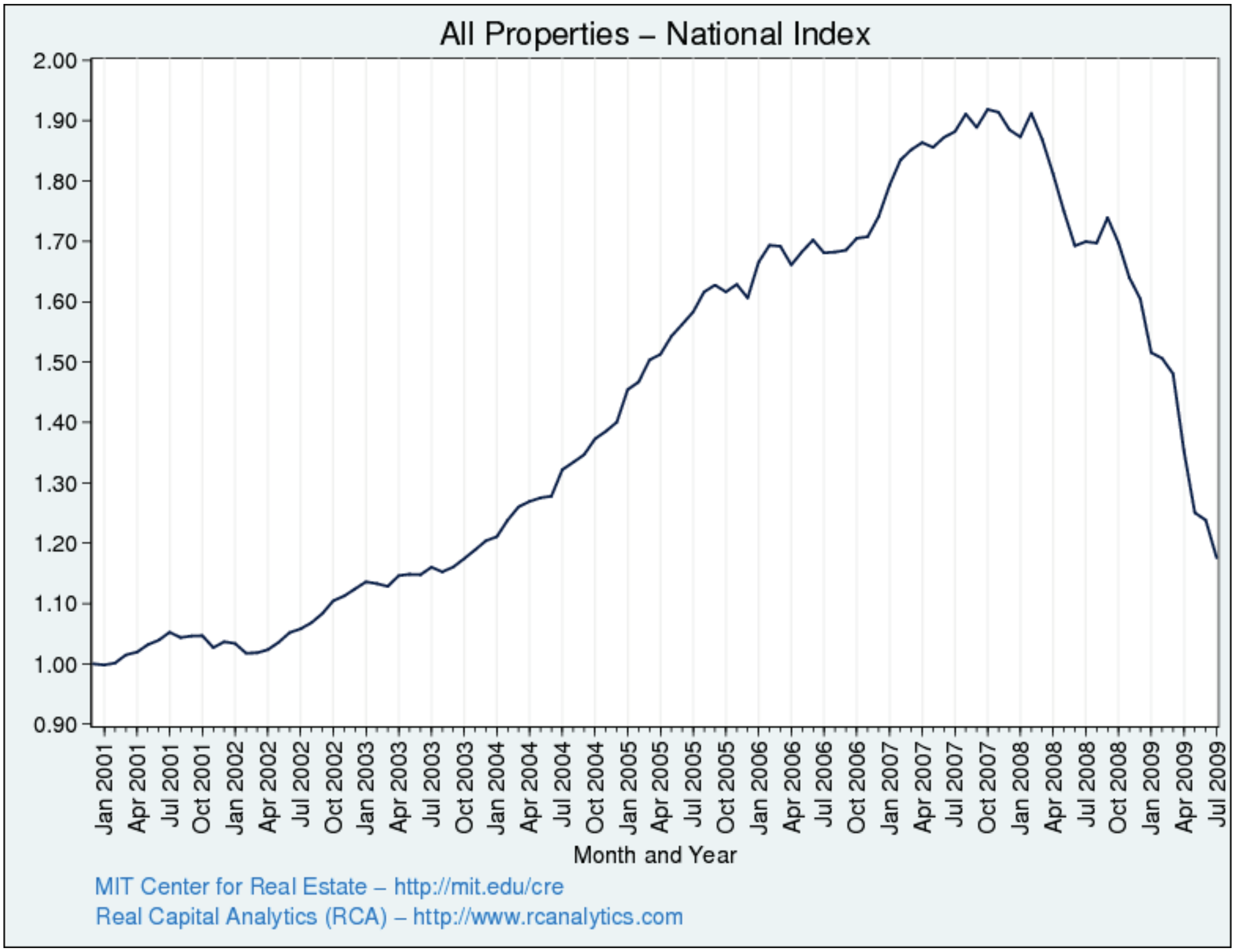
Also note that one in nine are on food stamps, and **Benefit Spending Hits $2 Trillion, Highest Percent Since 1929**.

Those numbers are from June. They are undoubtedly worse now.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com

Downloaded from *http://globaleconomicanalysis.blogspot.com/2009/08/manhattan-commercial-real-estate-office.html* on September 29, 2009.

The Moodys/REAL commercial property index (CPPI) is a periodic same-property round-trip investment price change index of the U.S. commercial investment property market based on data from MIT Center for Real Estate industry partner *Real Capital Analytics, Inc* (RCA).



September 24 , 2009 update: The latest results of the Moodys/REAL CPPI show a return of negative 5.10% in July for the all properties national index.

Downloaded from *http://web.mit.edu/cre/research/credl/rca.html* on September 29, 2009.

The actions taken since by the federal government, U.S. Treasury and the Federal Reserve, in response to the still-deepening recession and ongoing systemic solvency woes, just exacerbated the long-range problems described in the report. The official actions likely have advanced the timing of the hyperinflation to the much nearer future, perhaps within the next year or two. Since September 2008, the Federal Reserve has been attempting to debase the U.S. dollar at an extraordinary pace, and such now is recognized widely among the major U.S. trading partners.
John Williams
www.shadowstats.com
June 2, 2009

Downloaded from *http://www.shadowstats.com/article/hyperinflation* on September 29, 2009.

In economics, **hyperinflation** is inflation that is very high or "out of control", a condition in which prices increase rapidly as a currency loses its value. Definitions used by the media vary from a cumulative inflation rate over three years approaching 100% to "inflation exceeding 50% a month." In informal usage the term is often applied to much lower rates. As a rule of thumb, normal inflation is reported per year, but hyperinflation is often reported for much shorter intervals, often per month.

The definition used by most economists is "an inflationary cycle without any tendency toward equilibrium." A vicious circle is created in which more and more inflation is created with each iteration of the cycle. Although there is a great deal of debate about the root causes of hyperinflation, it becomes visible when there is an unchecked increase in the money supply (or drastic debasement of coinage) usually accompanied by a widespread unwillingness to hold the money for more than the time needed to trade it for something tangible to avoid further loss. Hyperinflation is often associated with wars (or their aftermath), economic depressions, and political or social upheavals.

Downloaded from *http://en.wikipedia.org/wiki/Hyperinflation* on September 29, 2009.

What Effect Will Hyperinflation Have?

September 22, 2008

Hyperinflation is a devastating phenomenon. It wipes out the middle class by destroying the value of cash, savings, bonds and other paper instruments. But, how does it affect stock markets? With the Federal government just having added $5.2 trillion in Fannie/Freddie liabilities of which about $600 billion will likely default, the Federal Reserve having now polluted its balance sheet by some $700 billion worth of toxic mortgage bonds with a 41.6% default rate ($291 billion in likely defaults), an $85 billion bailout for AIG, and, now, the Administration asking for some $700 billion more to bail out financial firms, it seems clear that the winds of hyperinflation are upon us. What will be the comparative effect of hyperinflation upon index funds, like DIA, QQQ, and SPY, versus bonds and cash?

Hyperinflation is not a particularly uncommon episode in human history. It has occurred in the following countries in the following countries, in the last 150 years. Weimar Republic of Germany 1920 – 23 (1/466 billionth of starting value), Zimbabwe 2003 - Now (6 quadrillionth of the starting value and continuing to fall), Former Soviet Union 1993 – 2002 (1/14th of starting value), Argentina 1975 – 1983 (1/1,000th of starting value), Austria 1921 – 23 (about ¼ of starting value), Bolivia 1984 - 86 (1/1,000 of starting value); Bosnia-Herzegovina 1992 – 93 (1/100,000th of starting value), Brazil 1960 – 94 (1 trillionth of starting value), Chile 1971 – 73 (1/3rd of starting value), China 1947 – 55 (1/10,000th of starting value), Greece 1943 – 53 (1/50 trillionth of starting value), Hungary 1945 – 46 (100 quintillionth of the starting value), Hungary 1922 – 23 (1/4 of starting value), Israel 1976 – 86 (1/16th of starting value), Japan 1934 – 51 (1/362nd of starting value), Poland 1990 – 94 (1/10,000th of starting value), U.S.A. (Confederate

States of America) 1861 – 65 (1/90th of starting value, and then, by the end of the Civil War, the Confederate Dollar depreciated to zero). It also happened in the ancient Roman Empire, when the silver and gold coinage of that day was progressively debased with base metals, in order to fund wars, giveaways to the Plebeians, and various other adventures. There are many additional examples that I have not bothered to cover here.

The most studied hyperinflation episode was the early 1920s, in the Weimar Republic of Germany. At the end of the First World War, the mark to dollar ratio was trading at 9:1. By July 1921 the ratio had risen to 77:1, and prices more than doubled again by January 1922, as the ratio of marks to the dollar climbed to 192:1. By the time that the Weimar government introduced the Rentenmark in November 1923, which replaced the deflated mark, the exchange rate had risen to 4.2 trillion marks to the dollar.

Germany's economic situation in the early 1920s, except for being a defeated combatant in World War I, is frighteningly similar to our own economic situation, today. We can trace the road to hyperinflation, step by step, and compare Germany's path to the path that is now being travelled by the U.S. Germany abandoned the gold standard in 1914. America abandoned the gold standard, 60 years later, in 1974. Back in 1914, the German government did not expect World War I to last very long, and the war wasn't properly budgeted, and, instead, it was financed by deficit spending. Similarly, in 2003, the Iraq War was not expected to last very long, and was financed by deficit spending. However, in comparison to the size of the German economy in 1914 and the U.S. economy in 2003, the Iraq War is a somewhat cheaper war.

After WWI, Germany suffered a severe current account deficit, just like the current account deficit we now have in the USA. About 1/3rd of their deficit was generated by the need to pay gold to European allied governments as war "reparations". But, the rest was due to economic mismanagement, and 2/3rd of the German current account deficit was composed of non-war related spending. Back then, other than for war reparations, America was Germany's biggest creditor, with American financial institutions, particularly J.P. Morgan, Jr., arranging for consortium loans to the Weimar government, its businesses and industries. News accounts, from that time, indicate that the Weimar German government, like the American government now, was far more concerned with avoiding recession, lowering the unemployment rate, and stimulating business activity than it was about inflation.

German economists in the 1920s thought, just as American economists think now, that a cheaper currency helps stimulate export activity and industrial production. Germany needed exports to buy raw materials, just as the U.S. needs them, now, to buy oil and Asian made consumer goods. Back then, however, the United States was a net creditor nation. It played that role in relation to Germany, similar to the role played by Asian nations, including China and Japan, toward the USA, except that, instead of exporting consumer goods, the 1920s USA exported mostly raw materials to Germany. United States financial firms, in the early 1920s had great faith in Germany, and were buying German government bonds, and supplying loans to facilitate purchase of American commodities. These loans offset the German trade imbalance, just as Chinese Treasury bill and bond buying now offsets the U.S. current account deficit.

When financiers like JP Morgan, Jr., however, finally decided that Germany was no longer a good credit risk, they cut off funds. After that, everything fell apart very quickly. By 1923, you needed a trillion marks to buy one dollar. The German financial class managed, to some extent, to avoid some of the losses, by purchasing large quantities of gold and other hard assets. The German middle class, however, lost everything. This led to a deep resentment of Jews, who dominated the German financial industry, and, later, it gave birth to the Nazi movement and the murder of millions of innocent Jewish people.

German Wholesale Price Index

July 1914	1.0
Jan 1919	2.6
July 1919	3.4
Jan 1920	12.6
Jan 1921	14.4
July 1921	14.3
Jan 1922	36.7
July 1922	100.6
Jan 1923	2,785.0
July 1923	194,000.0
Nov 1923	726,000,000,000.0

Source: http://www.usagold.com/GermanNightmare.html

All factories, houses and buildings were still standing, before, during and after 1920s German hyperinflation, just as they will be in 2011 America. Germany in the roaring 20's was still a potentially rich nation, just as America will be in 2011. But, the stored work product of a generation, represented by the symbols of stored wealth, in the form of cash, savings, stocks, bonds and other paper instruments, became essentially worthless, almost overnight. The same may happen here.

For America, like 1920s Germany, the hyperinflationary trigger will not come from within the nation. It will come from outside. Eventually, China, Japan, and/or some other nation, will see the endlessly increasing American deficit spending as a threat to the viability of the U.S. dollar. In response, they will reduce their purchases of treasury bills. This will bring America to her knees. Indeed, there is already talk, in China, about the danger of keeping Chinese foreign reserves predominantly in the form of U.S. dollar denominated treasury bills and bonds. The Chinese are talking about diversifying away from the U.S. dollar. This will happen, eventually, no matter what we do. It is not a matter of "if", but, rather, of when.

The joint mismanagement of the American economy by sequential administrations, both Democratic and Republican, have insured that we are now totally dependent upon the whims of the Asian governments. When it finally happens, dollar denominated paper will begin to lose value very quickly. The U.S.A., with a hollowed out economy, is no longer producing much of anything but agricultural products, some sophisticated technological products, a lot of internal services and housing. The need for imports, using a deflated dollar, will swing the country into a hyperinflationary downward spiral.

It will not happen overnight, but it will happen. The situation is so far advanced, at this point, that no matter what we do, there is probably no way around it. The new plan, from this Administration, to buy toxic mortgage instruments from the irresponsible financial firms who caused the credit crisis is not going to stop it, and may very well be the straw that breaks the "camel's back."

At minimum, the U.S. dollar will depreciate by the amount by which the Federal balance sheet is corrupted by the toxic mortgage paper. Most frightening is the prospect of giving Hank Paulson, the prior Chairman of Goldman Sachs, one of the key creators of the toxic mortgage instruments that have caused the credit crisis, unlimited discretion in doling out $700 billion in bailouts, without any possibility of judicial review. Doing that assures that the money is used in the most inefficient and nepotistic manner. It will bring us deeper into hyperinflation.

We can rationally expect that the US dollar will lose about 75% of its value, within 2-3 years. Cash in the form of government and/or corporate bonds, money in CDs and other bank accounts, will be hit the hardest. General index fund type of investments, such as DIA, SPY, QQQ, and the like will also be very bad investments. Stocks, in general, do not do well in a highly inflationary environment. However, if the Weimar experience is any guide, stocks will do much better than bonds or cash. Financial and retail stocks, however, will be the worst investments of all equities sectors. The best investments, in contrast, will be gold, silver, shares of companies whose assets consist of modern plant & equipment, productive lands, and other hard assets that will retain value.

Downloaded from *http://seekingalpha.com/article/96723-what-effect-will-hyperinflation-have* on September 29, 2009.

'First-Time Homebuyer' Credit May Cost Government up to $96,000 Per Home

According to the National Association of Realtors (NAR), about 1.8 million people have taken advantage of the first-time homebuyer credit. They claim that the credit has increased sales in the stricken industry by 350,000 homes.The National Association of Home Builders (NAHB) agrees with the 1.8 million figure but calculates that the credit has increased total home sales by only 150,000. In determining who to believe, as to the difference in numbers, historically, I’ve always found the NAHB to be a more reliable source of statistical data. Just a few years ago, in 2005, the NAR’s chief economist was declaring that the housing boom would never end. NAR has little credibility left.

Both trade organizations are associations of persons whose businesses greatly benefit from such government largess. Both support the existing credit, and want to expand it. The first-time homebuyer credit phases out for a couple making more than $150,000 or a single person making more than $75,000. But, those who "qualify" can get $8,000 in “free” money from the government, if they buy a house, so long as they have not owned a home for a minimum of 3 years. The idea is to stimulate the sale of homes, and the economy, in the midst of the biggest collapse of home prices in history.

The program is another "Bailout for Billionaires". It is designed primarily to help banks increase the value of collateralized debt obligations on their books, by artificially increasing the price of homes, using artificial demand created by government money. Secondarily, it is designed to help realtors and home builders. Let us remember that innocent first-time home buyers are ordinary people, like you and me, and they are getting up to $8,000 for buying a home, which is very nice. These folks tend to be young, so their jobs are even more at risk than most others, in this bad economy. Like the rest of us, assuming they don't lose their jobs, many will be slapped with heavily increased tax rates, in the near future, to pay for it all. So, even if those who quickly agree that free money shouldn't be given to banks, realtors and home builders (all of whom the public loves to hate), many will take serious offense at opposition to giving charity to such nice folks as first time home buyers.

Some economists, in the Ben Bernanke School of Thought, support programs like "Cash for Clunkers" "First Time Homebuyer tax credits" etc. Others think such programs are a terrible waste of money. Given that I tend to agree with those who disagree with Bernanke, I'd like to examine the thinking of the Bernanke types carefully. Why not give away free money? Doesn't it stimulate the economy? So, shouldn't we expand the program so that it covers all home buyers? But, then, aren't we all going to get screwed by this depression, in the end? After all, it is not just homebuyers who are suffering. Why not give money away to everyone? Let's give an $8,000 credit to each American who breathes!!

But, "economists", like Bernanke, tell us that the health of our economy is now closely connected with the health of foreign economies. How, then, can we act in such a selfish manner.

We certainly cannot be acting wisely by limiting this largess solely to U.S. citizens? We must to do more! Non-citizens may not pay taxes, but what does that got to do with anything? The current giveaway doesn't require tax paying experience. Let's just give away $8,000 to every single human being on the planet! No! Better, yet... let's add an additional $8,000 for each one of their cats and dogs?!

If we do all this, it'll help an lot of nice people, and put plenty of cash in everyone's pocket. According to the Bernanke theory of economic development, giving away this money means we will end up with a terrific economy. It sounds crazy for only one reason. It is crazy. The problem is that money has value ONLY when it is rare and hard to get. If printed ad infinitum and handed out so liberally, it reverts to the value of the paper on which it is printed. So, this slight exaggeration serves to illustrate the utter bankruptcy of these ideas, and the fact that we are on a course for disaster, not economic recovery.

There are only three ways money can be obtained by the government. First, under a fiat paper system, the Fed can conjure it up out of thin air. If we continue conjuring, however, the dollar becomes worthless, and we face hyperinflation and economic collapse as surely as Zimbabwe once did. So, the printing presses must stop.

The second method is borrowing. Barack Obama, like his predecessor, George W. Bush, is borrowing money like crazy. The latest estimate of the likely budget deficit this year is going to be $2 trillion. That is the biggest government deficit in the history of mankind. Eventually, you've got to pay it back. Taxpayers will need to pay for the interest, and return of principle. So, borrowing is a case of paying for today, with the money that belongs to our children and children's children.

The final alternative is to raise taxes now. That means taxpayers would pay for the giveaways, immediately. Of course, if the most staunch supporters of these programs were forced to pay for them, there would be a hue and cry of angry voices, reaching to heaven itself, and the nonsense would come to a screeching halt. For this reason, the beneficiaries must keep the issue of eventually "paying the piper" off the agenda.

America is borrowing, printing, and spending -- waiting for tomorrow to pay for it all. If the proponents of the programs play their cards right, their children and grandchild will pay, not them. But, sorry folks. By now, you must be thinking about what an unpleasant fellow I am. Reality is a medicine no one wants to take, right now. Wall Street is in the mood to party. Marginal cost/benefit analysis involves determining how much money needs to be spent to achieve each extra unit of production. Ostensibly, the public purpose of cash giveaways, like "First time homebuyer" is not simply to steal $8,000 from one taxpayer and give it to another. If such programs were presented as what they are, they would not pass Congress, and, if they did, they would be quickly invalidated by the Courts as unconstitutional seizures in violation of the 4th Amendment to the Constitution.

So, instead, all "Bailouts for Billionaires" programs are paraded around as if they are measures designed to support "economic activity, growth and recovery", not ones which aim to forcibly transfer wealth from one section of the population to another. This is as true of "First-time homebuyer credit" as it was of TARP, TALF, and every other 4 letter word that has passed through Washington in the last year. It is a simple fact, however, that more houses are not built, nor more people employed, nor commissions earned, simply because the government gives 1.8 million people $8,000 each. Extra homes must be sold, in order to achieve the alleged economic "stimulus" factor, and the only homes that count are those that are above and beyond the number that would have been sold anyway.

Even according to NAR, a maximum of 350,000 additional homes were sold because of the credit. Both organizations say that a total of 1.8 million homes have been sold where the buyers qualify for the credit. So, the calculation is 1.8 million x $8,000 for a total cost of $14.4 billion, so far, for the entire program. If the NAR is correct, we must divide by 350,000, to get to the cost of each home sold. The calculation results in a conclusion that our government has bought each extra house for $41,142.86 per home. If NAHB is correct, and they have the better record of accuracy in these things, we divide by 150,000 extra houses. That means that the government is buying each extra home for $96,000.

The $96,000 does not represent the amount of government largess given out to each new home buyer. That remains at $8,000 per person. As should be clear from the title of this article, I am not talking about the cost per person, but, rather, the cost per house. That is the important factor that must be considered when evaluating the effectiveness of any stimulus program. This is known as "marginal cost". It means the cost of stimulating extra sales in a particular industry.

Let's be clear on this. Charity to first-time home buyers was not the reason given for this program. Allegedly, its purpose is to stimulate economic activity. As a charity or welfare program for home buyers as well as the industries that sell homes or benefit from their sale, the program works well. However, no proof is required that recipients are in desperate personal need, under threat of starvation, or living in unsafe conditions. Indeed, many of the industry barons who benefit from the payments live in huge mansions, and have multiple homes, and hundreds of millions worth of assets. Accordingly, such a welfare program would be an unconstitutional seizure of property. With respect to its stated purpose, however, which is to stimulate business activity, it is a dismal failure, and costs far more than the limited benefits it brings. With deficit spending expected to come close to an unprecedented $2 trillion dollars this year, it doesn’t take a rocket scientist to realize that we cannot afford this.

In order to get a robust economy out of the current economic wreckage, we must dispense with endless crony capitalist bailouts, of which the home buyer credit is merely one example. Robust economies stimulate all industries, including real estate and banking. What Bush, Bernanke and Obama have created is NOT a robust economy, but, rather, an unsustainable façade designed to create favorable looking economic numbers, but, only at the cost of long term growth. We are heavily borrowing from the future, to an extent never before attempted in world history, in order to pay for today, and accomplishing nothing.

Paying up to $96,000 (almost half the median home price) to get the economy to produce one more home is idiocy. All of the "Bailouts for Billionaires" programs, including, but not limited to "First Time Homebuyer Tax Credit" are desperate attempts to falsify short term macroeconomic growth. Because they will solve no problems and, instead, make things worse in the long term, their only purpose is to delay the inevitable falling out, allowing connected individuals and firms to reposition their portfolios for either an inflationary depression or hyperinflation, depending on what the "powers that be" are really planning for us.

We need to be smarter than we are, and we need to stop being taken in by the people who lobby for programs like this. We also need to look past the false economic statistical numbers that such programs create in the short term. Wasteful spending programs that save zombie banks, subsidize car makers, realtors, home builders and appliance makers (the new "rebates for refrigerators" program), are all economically irrational, and harmful to the nation in the longer run.

The economy is like a dam that was originally built of concrete and steel, and which has lasted over 220 years. It developed some holes, which were badly leaking, but, instead of plugging the holes with concrete, we are plugging them with clay. Special interest groups, including big banks, car makers, and now the housing and appliance industries, have been stealing the concrete, and using it to repair their vacation homes.

All signs are that the dam is about to be swept away by a big flood. These signs are being ignored. Citizens, living in the city below, are not being evacuated. Instead of using concrete to repair the dam, policy-makers talk nonsense about so-called "green shoots", and support this nonsense with false economic numbers created by wasteful government spending programs like "Cash for Clunkers", "First Time Homebuyer Credits", and "Rebates for Refrigerators". Because policy makers refuse to do the necessary repair work properly, for fear of offending their friends who have stolen the concrete, the dam is going to break.

Downloaded from *http://seekingalpha.com/article/162375-first-time-homebuyer-credit-may-cost-government-up-to-96-000-per-home?source=article_lb_author* on September 29, 2009.

Rising U.S. Interest Rates Signal "Hyperinflationary Depression"

Jeff Nielson
June 1, 2009

One of my favorite sources for *real* statistics is John Williams' site: Shadowstats.com. For those not familiar with his work, Williams' is a highly respected U.S. economist, who has previously been invited to speak to the U.S. Congress.

Williams has dedicated his site to producing **authentic**, U.S. economic statistics. By this, I mean that Williams has discarded all of the methods of lying-with-numbers which the U.S.

government has invented over the last thirty years - and calculates *real*statistics, using the same methodology employed before this "pollution" of statistics began.

Thus, his calculations are not only extremely useful for getting a genuine picture of the current state of the U.S. economy, but unlike **all other** current, calculations *his numbers can also be directly compared to previous eras* - because the methodology in the calculations is the **same**.

It was Williams who first coined the phrase "hyperinflationary depression" a few years ago to describe what he saw as the certain future for the U.S. economy. More recently, he did an **updated essay** on this subject one year ago.

Williams has foreseen two dynamics in the U.S. economy. First, crippling levels of debt, combined with **gigantic**, excess-inventories of *numerous*, U.S. asset classes means that these assets will continue to deflate - no matter how much money the U.S. government stuffs into Wall Street vaults. Thus, an asset "depression" will continue in the U.S.

Second, insane levels of money-supply growth (i.e. more **new debt**) in the U.S. and most of the rest of the world ensures that there will be a dramatic surge in prices of all assets in relatively scarce supply, meaning primarily commodities - and especially precious metals. In countries with very weak currencies (like the U.S.), rapid rises in commodity prices combined with rapid devaluation of the currency will lead to *extremely*high inflation. With the highest debt-levels in the industrialized world, and the weakest economy, Williams expects the U.S. to bit hit hardest - with **hyperinflation**.

With this context, the recent spike in U.S. interest rates, despite all-out efforts to manipulate these rates lower by the U.S. government, is a clear sign of Williams' prophecy coming to fruition.

The first consequence of this spike was immediate: **U.S. mortagage-applications are plummeting**. Mortgage applications from two weeks ago sunk by a sickening 14% week-over-week - and **37%** since the most recent peak in activity only one month earlier. With U.S. interest rates still rising, expect the *next* report to be even worse.

This immediately torpedoes the wishful thinking by the Obama regime that "distressed", U.S. homeowners would somehow be able to "refinance" their way out of foreclosure. Looking ahead, as the next, **huge** wave of mortgage-resets approaches (see "**U.S. mortgage-crisis to get MUCH worse in 2010-11**"), millions of homeowners who can barely manage their payments today are doomed to lose their homes as these resets kick-in - in roughly six months time (and for **two years** after that).

While the U.S. propaganda-machine tried to hype a **tiny** up-tick in **U.S. existing home sales** last week, the reality is that even this "good news" is actually merely setting up the U.S. market for another crippling, down-leg (see "**U.S. housing-sector stability dependent on vultures**"). Speculators are buying over-priced, U.S. homes at foreclosure sales - duped into believing a "bottom" is near, thanks to incessant propaganda which fraudulently predicts this (again and again).

Meanwhile, the collapse in the U.S. *commercial* real estate market has just **begun**. With U.S. interest rates soaring upward, the largest block of commercial real estate "maturing debt" in history (**$178 BILLION** this year alone) now must somehow be **refinanced**. Obviously, there will not be nearly enough market "chumps", willing to throw away their money - by buying into a market just beginning to collapse.

This has two additional implications for the U.S. economy. First, it shows how ridiculous the lies are which are emanating from U.S. banksters about "improving profitablity". These fraud-factories, who are boldly predicting "repayment" of *billions* in TARP loans, will undoubtedly soon be attempting to mooch **additional trillions** to bail out their**leveraged bets**.

With grossly inadequate loan-loss reserves for U.S. banks, *every category of U.S. debt is simultaneously at record levels of delinquencies* (except for commercial real estate, which won't start breaking records until next year). And the U.S. financial crime syndicate has **leveraged** all this debt by a *minimum* of 10:1 - and a maximum (in their hidden, "off balance sheet assets") of **30:1**. Thus, even a 10% loss on any of these "assets" guarantees a **100% loss for the banksters**.

Even more insolvent than they were a year ago, these fraud-factories will **not** be willing to make concessions to "under-water" U.S. homeowners facing foreclosure. This closes off the last ray of false-hope for the U.S. housing sector.

This reality confronts the U.S. economy, just as the number of delinquent mortgages hit yet **another all-time record of over 12%**. Millions of these homeowners are hopelessly "under water" on their mortgages, and thus have *absolutely no incentive to continue making payments*.

All this doom-and-gloom does not even *begin* to take account of the horrific implications for the *broader*, U.S. economy - caused by higher interest rates. This will further impair margins for *all* U.S. businesses (especially the U.S. financial crime syndicate), and continue to fuel crippling, U.S. unemployment (see "**U.S. economy to lose 20 MILLION jobs this year**").

However, in the *rest of the world*, what we are seeing is that the tidal wave of new "liquidity" is already being transmitted through soaring commodity prices. Gold, silver, oil, grains, and even some base metals are *all* seeing rapid moves higher in their prices. With U.S. debt-instruments guaranteed to continue to deflate (see "**U.S. Bond Bubble Bursts - bye-bye equities rally**"), it is **obvious** which assets are being targeted with all this new money.

Much higher commodity prices **guarantee** much higher prices for many of the basic necessities: food, clothing, and energy costs. Thus, at the same time the collapse in U.S. asset prices are robbing Americans of more **trillions** in wealth, and record numbers of Americans are losing their jobs, households will be "squeezed" much harder through soaring prices.

This is the future which was promised by John Williams, years ago. Sadly, for Americans, "the future is now."

High Frequency Forex Manipulation Evidence
By Ted Twietmeyer
9-29-9

Several weeks ago, I heard the infamous and brilliant financial expert/stock broker Robert Chapman talk about stock market manipulation. Robert's track record is stellar for predicting what will happen to America economically - including revealing $80 oil several years before it happened. Mr. Chapman is well connected and aware of the NWO plans to take over the planet. On the radio show Robert discussed a large computer complex being constructed near Wall St. - for the sole purpose of high frequency trading. This type of ruthless trading can bring Wall St.to it's knees which just might be the purpose for doing it.

It was brought to my attention today that over the weekend of Sept. 27 and 28, 2009 something had changed in the Forex (Foreign Exchange) market. On Sept. 29 making a profit suddenly became very difficult. Normal trading techniques that worked well in past weeks no longer seemed to work for this particular trader. Many people who haven't been able to make money in the stock market anymore have moved into the Forex market.

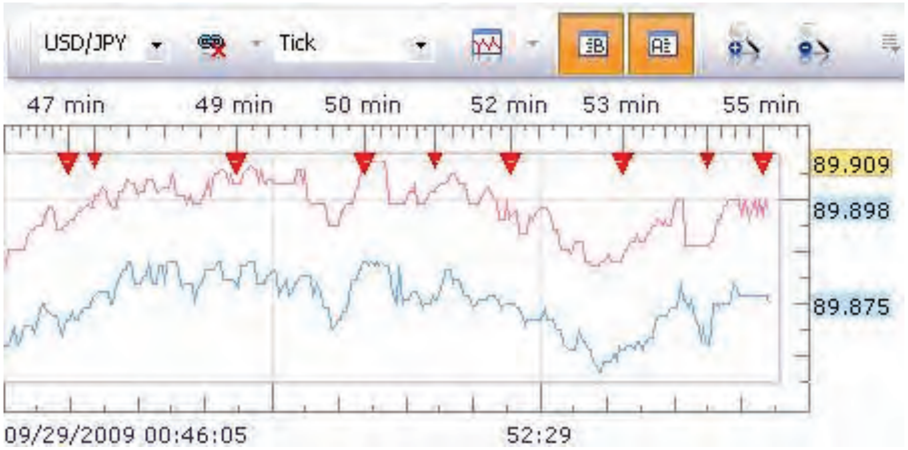
Note- Forex is highly risky, and thousands of dollars can be lost in minutes or even seconds. Do not consider or use the above statement as a recommendation to enter the Forex market!

But something has happened.

I examined the Forex charts in the early morning hours to see if a pattern was visible.

Here is what I found upon examing the data. A "tick" chart is considered the closest you can look at a currency pair which is trading live. (This is also terminology used in looking at real time trading charts for stocks.)

1. First, let's look at a normal tick chart:

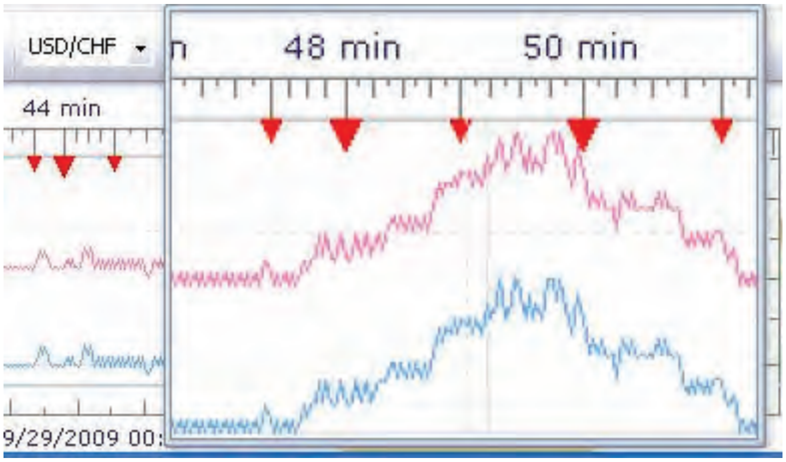


In the unaltered screen capture above, we can see the small variations of normal trading as clearly defined solid lines. This chart is for the US dollar vs. the Japanese Yen. The red line is the asking price, or the price a trader pays for the currency pair. The blue line is the bid price, or the price a trader gets when selling the currency pair.

2. Now let's look at another currency pair which clearly shows high frequency trading:

In this unaltered screen capture we see a tiny square wave super-imposed upon the normal line showing the price. Note this is the US dollar vs. the Swiss Franc.

Now let's look at the high frequency trading wave even closer:



In the screen capture above is part the same trading chart magnified. It is physically impossible for anyone to trade like this manually without the use of a specially programmed high speed computer(s) to perform the trading.

Someone would only need to manipulate one or more key currencies to manipulate the rest. All the western world's currencies are traded on Forex. So what's makes the Swiss Franc so special? At least one of the banks I know of in Switzerland certainly does not have a solvency problem - its net worth exceeds 3.5 TRILLION dollars.

Now that couldn't have anything to do with Forex manipulation, could it?

Ted Twietmeyer

Downloaded from *http://rense.com/general87/highf.htm* on September 29, 2009.

Stock Traders Find Speed Pays, in Milliseconds
By *CHARLES DUHIGG*

It is the hot new thing on Wall Street, a way for a handful of traders to master the stock market, peek at investors' orders and, critics say, even subtly manipulate share prices.

It is called high-frequency trading — and it is suddenly one of the most talked-about and mysterious forces in the markets.

Powerful computers, some housed right next to the machines that drive marketplaces like the *New York Stock Exchange*, enable high-frequency traders to transmit millions of orders at lightning speed and, their detractors contend, reap billions at everyone else's expense.

These systems are so fast they can outsmart or outrun other investors, humans and computers alike. And after growing in the shadows for years, they are generating lots of talk.

Nearly everyone on Wall Street is wondering how hedge funds and large banks like *Goldman Sachs* are making so much money so soon after the financial system nearly collapsed. High-frequency trading is one answer.

And when a former Goldman Sachs programmer was accused this month of stealing secret computer codes — software that a federal prosecutor said could "manipulate markets in unfair ways" — it only added to the mystery. Goldman acknowledges that it profits from high-frequency trading, but disputes that it has an unfair advantage.

Yet high-frequency specialists clearly have an edge over typical traders, let alone ordinary investors. The Securities and Exchange Commission says it is examining certain aspects of the strategy.

"This is where all the money is getting made," said *William H. Donaldson*, former chairman and chief executive of the New York Stock Exchange and today an adviser to a big hedge fund. "If an individual investor doesn't have the means to keep up, they're at a huge disadvantage."

For most of Wall Street's history, stock trading was fairly straightforward: buyers and sellers gathered on exchange floors and dickered until they struck a deal. Then, in 1998, the Securities and Exchange Commission authorized electronic exchanges to compete with marketplaces like the New York Stock Exchange. The intent was to open markets to anyone with a desktop computer and a fresh idea.

But as new marketplaces have emerged, PCs have been unable to compete with Wall Street's computers. Powerful algorithms — "algos," in industry parlance — execute millions of orders a second and scan dozens of public and private marketplaces simultaneously. They can spot trends before other investors can blink, changing orders and strategies within milliseconds.

High-frequency traders often confound other investors by issuing and then canceling orders almost simultaneously. Loopholes in market rules give high-speed investors an early glance at how others are trading. And their computers can essentially bully slower investors into giving up profits — and then disappear before anyone even knows they were there.

High-frequency traders also benefit from competition among the various exchanges, which pay small fees that are often collected by the biggest and most active traders — typically a quarter of a cent per share to whoever arrives first. Those small payments, spread over millions of shares, help high-speed investors profit simply by trading enormous numbers of shares, even if they buy or sell at a modest loss.

"It's become a technological arms race, and what separates winners and losers is how fast they can move," said Joseph M. Mecane of *NYSE Euronext*, which operates the New York Stock Exchange. "Markets need liquidity, and high-frequency traders provide opportunities for other investors to buy and sell."

The rise of high-frequency trading helps explain why activity on the nation's stock exchanges has exploded. Average daily volume has soared by 164 percent since 2005, according to data from NYSE. Although precise figures are elusive, stock exchanges say that a handful of high-frequency traders now account for a more than half of all trades. To understand this high-speed world, consider what happened when slow-moving traders went up against high-frequency robots earlier this month, and ended up handing spoils to lightning-fast computers.

It was July 15, and *Intel*, the computer chip giant, had reporting robust earnings the night before. Some investors, smelling opportunity, set out to buy shares in the semiconductor company *Broadcom*. (Their activities were described by an investor at a major Wall Street firm who spoke on the condition of anonymity to protect his job.) The slower traders faced a quandary: If they sought to buy a large number of shares at once, they would tip their hand and risk driving up Broadcom's price. So, as is often the case on Wall Street, they divided their orders into dozens of small batches, hoping to cover their tracks. One second after the market opened, shares of Broadcom started changing hands at $26.20.

The slower traders began issuing buy orders. But rather than being shown to all potential sellers at the same time, some of those orders were most likely routed to a collection of high-frequency traders for just 30 milliseconds — 0.03 seconds — in what are known as flash orders. While markets are supposed to ensure transparency by showing orders to everyone simultaneously, a loophole in regulations allows marketplaces like Nasdaq to show traders some orders ahead of everyone else in exchange for a fee.

In less than half a second, high-frequency traders gained a valuable insight: the hunger for Broadcom was growing. Their computers began buying up Broadcom shares and then reselling them to the slower investors at higher prices. The overall price of Broadcom began to rise.

Soon, thousands of orders began flooding the markets as high-frequency software went into high gear. Automatic programs began issuing and canceling tiny orders within milliseconds to determine how much the slower traders were willing to pay. The high-frequency computers quickly determined that some investors' upper limit was $26.40. The price shot to $26.39, and high-frequency programs began offering to sell hundreds of thousands of shares.

The result is that the slower-moving investors paid $1.4 million for about 56,000 shares, or $7,800 more than if they had been able to move as quickly as the high-frequency traders.

Multiply such trades across thousands of *stocks* a day, and the profits are substantial. High-frequency traders generated about $21 billion in profits last year, the Tabb Group, a research firm, estimates.

"You want to encourage innovation, and you want to reward companies that have invested in technology and ideas that make the markets more efficient," said Andrew M. Brooks, head of United States equity trading at *T. Rowe Price*, a *mutual fund* and investment company that often competes with and uses high-frequency techniques. "But we're moving toward a two-tiered marketplace of the high-frequency arbitrage guys, and everyone else. People want to know they have a legitimate shot at getting a fair deal. Otherwise, the markets lose their integrity."

Downloaded from
http://www.nytimes.com/2009/07/24/business/24trading.html?_r=1&pagewanted=print on
September 29, 2009.

FOREX
http://en.wikipedia.org/wiki/Foreign_exchange_market#Algorithmic_trading_in_foreign_exchange

Hurrying Into the Next Panic?
By PAUL WILMOTT - Istanbul

On vacation in Turkey, I am picked up at the airport by a minibus. It's past midnight, pitch-black, the driver is speeding around corners. Only one headlight is working. And I have my doubts about the brakes. In my head I'm planning the letter of complaint to the tour company.

And then the driver's cellphone rings, he picks it up and answers it, he has only one hand on the steering wheel. Now I'm mentally compiling the list of songs to be played at my funeral.

That's rather how I feel when people talk about the latest fashion among investment banks and hedge funds: high-frequency algorithmic trading. On top of an already dangerously influential and morally suspect financial minefield is now being added the unthinking power of the machine.

The idea is straightforward: Computers take information — primarily "real-time" share prices — and try to predict the next twitch in the stock market. Using an algorithmic formula, the computers can buy and sell stocks within fractions of seconds, with the bank or fund making a tiny profit on the blip of price change of each share.

There's nothing new in using all publicly available information to help you trade; what's novel is the quantity of data available, the lightning speed at which it is analyzed and the short time that positions are held.

You will hear people talking about "latency," which means the delay between a trading signal being given and the trade being made. Low latency — high speed — is what banks and funds are looking for. Yes, we really are talking about shaving off the milliseconds that it takes light to travel along an optical cable.

So, is trading faster than any human can react truly worrisome? The answers that come back from high-frequency proponents, also rather too quickly, are "No, we are adding liquidity to the market" or "It's perfectly safe and it speeds up price discovery." In other words, the traders say, the practice makes it easier for stocks to be bought and sold quickly across exchanges, and it more efficiently sets the value of shares.

Those responses disturb me. Whenever the reply to a complex question is a stock and unconsidered one, it makes me worry all the more. Leaving aside the question of whether or not liquidity is necessarily a great idea (perhaps not being able to get out of a trade might make people think twice before entering it), or whether there is such a thing as a price that must be discovered (just watch the price of unpopular goods fall in your local supermarket — that's plenty fast enough for me), l want to address the question of whether high-frequency algorithm trading will distort the underlying markets and perhaps the economy.

It has been said that the October 1987 stock market crash was caused in part by something called dynamic portfolio insurance, another approach based on algorithms. Dynamic portfolio insurance is a way of protecting your portfolio of shares so that if the market falls you can limit your losses to an amount you stipulate in advance. As the market falls, you sell some shares. By the time the market falls by a certain amount, you will have closed all your positions so that you can lose no more money.

It's a nice idea, and to do it properly requires some knowledge of option theory as developed by the economists Fischer Black of Goldman Sachs, Myron S. Scholes of Stanford and Robert C. Merton of Harvard. You type into some formula the current stock price, and this tells you how many shares to hold. The market falls and you type the new price into the formula, which tells you how many to sell.

By 1987, however, the problem was the sheer number of people following the strategy and the market share that they collectively controlled. If a fall in the market leads to people selling according to some formula, and if there are enough of these people following the same algorithm, then it will lead to a further fall in the market, and a further wave of selling, and so on — until the Standard & Poor's 500 index loses over 20 percent of its value in single day: Oct. 19, Black Monday. Dynamic portfolio insurance caused the very thing it was designed to protect against.

This is the sort of feedback that occurs between a popular strategy and the underlying market, with a long-lasting effect on the broader economy. A rise in price begets a rise. (Think bubbles.) And a fall begets a fall. (Think crashes.) Volatility rises and the market is destabilized. All that's needed is for a large number of people to be following the same type of strategy. And if we've learned only one lesson from the recent financial crisis it is that people do like to copy each other when they see a profitable idea.

Such feedback is not necessarily dangerous. Take for example what happens with convertible bonds — bonds that can be converted into stocks at the option of the holder. Here a hedge fund buys the bond and then hedges some market risk by selling the stock itself short. As the price of the stock rises, the relevant formula tells the fund to sell. When the stock falls the formula tells it to buy — the exact opposite of what happens with portfolio insurance. To the outside world — if not necessarily to the hedge fund with the convertible bonds — this mix is usually seen as a good thing.

Thus the problem with the sudden popularity of high-frequency trading is that it may increasingly destabilize the market. Hedge funds won't necessarily care whether the increased volatility causes stocks to rise or fall, as long as they can get in and out quickly with a profit. But the rest of the economy will care.

Buying stocks used to be about long-term value, doing your research and finding the company that you thought had good prospects. Maybe it had a product that you liked the look of, or perhaps a solid management team. Increasingly such real value is becoming irrelevant. The contest is now between the machines — and they're playing games with real businesses and real people.

Downloaded from *http://www.nytimes.com/2009/07/29/opinion/29wilmott.html?pagewanted=print* on September 29, 2009.

A Possible Stock Market Crash - But Not Yet
By *Cam Hui* on September 21, 2009

Regular readers know that I have been skeptical of this equity market rally (see examples *here* and *here*). My opinion is confirmed by many commentators that I respect. Jeremy Grantham of GMO wrote in his *2Q letter* that their estimate of fair value on the **S&P 500** (*^GSPC*: 1066.10 +3.12 +0.29%) is slightly south of 880 and the index could move to between 1000 and 1100. In addition, reports of *high levels of insider selling* is not comforting for the bulls.

On September 9, long time chartist Richard Russell indicated that he saw a rare "double non-confirmation"[emphasis mine]:

We may have seen a rare "double non-confirmation." On August 27 the Dow closed at 9580.63, a new Dow high for the rally. On the same day the Transports closed at 3714.63, which was not a new high — in so doing, the Transports failed to confirm the Dow. Today the Transports closed at 3806.75, a new high for the]Transports. But today the Dow closed at 9547.22, below their August 27 close — in doing so, the Industrials failed to confirm the Transports. This is what I call a rare "double non-confirmation". First, the Transports were weak in that they could not confirm the Industrials. Today the Industrials were weak in that they could not confirm the Transports.***These rare "double non-confirmations," in the past, have tended to signal the top***.

Bespoke also pointed out that the S&P 500 is now 20% above its 200-day moving average, the first time this has happened since 1983. This suggests that the market is very overbought and due for a pullback.

Art Cashin recently piped in and said *this market reminded him of 1987*

There's just some eerie things about this-it's reminiscent of spring and summer of '87 when nobody believed the rally and it kept going up despite skepticism, people shorting into it. It ate them alive until it suddenly turned.

Could the market crash?
Are we in for a repeat of the Crash of 1987?

Possibly. I have heard anecdotally that hedge fund leverage is now back to pre-Lehman levels, indicating a high level of systemic risk. William Pasek at Bloomberg*wrote* the that the US Dollar is now the preferred source of funding for the carry trade, which puts risk levels in context [emphasis mine]:

Now imagine what might happen if the world's reserve currency became its most shorted. Carry trades are, after all, bets that the funding currency will weaken further or stay down for an extended period of time. It's also a wager that a central bank is trapped into keeping borrowing costs low indefinitely…

Three-month London interbank offered rates, or Libor, for dollar loans are at a record low and fell below those for the yen on Aug. 24 for the first time in 16 years.

Think about the turbulence that would be unleashed by the dollar suddenly shooting 5 percent or 10 percent higher with untold numbers of traders around the globe on the losing side of that trade. It could make the "Lehman shock" look manageable.

Watching the bearish tripwires

Remember that in 1987, the stock market didn't just spontaneously decide to crash in a single day. Before the October crash, the market had topped in August and was steadily declining before it took the ultimate plunge.

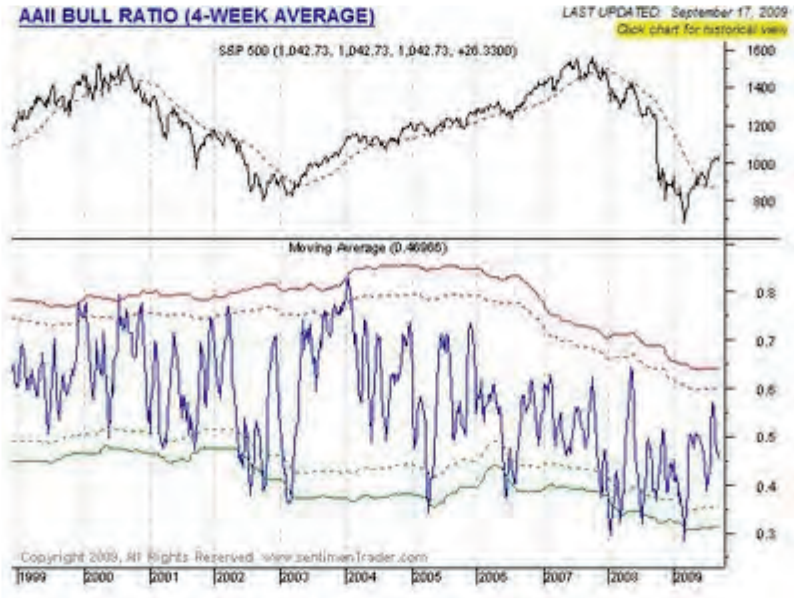
Today we have the combination over-valuation and high risk behavior, but these things have a way of not mattering to the market until they matter. I respect*Barry Ritholz's comment* that the current rally could very well be in the 6th or 7th inning.

The key to timing any potential downdraft is to watch the bearish tripwires.

Sentiment tripwires

Here is what I am watching for.

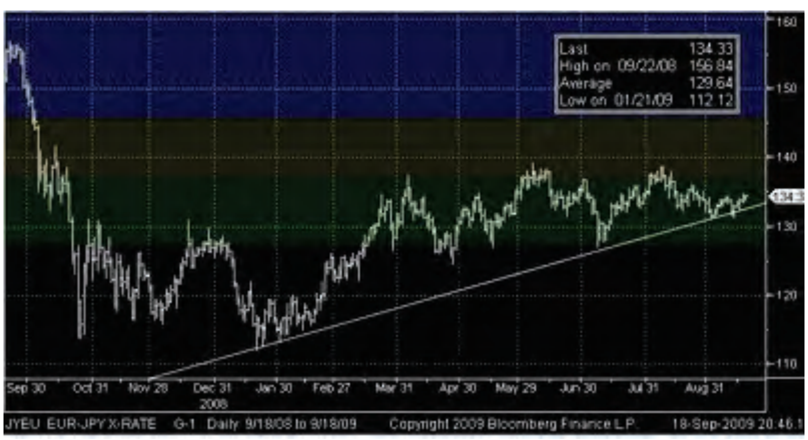
One is investor sentiment. James Grant, who could usually be counted on to be not just bearish, but apocalyptic, *has become a bull*. Despite this sign of bearish capitulation, the chart below of public sentiment, as measured by the *AAII survey*, is not excessively bullish.



Watching the risk trade

As I pointed out in my previous post *Risk on*, the risk appetites are still rising. For the bear to truly come out of hibernation, investors have to show signs that their taste for risk is becoming sated. The chart below of the euro/yen cross, a measure of the risk trade, is still trending upwards.

Euro/Japanese Yen



If the USD is now the preferred currency of choice for the carry trade, then let's look at some emerging market currencies against the greenback. The chart below of the Hungarian Forint against the Dollar remains in a healthy uptrend.

Hungarian Forint/U.S. Dollar

The Turkish Lira is also in an uptrend against the Dollar.

Turkish Lira/U.S. Dollar

Commodity prices, which is an indication of the progress of the reflation trade and risk trade, are also in an uptrend.

Until these bearish tripwires are crossed, the path of least resistance for equities is still up. My inner trader tells me it’s too early to get outright bearish. The 50% Fibonacci retracement level for the S&P 500 is roughly 1120 - and under the circumstances that may be a realistic short-term target.

On the other hand, the trigger for the 1987 decline was the Fed's August decision to raise interest rates. While I have *expressed my doubts* about the willingness or the ability of the Federal Reserve to effectively implement its exit stratgies, the FOMC statement on Wednesday bears watching.

Downloaded from *http://www.dailymarkets.com/forex/2009/09/21/a-possible-stock-market-crash-but-not-yet/* on September 29, 2009.

MOUNTAIN OF DEBT: Rising Debt May Be Next Crisis

MOUNTAIN OF DEBT: Legacy of debt from Founding Fathers not celebrated on Independence Day

By TOM RAUM

The Founding Fathers left one legacy not celebrated on Independence Day but which affects us all. It's the national debt.

The country first got into debt to help pay for the Revolutionary War. Growing ever since, the debt stands today at a staggering $11.5 trillion — equivalent to over $37,000 for each and every American. And it's expanding by over $1 trillion a year.

The mountain of debt easily could become the next full-fledged economic crisis without firm action from Washington, economists of all stripes warn.

"Unless we demonstrate a strong commitment to fiscal sustainability in the longer term, we will have neither financial stability nor healthy economic growth," Federal Reserve Chairman Ben Bernanke recently told Congress.

Higher taxes, or reduced federal benefits and services — or a combination of both — may be the inevitable consequences.

The debt is complicating efforts by President Barack Obama and Congress to cope with the worst recession in decades as stimulus and bailout spending combine with lower tax revenues to widen the gap.

Interest payments on the debt alone cost $452 billion last year — the largest federal spending category after Medicare-Medicaid, Social Security and defense. It's quickly crowding out all other government spending. And the Treasury is finding it harder to find new lenders.

The United States went into the red the first time in 1790 when it assumed $75 million in the war debts of the Continental Congress.

Alexander Hamilton, the first treasury secretary, said, "A national debt, if not excessive, will be to us a national blessing."

Some blessing.

Since then, the nation has only been free of debt once, in 1834-1835.

The national debt has expanded during times of war and usually contracted in times of peace, while staying on a generally upward trajectory. Over the past several decades, it has climbed sharply — except for a respite from 1998 to 2000, when there were annual budget surpluses, reflecting in large part what turned out to be an overheated economy.

The debt soared with the wars in Iraq and Afghanistan and economic stimulus spending under President George W. Bush and now Obama.

The odometer-style "debt clock" near Times Square — put in place in 1989 when the debt was a mere $2.7 trillion — ran out of numbers and had to be shut down when the debt surged past $10 trillion in 2008.

The clock has since been refurbished so higher numbers fit. There are several debt clocks on Web sites maintained by public interest groups that let you watch hundreds, thousands, millions zip by in a matter of seconds.

The debt gap is "something that keeps me awake at night," Obama says.

He pledged to cut the budget "deficit" roughly in half by the end of his first term. But "deficit" just means the difference between government receipts and spending in a single budget year.

This year's deficit is now estimated at about $1.85 trillion.

Deficits don't reflect holdover indebtedness from previous years. Some spending items — such as emergency appropriations bills and receipts in the Social Security program — aren't included, either, although they are part of the national debt.

The national debt is a broader, and more telling, way to look at the government's balance sheets than glancing at deficits.

According to the Treasury Department, which updates the number "to the penny" every few days, the national debt was $11,518,472,742,288 on Wednesday.

The overall debt is now slightly over 80 percent of the annual output of the entire U.S. economy, as measured by the gross domestic product.

By historical standards, it's not proportionately as high as during World War II, when it briefly rose to 120 percent of GDP. But it's still a huge liability.

Also, the United States is not the only nation struggling under a huge national debt. Among major countries, Japan, Italy, India, France, Germany and Canada have comparable debts as percentages of their GDPs.

Where does the government borrow all this money from?

The debt is largely financed by the sale of Treasury bonds and bills. Even today, amid global economic turmoil, those still are seen as one of the world's safest investments.

That's one of the rare upsides of U.S. government borrowing.

Treasury securities are suitable for individual investors and popular with other countries, especially China, Japan and the Persian Gulf oil exporters, the three top foreign holders of U.S. debt.

But as the U.S. spends trillions to stabilize the recession-wracked economy, helping to force down the value of the dollar, the securities become less attractive as investments. Some major foreign lenders are already paring back on their purchases of U.S. bonds and other securities.

And if major holders of U.S. debt were to flee, it would send shock waves through the global economy — and sharply force up U.S. interest rates.

As time goes by, demographics suggest things will get worse before they get better, even after the recession ends, as more baby boomers retire and begin collecting Social Security and Medicare benefits.

While the president remains personally popular, polls show there is rising public concern over his handling of the economy and the government's mushrooming debt — and what it might mean for future generations.

If things can't be turned around, including establishing a more efficient health care system, "We are on an utterly unsustainable fiscal course," said the White House budget director, Peter Orszag.

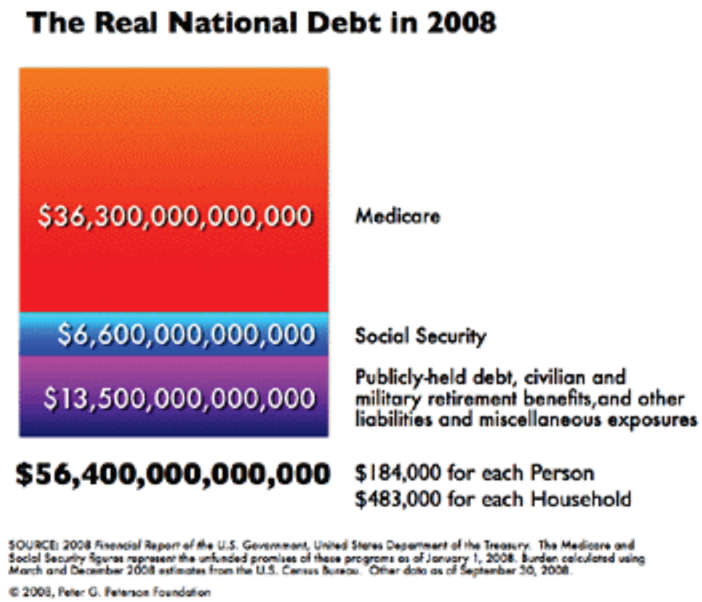
Some budget-restraint activists claim even the debt understates the nation's true liabilities.

The Peter G. Peterson Foundation, established by a former commerce secretary and investment banker, argues that the $11.4 trillion debt figures does not take into account roughly $45 trillion in unlisted liabilities and unfunded retirement and health care commitments.

That would put the nation's full obligations at $56 trillion, or roughly $184,000 per American, according to this calculation.

Downloaded from *http://abcnews.go.com/print?id=7995188* on September 29, 2009.

What is the Real National Debt?



"How exactly does a $56.4 trillion bill add up?" you ask. We know that the federal government carries both publicly held debt and debt for money it has borrowed from itself. Together, these sums are closing in on $11 trillion. This is the figure most commonly cited as our "national debt," but actually, that's only the start of the REAL national debt.

Right now, you are carrying a burden of about $184,000. That is each and every American's share of the US government's approximated $56.4 trillion in current obligations. And every year in which no down payments or reforms are made to these obligations, the total grows by $2 trillion to $3 trillion – or $6,600 to $10,000 per person – on autopilot.

How exactly does this $56.4 trillion bill add up? First, there are the federal government's known liabilities that it is legally obliged to fulfill. These include publicly held debt, military and civilian pensions and retiree health benefits. As of September 30, 2008, these liabilities added up to $13.5 trillion.

Then there are various commitments and contingencies – i.e., contractual requirements that the government is expected to fulfill when, and if specified conditions are met. These include federal insurance payouts, loan guarantees, and leases. As of September 30, 2008, they added up to $1.4 trillion.

So where does the remaining $43 trillion or so come from? That's what the government has promised to pay in Social Security and Medicare benefits in excess of related revenues. As of January 1, 2008, current and promised future Social Security benefits amounted to $6.6 trillion. And between Medicare's three programs (hospital insurance, outpatient, and prescription drug), current and future promised Medicare benefits amounted to $36.3 trillion.

Keep in mind that although people rely on the promise of these benefits, the government can – and does – change these programs in ways that increase or decrease the value of the expected benefits, which has the effect of expanding or shrinking the total amount of obligations. Such changes can be made to the size of payroll tax contributions, cost-of-living adjustments, beneficiary premiums, eligibility ages and benefit levels, among other examples.

That's how you get to $56.4 trillion. And remember: every year in which no down payments or reforms are made to any of the obligations above, this total grows by $2 trillion to $3 trillion.

Stick with www.pgpf.org to keep track of how much you owe.

SOURCE: 2008 Financial Report of the United States Government. Social Security and Medicare benefits are present values as of January 1, 2008. Burden per person calculated using estimated December 2008 US Census Bureau data. Other data as of September 30, 2008.

Downloaded from *http://www.pgpf.org/about/nationaldebt/* on September 29, 2009.

The shadow banking system is unravelling
By Nouriel Roubini
Published: September 21 2008 17:57 | Last updated: September 21 2008 17:57
Last week saw the demise of the shadow banking system that has been created over the past 20 years. Because of a greater regulation of banks, most financial intermediation in the past two decades has grown within this shadow system whose members are broker-dealers, hedge funds, private equity groups, structured investment vehicles and conduits, money market funds and non-bank mortgage lenders.

Like banks, most members of this system borrow very short-term and in liquid ways, are more highly leveraged than banks (the exception being money market funds) and lend and invest into more illiquid and long-term instruments. Like banks, they carry the risk that an otherwise solvent but liquid institution may be subject to a self fulfilling and destructive run on its liquid liabilities.

But unlike banks, which are sheltered from the risk of a run – via deposit insurance and central banks' lender-of-last-resort liquidity – most members of the shadow system did not have access to these firewalls that prevent runs.

A generalised run on these shadow banks started when the deleveraging after the asset bubble bust led to uncertainty about which institutions were solvent. The first stage was the collapse of the entire SIVs/conduits system once investors realised the toxicity of its investments and its very short-term funding seized up.

The next step was the run on the big US broker-dealers: first Bear Stearns lost its liquidity in days. The Federal Reserve then extended its lender-of-last-resort support to systemically important broker-dealers. But even this did not prevent a run on the other broker-dealers given concerns about solvency: it was the turn of Lehman Brothers to collapse. Merrill Lynch would have faced the same fate had it not been sold. The pressure moved to ***Morgan Stanley and***

[*Goldman Sachs*]: both would be well advised to merge – like Merrill – with a large bank that has a stable base of insured deposits.

The third stage was the collapse of other leveraged institutions that were both illiquid and most likely insolvent given their reckless lending: Fannie Mae and Freddie Mac, AIG and more than 300 mortgage lenders.

The fourth stage was panic in the money markets. Funds were competing aggressively for assets and, in order to provide higher returns to attract investors, some of them invested in illiquid instruments. Once these investments went bust, panic ensued among investors, leading to a massive run on such funds. This would have been disastrous; so, in another radical departure, the US extended deposit insurance to the funds.

The next stage will be a run on thousands of highly leveraged hedge funds. After a brief lock-up period, investors in such funds can redeem their investments on a quarterly basis; thus a bank-like run on hedge funds is highly possible. Hundreds of smaller, younger funds that have taken excessive risks with high leverage and are poorly managed may collapse. A massive shake-out of the bloated hedge fund industry is likely in the next two years.

Even private equity firms and their reckless, highly leveraged buy-outs will not be spared. The private equity bubble led to more than $1,000bn of LBOs that should never have occurred. The run on these LBOs is slowed by the existence of "convenant-lite" clauses, which do not include traditional default triggers, and "payment-in-kind toggles", which allow borrowers to defer cash interest payments and accrue more debt, but these only delay the eventual refinancing crisis and will make uglier the bankruptcy that will follow. Even the largest LBOs, such as GMAC and Chrysler, are now at risk.

We are observing an accelerated run on the shadow banking system that is leading to its unravelling. If lender-of-last-resort support and deposit insurance are extended to more of its members, these institutions will have to be regulated like banks, to avoid moral hazard. Of course this severe financial crisis is also taking its toll on traditional banks: hundreds are insolvent and will have to close.

The real economic side of this financial crisis will be ***a severe US recession***. Financial contagion, the strong euro, falling US imports, the bursting of European housing bubbles, high oil prices and a hawkish European Central Bank will lead to a recession in the eurozone, the UK and most advanced economies.

European financial institutions are at risk of sharp losses because of the toxic US securitised products sold to them; the massive increase in leverage following aggressive risk-taking and domestic securitisation; a severe liquidity crunch exacerbated by a dollar shortage and a credit crunch; the bursting of domestic housing bubbles; household and corporate defaults in the recession; losses hidden by regulatory forbearance; the exposure of Swedish, Austrian and Italian banks to the Baltic states, Iceland and southern Europe where housing and credit bubbles financed in foreign currency are leading to hard landings.

Thus the financial crisis of the century will also envelop European financial institutions.

*The writer, chairman of Roubini Global Economics (**www.rgemonitor.com**), is professor of economics at the Stern School of Business, New York University*

Downloaded from *http://www.ft.com/cms/s/0/622acc9e-87f1-11dd-b114-0000779fd18c.html?nclick_check=1* on September 29, 2009.

A Minsky Meltdown?

An old story—perhaps apocryphal—tells of the tailor who made his living selling fine silk shirts to the wealthy wizards of Wall Street. When the stock market crashed in 1929, he delighted in their demise. But within a year, his own business, bereft of customers, itself went bankrupt.

The failure of our financial system, as this sad example makes clear, often resonates throughout our entire economy. Today, we already see the profound weakness in our financial sector finding its way into the rest of our economy. And it will be hard for many of our citizens, far less well-to-do than our moneymen and moneywomen, to bear. In 2006, the wealthiest 20 percent of wage earners in Manhattan made some $350,000 a year on average, nearly 40 times the $8,800-a-year income earned by the poorest 20 percent.

In my long career in finance, going way back to 1951, I've now witnessed 10 bear markets (defined as a decline in the stock market of 20 percent or more). The current bear market has been off by more than 50 percent, slightly larger than the 1973–1974 and 2000–2001 crashes. But this decline is the first that I can recall in which the distress of the financial markets so profoundly impacted the real economy of goods and services, of ordinary people, especially those who had no real way to participate in the boom that led to the bust, but who are now paying the penalty for the market's excesses.

What we are increasingly seeing is the verification of "the financial instability hypothesis" put forth by the economist Hyman P. Minsky (1919–1996). In 1992, Minsky warned that "capitalist economies exhibit ... debt deflations which ... spin out of control ... [as] the economic system's reactions to a movement of the economy amplify the movement ... . Government interventions aimed to contain the deterioration [are often] inept in … historical crises."

Minsky concluded that over long periods of prosperity, the economy transits from financial structures that make for a stable system to ones that make for an unstable system—i.e., that "stability leads to instability," largely through what he described as hedging, speculation and Ponzi finance. In that sense, Minsky was a prophet of one of today's economic crises.

Another insight was also prophetic: "Institutional complexity [read: today's collateralized debt obligations and credit default swaps] may result in several layers of intermediation between the ultimate owners of the communities' wealth, and the [business and individual] units that control and operate the communities' wealth."

This separation between ownership and control has now come to pass. In a mere half-century, we have moved from an *ownership* society (92 percent of all stocks owned by individuals; 8 percent by institutions) to an *agency* society (24 percent and 76 percent, respectively), a change I've described as "a pathological mutation in capitalism."

How has this separation contributed to the recent crisis? First, because these new agents—institutional money managers advising mutual funds and retirement plans—have far too often placed their own financial interests ahead of the interests of fund owners and retirement plan beneficiaries, ignoring the interests of their own principals. And second, because these agents have departed from their traditional investment principles focused on the wisdom of long-term investing to a new approach that relies on the folly of short-term speculation.

How great a departure does this change in investment principles represent? An enormous change, however rarely noted. Today, turnover of stocks in the United States, which ran in a range of 20 to 40 percent during my first 30 years in the mutual fund field, will come to more than 300 percent in 2008—something like 10 times as large.

Yet it is not Wall Street, but the ordinary citizens of the United States who will foot the bill. "The government," as always, has no money of its own. So it is paying the financial sector for its gross excesses with our money. We may pay for part of this bailout with higher taxes, but given our flawed political system, the cost is more likely to be extracted from future generations with dollars that buy less. Inflation is just another form of taxation, albeit one that is sharply regressive.

As the woes of our financial system resonate through our economy, it seems crystal clear that our current recession will intensify—a "Minsky Meltdown" of significant proportions. While I believe that something more serious—obviously, a depression—is unlikely, we can't be sure whether our plummeting stock market: (a) has yet to adequately anticipate the depth of the economic downturn; (b) has already anticipated it; or (c) has anticipated something much worse than what is likely to transpire.

I'm inclined to believe that the answer is somewhere between (b) and (c). Why? Because the market value of U.S. stocks has tumbled by 50 percent—from $18 trillion to $9 trillion, and I just can't imagine that the value of American enterprise is $9 trillion lower than it was at the market high last October.

Further, let's not forget that today's lower stock prices translate into stronger fundamentals underlying future returns:

- The dividend yield on the S&P 500—less than 2 percent in October 2007 and a skinny 1 percent in March 2000—is now 3.5 percent, a far larger contributor to future returns.
- The price-earnings multiple, 32 times at the 2000 market high, is now about 12 to 15 times (depending on whether we look at operating or reported earnings).
- The price of the S&P 500 Index is now about 1.8 times book value, a level not seen since 1990. (The price-book ratio reached the elevated level of 5.5 times in early 2000.)

As Benjamin Graham observed, in the short run, the market is a voting machine, but in the long run it is a weighing machine. Put another way, "The fundamental things apply as time goes by."

Downloaded from http://www.indexuniverse.com/publications/journalofindexes/joi-articles/5119-a-minsky-meltdown.html?Itemid=11 on September 29, 2009.

National Debt Cap Will Need to Rise, Treasury Predicts

By Lori Montgomery
Congress will be forced to raise the legal limit on the nation's credit card sometime later this year, Treasury officials reported Wednesday, focusing additional attention on the expanding national debt just as lawmakers expect to be putting the finishing touches on President Obama's trillion-dollar overhaul of the nation's health care system.

The amount the government may borrow from the public, including foreign creditors, is limited by law to $12.1 trillion, a cap that has been raised several times since the nation slipped into recession in December 2007. Treasury officials predicted this week that they expect to borrow an additional $892 billion through the end of the year, driving the overall debt past the cap sometime in the fourth quarter.

"Given the uncertainty surrounding potential borrowing needs, Treasury will continue to keep Congress and financial market participants apprised of developments as the debt outstanding approaches the statutory limit," Treasury officials said in a written statement.

The debt is the accumulated borrowing necessary to finance years of annual budget deficits. This year, the deficit is on track to exceed $1.8 trillion, a postwar record compared with the size of the overall economy. Polls show concern is growing over the nation's spending habits, and that concern is already influencing the health care debate on Capitol Hill, where Republicans -- and some Democrats -- are questioning whether a nation so deeply in debt can afford an expensive new program to expand health care to the uninsured.

The need to raise the debt limit could also put additional pressure on 0bama to rein in other parts of his agenda: The Congressional Budget Office has projected that the policies laid out in 0bama's first budget would require an additional $9 trillion in borrowing over the next decade.

Downloaded from http://voices.washingtonpost.com/capitol-briefing/2009/08/national_debt_cap_will_need_to.html?wprss=capitol-briefing on September 29, 2009.

Deficit Projected To Swell Beyond Earlier Estimates

CBO Expects Trillions More in Borrowing

By Lori Montgomery
Washington Post Staff Writer
Saturday, March 21, 2009; Page A01

President Obama's ambitious plans to cut middle-class taxes, overhaul health care and expand access to college would require massive borrowing over the next decade, leaving the nation mired far deeper in debt than the White House previously estimated, congressional budget analysts said yesterday.

In the first independent analysis of Obama's budget proposal, the nonpartisan Congressional Budget Office concluded that Obama's policies would cause government spending to swell above historic levels even after costly programs to ease the recession and stabilize the nation's financial system have ended.

Tax collections, meanwhile, would lag well behind spending, producing huge annual budget deficits that would force the nation to borrow nearly $9.3 trillion over the next decade -- $2.3 trillion more than the president predicted when he unveiled his budget request just one month ago.

Although Obama would come close to meeting his goal of cutting in half the deficit he inherited by the end of his first term, the CBO predicts that deficits under his policies would exceed 4 percent of the overall economy over the next 10 years, a level White House budget director Peter R. Orszag yesterday acknowledged would "not be sustainable."

The result, according to the CBO, would be an ever-expanding national debt that would exceed 82 percent of the overall economy by 2019 -- double last year's level -- and threaten the nation's financial stability.

"This clearly creates a scenario where the country's going to go bankrupt. It's almost that simple," said Sen. Judd Gregg (N.H.), the senior Republican on the Senate Budget Committee, who briefly considered joining the Obama administration as commerce secretary. "One would hope these numbers would wake somebody up," Gregg said.

Orszag defended the president's agenda in a conference call with reporters, noting that the forecast of bigger deficits and mounting debt is largely because of the CBO's view that the recession will be more severe and the recovery more tepid than the White House expects.

The White House's economic assumptions have come under fire for being too optimistic: Over the next decade, the administration projects that the economy will grow at an average annual rate of 2.8 percent, rosier than forecasts by the CBO (2.5 percent) and the Blue Chip economic consensus (2.3 percent).

Orszag, who served as CBO director before joining the Obama administration, also argued that long-term budget estimates are notoriously uncertain. He noted that the CBO's projections leave open the possibility that the government could record a small surplus, rather than a $750 billion deficit, after five years.

In a speech to state legislators at the White House yesterday, Obama said his budget "makes hard choices about where to save and where to spend."

But he said: "What we will not cut are investments that will lead to real growth and prosperity over the long term. That's why our budget makes a historic commitment to comprehensive health-care reform. That's why it enhances America's competitiveness by reducing our dependence on foreign oil and building on a clean-energy economy. And that's why it makes a down payment on a complete and competitive education for every child in America, from the cradle up through the time that they get a career."

The CBO is the official scorekeeper for budgeting on Capitol Hill, and the new report could complicate efforts to win congressional approval for Obama's $3.6 trillion request for the fiscal year that begins Oct. 1. While Obama had predicted a deficit of nearly $1.2 trillion for 2010, the CBO puts next year's budget gap at nearly $1.4 trillion. And this year's deficit is now projected to soar past $1.8 trillion, or 13 percent of the economy -- the deepest well of red ink since the end of World War II.

Deteriorating economic conditions are a major cause of the darkening fiscal picture, according to the CBO. But other factors also are weighing heavily on the budget this year and next. For example, the $700 billion financial-system bailout is now expected to cost taxpayers at least $350 billion, by CBO estimates, because the investments the Treasury Department has made in banks and other financial institutions are worth considerably less than when the bailout was approved. In addition, Obama proposes to use a portion of the money to buy down troubled mortgages, a program that will provide no return to the taxpayer.

The CBO's estimates assume that the Treasury will win approval to spend another $500 billion on the bailout, at an ultimate cost to taxpayers of $250 billion.

The government takeover of mortgage-finance giants *Fannie Mae* and *Freddie Mac* is also proving more costly than expected, the CBO reports. On the bright side, however, the office projects that it will cost taxpayers less to cover deposits at failed banks than previously projected because federal officials recently increased insurance premiums.

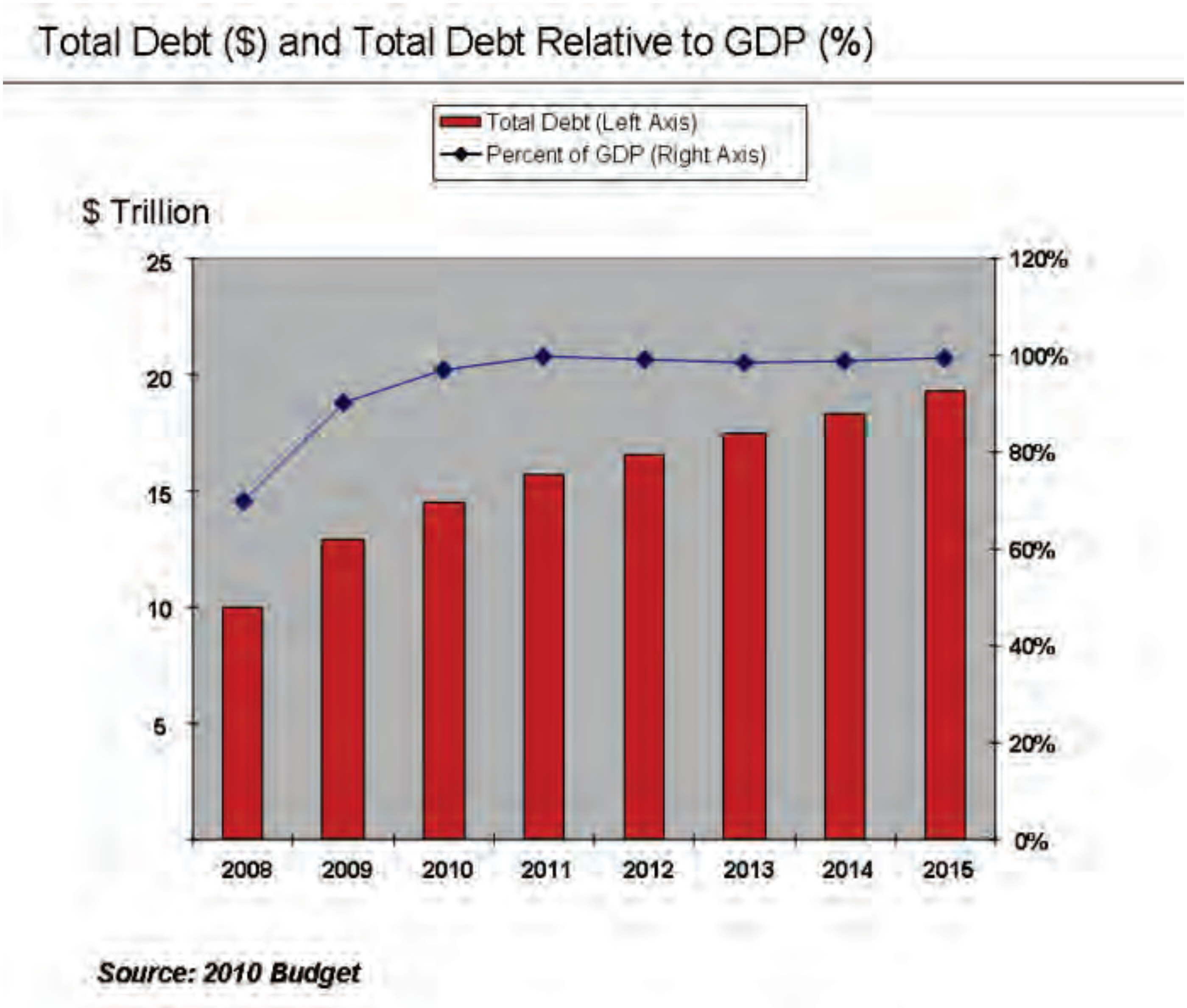
Democratic budget leaders are putting the finishing touches on their versions of Obama's spending plan and hope to bring them to a vote in the House and Senate in the next two weeks. Sen. Kent Conrad (D-N.D.), chairman of the Senate Budget Committee, said he has already made "lots of adjustments" that will slice billions from Obama's spending proposals, generating smaller deficits.

"We're requiring more things to be paid for and to have tough spending discipline. It's just got to be done," said Conrad, who expects to unveil an outline of his budget proposal Tuesday.

But Conrad and House Budget Committee Chairman John M. Spratt Jr. (D-S.C.) said they will preserve Obama's priorities. "We will follow President Obama's lead," Spratt said, "and produce a budget that cuts the deficit in half over the next four years but still invests in areas critical to our future such as energy, education and health care."

Orszag said such changes are a common part of the budget process. "No one had any expectation they would take our budget, Xerox it and vote on it," he said. "I am confident that what will come out of the committees will lead to a fiscally sustainable path."

Downloaded from *http://www.washingtonpost.com/wp-dyn/content/article/2009/03/20/AR2009032001820.html* on September 29, 2009.



Downloaded from http://en.wikipedia.org/wiki/United_States_federal_budget#Major_receipt_and_expenditure_categories on September 29, 2009.

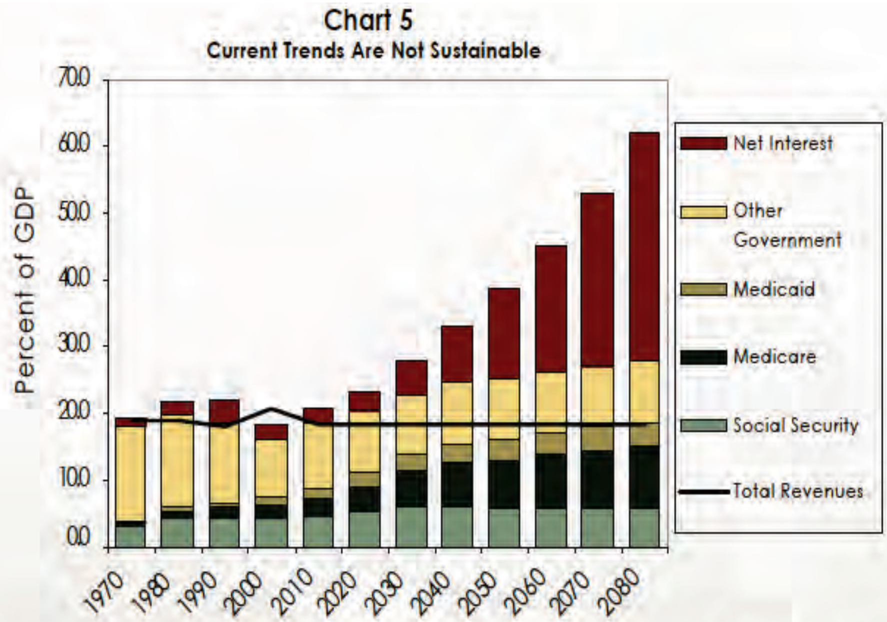


Chart 5 shows Government revenue and spending, expressed as a percentage of GDP, from 1970 through 2080[3]. For most of the past several decades, revenue as a share of GDP has averaged around 18 percent, with little variation[4]. For this reason, revenue is assumed to be about 18 percent of GDP throughout the projection period.

Downloaded from *http://www.gao.gov/financial/citizensguide2008.pdf* on September 29, 2009.

Hyperinflation Special Report

http://www.shadowstats.com/article/hyperinflation.pdf

Producer Price Index

http://en.wikipedia.org/wiki/Producer_price_index#United_States

The Dow Zero Insurgency

The nothing-can-be-believed chaos of the financial crisis created a golden opportunity for a blog run by a mysterious ex-hedge-funder with a dodgy past and conspiracy theories to burn.

Published Sep 27, 2009

Last spring, in a far corner of the Internet, an unknown blogger began to piece together a conspiracy theory: The investment bank Goldman Sachs was using sophisticated, high-speed computers to siphon hundreds of millions of dollars in illegitimate trading profits from the New York Stock Exchange, invisibly undercutting the market and sidestepping the regulatory reach of the Securities and Exchange Commission.

Only a few loyal readers paid attention to the blog called *Zero Hedge*, a no-frills site full of arcane analysis decipherable only by finance professionals. But when a former Goldman Sachs computer programmer was arrested for allegedly stealing software codes used for the firm's electronic trading arm, and a federal prosecutor was quoted saying the codes could be used to "manipulate markets in unfair ways," the once-obscure blog ignited a chain reaction. While on a golf outing, an editor at the New York *Times* learned from a friend who worked on Wall Street that the Zero Hedge allegation was the talk of the industry, and an assignment ensued. On July 24, the *Times* published a front-page article on so-called high-frequency trading and its potential abuses, which in turn prompted Chuck Schumer, a member of the Senate Finance Committee, to draft a letter to the SEC that same day. Twelve days later, the SEC signaled that it was considering a ban on the very computerized trading that Zero Hedge had attacked.

Suddenly, the shadowy figure behind Zero Hedge was a full-blown cult hero—a blogger with a bullet. His readership of angry traders and anti-government malcontents celebrated his newfound power. “Welcome to the party pal!!!” declared one of his fans in the comments section.

In a sign of just how radically the order has shifted in the political and media world, neither the *Times* nor Schumer had a clue about the identity of the pseudonymous author behind Zero Hedge. As it happens, the founder is a 30-year-old Bulgarian immigrant banned from working in the brokerage business for insider trading. A former hedge-fund analyst, he’s also a zealous believer in a sweeping conspiracy that casts the alumni of Goldman Sachs as a powerful cabal at the helm of U.S. policy, with the Treasury and the Federal Reserve colluding to preserve the status quo. His antidote? A purifying market crash that leads to the elimination of the big banks altogether and the reinstatement of genuine free-market capitalism.

Never mind Dow 10,000. Dan Ivandjiiski is all about Dow Zero.

Last year’s financial implosion left the investing public deeply unsettled about who or what to trust. The information that flowed from the banks, the ratings agencies, the regulatory agencies, and the mainstream media—the bedrock of the financial markets, in a sense—was viewed with great suspicion, and that created an opportunity for financial bloggers: a motley assortment of amateurs and professionals from all over the map. There are traders, economists, venture capitalists, financial advisers, and pajama-clad cranks all vying to explain the complex machinations that got us into this mess and to critique governmental solutions. Sites like Naked Capitalism, Seeking Alpha, the Big Picture, Infectious Greed, Angry Bear, Calculated Risk, and Zero Hedge have hatched communities based on discontent and disbelief, forming a kind of ragtag insurgency against the financial Establishment and what they view as its feckless lackeys in the government and media.

“We’re all happily cruising along, doing our financial-journalism thing, until late 2007,” explains Felix Salmon, who now blogs for Reuters. “We have relationships with flacks, and suddenly they started lying to us. Outright lies. And you’re like, ‘Wait, that’s not kosher, you can’t do that.’ ” Among bloggers, Salmon is more of the Establishment type, with little tolerance for the sloppy thinking of excitable bloggers.

Financial blogs grew out of the message boards launched by Yahoo! Finance in the late nineties, which were primarily a forum for day traders to argue investment ideas and vent little-guy frustrations about the Wall Street power structure.

The first financial blogger, according to Barry Ritholtz of the Big Picture, was Todd Harrison, the head trader for the hedge fund run by CNBC talking head Jim Cramer (also a *New York*Magazine contributing editor) in the early aughts. Harrison, who wrote a daily market column for Cramer's TheStreet.com, "would crank out these little notes intraday," recalls Ritholtz. "It was a real-time trader with real assets under management discussing trading flow."

In the years that followed, blogs proliferated. They were mostly side projects, updated sporadically. Ritholtz, who started the Big Picture in 2003, was a market strategist who zeroed in on flaws in the government's inflation data. Calculated Risk was started by a retired businessman in Southern California who took an obsessive interest in exotic mortgages and saw the housing collapse years in advance. Naked Capitalism, which features the work of a small gang of contributors, is overseen by a former Goldman Sachs and McKinsey executive who goes by the pseudonym Yves Smith.

Early on, the readers of these blogs seemed to be a relatively small and disparate group—a smattering of day traders, academics, and people who worked in and around the edges of the financial industry. They were "gold bugs" and "dollar bears" united by their hostility to Wall Street and their conviction that the U.S. economy was heading off a cliff. When Bear Stearns blew up, the bearish view was validated and these blogs gained credibility with a larger audience. Amid the chaos on Wall Street, they found themselves with much greater influence than they'd ever imagined possible.
Such is their power today that the Treasury and Federal Reserve both circulate "blog watch" e-mails, which are sent to the White House every day. Aides on Capitol Hill solicit bloggers for advice and explanations on complex regulatory issues, according to government spokespeople and the bloggers themselves. When John Hempton, whose blog is called Bronte Capital, wrote a massive post on the Treasury Department's banking-reform plan—meticulously noting the government's poor judgment in assessing the solvency of banks—"I went from having ten readers in Washington to 700," he says.

Out of this scrum, Zero Hedge would distinguish itself as one of the most enterprising and the most combative, although not right away. The site was launched in January of this year, a few days after Dan Ivandjiiski, who lives on the Upper East Side, lost his job at Wexford Capital, a Connecticut-based hedge fund run by a former Goldman trader.

Blogging may seem like an odd career shift for a well-paid hedge-fund analyst, but for Ivandjiiski, it marked something of a return to the family business: His father, Krassimir Ivandjiiski, is a writer and editor at *Bulgaria Confidential,* a tabloid known for its controversial investigative reporting. In 1996, the elder Ivandjiiski exposed what he said was political corruption and drug trafficking in, of all places, Montana, in a story republished in the U.S. in a shoestring periodical called *Free Speech Newspaper*.

The story prompted Montana's governor at the time, Marc Racicot, to charge that "a number of libelous statements and defamatory untruths are included in the article, including statements that

I have a history of drug abuse and that I am a recovering alcoholic." (*Free Speech*'s editor responded with a lengthy rebuttal, and the matter faded away.)

Dan Ivandjiiski moved to the U.S. to study molecular biology at the University of Pennsylvania in preparation for medical school. After graduation, Ivandjiiski instead took a job as a junior investment banker at Jefferies & Company in Los Angeles, followed by a brief stint at Imperial Capital. In 2005, he moved to New York to work for the firm Miller Buckfire, where he was accused of personally buying shares in an airline company one day prior to the announcement of a major deal with his former firm Imperial. Though he made only $780 on the trade, an official probe was launched and Ivandjiiski was barred from working in the broker-dealer business. The ban forced him into the unregulated world of hedge funds, where he learned the inner workings of the kinds of high-stakes trading he'd soon be writing about.

When he started blogging, Ivandjiiski billed himself online as "Tyler Durden," after the masochistic anarchist played by Brad Pitt in the film *Fight Club*, who blows up the headquarters of major credit-card companies. The early iteration of Zero Hedge used free online software to publish a generic white page with the name ZERO HEDGE in red at the top, along with a quote from *Fight Club:* "On a long enough timeline, the survival rate for everyone drops to zero." The site's first post appeared on January 9 at 4 p.m., and it set the tone: "One can follow the daily creation and destruction of wealth simply by looking at the constantly shifting landscape in New York," Ivandjiiski wrote, predicting that an "upcoming wave of 'Page 6'–worthy scandals" that would disgrace Wall Street.

At first, Ivandjiiski seemed intent on imitating the snarky, gossipy tone of Gawker and Dealbreaker, lampooning the financial disasters splashing across the papers, from Madoff to Citigroup. Zero Hedge posted several times a day, much of it toothless and not very interesting. Ivandjiiski seemed timid about revealing his own views. Nobody commented. The first post to elicit significant feedback was a "Risk-Free Profit Idea of the Day": Buy barrels of oil and store them.

But after two weeks, the attempts at humor began to recede, replaced by dense market analysis with technical charts and graphs. It read like the work of a financial analyst gone AWOL. "Overview of Implied Default Rates and Probabilities" went one typically scintillating headline. In late January, when asked by a reader how long he'd been blogging, he replied in the comments: "two weeks now. not sure if that's too long or too little."

But he slogged away, e-mailing his links to established bloggers, like the San Diego–based investor and doom enthusiast Paul Kedrosky, who blogs at Infectious Greed. If Zero Hedge got four comments, it was a great day. His early readers were day traders, many running their own private message boards and invite-only blogs. Commenters tended to be confrontational, poking holes in his lengthy arguments about the inevitable implosion of New York's pension funds or how Citigroup's stock was a bear-market bellwether: "You're kind of a moron," said one anonymous reader.

But as his posts got more detailed, a theme began to emerge: Wall Street was a vast conspiracy. Nothing could be trusted. All markets were corrupt. The darker his vision the more popular he became. Ivandjiiski grew emboldened, confident that there was an audience, maybe even a big one, for his radical notions. Commenters voiced their approval. He scored with a post on the bank bailouts called “Bailoutspotting (Or the Search for the Great Financial Methadone Clinic),” which argued that the government’s Temporary Liquidity Guarantee Program was the heroin of bank-bailout programs, destined to break the backs of taxpayers. “Using pretexts, subterfuge, and lies, the administration’s charade triage will only end once there are no more gullible taxpayers to provide their cash, no more demagogue senators and congressmen who will bend reality to make it seem that their actions benefiting a select few are for the benefit of all, and no more naïve investors who buy into the promises that U.S. debt is the ‘safest investment,’ ” he wrote. It drew wild cheers from the peanut gallery. A commenter named Stockhustler wrote, “This is by far the greatest blog on the Internet.”

By March, Zero Hedge was getting up to 40 comments a post. The blog’s inscrutability was part of its appeal. It had the feel of a financial insider leaking forbidden information. Some of it actually was proprietary. In May, Zero Hedge made several posts based on the research of David Rosenberg, who was then the chief economist for Merrill Lynch. Rosenberg’s views on the market were extremely bearish; he predicted a slow, protracted recovery and dismissed his bullish peers as pom-pom wavers. Merrill Lynch was peeved to see research that its clients paid handsomely for made available for nothing on a blog. Lawyers were dispatched, and the material was removed from the site.

Unversed in copyright law, Ivandjiiski pitched this as a case of censorship, feeding into the image of Zero Hedge as a guerrilla force battling the big firms. In late March, when the White House invited more-mainstream bloggers, like the authors of Clusterstock, to an online discussion of the TALF program (the Term Asset-Backed Securities Loan Facility, a temporary lending arm of the Federal Reserve), Ivandjiiski savored his outsider status: “Not surprisingly, Zero Hedge was not invited, but we will participate anyway and provide our readers with as much info from this ‘public medium’ as we can.”

Zero Hedge’s popularity metastasized with its increasingly paranoid focus. “The greatest bait and switch of this generation in all its visual splendor,” he announced under the headline “The Amazing talf Bait and Switch,” describing how the government’s lending program could easily be gamed by banks and hedge funds. Other bloggers, as well as some of his own readers, evinced skepticism at his analyses, but a growing number felt he was expressing something they all felt. “The whole thing smells of rank conspiracy and blackmail,” said one reader.

As the stock markets surged back to life in the spring, Ivandjiiski’s economic predictions only became bleaker. On April 11, Zero Hedge wrote “The Imminent Disinformation Schism,” a 3,000-word opus on the split between the “naïve, easily-manipulated, small-time mom-and-pop investors” and a rising new group of tea-party-style skeptics, “the forward-looking taxpayers, who see the upcoming budget-deficit fiasco, the Social Security Ponzi scheme, the

Medicare/Medicaid debacle, the ridiculous underfunding in public and corporate pension funds, the rising city and state taxes, the shuttering factories, the rising unemployment, the plummeting American production base, the 'seasonally' upward-adjusted economic data coupled with consistently downward revised prior economic releases, the increasing savings rate and the multi-trillion discrepancy in consumer purchasing power.

"The cold facts," he continued. "□'When you stare at the abyss, the abyss stares back at you.' Why is everyone so afraid to stare at the proverbial abyss? Readers of Zero Hedge know all too well about my fascination with the economic fundamentals, and my desire to expose the real abyss in all its deep glory."

It was around this time that Federal Reserve chairman Ben Bernanke mentioned "green shoots," the first tiny signs of economic recovery. The financial blogosphere savagely mocked Bernanke's rhetoric, even as the stock market endorsed it by rallying. It was a sham, Zero Hedge maintained; the market was clearly being manipulated. But how?

In April, Zero Hedge began drawing reader attention to weekly trading data issued by the New York Stock Exchange. The reports showed that Goldman Sachs was conducting a highly disproportionate percentage of all the trades on the exchange. This giant footprint, Ivandjiiski suggested, gave Goldman Sachs "unprecedented opportunities to take advantage" of a situation that has a "□'very fishy feel' about it."
His report reverberated widely. Zero Hedge's traffic spiked. Goldman Sachs spokesman Ed Canaday felt compelled to respond, calling some of Zero Hedge's charges "untrue and offensive." Which of course only inspired Zero Hedge to dig deeper.

Bit by bit, Ivandjiiski pieced together a theory as to how the firm's dominance of high-frequency computer trading, specifically so-called flash trades, enabled it to see other people's trades moments before they were executed. Goldman used this information, alleged Ivandjiiski, to jump in and pinch off pennies in the price differences, a practice that he estimated could add up to millions of dollars a day. This, he decided, was how the firm was producing such huge profits so quickly after its near-death experiences in 2008.

Zero Hedge made such a compelling case that mainstream-media reporters started paying attention. Ivandjiiski happily walked journalists through his theories in off-the-record conversations, becoming a trusted resource, especially for reporters at Bloomberg News, which published several stories riffing on Zero Hedge's pursuits, starting with a July 7 report speculating on the misuses of high-frequency trading following the arrest of Sergey Aleynikov, a former Goldman Sachs computer programmer accused of stealing the firm's codes. "Goldman Sachs Loses Grip on Its Doomsday Machine," went a story by Bloomberg columnist Jonathan Weil. Later, Ivandjiiski, using his alias Tyler Durden, was interviewed on Bloomberg Radio.

Ivandjiiski, meanwhile, started peddling a much larger conspiracy—that ever since Robert Rubin ran Goldman Sachs's arbitrage trading desk in the seventies, the firm and its network of powerful alumni had essentially rigged the market in its favor. If that sounds like something you read in *Rolling Stone* last July, that's because Zero Hedge served as a key source for the infamous article on Goldman Sachs written by gonzo journalist Matt Taibbi. "I didn't understand a word he was saying," says Taibbi, recalling his first conversations with Ivandjiiski last spring. "I went through the tape-recorded interview trying to decipher it minute by minute."

Analysts on CNBC mocked Taibbi's story, but Zero Hedge, of course, loved it, calling it "one of the best comprehensive profiles of Government Sachs done to date. Speaking of GS, they sure must be busy today, now that Bernanke is about to be impeached and take the fall for all their machinations."

Taibbi, who says he still exchanges e-mails regularly with Ivandjiiski, believes the blog was responsible for the New York Stock Exchange's decision to alter the way it releases weekly trading data: "Pretty clearly this guy has so pissed off Goldman Sachs they managed to get that rule change about how the data got released, and that's almost certainly because of Zero Hedge."

On September 17, the SEC drew up a proposal to ban flash trading, scoring a bona fide victory for Zero Hedge. "He was on the cutting edge of bringing attention to the problems posed by flash trades," says Brian Fallon, a spokesman for Senator Schumer, "and his writings certainly bring an insider's perspective to anyone wading through this highly technical issue."

Conspiracy theories are hot sellers these days, and Goldman Sachs is the new Warren Commission. Following the lead of Zero Hedge, both Michael Moore and Glenn Beck have hit pay dirt by attacking the firm. It's an attractive target for almost anyone. Blogger Cullen Roche of the Pragmatic Capitalist says that whenever he writes about Goldman Sachs, he sees immediate results. "My traffic automatically shoots through the roof," he says. "It resonates with people, that sentiment, that frustration with other things that are going on."

And so it goes with Zero Hedge.

"Something like Zero Hedge, which takes an extremely conspiratorial view of the markets and possible manipulation, is going to happen in part because the world has become more conspiratorial," says John Carney, who blogs at Clusterstock. "You don't even need a conspiracy theory to say the most powerful people and the wealthiest people are working together to accomplish their mutual goals."

Four days after the *Times* story on high-frequency trading, Zero Hedge re-launched with a sleeker design and more advertising space, adding staff and posting phone numbers to "offices" in London and Zurich. Zero Hedge has seen its page views triple since July. It began selling $37 Zero Hedge T-shirts, modeled by a rumpled hipster in a green camouflage cap. The new logo looks vaguely like a Masonic symbol, and Tyler Durden's posts now feature the image of Brad Pitt's pummeled face from *Fight Club,* a glowering radical.

“You can tell he was feeding that conspiratorial audience,” says Roche, who posted a comment on Zero Hedge about his concern that the site was losing its focus and indulging in cheap theatrics. The comment was promptly deleted by Zero Hedge. “He got a backlash from a lot of readers,” says Roche. “Personally, I thought it detracted from his credibility.”
But not necessarily from his revenue stream. In July, Zero Hedge joined Halogen Network, an online-advertising company, which has placed Delta Airlines and Forex Trading ads on the blog’s pages. Halogen plans on conducting a reader survey for the site in the coming month. Greg Shove, founder and CEO of Halogen, says it will likely show the same demographics as other successful financial blogs: men between 35 and 55 who make $200,000 and up a year—a pretty juicy target audience. Zero Hedge could potentially rake in $25,000 a month in ad revenue alone. That’s a pittance for someone accustomed to hedge-fund wages, but it’s a healthy foundation for a nascent web-publishing firm that’s less than a year old.

Zero Hedge has certainly attracted high-powered readers drawn to his way of thinking. Jim Chanos, the founder of the investment firm Kynikos Associates, calls it a “must read” for his firm. A famed short-seller, Chanos is strategically sympathetic to Ivandjiiski’s radically bearish market views. Zero Hedge’s central argument, that the big banks are a menace and must be broken up, is “one that I and a lot of people secretly support,” says Chanos.

Chris Whalen, a banking analyst who met Ivandjiiski for lunch this year at the Peking Duck House in Manhattan, compares him to the pamphleteers of early-nineteenth-century America, non-journalists who distributed opinionated political tracts. “If we just relied on the old media, we’d have nothing right now,” he says. “He’s taken some things on that could easily have gotten him a lawsuit. He’s got a lot of balls.”

It’s fair to say that Zero Hedge’s success has given Ivandjiiski a newly minted sense of his own importance. In conversations with reporters, he regularly touts his influence with political figures like Schumer and Senator Ted Kaufman of Delaware, whose aides, he says, call him all the time.

For all his flame-throwing, Ivandjiiski is very sensitive to criticism. When a fellow blogger, who declined to be named, privately corrected him on some evidence he used to criticize the Fed, Ivandjiiski responded with a chest-thumping defense, citing his background working for a $10 billion hedge fund as evidence of his undeniable expertise. “I am well aware what I am talking about,” he told the blogger, “and the truth is there are many other things happening that I have yet to bring up … Unlike the mainstream media, I don’t tip my cards all at once … My style may hyperventilate, but at least it achieves its goal—which is to wake the people up from the stupor.”

Zero Hedge’s reputation has grown so much that last month, CNBC personalities Charlie Gasparino and Dennis Kneale felt moved to attack the site on-air—Kneale was particularly aggrieved by Zero Hedge’s ridicule of his declaration that the recession was over and delighted in describing anonymous bloggers as “dickweeds.” (Gasparino used the more prosaic “morons.”) Zero Hedge struck back with an “Open Letter to the Financial Media,” characterizing criticism as the dying gasps of the old media. “Ladies and Gentlemen,” it reads, “one-line zingers and contrived time limits designed to impale your hapless guests do not constitute 'constructive conflict' worthy of your interest in the Fourth Estate, which, incidentally, you do not own, but rather hold in trust on behalf of the citizenry."

Zero Hedge's critics aren't confined to the old media, though. Some financial bloggers see "Tyler Durden" as a fact-bending, fear-mongering opportunist. "It's nihilist, and that kind of vision lends itself to all manner of overreaching and conspiracy," says Felix Salmon of Reuters. "You need some kind of critical judgment to separate out the [stories] that make sense and the ones that don't. Zero Hedge just seems to not care about that. It doesn't matter if it's not true."

Even Zero Hedge's great triumph, the flash-trading exposé, is dismissed by some of his blogger peers. "It's like one of those *Star Trek* episodes where computers are taking over," says Paul Kedrosky of Infectious Greed. "It makes no sense, but it's fun to imagine. It hit the sweet spot of paranoia."

John Hempton of Bronte Capital has been among Zero Hedge's toughest critics, arguing that the high-frequency-trading issue is a "storm in a teacup" and "massively overstated," writing that "the argument that Goldies blowout trading profits have been caused by its recent forays into high-frequency trading is absurd. Everyone I know of who has hugely electronic trading systems is making less money, not more."

Hempton also says he was among the first to raise the question of "who the hell Zero Hedge is—and what his dollar on the chit is." Which is to say, what's his agenda?

Ivandjiiski was initially enthusiastic about being interviewed for this story and considered confirming his real identity, then backed out, citing the objection of a Chicago-based partner, who used to blog at Dealbreaker under the pseudonym "Equity Private." She now calls herself "Marla Singer," another character from *Fight Club*. She feared Ivandjiiski's exposure would lead to her unmasking as well. But more important, he made clear, a measure of secrecy is essential to the site's mission as an incorruptible critic of the market.
Ivandjiiski did arrange for me to speak with Singer. It was a bizarre exchange. "Tyler Durden isn't one person," she said, but up to 40 different people allowed to post under that name. "We are all Tyler Durden," Singer claimed.

It was around this time that Ivandjiiski, in his e-mails to me, began referring to himself in the third person. And one day after declaring our conversation over, he e-mailed again to flag yet another example of Zero Hedge's influence: a scathing analysis he wrote last March about the National Rural Utilities Cooperative Finance Corporation (NRUC), which prompted an angry press release from the company before the rating agency Fitch downgraded NRUC. In his final post on the subject, Zero Hedge predicted the move would leave the Virginia-based utility "in [a] smoldering heap of electric and telephone poles."

Whatever its other accomplishments, Zero Hedge has won the fierce loyalty of its readers—so fierce are they that two prominent financial bloggers I spoke with declined to comment on Ivandjiiski or his site for fear of a digital assault. “I have no interest in having his defenders storm over and attack my site,” says one blogger. Says another, “You can offer any logical argument, they just don’t care. They’re going to follow him over the cliff.”

When John Carney of Clusterstock merely posted about a blogger named John Jansen, who had called a Zero Hedge post “egregiously incorrect,” Clusterstock was invaded by Zero Hedge fans who said he had “sold out to CNBC.” “Start a war with ZH at your own peril,” one of them warned.

“A lot of the readers are people who felt like they’ve lost money to machinations on Wall Street in some way,” reasons Carney. “They see Zero Hedge as standing up for them, so any critique of Zero Hedge is taken as something that really needs to be fought back against. All hands on deck.”

Leo Kolivakis, a Montreal-based pension-fund analyst who recently started making occasional guest posts on Zero Hedge, says he enjoys the large and energized readership he gets writing for Zero Hedge. But even he doesn’t buy everything the site promotes, including the assertions about Goldman’s flash trading. “You can claim that, but where’s your proof? How do I know Lehman and Morgan Stanley weren’t doing the exact same thing? If that was really going on, I think the SEC would move and close that operation up.”

But the Zero Hedge faithful, and Ivandjiiski himself, would call that the naïve faith of the stupefied masses. He’s plunging ahead with a new crusade, going after so-called “dark pools,” unregulated markets where big investors can anonymously unload securities. (Just guess which firm dominated this practice.) “Now that flash trading is practically a thing of the past, everyone’s attention is shifting to dark pools,” Ivandjiiski announced last week, readying Chuck Schumer for his next mission: “The investing world is looking to you to continue your pursuit of a ‘level playing field.’□”

Wall Street is about speculation, and Wall Street blogs are no different. At this point, Zero Hedge has staked everything on a doomsday scenario, a takedown of the old order, “a deleveraging at every level of modern society.” Even as the market has improved, the economy has shown glimmers of stability, and many of his fellow bears have capitulated, Ivandjiiski has clung ever more tightly to his convictions. The manipulation of the market will eventually fail, he believes, and the pyramid scheme will be exposed for all to see. But it better happen soon or Zero Hedge may lose its mojo. The higher the Dow Jones climbs, the more righteous he necessarily becomes: Every hopeful data point a fraud, every bull a conspirator. There’s an old Wall Street term for this, for when you hold firm to your belief in defiance of the market—fighting the tape. It’s considered inadvisable, but that’s what Ivandjiiski is doing, convinced that he is destined to win.

U.S. Job Seekers Exceed Openings by Record Ratio
By PETER S. GOODMAN

Despite signs that the economy has resumed growing, unemployed Americans now confront a job market that is bleaker than ever in the current *recession*, and employment prospects are still getting worse.

Job seekers now outnumber openings six to one, the worst ratio since the government began tracking open positions in 2000. According to the Labor Department's latest numbers, from July, only 2.4 million full-time permanent jobs were open, with 14.5 million people officially unemployed.

And even though the pace of layoffs is slowing, many companies remain anxious about growth prospects in the months ahead, making them reluctant to add to their payrolls.

"There's too much uncertainty out there," said Thomas A. Kochan, a labor economist at *M.I.T.*'s Sloan School of Management. "There's not going to be an upsurge in job openings for quite a while, not until employers feel confident the economy is really growing."

The dearth of jobs reflects the caution of many American businesses when no one knows what will emerge to propel the economy. With unemployment at 9.7 percent nationwide, the shortage of paychecks is both a cause and an effect of weak hiring.

In Milwaukee, Debbie Kransky has been without work since February, when she was laid off from a medical billing position — her second job loss in two years. She has exhausted her unemployment benefits, because her last job lasted for only a month.

Indeed, in a perverse quirk of the unemployment system, she would have qualified for continued benefits had she stayed jobless the whole two years, rather than taking a new position this year. But since her latest unemployment claim stemmed from a job that lasted mere weeks, she recently drew her final check of $340.

Ms. Kransky, 51, has run through her life savings of roughly $10,000. Her job search has garnered little besides anxiety.

"I've worked my entire life," said Ms. Kransky, who lives alone in a one-bedroom apartment. "I've got October rent. After that, I don't know. I've never lived month to month my entire life. I'm just so scared, I can't even put it into words."

Last week, Ms. Kransky was invited to an interview for a clerical job with a health insurance company. She drove her Jeep truck downtown and waited in the lobby of an office building for nearly an hour, but no one showed. Despondent, she drove home, down $10 in gasoline.

For years, the economy has been powered by consumers, who borrowed exuberantly against real estate and tapped burgeoning stock portfolios to spend in excess of their incomes. Those sources of easy money have mostly dried up. Consumption is now tempered by saving; optimism has been eclipsed by worry.

Meanwhile, some businesses are in a holding pattern as they await the financial consequences of the health care reforms being debated in Washington.

Even after companies regain an inclination to expand, they will probably not hire aggressively anytime soon. Experts say that so many businesses have pared back working hours for people on their payrolls, while eliminating temporary workers, that many can increase output simply by increasing the workload on existing employees.

"They have tons of room to increase work without hiring a single person," said Heidi Shierholz, an economist at the *Economic Policy Institute* Economist. "For people who are out of work, we do not see signs of light at the end of the tunnel."

Even typically hard-charging companies are showing caution.

During the technology bubble of the late 1990s and again this decade, *Cisco Systems* — which makes Internet equipment — expanded rapidly. As the sense takes hold that the recession has passed, Cisco is again envisioning double-digit rates of sales growth, with plans to move aggressively into new markets, like the business of operating large scale computer data servers.

Yet even as Cisco pursues such designs, the company's chief executive, *John T. Chambers*, said in an interview Friday that he anticipated "slow hiring," given concerns about the vigor of growth ahead. "We'll be doing it selectively," he said.

Two recent surveys of newspaper help-wanted advertisements and of employers' inclinations to add workers were at their lowest levels on record, noted Andrew Tilton, a *Goldman Sachs* economist.

Job placement companies say their customers are not yet wiling to hire large numbers of temporary workers, usually a precursor to hiring full-timers.

"It's going to take quite some time before we see robust job growth," said Tig Gilliam, chief executive of Adecco North America, a major job placement and staffing company.

During the last recession, in 2001, the number of jobless people reached little more than double the number of full-time job openings, according to the Labor Department data. By the beginning of this year, job seekers outnumbered jobs four-to-one, with the ratio growing ever more lopsided in recent months.

Though layoffs have been both severe and prominent, the greatest source of distress is a predilection against hiring by many American businesses. From the beginning of the recession in December 2007 through July of this year, job openings declined 45 percent in the West and the South, 36 percent in the Midwest and 23 percent in the Northeast.

Shrinking job opportunities have assailed virtually every industry this year. Since the end of 2008, job openings have diminished 47 percent in manufacturing, 37 percent in construction and 22 percent in retail. Even in education and health services — faster-growing areas in which many unemployed people have trained for new careers — job openings have dropped 21 percent this year. Despite the passage of a stimulus spending package aimed at shoring up state and local coffers, government job openings have diminished 17 percent this year.

In the suburbs of Chicago, Vicki Redican, 52, has been unemployed for almost two years, since she lost her $75,000-a-year job as a sales and marketing manager at a plastics company. College-educated, Ms. Redican first sought another management job. More recently, she has tried and failed to land a cashier's position at a local grocery store, and a barista slot at a *Starbucks* coffee shop.

Substitute teaching assignments once helped her pay the bills. "Now, there are so many people substitute teaching that I can no longer get assignments," she said.

"I've learned that I can't look to tomorrow," she said. "Every day, I try to do the best I can. I say to myself, 'I don't control this process.' That's the only way you can look at it. Otherwise, you'd have to go up on the roof and crack your head open."

Downloaded from *http://www.nytimes.com/2009/09/27/business/economy/27jobs.html?pagewanted=print* on September 29, 2009.

Guest Post: The Case for Inflation

By George Washington of Washington's Blog.

As I have recently *pointed out*, there are strong arguments for ongoing deflation.

But even deflationists think that – after a period of deflation – we might eventually get inflation. For example, in October, I guessed 1 1/2 to 2 years of deflation, followed by inflation.

Moreover, noted deflationist Martin Weiss – after predicting for *27 years* straight that we'll have deflation – has now changed his mind, and thinks inflation *is a greater short-term threat* than deflation.

For these two reasons – and to make clear that the inflation versus deflation debate is complicated and includes many factors – this essay will focus on the arguments for inflation.

Faber and the Dollar

PhD economist Marc Faber *said* in May:

"I am 100% sure that the U.S. will go into hyperinflation."

Faber said he thinks – in the medium-term – we could have *high levels of inflation* (and see *this*and *this*).

Faber's *argument* is that a weakening dollar will lead to inflation (as every dollar will buy less goods and services).

Government Printing

The government has injected trillions of dollars into the economy in the form of TARP bailout funds and other programs. Indeed, the government's own watchdog over the TARP program – the special inspector general – *said* that number could be **$*23* trillion** dollars in a worst-case scenario.

The basic argument for inflation is – as everyone knows – that the government has injected so much money into the economy (through bailouts, quantitative easing, purchase of treasuries, etc.) that there will be a lot more dollars chasing the same number of goods and services, which will drive up prices. In other words, the supply is the same, but demand has increased.

Indeed, the U.S. has also provided huge sums of dollars to *foreign central banks*. Could dollars given abroad cause inflation inside the U.S.? Yes – because some proportion of those dollars will be spent by citizens in those countries to buy stocks, commodities, goods and services*within* the U.S.

Three well-known advocates of the inflation argument are Rogers, Buffet and Schiff.

Specifically, billionaire investor Jim Rogers *said* we are facing an "inflationary holocaust".

Warren Buffett *said*:

The policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

And Peter Schiff has argued for years that hyperinflation will wipe out the value of the dollar, so people should get all of their money out of dollars and into foreign currencies and assets.

But is all this government printing and quantitative easing really enough to cause inflation?

The back-of-the-envelope figures I've seen bandied about say no. Because of the massive destruction of credit (which – as Mish has repeatedly pointed out – must be included in discussions of inflation versus deflation), the government would probably have to print *one-and-a-half to two times* as much as it already has in order to create inflation.

The government could still do so. Yes, it would be suicidal for the dollar and might cause foreign buyers of U.S. treasuries to stop buying, but the boys in Washington could – if they were crazy enough – increase the money printing and quantitative easing to the point where inflation actually kicks in.

Will they do so? Summers, Geithner and Bernanke have proven themselves willing to do a lot of crazy things over the past year, so I wouldn't rule the possibility out altogether.

Indeed, when the Option Arm, Alt-A and commercial real estate mortgages start defaulting in earnest, there will be a lot of pressure on Washington to "do something". But again, doubling the amount of money printing would turn the dollar into monopoly money, and so there will be a lot of pressure not to turn America into Zimbabwe.

Devaluing the Dollar

Many commentators also argue that the U.S. is intentionally devaluing the dollar in order to increase trade.

And – as everyone knows – the dollar might tank even if the boys don't intentionally devalue it into oblivion. Just look at the amount of printing and easing which has already been done, the tidal wave of debt overhang, and the lack of fundamental soundness in the giant banks, the financial system, and the U.S. economy as a whole.

Moreover, some people *argue* that the dollar carry trade will drive inflation. Specifically, they argue that we'll get "spec-flation", meaning that investors will buy dollars and – in a carry trade – use the dollars to invest abroad. This will devalue the dollar, creating inflation.

And, importantly, the U.S. is quickly *losing its status* as the world's reserve currency. Therefore, the "premium" on the value of the dollar for its status as reserve currency will also fade, and the value of the dollar decline.

For these and other reasons, Faber and other inflationists would argue that the dollar will continue to substantially decline and inflation will therefore kick in (Note: Mish is still a dollar bull, and so doesn't concede this point).

Unemployment

I have previously argued that the rising tide of unemployment will contribute to deflation for some time.

However, Edmond Phelps – who won the Nobel Prize for Economics in 2006 – and PIMCO Chief Executive Officer Mohamed El-Erian both *say* that the "natural unemployment rate" has risen from 5 to perhaps 7 percent.

What is the natural unemployment rate? It just means that if unemployment falls below that a certain percentage, then inflation will be created.

So if the natural unemployment rate has risen, that may mean that we will get inflation sooner (when unemployment falls to 7%, instead of when it falls all the way back to the previous peg of 5%).

End of Foreign Bond Purchases?

Tiger Management founder and chairman Julian Robertson *warns* that – if foreign purchasers stop buying U.S. treasury bonds – inflation will strike:

If the Chinese and Japanese stop buying our bonds, we could easily see [inflation] go to 15 to 20 percent," he said. "It's not a question of the economy. It's a question of who will lend us the money if they don't. Imagine us getting ourselves in a situation where we're totally dependent on those two countries. It's crazy.

Bottleneck Inflation

Finally, Andy Xie *argues* that "bottlenecks" can cause inflation. Specifically, Xie argues that inflation in a single key market – say oil – can cause inflation, even in a weak economy.

Conclusion

As I have argued for a year, we will probably have a period of deflation followed by inflation. I still believe that.

When inflation will kick in is the million dollar question. The inflation camp argues that inflation will kick in any second now without any warning. In the *deflation camp*, David Rosenberg argues for *years* of deflation, and Dr. Lacy Hunt argues for *decades* of deflation.

Bottom line: In my opinion, the question is *when*, not *if*.

But in investing, being too early is being wrong. Someone who is positioned for inflation decades too early will get creamed. Likewise, someone who is betting on deflation for 20 years will get hurt if inflation kicks in next month.

Note: Remember that we could also get mixed-flation. In other words, inflation in some asset classes and deflation in others. *Indeed, given that* speculators drove up the price of oil last year*, it is possible that – especially in a stagnant economy – speculators could drive up the prices of some asset classes and drive others down.*

Downloaded from *http://www.nakedcapitalism.com/2009/09/guest-post-the-case-for-inflation.html* on September 29, 2009.

TUESDAY, SEPTEMBER 22, 2009

Arguments for Deflation: Unemployment, Debt and Deleveraging, the Pension Crisis, Collapse of the Shadow Banking System, and Interest on Reserves

As Absolute Return Partners *wrote* in its July newsletter:

The most important investment decision you will have to make this year and possibly for years to come is whether to structure your portfolio for deflation or inflation.

So which is it, inflation or deflation?

This is obviously a hot topic of debate, and experts weigh in on both sides. I've analyzed this issue in *numerous posts*, but every day there are new arguments one way or the other from some very smart people.

Because the arguments for inflation are so obvious and widely-discussed (bailouts, quantitative easing, Fed purchasing treasuries, etc.), I will not discuss them here (other than pointing to an interesting new argument for inflation by *Andy Xie*).

How Bad Could It Get?

The biggest deflation bears are rather pessimistic:

- David Rosenberg *says* that deflationary periods can last years before inflation kicks in
- Renowned economist Dr. Lacy Hunt says that we may have 15-20 *years of deflation*
- PhD economist Steve Keen says that – unless we reduce our debt – we could have a "*never-ending* depression"

These are the most pessimistic views I have run across. Most deflationists think that a deflationary period would last for a shorter period of time.

The Best Recent Arguments for Deflation

Following are some of the best arguments for deflation.

Unemployment

Wall Street Journal's Scott Patterson *writes* that we won't get inflation until unemployment is down below 5%:

A rule of thumb is that inflation doesn't become sticky until the unemployment rate dips below 5%…

"I see very little prospect of accelerating inflation" partly because of the employment outlook, said Mark Zandi, chief economist of Moody's Economy.com. "I don't think the risk shifts toward inflation until 2011, or even 2012."

It could take *a* lot *longer* for unemployment to go back down to 5% (and for consumers to have more money to spend again).

(Note: hyperinflation is obviously an entirely different animal. For example, there was rampant unemployment in the Weimar Republic during its bout with hyperinflation *).*

Debt Overhang and Deleveraging

Steve Keen *argues* that the government's attempts to increase lending won't work, consumers will keep on deleveraging from their debt, and that – unless debt is slashed – the massive debt overhang will keep us in a deflationary environment for a long time.

Edward Harrison *notes*:

Nomura's Chief Economist Richard Koo wrote a book last year called "The Holy Grail of Macroeconomics" which introduced the concept of a balance sheet recession, which explains economic behaviour in the United States during the Great Depression and Japan during its Lost Decade. He explains the factor connecting those two episodes was a consistent desire of economic agents (in this case, businesses) to reduce debt even in the face of massive monetary accommodation.

When debt levels are enormous, as they are right now in the United States, an economic downturn becomes existential for a great many forcing people to reduce debt. **Recession lowers asset prices (think houses and shares)** while the debt used to buy those assets remains. Because the debt levels are so high, suddenly everyone is over-indebted. Many are technically insolvent, their assets now worth less than their debts. And the three D's come into play: a downturn leads to debt deflation, deleveraging, and ultimately depression. The D-Process is what truly separates depression from recession ...

See a presentation by Koo *here*.

Leading investment advisor Ray Dalio *says* the same thing.

Mish *writes*:

An over-leveraged economy is one prone to deflation and stagnant growth. This is evident in the path the Japanese took after their stock and real estate bubbles began to implode in 1989.

Leverage is increasing again, according to an *article* in Bloomberg:

Banks are increasing lending to buyers of high-yield company loans and mortgage bonds at what may be the fastest pace since the credit-market debacle began in 2007…

"I am surprised by how quickly the market has become receptive to leverage again," said Bob Franz, the co-head of syndicated loans in New York at Credit Suisse…

Indeed, as I have repeatedly pointed out, Bernanke, Geithner, Summers and the chorus of mainstream economists have all acted as enablers for increasing leverage.

Mish continues:

Creative destruction in conjunction with global wage arbitrage, changing demographics, downsizing boomers fearing retirement, changing social attitudes towards debt in every economic age group, and massive debt leverage is an extremely powerful set of forces.

Bear in mind, that set of forces will not play out over days, weeks, or months. A Schumpeterian Depression will take years, perhaps even decades to play out.

Thus, deflation is an ongoing process, not a point in time event that can be staved off by massive interventions and Orwellian Proclamations "We Saved The World".

Bernanke and the Fed do not understand these concepts, nor does anyone else chanting that pending hyperinflation or massive inflation is coming right around the corner, nor do those who think new stock market is off to new highs. In other words, almost everyone is oblivious to the true state of affairs.

Pension Crisis

Pension expert Leo Kolivakis *writes*:

The global pension crisis is highly deflationary and yet very few commentators are discussing this.

Collapse of the Shadow Banking System

Hoisington's Second Quarter 2009 Outlook *states*:

One of the more common beliefs about the operation of the U.S. economy is that a massive increase in the Fed's balance sheet will automatically lead to a quick and substantial rise in inflation. [However] An inflationary surge of this type must work either through the banking system or through non-bank institutions that act like banks which are often called "shadow banks". The process toward inflation in both cases is a necessary increasing cycle of borrowing and lending. As of today, that private market mechanism has been acting as a brake on the normal functioning of the monetary engine.

For example, total commercial bank loans have declined over the past 1, 3, 6, and 9 month intervals. Also, recent readings on bank credit plus commercial paper have registered record rates of decline. The FDIC has closed a record 52 banks thus far this year, and numerous other banks are on life support. The "shadow banks" are in even worse shape. Over 300 mortgage entities have failed, and Fannie Mae and Freddie Mac are in federal receivership. Foreclosures and delinquencies on mortgages are continuing to rise, indicating that the banks and their non-bank competitors face additional pressures to re-trench, not expand. **Thus far in this unusual business cycle, excessive debt and falling asset prices have conspired to render the best efforts of the Fed impotent.**

Ellen Brown *argues* that the break down in the securitized loan markets (especially CDOs) within the shadow banking system dwarfed other types of lending, and argues that the collapse of the securitized loan market means that deflation will – with certainty – continue to trump inflation unless conditions radically change.

Support for Brown's argument comes from several sources.

As the Washington Times *notes*:

"Congress' demand that banks fill in for collapsed securities markets poses a dilemma for the banks, not only because most do not have the capacity to ramp up to such large-scale lending quickly. *The securitized loan markets provided an essential part of the machinery that enabled banks to lend in the first place. By selling most of their portfolios of mortgages, business and consumer loans to investors, banks in the past freed up money to make new loans*. . . ."The market for pooled subprime loans, known as collateralized debt obligations (CDOs), collapsed at the end of 2007 and, by most accounts,*will never come back*. Because of the surging defaults on subprime and other exotic mortgages, investors have shied away from buying the loans, forcing banks and Wall Street firms to hold them on their books and take the losses."

Senior economic adviser for UBS Investment Bank, George Magnus, *confirms*:

The restoration of normal credit creation should not be expected, until the economy has adjusted to the disappearance of *shadow bank credit*, and until banks have created the capacity to resume lending to creditworthy borrowers. This is still about capital adequacy, where better signs of organic capital creation are welcome. More importantly now though, it is about poor asset quality, especially as defaults and loan losses rise into 2010 from already elevated levels.

And McClatchy *writes*:

The foundation of U.S. credit expansion for the past 20 years is in ruin. Since the 1980s, banks haven't kept loans on their balance sheets; instead, they sold them into a secondary market, where they were pooled for sale to investors as securities. The process, called securitization, fueled a rapid expansion of credit to consumers and businesses. By passing their loans on to investors, banks were freed to lend more.

Today, securitization is all but dead. Investors have little appetite for risky securities. Few buyers want a security based on pools of mortgages, car loans, student loans and the like.

"The basis of revival of the system along the line of what previously existed doesn't exist. The foundation that was supposed to be there for the revival (of the economy) . . . got washed away," [economist James K.] Galbraith said.

Unless and until securitization rebounds, it will be hard for banks to resume robust lending because they're stuck with loans on their books.

Fed Paying Interest on Reserves

And Naufal Sanaullah *writes*:

So if all of this printed money is being used by the Fed to purchase toxic assets, where is it going?

Excess reserves, of course. Counting for $833 billion of the Fed's liabilities, the reserve balance with the fed has skyrocketed almost 9000% YoY. Excess reserves, balances not used to satisfy reserve requirements, total $733 billion, up over 38,000%!

The Fed pays interest on these reserves, and with an interest rate (return on capital) comes opportunity cost. Banks hoard the capital in their reserves, collecting a risk-free rate of return, instead of lending it out into the economy. But what happens as more loan losses occur and consumer spending grinds to a halt? The Fed will lower (or get rid of) this interest on reserves.

And *that* is when the excess liquidity synthesized by the Fed, the printed money, comes rushing in and inflates goods prices.

Of course, most people who are arguing we will have deflation for a while believe that we might **eventually** get inflation at some point in the future.

Downloaded from *http://www.washingtonsblog.com/2009/09/best-recent-arguments-for-deflation.html* on September 29, 2009.

SNAP ANALYSIS: New world economic order takes shape at G20

Fri Sep 25, 2009 5:20am EDT

By *Lesley Wroughton*

PITTSBURGH (Reuters) - The Group of 20 is set to become the premier coordinating body on global economic issues, reflecting a new world economic order in which emerging market countries like China are much more relevant, according to a draft communique.

Leaders of the G20 developed and developing nations also agreed to make the International Monetary Fund more representative by increasing the voting power of countries that have long been under-represented in the world financial body, said the draft G20 communique obtained by Reuters.

It called for a shift in IMF voting by at least 5 percent, although several G20 representatives said it was a 5 percentage point shift from developed to under-represented countries. Currently, the split in voting power is 57 percent for industrialized countries and 43 percent for developing countries. The shift would make the split nearly 50-50.

The G20 was formed in 1999 for finance ministers and central bank chiefs following the Asian financial crisis. The idea was to help the G7 -- the United States, Germany, Britain, France, Italy, Canada and Japan -- talk with the wider world.

Following are some of the implications of the decisions:

* The shifts reflect a recognition by the United States and Europe of a new global economic reality in which emerging market economies play a bigger role, especially in the aftermath of the global financial crisis that hurt developed economies more than developing ones.

* By making the G20 the new global economic coordinator, countries are committing to maintaining cooperation even after the global financial upheaval and recession recede. The G20 was upgraded from a ministerial to a leaders-level forum only last year as the crisis deepened.

* Adopting the G20 as the new economic steering committee raises questions over the whether or not the Group of Eight, which makes up the world's industrial countries, will eventually be faded out. Diplomats said the G8 would continue to function but would focus on non-economic issues.

* The agreements are big wins for U.S. President Barack Obama, hosting his first international summit. Since his election last year, he has pushed for changes in the global financial architecture to recognize the increasing economic clout of China and other emerging markets.

The agreement to overhaul the IMF's voting structure is especially big for the new Obama administration, given that the United States proposed the 5 percentage point shift. The speed with which the G20 agreed to the change -- if the draft communique is eventually adopted -- is surprising because of the politically sensitive nature of the issue for Europe, which will see the biggest dilution in its voting power.

* Giving developing nations more say at the IMF and a bigger say in global economic affairs could help Obama succeed in his push to get big exporters like China to increase domestic demand, helping slower-growing economies like the United States to find new markets.

* The shift of at least 5 percentage points in voting power is the largest increase ever seen in the IMF's voting structure and is likely to see China overtake old European powers Britain and France which have long resisted the move.

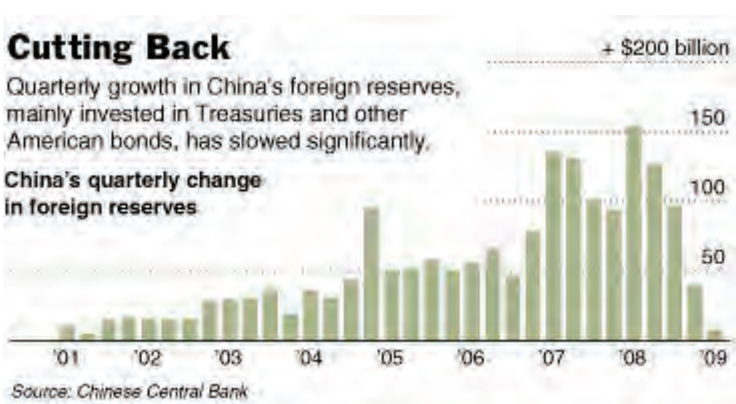
* The G20 decision on IMF voting reform will give momentum to a 2011 deadline for overhauling IMF governance which will then be voted on by the IMF's 186 member countries.

* The G20 also agreed the head of the IMF should be selected based on qualifications and not nationality, according to the draft communique obtained by Reuters. The decision is significant because the head of the IMF has always been a European, while the president of the World Bank has always been an American.

Downloaded from *http://www.reuters.com/articlePrint?articleId=USTRE58O1FB20090925* on September 29, 2009.

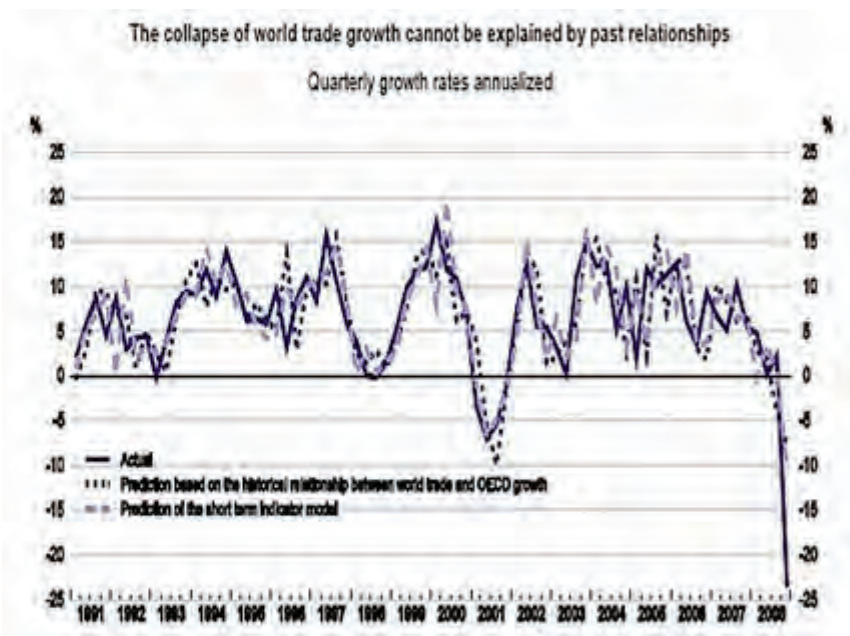
Summer 2009: The international monetary system's breakdown is underway

The next stage of the crisis will result from a Chinese dream. Indeed, what on earth can China be dreaming of, caught – if we listen to Washington – in the "**dollar trap**" of its 1,400-billion worth of USD-denominated debt (1)? If we believe US leaders and their scores of media experts, China is only dreaming of remaining a prisoner, and even of intensifying the severity of its prison conditions by buying always more US T-Bonds and Dollars (2).
In fact, everyone knows what prisoners dream of? They dream of escaping of course, of getting out of prison. LEAP/E2020 has therefore no doubt that Beijing is now (3) constantly striving to find the means of disposing of, as early as possible, the mountain of « toxic » assets which US Treasuries and Dollars have become, keeping the wealth of 1,300 billion Chinese citizens (4) prisoner. In this issue of the GEAB (N°34), our team describes the "tunnels and galleries" Beijing has secretively begun to dig in the global financial and economic system in order to escape the « dollar trap » by the end of summer 2009. Once the US has defaulted on its debt, it will be time for the « everyman for himself » rule to prevail in the international system, in line with the final statement of the London G20 Summit which reads as a « chronicle of a geopolitical dislocation », as explained by LEAP/E2020 in this issue of the Global Europe Anticipation Bulletin.



Quarterly Chinese foreign exchange reserves growth – Source: People's Bank of China / New York Times, 04/2009

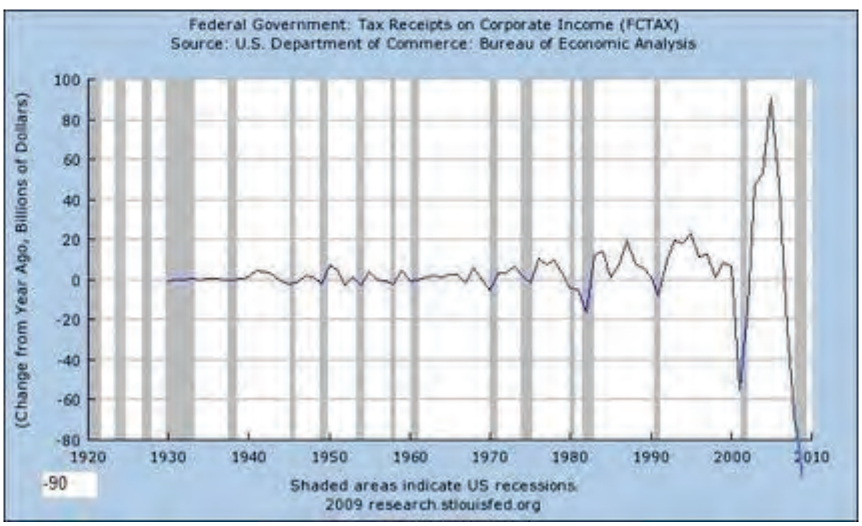
Behind London's « fools' game », where everyone pretended to believe that an event of « historical » international co-operation (5) took place, the G20 summit in fact revealed major divisions. The Americans and British (followed by a compliant Japan) desperately tried to preserve their capacity to maintain control over the global financial system, freezing or diluting any significant reform granting more power to the other players, but in fact no longer powerful enough to enforce their aims. The Chinese, Russians, Indians, Brazilians,… strove to change the balance of the international monetary and financial system in their favour, but were unable (or maybe, deep down, unwilling (6)) to impose their reforms. The Europeans (the EU without the United Kingdom) proved incapable of making up their minds between the only two options available: duplicating US and UK policies and sinking along with them, or questioning the very roots of the current monetary and financial system in partnership with the Chinese, the Russians, the Indians and the Brazilians. Today the Europeans have avoided following Washington and London in their endless reproduction of failed past policies (7), but they do not yet dare to prepare for the future.



The ongoing collapse of world trade growth cannot be explained by past relationships – Quarterly growth rates annualized – Source: OECD, March 2009

The Europeans can be held accountable if, in the remaining small window of opportunity (less than 6 months now), they fail to undertake the necessary steps to avoid a 10 year-long tragic crisis (8). Indeed they have the technical know-how that can help to create an international currency based on a basket of the world's most important currencies, and they know which political approach is required to best combine the various strategic interests of a group of

countries whose currencies would comprise the new international reserve currency. Unfortunately, EU leaders (namely Eurozone ones) clearly seem unable to face their responsibilities today, as if they preferred to let the Western system break down (though claiming the contrary) rather than fight to turn it into a bridge leading to a new global system. It may be a choice (LEAP/E2020 does not believe so); it may also be the result of the pusillanimity of EU leaders selected on the basis of their docility (vis-à-vis Washington and major European financial and economic players). In any event, this neutrality is dangerous for the world because it prevents the launch of an effective process to avoid a decade-long tragic crisis to unwind (9).
In this issue of the GEAB, our researchers anticipate the different forms a US default will take at the end of summer 2009, a US default which can no longer be concealed concealable from this April (most taxes are collected in April in the US) onward (10). The perspective of a US default this summer is becoming clearer as public debt is now completely out of control with skyrocketing expenses (+41%) and collapsing tax revenues (-28%), as LEAP/E2020 anticipated more than a year ago. In March 2009 alone, the federal deficit has nearly reached USD 200-billion (way above the most pessimistic forecasts), i.e. a little less than half of the deficit recorded for the entire year 2008 (a record high year) (11). The same trend can be observed at every level of the country's public organisation: federal state, federated states (12), counties, towns (13), everywhere tax revenues are vanishing, suffocating the whole country with spiraling debts that no one can control anymore (not even Washington).



US tax receipts on corporate income (1930 – 2009) – Sources: US Department of Commerce / Saint Louis Federal Reserve (Q2-Q3 2009 projection by EconomicEdge)

In this issue of the GEAB (N°34), our researchers focus on how to explain the « mystery of gold price ». Indeed, our seekers (of information, not gold) identified a number of interesting leads to understand why (14) the price of gold has been fluctuating around the same level for months

when the number of gold buyers is constantly increasing and demand for coins and bars far exceeds available supply in many countries.
Finally, our team gives recommendations on how to prepare for the crisis in the coming months, with particular regard to savings and life-insurance.

———

Notes:
(1) Total Chinese foreign exchange reserves amount to USD 2,000-billion, of which USD-denominated assets are 70 percent maximum, equal to USD 1,400 billion. The remaining 30 percent mainly consists of EUR-denominated assets.

(2) Most of the time, the same « experts » predicted that global economy would benefit from banking deregulation, that the Internet economy was opening up an era of endless growth, that US deficits were a sign of strength, that US house prices would always go up, and that taking on debt was the modern way to get rich.

(3) The message on the necessity to switch international reserve currency, sent out by Beijing to the world – to US authorities in particular –, on the eve of London's G20 Summit, was not intended to merely test the waters nor was it some vague attempt with no hope of success. The Chinese leaders had no illusion on the chances for this topic to be actually addressed in the G20 Summit, but they wanted it to be discussed in the backrooms, because they wanted to send an unofficial signal to all the players of the international monetary system: in Beijing's mind, the Dollar system is over! If no one wishes to prepare for a common alternative system, the alternative system will be built some other way, knowing that the actions the Chinese are currently taking corroborate this intention. For instance, precisely these days (random political schedule is rare in Beijing) a book is being published, entitled « Unhappy China », arguing that Chinese leaders should stand up and impose their choices on the international arena. Source:**ChinaDailyBBS**, 03/27/2009

(4) This link gives the figures to the last cent: **ChineInformation**.

(5) Angela Merkel was closest to the truth about the G20 summit when she called it « **an almost historical event** ». The word "almost" is emblematic of what happened in London: the G20 leaders "almost" created a framework for a joint action programme, they "almost" launched new stimulus plans and new international financial rules, they "almost" banned tax-havens, and they "almost" convinced everyone that it would happen. "Almost" but not "really", will make a big difference for the next stages of the crisis.

(6) In the previous issue of the GEAB (N°33), our team explained this dilemma for the "international system" today. At some point, it is in the interests of new players to simply wait

for the current system to break down in order to build a new one, rather than strive to reform it, and suffer a long period of uncertainty.

(7) In particular, outrageous government borrowing – also called « economic stimulus » in Washington and London.

(8) The decisions taken at London's G20 summit directly contribute to the long-term crisis scenario.

(9) As regards the EU, LEAP/E2020 emphasizes the inanity of all those economic and political « analyses », produced by leading economists and experts close to the American Democrats, and circulated by all the largest international mainstream media, blaming the Europeans for not following in Washington's footsteps. Taking their lead from people like Paul Krugman for instance, these « very good friends » of Europe, who like it so much that they think they know better than Europe what is best for it (and what it should become, as indeed the same experts usually advocate its extension to Turkey, see Israel and Central Asia), whereas they would be best giving some quality advice to their own party and their new President to prevent their own country from collapsing, as this is what is really at stake today. It is beyond belief that a panel of experts, who, in all these years, sang the praises of a system which is today collapsing under everyone's nose, still dares give lessons to the rest of the world. Basis decency suggests only one course of conduct worldwide: silence. In Europe, this position, despite the fact that it still enjoys its usual academic and media support, is too outdated to be accepted. LEAP/E2020 believes it is necessary and legitimate to cast a critical eye on the EU, its leaders and its policies; but doing so on the sole criteria of its conformity or otherwise with Washington's (or London's) stance is no longer acceptable. In the same way as financiers and business leaders obviously failed to understand that times had changed regarding their stock-options and "golden parachutes", a number of intellectuals and politicians have not yet fully understood that their points of reference, values and theories now belong to the past. They should think of the elites of the Soviet bloc and they would understand how and how fast a thought system can become obsolete.

(10) Besides collapsing tax revenues, a protest movement has started in the US against using taxes to save Wall Street and against further deficits, blaming the country's entire leading class. Sources: **USAToday**, 04/13/2009; **MarketWatch**, 04/16/2009

(11) Sources: **USAToday**, 04/11/2009; **MarketWatch**, 04/10/2009

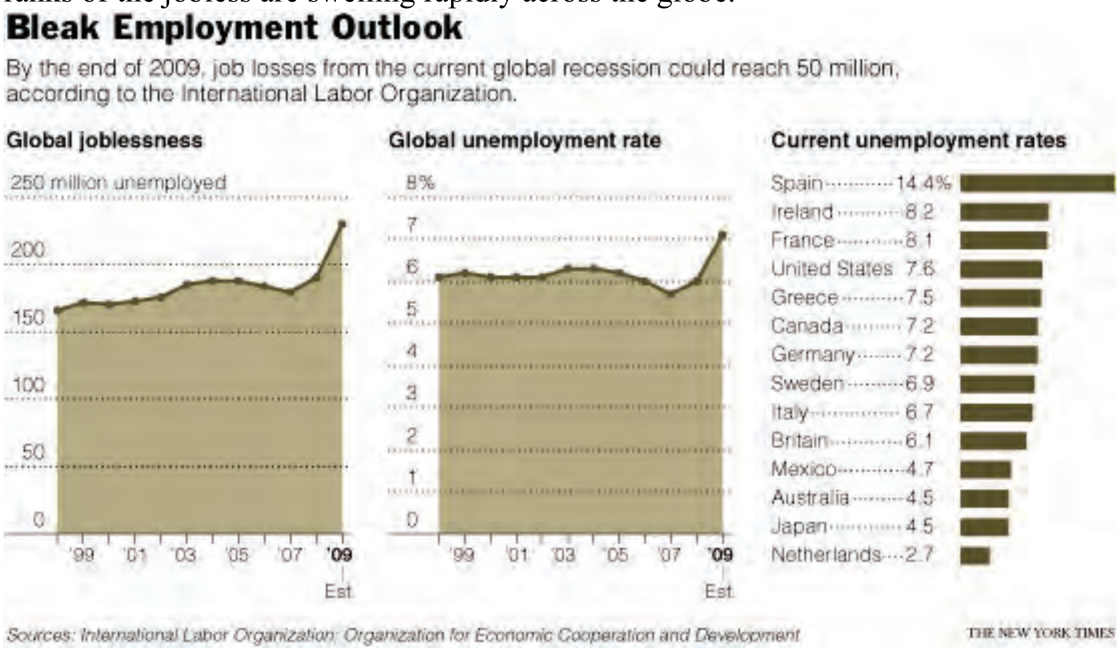
(12) In California for instance, the first days of April suggested revenues far lesser than the worse forecasts, likely to result in multiplying two-fold California's debt anticipated a few months ago. A similar trend is under way at the federal level, making it possible to imagine that the annual federal deficit reaches above USD 3,500 billion, i.e. 20 percent of US GDP. Source :**CaliforniaCapitol**, 04/08/2009

(13) Some towns, like Auburn near Seattle for instance, are compelled to ban trucks from their major freight routes by lack of maintenance financial means. Source: **SeattleBusinessJournal**, 04/10/2009

(14)Thus enabling to anticipate upcoming trends.

Downloaded from *http://pakalert.wordpress.com/2009/04/18/trend-alert-total-economic-breakdown-is-underway/* on September 29, 2009.
Job Losses Pose a Threat to Stability Worldwide

February 14, 2009
PARIS — From lawyers in Paris to factory workers in China and bodyguards in Colombia, the ranks of the jobless are swelling rapidly across the globe.



Worldwide job losses from the recession that started in the United States in December 2007 could hit a staggering 50 million by the end of 2009, according to the *International Labor Organization*, a *United Nations*agency. The slowdown has already claimed 3.6 million American jobs.

High unemployment rates, especially among young workers, have led to protests in countries as varied as Latvia, Chile, Greece, Bulgaria and Iceland and contributed to strikes in Britain and France.

Last month, the government of Iceland, whose economy is expected to contract 10 percent this year, collapsed and the prime minister moved up national elections after weeks of protests by Icelanders angered by soaring unemployment and rising prices.

Just last week, the new United States director of national intelligence, *Dennis C. Blair*, told Congress that instability caused by the global economic crisis had become the biggest security threat facing the United States, outpacing terrorism.

“Nearly everybody has been caught by surprise at the speed in which unemployment is increasing, and are groping for a response,” said Nicolas Véron, a fellow at Bruegel, a research center in Brussels that focuses on Europe’s role in the global economy.

In emerging economies like those in Eastern Europe, there are fears that growing joblessness might encourage a move away from free-market, pro-Western policies, while in developed countries unemployment could bolster efforts to protect local industries at the expense of global trade.

Indeed, some European stimulus packages, as well as one passed Friday in the United States, include protections for domestic companies, increasing the likelihood of protectionist trade battles.

Protectionist measures were an intense matter of discussion as finance ministers from the*Group of 7* economies *met this weekend in Rome*.

While the number of jobs in the United States has been falling since the end of 2007, the pace of layoffs in Europe, Asia and the developing world has caught up only recently as companies that resisted deep cuts in the past follow the lead of their American counterparts.

The *International Monetary Fund* expects that by the end of the year, global economic growth will reach its lowest point since the Depression, according to Charles Collyns, deputy director of the fund’s research department. The fund said that growth had come to “a virtual halt,” with developed economies expected to shrink by 2 percent in 2009.

“This is the worst we’ve had since 1929,” said Laurent Wauquiez, France’s employment minister. “The thing that is new is that it is global, and we are always talking about that. It is in every country, and it makes the whole difference.”

In Asia, any smugness at having escaped losses on American subprime debt has been erased by growing despair over a plunge in sales among major exporters. On Thursday, Pioneer of Japan said it would abandon the flat-screen television business and cut 10,000 jobs worldwide in response to sagging demand for consumer electronics.

Millions of migrant workers in mainland China are searching for jobs but finding that factories are shutting down. Though not as large as the disturbances in Greece or the Baltics, there have been dozens of protests at individual factories in China and Indonesia where workers were laid off with little or no notice.

The breadth of the problem is also becoming apparent in Taiwan, where exports were down 42.9 percent last month, compared with a year ago, the steepest plunge in Asia.

Chang Yung-yun, a 57-year-old restaurant kitchen worker, was laid off when her employer closed in mid-November. Her son, an engineer, has been put on unpaid vacation for weeks, a tactic that has become common in Taiwan.

"The greatest fear for our people is losing jobs," Taiwan's president, *Ma Ying-jeou*, said in an interview.

Calls for protectionism have resonated among a fearful public. In Britain, refinery and power plant employees walked off the job last month to protest the use of workers from Italy and Portugal at a construction project on the coast. Some held up signs highlighting Prime Minister *Gordon Brown*'s earlier promise of "British jobs for British workers."

Unemployment in Britain is expected to rise to 9.5 percent by the middle of 2010, from 6.3 percent now, according to Peter Dixon, an economist with Commerzbank in London. Germany's jobless rate could rise to 10.5 percent from 7.8 percent, he added.

In France last week, President *Nicolas Sarkozy* agreed to supply low-interest loans of 3 billion euros, or $3.86 billion, each to PSA Peugeot Citroën and Renault in exchange for an agreement not to lay off French workers.

To a greater extent than in past European downturns, highly trained white-collar workers are pounding the pavement, too. Naomi Runquist-Ohayon, a trademark lawyer, has been looking for work in Paris since the beginning of the year, after losing her job in December.

"This is a new experience for me," said Ms. Runquist-Ohayon, 39, a Swedish native who has lived in Paris and London and speaks fluent English, French, Swedish and Italian. "In London, I never had to really look. Recruiters or headhunters would call me or I would call them. It's not so easy now."

Half a world away in Colombia, Jaime Galeano, 40, is in a similar predicament. As a bodyguard in a country notorious for drug-related violence and kidnappings, Mr. Galeano thought his profession was immune until he lost his job last year.

“The conditions for finding a job are terrible,” he said. What is more, his age is now an impediment, with a ministry informing him that only applicants under the age of 32 would be considered for new positions.

“After turning 35, a person is worth nothing,” Mr. Galeano said.

Even India, whose startling rise to the forefront of the global economy was portrayed in the hit movie “Slumdog Millionaire,” has hit a wall. About 500,000 people lost jobs between October and December 2008, according to one recent analysis.

In New Delhi, Tarun Lamba lost the first real job he ever had about a month ago, when he was laid off as a sales manager. Mr. Lamba, 24, said he knew bad news was coming because it had been weeks since he had written a truck loan. If he has to, he said, he could join his father’s business, selling clothes. But he hopes it will not come to that.

“The cycle has to keep running,” he said. “We had a boom period one year ago, now we are in a recession, and after some time the boom will come again.”

Many newer workers, especially those in countries that moved from communism to capitalism in the 1990s, have known only boom times since then. For them, the shift is especially jarring, a main reason for the violence that exploded recently in countries like Latvia, a former Soviet republic.

“For the young generation, aged 20 to 24, this is the first time we’ve had this,” said Valdis Zatlers, Latvia’s president.

The ripples from the slowdown in Europe, North America and Asia are also being felt in Africa as migrant workers abroad lose their jobs and find themselves unable to send money home.

Since his last temporary job as a metalworker in Paris ended three months ago, Ignace Abdul has halted the monthly 200 euro payments he had been sending to his wife and three children back in Senegal. “Between 2004 and 2008, I worked nonstop,” Mr. Abdul, 30, said in an interview in a bleak Paris unemployment office. “Right now, there is nothing.”

Downloaded from
http://www.nytimes.com/2009/02/15/business/15global.html?pagewanted=2&_r=3&hp on September 29, 2009.

4th quarter 2009 – Beginning of Phase 5 of the global systemic crisis: phase of global geopolitical dislocation

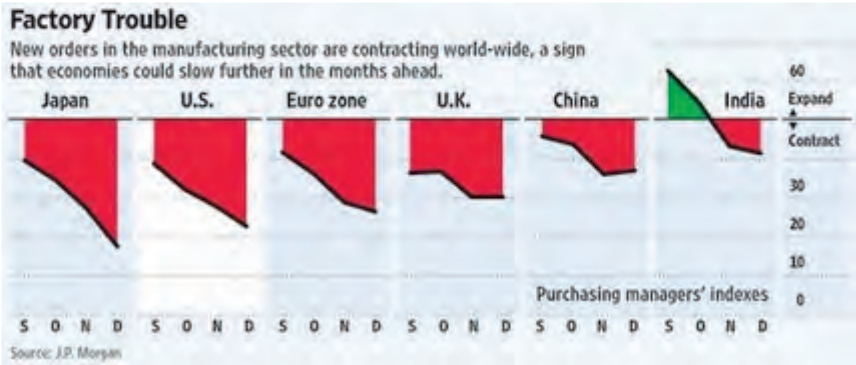
- Public announcement GEAB N°32 (February 16, 2009) -

Back in February 2006, LEAP/E2020 estimated that the global systemic crisis would unfold in 4 main structural phases: trigger, acceleration, impact and decanting phases. This process enabled us to properly anticipate events until now. However our team has now come to the conclusion that, due to the global leaders' incapacity to fully realise the scope of the ongoing crisis (made obvious by their determination to cure the consequences rather than the causes of this crisis), the global systemic crisis will enter a fifth phase in the fourth quarter of 2009, a phase of global geopolitical dislocation.
According to LEAP/E2020, this new stage of the crisis will be shaped by two major processes happening in two parallel sequences:

A. Two major processes:
1. Disappearance of the financial base (Dollar & Debt) all over the world
2. Fragmentation of the interests of the global system's big players and blocks

B. Two parallel sequences:
1. Quick disintegration of the current international system altogether
2. Strategic dislocation of big global players.

We had hoped that the decanting phase would give the world's leaders the opportunity to draw the proper conclusions from the collapse of the global system prevailing since WWII. Alas, at this stage, it is no longer possible to be optimistic in this regard (1). In the United States, as in Europe, China and Japan, leaders persist in reacting as if the global system has only fallen victim to some temporary breakdown, merely requiring loads of fuel (liquidities) and other ingredients (rate drops, repurchase of toxic assets, bailouts of semi-bankrupt industries,…) to reboot it. In fact (and this is what LEAP/E2020 means ever since February 2006 using the expression « global systemic crisis"), the global system is simply out of order; a new one needs to be built instead of striving to save what can no longer be saved.

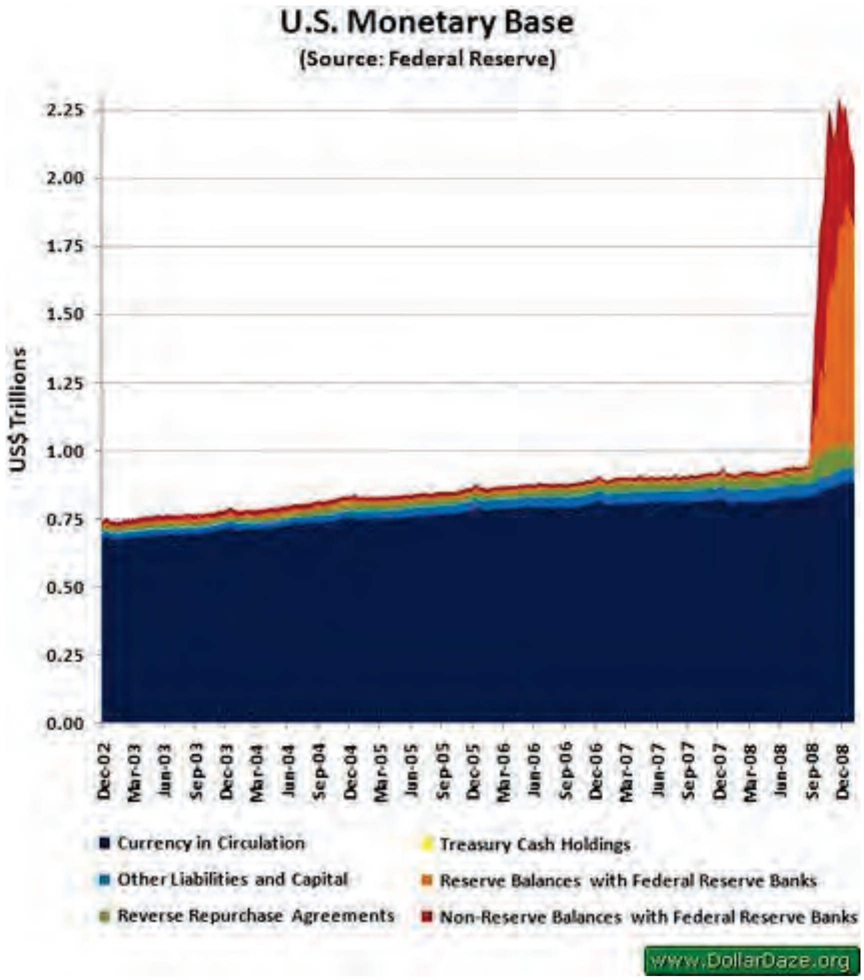


Orders in the manufacturing sector, Quarter 4 2008 (Japan, Eurozone, United Kingdom, China, India) – Sources : MarketOracle / JPMorgan

History is not known to be patient, therefore the fifth phase of the crisis will ignite this required process of reconstruction, but in a harsh manner: by means of a complete dislocation of the present system, with particularly tragic consequences in the case of several big global players, as described in this 32nd issue of the GEAB (see the two parallel sequences).

According to LEAP/E2020, there is only one very small launch window left to prevent this scenario from shaping up: the next four months, before summer 2009. Practically speaking, the April 2009 G20 Summit is probably the last chance to put on the right tracks the forces at play, i.e. before the sequence of UK and then US defaults begin (2). Failing which, they will lose their capacity to control events (3), including those in their own countries for many of them; and the world will enter this phase of geopolitical dislocation like a “drunken boat”. At the end of this phase of geopolitical dislocation, the world will look more like Europe in 1913 rather than our world in 2007.

Because they persisted in bearing the ever-increasing weight of the ongoing crisis, most states, including the most powerful ones, failed to realise that they were planning their own trampling under the weight of History, forgetting that they were merely man-made organisations, only surviving because they matched the interest of a large majority. In this 32nd edition of the GEAB, LEAP/E2020 has chosen to anticipate the fallout of this phase of geopolitical dislocation so far as it affects the United-States, EU, China and Russia.



US Monetary base – (12/2002 – 12/2008) – Source US Federal Reserve / DollarDaze

It is high time for the general population and socio-political players to get ready to face very hard times during which whole segments of our societies will be modified (4), temporarily disappear or even permanently vanish. For instance, the breakdown of the global monetary system we anticipated for summer 2009 will indeed entail the collapse of the US dollar (and all USD-denominated assets), but it will also induce, out of psychological contagion, a general loss of confidence in paper money altogether (these consequences give rise to a number of recommendations in this issue of the GEAB).

Last but not least, our team now estimates that the most monolithic, the most « imperialistic » political entities (5) will suffer the most from this fifth phase of the crisis. Some states will indeed experience a strategic dislocation undermining their territorial integrity and their influence worldwide. As a consequence, other states will suddenly lose their protected situations and be thrust into regional chaos.

Notes:

(1) Barack Obama, like Nicolas Sarkozy or Gordon Brown, spend their time chanting about the historic dimension of the crisis, but they are just hiding the fact that they fully misunderstand its nature in an attempt to clear their names from the future failure of their policies. As to the others, they prefer to persuade themselves that the problem will be solved like any normal technical problem, albeit a little more serious than usual. Meanwhile everyone continues to play by decades old rules, unaware of the fact that the game is vanishing from under their noses.

(2) See previous GEABs.

(3) In fact it is probable that the G20 will find it more and more difficult to simply meet, as the growing trend is one of « every man for himself ».

(4) Source : **New York Times**, 102/14/2009

(5) Idem companies.

Downloaded from *http://pakalert.wordpress.com/2009/02/19/global-systemic-crisis-geopolitical-dislocation/* on September 29, 2009.

Trend Alert: U.S. Has Entered "The Greatest Depression"

Trends research analyst Gerald Celente, who has risen in prominence on the back of his deadly accurate economic predictions, says that the collapse of financial markets heralds the start of "The Greatest Depression".

In his latest Trend Alert bulletin, Celente attacks mainstream pundits who falsely predicted a market bottom and the start of a recovery, noting that conventional analysts have been proven "dead wrong" again and that, "There will be no turn around in the second quarter of 2009 or 2010 or 2011."

"The global financial system, built on endless supplies of cheap money, rampant speculation, fraud, greed, and delusion is terminally ill and will not be coaxed into remission by stimulus packages nor restored to health by government buyouts and bailouts," writes Celente.

The most positive prediction that Celente makes is that the Dow will not reach zero, a tongue in cheek reaction to yesterday's record plunge which saw the Dow rolled back to 1997 levels well below 7,000.

Celente warns that the first signs of real panic are starting to set in, unrest that will cause governments to "take draconian measures to prevent total economic collapse and public panic."

"Expect massive bank failures, runs on banks, and bank holidays," writes Celente. "Even if deposits are FDIC insured, quick access to money is by no means assured. At minimum, have reserves on hand for emergencies," he forecasts.

Celente cites gold as one of the few investments that will continue to rise in value, eventually reaching $2,000 an ounce and beyond.

Celente's dire forecasts were initially scoffed at by the media but as the crisis has worsened, his credibility has soared.

Celente, who successfully predicted the 1997 Asian Currency Crisis, the subprime mortgage collapse and the massive devaluation of the U.S. dollar, told UPI in November 2007 that the following year would be known as "The Panic of 2008," adding that "giants (would) tumble to their deaths," which is exactly what we have witnessed with the collapse of Lehman Brothers, Bear Stearns and others.

Downloaded from *http://pakalert.wordpress.com/2009/03/03/trend-alert-us-has-entered-the-greatest-depression/* on September 29, 2009.

The coming Population Wars: a 12-bomb equation
Can Gates' Billionaires Club stop these inevitable self-destruct triggers?

By *Paul B. Farrell*, MarketWatch
ARROYO GRANDE, Calif. (MarketWatch) -- So what's the biggest time-bomb for Obama, America, capitalism, the world? No, not global warming. Not poverty. Not even peak oil. What is the absolute biggest, one like the trigger mechanism on a nuclear bomb, one that'll throw a wrench in global economic growth, ending capitalism, even destroying modern civilization?

The one that -- if not solved soon -- renders all efforts to solve all the other problems in the world, irrelevant, futile and virtually impossible?

News flash: the "Billionaires Club" knows: Bill Gates called billionaire philanthropists to a super-secret meeting in Manhattan last May. Included: Buffett, Rockefeller, Soros, Bloomberg, Turner, Oprah and others meeting at the "home of Sir Paul Nurse, a British Nobel prize biochemist and president of the private Rockefeller University, in Manhattan," reports John Harlow in the London TimesOnline. During an afternoon session each was "given 15 minutes to present their favorite cause. Over dinner they discussed how they might settle on an 'umbrella cause' that could harness their interests."

The world's biggest time-bomb? Overpopulation, say the billionaires.

And yet, global governments with their $50 trillion GDP, aren't even trying to solve the world's overpopulation problem. G-20 leaders ignore it. So by 2050 the Earth's population will explode by almost 50%, from 6.6 billion today to 9.3 billion says the United Nations.

And what about those billionaires and their billions? Can they stop the trend? Sadly no. Only a major crisis, a global catastrophe, a collapse beyond anything prior in world history will do it. Here's why:

Civilizations collapse fast, crises trigger, leaders clueless

"One of the disturbing facts of history is that so many civilizations collapse," warns Jared Diamond, an environmental biologist, Pulitzer prize winner and author of "Collapse: How Societies Choose to Fail or Succeed." Many "civilizations share a sharp curve of decline. Indeed, a society's demise may begin only a decade or two after it reaches its peak population, wealth and power."

Other voices are darker, shrill: "We're past the point of no return." "It's already too late." "The end is near." As with Rome's collapse, it happens fast. Clueless leaders are caught off-guard, like Greenspan, Bernanke and Paulson a couple years ago.

Call it "WWIII: The Population Wars." A few years ago Fortune analyzed a classified Pentagon report predicting that "climate could change radically and fast. That would be the mother of all national security issues" Population unrest would then create "massive droughts, turning farmland into dust bowls and forests to ashes." And "by 2020 there is little doubt that something drastic is happening ... an old pattern could emerge; warfare defining human life." War will be the end-game: For capitalism, civilization, earth?

Diamond's 12-part equation is very simple, fits perfectly with a global warfare scenario: "More people require more food, space, water, energy, and other resources ... There is a long built-in momentum to human population growth called the 'demographic bulge' with a disproportionate number of children and young reproductive-age people." And if the "bulge" stops for any reason, game over. Economic "growth" ends, killing capitalism.

So look closely: Diamond's equation has 12 time-bombs. But note, the first two are the biggest triggers in the formula. The other 10 are derivative variables.

1. Overpopulation Multiplier

According to TimesOnline: A few months before the billionaires meeting Gates noted: "Official [U.N.] projections say the world's population will peak at 9.3 billion [up from 6.6 billion today] but with charitable initiatives, such as better reproductive health care, we think we can cap that at 8.3 billion." Still, that's 23% more than today's 6.6 billion.

Can it be stopped? In a recent special issue of Scientific American, population was called "the most overlooked and essential strategy for achieving long-term balance with the environment." Why? Population's the new "third-rail" for politicians. So they ignore it.

Yet, if all nations consumed resources at the same rate as America, we'd need six Earths to survive. Unfortunately that scenario is unstoppable. Because by 2050, while America's population grows from 300 million to a mere 400 million, the rest of the world will explode from 6.3 billion to 8.9 billion, with over 1.4 billion each in China and India.

2. Population Impact Multiplier

Diamond warns: "There are 'optimists' who argue that the world could support double its human population." But he adds, they "consider only the increase in human numbers and not average increase in per-capita impact. But I have not heard anyone who seriously argues that the world could support 12 times it's current impact." And yet, that's exactly what happens with "all third-world inhabitants adopting first-world standards."

Folks, we oversold the American dream. Now everyone wants it. Not just 300 million Americans, but 6.3 billion people worldwide are demanding more, more, more!

"What really counts," says Diamond, "is not the number of people alone, but their impact on the environment," the "per-capita impact." First-world citizens "consume 32 times more resources such as fossil fuels, and put out 32 times more waste, than do the inhabitants of the Third World." So the race is on: "Low impact people are becoming high-impact people" aspiring "to first-world living standards." The American dream is now the global dream.

Warning: The "Impact Multiplier" will drive the global "WWIII-Population Wars" equation even if there is zero population growth to 2050!

In Diamond's masterpiece, "Collapse," the two key variables are what we call the "Over-Population Multiplier" and "Population Impact Multiplier." Now let's closely examine Diamond's other 10 variables that are driving our "WWIII-Population Wars" equation:

3. Food

Two billion people, mostly poor, depend on fish and other wild foods for protein. They "have collapsed or are in steep decline" forcing use of more costly animal proteins. The U.N. calls the global food crisis a "silent tsunami." Food prices rise making it worse for the 2.7 billion living below poverty levels on two dollars a day.

In "The End of Plenty," National Geographic warns that even a new "green revolution" of "synthetic fertilizers, pesticides, and irrigation, supercharged by genetically engineered seeds" may fail. Why? A joint World Bank/U.N. study "concluded that the immense production increases brought about by science and technology the past 30 years have failed to improve food access for many of the world's poor."

Meanwhile, a Time cover story warns that America's "addiction to meat" has led to farming that's "destructive of the soil, the environment and us."

4. Water

Diamond warns: "Most of the world's fresh water in rivers and lakes is already being used for irrigation, domestic and industrial water," transportation, fisheries and recreation. Water problems destroyed many earlier civilizations: "Today over a million people lack access to reliable safe drinking water." British International Development Minister recently warned that two-thirds of the world will live in water-stressed countries by 2015.

Water will trade like oil futures as wars are fought over water and other basic essentials noted earlier in Fortune's analysis of the Pentagon report predicting that warfare will define human life in this scenario of the near future.

5. Farmland

Crop soils are "being carried away by water and wind erosion at rates between 10 to 40 times the rates of soil formation," much higher in forests where the soil-erosion rate is "between 500 and 10,000 times" replacement rate. And this is increasing in today's new age of the 100,000-acre megafires.

6. Forests

We are destroying natural habitats and rain forests at an accelerating rate. Half the world's original forests have been converted to urban developments. A quarter of what remains will be converted in the next 50 years.

7. Toxic chemicals

Often our solutions create more problems than they solve. For example, industries "manufacture or release into the air, soil, oceans, lakes, and rivers many toxic chemicals" that break down slowly or not at all. Consider the deadly impact of insecticides, pesticides, herbicides, detergents, plastics ... the list is endless.

8. Energy resources: oil, natural gas and coal

Pimco manages $747 billion: equity, bonds and commodity funds. Manager Bill Gross recently described a "significant break" in the world's "growth pattern." He's betting we're past the "peak oil" tipping point. Consumer shopping will continue declining as economies grow very slowly in the future and "corporate profits will be static."

A recent issue of Foreign Policy Journal warns of the "7 Myths About Alternative Energy." Are biofuels, solar and nuclear the "major ticket?" No, they're not, never will be.

9. Solar energy

Sunlight is not unlimited. Diamond: We're already using "half of the Earth's photosynthetic capacity" and we will reach the max by mid-century. In "Plundering the Amazon," Bloomberg Markets magazine warned that Alcoa, Cargill and other companies "have bypassed laws designed to prevent destruction of the world's largest rain forest ... robbing the earth of its best shield against global warming."

Free market capitalism may be the enemy of survival.

10. Ozone layer

"Human activities produce gases that escape into the atmosphere" where they can destroy the protective ozone or absorb and reduce solar energy.

11. Diversity

"A significant fraction of wild species, populations and genetic diversity has been lost, and at present rates, a large percent of the rest will disappear in half century."

12. Alien species

Transferring species to lands where they're not native can have unintended and catastrophic effects, "preying on, parasitizing, infecting or outcompeting" native animals and plants that lack evolutionary resistance.

In spite of the clear message in Diamond's 12 time-bombs, he still says he's a "cautious optimist." What fuels his hope? Our leaders need "the courage to practice long-term thinking, and to make bold, courageous, anticipatory decisions at a time when problems have become perceptible but before they reach crisis proportions."

Unfortunately, history tells us that cautious leaders are myopic, driven more by self-interest and nationalism than courage and long-term thinking. Eventually they're caught off guard and their worlds collapse, fast. They only respond to crises.

And, yes, out of crisis may come opportunity. As Nobel economist Milton Friedman put it in his classic, "Capitalism and Freedom:" "Only a crisis -- actual or perceived -- produces real change" because in the aftermath of crisis "the politically impossible becomes politically inevitable." Too many, however, delay and respond to crises with too little, too late.

Bottom line: The betting odds are 100% that global leaders will wait for a Pentagon-style "black swan" crisis before acting. Unfortunately, that delay positions the "WWIII: The Population Wars" dead ahead.

Officials: Fed will need to boost rates quickly

Officials: Fed will need to move quickly when time comes to boost rates, battle inflation

By Jeannine Aversa, AP Economics Writer
On Tuesday September 29, 2009, 7:00 pm EDT
WASHINGTON (AP) -- To prevent inflation from taking off, the Federal Reserve will need to start boosting interest rates quickly and aggressively once the economy is back on firmer footing, Fed officials warned Tuesday.

"I expect that when it comes time to tighten monetary policy, my colleagues and I will move with an alacrity that, if needed, will be equal in speed and intensity" to when the Fed was slashing rates to battle the recession and the financial crisis, said Richard Fisher, president of the Federal Reserve Bank of Dallas.

Although Fisher has a reputation for being one of the Fed's toughest inflation fighters, it marked the second such warning by a central bank official in recent days. Fed member Kevin Warsh on Friday said the central bank will need to move swiftly when the time comes to raise rates.

Charles Plosser, president of the Federal Reserve Bank of Philadelphia and also a hawk against inflation, waded into the debate in a speech Tuesday in Easton, Pa., saying the Fed may need to act "well before" unemployment -- now at a 26-year high of 9.7 percent -- returns to normal. The Fed, he said, will need to be on guard "to prevent the Second Great Inflation."

It's all part of a high-wire act that the Fed has to perform as the economy transitions from recession to recovery.

If the Fed raises rates and reels in the unprecedented support too soon, it could short-circuit the rebound. If the central bank waits too long to rein in its stimulus, inflation could be unleashed.

"The wind-down process needs to begin as soon as there are convincing signs that economic growth is gaining traction and that the lending capacity of the banking system is capable of expansion," according to excerpts of a speech Fisher delivered in Dallas. That also was similar to Warsh's comments last week.

Some investors found Warsh's comments confusing, especially coming just two days after the Fed decided to hold its key bank lending rate at a record low near zero and pledged to keep it there for an "extended period." Most economists read that to mean the Fed would keep rates at super-low levels through this year and into part of 2010.

Warsh's comments led some investors to believe that rate increases could come sooner. The last time the Fed raised rates was in June 2006, around the time that the housing bubble reached its peak.

The notion that central banks should act forcefully -- versus gradually -- in raising rates after a financial crisis was a subject of discussion at a Fed conference in Wyoming in August.

When the decision is made to boost rates, they will need to be "increased aggressively," argued Carl Walsh, a professor of economics at the University of California, Santa Cruz, and an expert on monetary policy. "Committing to a gradual increase in the policy rate is not justified."

Consumers, businesses and investors must feel more confident that prices won't spiral higher in the future, so their inflation expectations don't become "unanchored," Walsh said last month.

On other matters, Fisher said Tuesday that despite some signs of improvement, the housing market is "still on life support."

The Fed last week announced it was slowing down a program intended to lower mortgage rates and aid the housing sector. "The market for housing will not become truly robust until market forces replace the prostheses of government support," Fisher said.

Still, home prices rose for the third straight month in July. The Standard & Poor's/Case-Shiller home price index of 20 major cities rose 1.2 percent from June. Though 13.3 percent below July a year ago, the annual price declines have slowed in all 20 cities for the sixth straight month, according to data released Tuesday.

Downloaded from *http://finance.yahoo.com/news/Officials-Fed-will-need-to-apf-1511169380.html/print;_ylt=Ak1b01OPTvprK5376kEAWzDeba9_;_ylu=X3oDMTBwNjZiaWw5BHBvcwMxBHNlYwN0b29scwRzbGsDcHJpbnQ-?x=0* on September 30, 2009.

The Banking System Is Insolvent

Following up on the quick mention now that *I have a story to cite from Amherst*:

Cure rates for these distressed loans remain low. Amherst noted a near 0% cure rate of all loans in foreclosure, 0.8% for 90 plus days delinquent, 4.4% for 60 days delinquent and 26.5% for 30-day delinquencies. All told, Amherst expects 12.42% of units (from the 13.54% of properties delinquent and in foreclosure) to eventually liquidate.

Let's put some numbers on this.

There are roughly 125 million single-family homes in the US.

Of those, roughly 30% have no mortgage on them at all. This leaves 87.5 million single-family homes with mortgages.

Let us assume the average outstanding balance is $200,000 across the entire set and will take a 40% loss severity. This is less than S&P has estimated for subprime loans and only assumes a roughly 20% market deficiency in the home price (the rest is from legal, rehabilitation and marketing expenses.)

These numbers are, with a high degree of confidence (90%+) low - that is, losses will **exceed** these estimates, perhaps dramatically so. It is, for example, quite reasonable to believe that due to the concentration of defaults in higher-priced areas (e.g. California and Florida) that the average outstanding balance could be close to **double** that $200,000 value and the loss due to negative equity higher.

From this we can develop a "cocktail napkin" view of the losses to be taken in home mortgages for single-family homes (remember, this does not include condos, apartment buildings and similar "commercial" paper.)

$200,000 X 40% = $80,000 loss per foreclosure.

87.5 million homes with mortgages X 12.42% = 10,867,500 foreclosures.

10,867,500
x 80,000
=============
$869,400,000,000

or $869 billion in losses remaining in single-family mortgages alone.

What if the average outstanding is higher and negative equity greater than 20% (which is likely)? *Losses will almost certainly be well north of a trillion dollars.*

The entire banking system and likely The Fed, given the quantity of Fannie and Freddie paper it has been and is "eating", is insolvent. These facts are why the government is lying - they're well-aware of the near-zero cure rates and know that these facts mean that the banking industry has nowhere near sufficient capital to withstand these losses without folding like a paper cup getting stomped on by an elephant.

(Remember that these numbers do not include **any** commercial real estate losses and we have found that banks are frequently over-stating their claimed values for these loans by 50% or more - as was seen with Colonial.)

It gets better. *The FDIC has a negative balance* both in its fund balance and the reserve ratio projected for the end of the quarter, which is, big surprise, **tomorrow**. Oh, and there is this pesky problem that the FDIC has - contrary to its mandate - been issuing bond guarantees for banks, so if and when that banking insolvency is recognized the FDIC will implode into a gravity well also, since it is on the hook for **the entire deficiency** of those bonds that were issued with its "guarantee" should they default.

Care to argue with the math folks?

Downloaded from *http://market-ticker.denninger.net/archives/1476-The-Banking-System-Is-Insolvent.html* on September 30, 2009.

Weimar Reloaded

Sunday, May 24, 2009

"It was horrible. Horrible! Like lightning it struck. No one was prepared. The shelves in the grocery stores were empty.You could buy nothing with your paper money.

– Harvard University law professor Friedrich Kessler on the Weimar Republic hyperinflation (1993 interview)

Some worried commentators are predicting a massive hyperinflation of the sort suffered by Weimar Germany in 1923, when a wheelbarrow full of paper money could barely buy a loaf of bread. An April 29 editorial in the San Francisco Examiner warned:
"With an unprecedented deficit that's approaching $2 trillion, [the President's 2010] budget proposal is a surefire prescription for hyperinflation. So every senator and representative who votes for this monster $3.6 trillion budget will be endorsing a spending spree that could very well turn America into the next Weimar Republic."

In an investment newsletter called Money Morning on April 9, Martin Hutchinson pointed to disturbing parallels between current government monetary policy and Weimar Germany's, when 50% of government spending was being funded by seigniorage – merely printing money. However, there is something puzzling in his data. He indicates that the British government is already funding more of its budget by seigniorage than Weimar Germany did at the height of its massive hyperinflation; yet the pound is still holding its own, under circumstances said to have caused the complete destruction of the German mark. Something else must have been responsible for the mark's collapse besides mere money-printing to meet the government's budget, but what? And are we threatened by the same risk today? Let's take a closer look at the data.

So begins an article by Ellen Hodgson Brown, author of "Web of Debt", titled TIME TO GET OUT THE WHEELBARROWS? ANOTHER LOOK AT THE WEIMAR HYPERINFLATION. In it she very nicely lays out the case that the Weimar hyperinflation is misunderstood.

She explains that in the Weimar Republic of 1923 the mark collapsed to one-trillionth of its value just 9 years earlier. She then points out that no one claims the hyperinflation was CAUSED by a trillion times dilution of the mark, so the cause can not be as simple as supply and demand. Something else must have happened.

Light is thrown on this mystery by the later writings of Hjalmar Schacht, the currency commissioner for the Weimar Republic...

What actually drove the wartime inflation into hyperinflation, said Schacht, was speculation by foreign investors, who would bet on the mark's decreasing value by selling it short.

Short selling is a technique used by investors to try to profit from an asset's falling price. It involves borrowing the asset and selling it, with the understanding that the asset must later be bought back and returned to the original owner. The speculator is gambling that the price will have dropped in the meantime and he can pocket the difference. Short selling of the German mark was made possible because private banks made massive amounts of currency available for borrowing, marks that were created on demand and lent to investors, returning a profitable interest to the banks.

At first, the speculation was fed by the Reichsbank (the German central bank), which had recently been privatized. But when the Reichsbank could no longer keep up with the voracious demand for marks, other private banks were allowed to create them out of nothing and lend them at interest as well.

So the cause of the hyperinflation, according to Brown, was the foreign currency speculators and the banks that paid off their bets with newly created marks. But she doesn't stop there. Not only did the government NOT cause the hyperinflation, but it was Hitler's national protectionism and make-work programs that brought it under control...

If Schacht is to be believed, not only did the government not cause the hyperinflation but it was the government that got the situation under control. The Reichsbank was put under strict regulation, and prompt corrective measures were taken to eliminate foreign speculation by eliminating easy access to loans of bank-created money...

While Hitler clearly deserves the opprobrium heaped on him for his later atrocities, he was enormously popular with his own people, at least for a time. This was evidently because he rescued Germany from the throes of a worldwide depression – and he did it through a plan of public works paid for with currency generated by the government itself. Projects were first earmarked for funding, including flood control, repair of public buildings and private residences, and construction of new buildings, roads, bridges, canals, and port facilities. The projected cost of the various programs was fixed at one billion units of the national currency. One billion non-inflationary bills of exchange called Labor Treasury Certificates were then issued against this cost. Millions of people were put to work on these projects, and the workers were paid with the Treasury Certificates. The workers then spent the certificates on goods and services, creating more jobs for more people. These certificates were not actually debt-free but were issued as bonds, and the government paid interest on them to the bearers. But the certificates circulated as money and were renewable indefinitely, making them a de facto currency; and they avoided the need to borrow from international lenders or to pay off international debts. The Treasury Certificates did not trade on foreign currency markets, so they were beyond the reach of the currency speculators. They could not be sold short because there was no one to sell them to, so they retained their value.

Within two years, Germany's unemployment problem had been solved and the country was back on its feet.

Brown goes on to draw comparisons of Germany's money printing to money printing schemes of early American colonists as well as Zimbabwe. She points to the law of supply and demand with supply being real economic goods and demand being paper currency as the culprit that leads to hyperinflation...

The dramatic difference in the results of Germany's two money-printing experiments was a direct result of the uses to which the money was put. Price inflation results when "demand" (money) increases more than "supply" (goods and services), driving prices up; and in the experiment of the 1930s, new money was created for the purpose of funding productivity, so supply and demand increased together and prices remained stable. Hitler said, "For every mark issued, we required the equivalent of a mark's worth of work done, or goods produced." In the hyperinflationary disaster of 1923, on the other hand, money was printed merely to pay off speculators, causing demand to shoot up while supply remained fixed. The result was not just inflation but hyperinflation, since the speculation went wild, triggering rampant tulip-bubble-style mania and panic.

This was also true in Zimbabwe, a dramatic contemporary example of runaway inflation. The crisis dated back to 2001, when Zimbabwe defaulted on its loans and the IMF refused to make the usual accommodations, including refinancing and loan forgiveness. Apparently, the IMF's intention was to punish the country for political policies of which it disapproved, including land reform measures that involved reclaiming the lands of wealthy landowners. Zimbabwe's credit was ruined and it could not get loans elsewhere, so the government resorted to issuing its own national currency and using the money to buy U.S. dollars on the foreign-exchange market. These dollars were then used to pay the IMF and regain the country's credit rating. According to a statement by the Zimbabwe central bank, the hyperinflation was caused by speculators who manipulated the foreign-exchange market, charging exorbitant rates for U.S. dollars, causing a drastic devaluation of the Zimbabwe currency.

The government's real mistake, however, may have been in playing the IMF's game at all. Rather than using its national currency to buy foreign fiat money to pay foreign lenders, it could have followed the lead of Abraham Lincoln and the American colonists and issued its own currency to pay for the production of goods and services for its own people. Inflation would then have been avoided, because supply would have kept up with demand; and the currency would have served the local economy rather than being siphoned off by speculators.

Finally, she brings us to our current crisis and the current threat of hyperinflation. Describing the risk, she compares the mountain of OTC credit derivatives to the foreign currency speculators of 1923, and she compares the Fed's "quantitative easing" to the German banks that paid off the bets...

The $12.9 billion in bailout funds funneled through AIG to pay Goldman Sachs for its highly speculative credit default swaps is just one egregious example. To the extent that the money generated by "quantitative easing" is being sucked into the black hole of paying off these speculative derivative bets, we could indeed be on the Weimar road and there is real cause for alarm.

And on a positive note, she compares Obama's stimulus package to the successes of Hitler and Benjamin Franklin...

Using quantitative easing to fund infrastructure and other productive projects, as in President Obama's stimulus package, could invigorate the economy as promised, producing the sort of abundance reported by Benjamin Franklin in America's flourishing early years.

Concluding the piece, she offers a solution...

We have been led to believe that we must prop up a zombie Wall Street banking behemoth because without it we would have no credit system, but that is not true. There is another viable alternative, and it may prove to be our only viable alternative. We can beat Wall Street at its own game, by forming publicly-owned banks that issue the full faith and credit of the United States not for private speculative profit but as a public service, for the benefit of the United States and its people.

So, to summarize, it is not the government's reckless deficit spending that causes hyperinflation, but the evil speculators that drive down the value of paper currency through short selling, and the evil private banks that pay off the CORRECT bets on paper being worth... well... what paper is worth. NOTHING.

Here is where Ellen Brown gets it wrong. By relying on the fundamentals of supply and demand, she equates the value of a paper currency to the value of the real goods it buys. And she believes this equation is real. Therefore, all that is needed is for economic goods to increase at the same rate as worthless paper. That, and of course the hog-tying of the evil speculators.

The reality is that the monetary base of dollars does not need to be increased a trillion times for the dollar's value to drop to one-trillionth. The reality is that the paper (or digital) dollar is really only worth that already. The fact that we can still buy real goods with our dollars is the result of the façade or "matrix" that has been built. But this façade is now crumbling.

The speculative bets are not the disease. They are simply the visible symptom of the disease. The disease is the purely symbolic currency we trade for real goods from all over the world. Think of this from a medical perspective. To only attack the symptom of a deadly disease, or worse, to believe the symptom IS the disease, is a sure way to a quick death. This is where the dollar is going. And the many misconceptions about hyperinflation that are circulating on the internet ensure that death will at least be quick, even if it is not painless.

Downloaded from *http://fofoa.blogspot.com/2009/05/weimar-reloaded.html* on September 30, 2009.

The Coffin Shaped Recovery

Darryl Robert Schoon
Posted Sep 29, 2009

While often wrong, Bernanke is right about the recession. It's almost over. But a depression is about to replace it.

There has been much discussion about this recovery, whether it will be a "U", "V" or a "W" shaped recovery. The answer is none of the above. It is going to be "C-shaped" recovery, but not as in the letter "C" but as in *coffin.*

The Coffin-Shaped Recovery

It would be a miracle if trillions of dollars of debt could be wiped out with one stock market crash and be succeeded by a new bull market driven by another large offering of credit by the Fed.

But such a central bank-engineered miracle today is impossible. Capitalism's natural cycles derive from central banker's unnatural infusion of credit into previously free markets. The subsequent distortion causes market demand to expand (which everybody loves) only to be followed by the inevitable contraction - which everybody hates.

Usually, central banks wait until previous levels of excess credit have been absorbed in an economic downturn before embarking on a fresh round of credit creation. This time, however, it is different.

This time, the cumulative buildup of debt over previous cycles where contractions were cut short to minimize economic pain and attendant political consequences is now so large that any contraction is sufficient to bring down the extraordinary backlog of debt built up over previous cycles.

The current contraction is more than sufficient to do so as it is more severe than any downturn since the 1930s; and despite the frantic attempts of central banks to contain the cumulative forces unleashed by previous cycles of credit and debt, the enormous but fragile paper-based economy built by central bankers' paper money is now collapsing.

To hopefully prevent the collapse from reaching its catastrophic end, central bankers have now intervened far earlier and with far more credit hoping to prevent the day of reckoning, a reckoning soon to be evidenced by an historic deflationary depression that will wipe out all accumulated unpayble debts, albeit at the cost of a functioning world economy.

Such is Ben Bernanke's considerable task. Despite his outwardly positive demeanor, Bernanke is well aware that his desperate gamble hasn't worked.

In these times, the last thing you want to be is Ben Bernanke's sphincter.

(note: Martha declined to produce my relevant cartoon)

KEYNESIAN COPS, FRIEDMAN'S FOLLIES AND THE FLAWED THEORY BEHIND THE RECOVERY

The current chairman of the US central bank is Ben Bernanke, a self-described student of the Great Depression; but, learning is limited by what is taught and regarding the Great Depression, Bernanke's teacher unfortunately was Milton Friedman.

The reason why central bankers (and Ben Bernanke in particular) are flooding the global economy with money, i.e. borrowed, printed, or monetized out of thin air with such abandon (who would have thought bankers could act with abandon except, of course, when believing risk is non-existent and they're betting someone else's money), is because of Milton Friedman's theory, *to wit* that economic contractions can be reversed by sufficient monetary expansion.

Laid bare, Freidman's theory is another iteration of the Keynesian belief in the power of government intervention, albeit an intervention cloaked in Friedman's more palatable - at least to those on the right - conservative garb.

Friedman argued that if the Fed had aggressively expanded the money supply in the 1930s, it would have then counteracted deflationary forces and prevented the Great Depression, an argument unfortunately as flawed as another of Friedman's pet theories, *i.e.* that floating exchange rates would naturally over time bring global trade deficits into balance.

Note: When exchange rates were allowed to float in 1974 as encouraged by Friedman who also encouraged Nixon to abandon the gold standard in 1971, the US had a positive balance of trade. Thirty five years later, the US trade deficit is well over $800 billion and is growing over $20 billion each month (Hey, Milton, how much more time will it take to balance the trade deficit?).

Professor Antal Fekete warned several years ago that Friedman would someday be proved wrong and that we would collectively suffer the consequences; and, that just as during the Great Depression when banks hoarded the government's cheap money instead of lending it, they would do so again when Friedman's theory of monetary expansion was tried during another contraction.

Professor Fekete's warnings have now come true. Today, US bank lending growth has entered negative territory at the same time cash reserves at US banks increased by 1,460 %.

Frank Shostak in *Does A Liquidity Trap Pose A Threat,* 9/23/09, on mises.org writes:

The latest data for lending in the eurozone the United Kingdom, and the United States display a visible weakening. In the eurozone, the yearly rate of growth of bank lending to the private sector fell to 0.6% this July from 9.3% in July last year. In the United Kingdom, the yearly rate of growth of lending to the private sector fell to 2.2% in July 2009 from 10.1% in July 2008. In the United States, the rate of growth of lending plunged to minus 3.8% in August 2009 from a positive figure of 8.6% in August 2008…At the end of July this year, [however], *US banks were sitting on $729 billion of cash against $1.9 billion in July last year*
-http://mises.org/story/3697 [bracketed words, mine]

Friedman's theory is flawed and as suspect as the paper money Friedman and Keynes both promoted. Central banks can print all the money they want but that will not necessarily increase the money supply as central bankers are discovering.

Severe monetary contractions that cause deflationary depressions are so powerful they, like monetary black holes, can destroy money faster than central banks can create it.

The on-going monetary contraction is now clearly evident. Ambrose Evans-Pritchard, columnist for The Telegraph UK, points out the glaring truth that Bernanke and most of his paper-weight brethren would like to avoid:

The US money supply has experienced the sharpest contraction in modern history, heightening the risk of a Wall Street crunch and a severe economic slowdown in coming months... the M3 "broad money" aggregates fell by almost $50bn (£26.8bn) in July, the biggest one-month fall since modern records began in 1959.

"Monthly data for July show that the broad money growth has almost collapsed," said Gabriel Stein, the group's leading monetary economist.

On a three-month basis, the M3 growth rate has fallen from almost 19pc earlier this year to just 2.1pc (annualised) for the period from May to July. This is below the rate of inflation, implying a shrinkage in real terms.

The growth in bank loans has turned negative to a halt since March....shifts in M3 are a lead indicator of asset prices moves, typically six months or so ahead. If so, the latest collapse points to a grim autumn for Wall Street and for the American property market. As a rule of thumb, the data gives a one-year advance signal on economic growth, and a two-year signal on future inflation. [article here]

This is not your mother's contraction. Instead, this is the mother of all contractions, a contraction far greater than even that which sent the world into the Great Depression in the 1930s.

This time, the amounts owed are exponentially greater than what was owed in the 1930s; and, the greater the debts, the farther the fall. Debt does not just disappear without consequences, nor can it be outrun, *sic* outgrown, as economists are desperately hoping, especially today when economies are contracting, not expanding.

Economic contractions cannot be reversed by expanding the money supply any more than wishful thinking by itself will change the world. Despite the best efforts of central bankers like Ben Bernanke, Friedman's flawed theory cannot save the world from what is now about to happen - the mother of all depressions that may be capitalism's last.

Keynes and Friedman, both brilliant, were both believers in paper money. Paper money has many powers, not the least of which is the power to mislead and delude.

Milton Friedman thought a lot
Of paper money and more
Like Keynes and others who thought the same
Milton showed gold the door

And now our gold is spent and gone
And so is Milton too
And now we're left bereft and broke
Not knowing what to do

But Ben Bernanke's at the helm
Of the sinking ship we're on
And soon like Milton and our gold
We, too, will soon be gone

So let's make a toast while we're still here
To those who caused our ruin
To those convinced that they were right
But didn't know what they were doing

WHO BENEFITS FROM THE FRAUD OF PAPER MONEY

The substitution of paper money for gold and silver has always been imposed by those who govern upon those governed; and, in the US it was done so illegally. The US Constitution explicitly defines the US dollar in silver, not paper money. The current regime of fiat money in the US is not only a monetary abomination, it is *de jure* unconstitutional.

The imposition of fiat money in the US was done without the consent of the governed. However, those who govern approved it. This is because the advantages of paper money accrue to those who rule; and it is in their interests, not society's, that paper fiat money becomes the coin of the realm.

The disadvantages of paper money are borne by society-at-large, i.e. entrepreneurs, workers, businesses, retirees, savers, etc. who pay retail for the credit dispensed wholesale to those better connected, e.g. are you able to leverage your investments 50:1 as can JP Morgan Chase, Goldman Sachs, etc.; and, can you to carry your underwater investments at full book value and borrow against them as it does Wall Street? And were you bailed out last year as were the banks?

I have always been amazed at those who identify with a system that primarily serves the needs of others and only incidentally theirs. I can only conclude that such identification is symptomatic of low self-esteem, as self-interest alone would dictate otherwise.

We are now headed towards a rendering so extreme that such divisions will become clear and perhaps the many will finally cease identifying with a system that benefits the few closest to the fountainhead of credit while penalizing the many farther downstream which usually includes them.

Modern economics is a sophisticated Ponzi-scheme cross-pollinated with a shell game designed for the advantage of government, banks and those at the front of the line wherein money is created out of thin air to be loaned to others who will in the end be indebted beyond their means to repay and whose economic futures will be destroyed by the inevitable confluence of the bankers' compounding interest and their constant inflation of the money supply.

If you doubt this is so, an article *The Event* by Eric Andrews, is a must read, especially the areas directly concerned with money and its creation. If you already believe this is so, Eric Andrew's article is even more important. Clear, concise, and conclusive, it points out the inherent problems with our debt-based system of paper money, a system that contains its own seeds of destruction, seeds which are now flowering, *www.financialsense.com/fsu/editorials/2009/0921.html*.

Andrews also points out where we are and perhaps headed without guessing when we will arrive. We face a minefield of possible scenarios as deflation, inflation, hyperinflation, or a combination thereof may soon be in our future as the bankers' paper money is now about to self-destruct.

THE BARRICKADE TO GOLD CRUMBLES

We are in the final stage of the paper-boys' efforts to preserve their crumbling fiefdoms against gold's advance. In truth, gold is not advancing at all. It is standing still. It is the constant decline in the value of paper money that makes it appear that gold is rising. Extant virtue needs no movement.

While I am in deep admiration of Professor Fekete's insights on gold and money, I do not envy the price he paid for his learning. Professor Fekete's understanding of monetary chaos derives from a childhood in Hungary beset by a hyperinflation more severe than even that of the Weimar Republic or Zimbabwe.

Professor Fekete then escaped communist oppression in Hungary to make his way to Canada where he received a front-seat look at the central bank and corporate collusion underpinning capitalism's fraudulent paper-money scheme.

Upon retirement, Professor Fekete had invested his savings in Barrick Gold Corporation, a Canadian gold mining company. But instead of an expected return on his savings, the professor got an unexpected education in how Barrick assisted central banks in suppressing gold.

Barrick's forward selling of unmined gold from 1988 to 2003 put thousands of ounces of paper gold on the market which forced down the price of physical gold. For years, the forwards sales of Barrick and Anglo-Gold Ashanti were responsible for the downward spiral of gold's price, a goal desired by investment banks doing the bidding of central bankers.

Professor Fekete, as a shareholder, clearly understood that Barrick's forward selling (or so-called hedging operations) came at the expense of shareholders. It did, however, directly benefit the central banks who wanted to cap the price of gold. Today, the "Barrick-cap", a major "Barrickade" against gold's rise is no more.

This month, on September 8, 2009, Barrick Gold Corporation announced it was taking a $5.9 billion charge against 3rd quarter earnings in order to buy back all its forward contracts, a considerable sum to pay for succumbing to the wishes of those in power.

Once again, Professor Antal Fekete was right. Sponsored by the Gold Standard Institute, Professor Fekete will be in Canberra, Australia, November 2-5 speaking on "The World Financial Crisis and the Vanishing Gold Basis", see www.professorfekete.com. I consider the Professor to be a light in these dark times. I and others will also be speaking.

It is absurd to discuss the price of gold without discussing central bank or government efforts to force the price of gold down, an effort that may soon be ending due to the imminent advent of the end-game.

In my Youtube video, http://www.youtube.com/watch?v=5o36Dj-ukPo, I discuss the possibility of whether or not the US will again confiscate gold. I wish the possibility were not so.

But, today, governments cannot see an alternative to that offered by central bankers, the merchants of debt who have enslaved nations with their fraudulent debt-based paper money. As yet, there are no alternatives to the bankers' offerings. But after bankers and governments fall - and they will - alternatives will then become clear

Buy gold, buy silver, have faith.

Darryl Robert Schoon
email: info@drschoon.com
website: www.drschoon.com
website: www.survivethecrisis.com

The Fed draining reserves?

MONDAY, SEPTEMBER 28, 2009

Prof. Jim Hamilton at **Econbrowser** (thanks *Mark Thoma* for the link) addresses one of the Fed's standard methods of draining liquidity from the banking system: reverse repurchase agreements. Basically, the Fed will transfer some of its assets to the banking system via short-term loans taken out with its Primary Dealers, presumably offering standard (Treasuries) and less standard (MBS or agency bonds) assets as collateral.

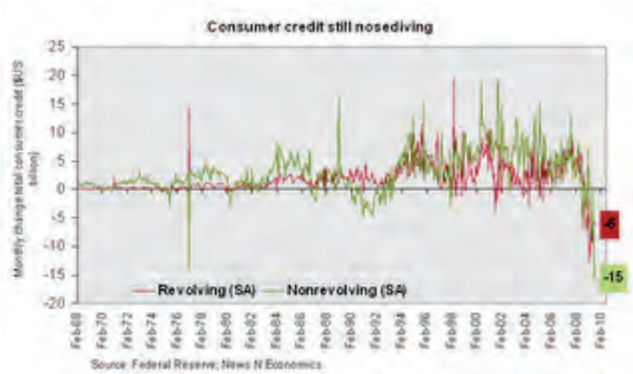
Reverse repurchase agreements simply slosh around the assets (MBS, agencies, and Treasuries) between the Fed and the Primary Dealers, rather than removing the assets from the Fed's balance sheet permanently. Eventually, though, the Fed must sell the securities outright onto the open market – we are far, far from that!

This is all hot air for now. How can the Fed soak up the expansionary liquidity, let alone unwind $1 trillion in assets, when the banking system is still shedding pounds?

The Fed is considering another route, too: conducting the same repurchase agreements with the money-market mutual fund industry in tandem. An excerpt from *the FT*:
The Federal Reserve is looking to team up with the money-market mutual fund industry as part of its strategy to ensure that its unconventional policies to stimulate the economy do not produce a bout of post-crisis inflation.

The central bank envisages eventually draining liquidity from the financial system by engaging in trades called "reverse repos" with the deep-pocketed money-market funds. In these, the Fed would pledge mortgage-backed securities and Treasuries acquired during the crisis as collateral *for short-term loans from the funds.*

The obvious counterparties for reverse repo deals are the Wall Street primary dealers. However, the Fed thinks they would only have balance sheet capacity to refinance about $100bn of assets. By contrast, the money-market funds have $2,500bn in assets, which means they could plausibly refinance as much as $500bn in Fed assets. Officials think there would be appetite on the part of the funds, which are under pressure from regulators and investors to stick to low-risk liquid investments.



The Fed is solely attempting to assuage inflation angst at this time; it's still very premature to talk about an exit of expansionary policies when credit markets still crimp the stimulus that the Fed so desperately wants to get into the open market*(much of the base, roughly*$855 billion on September 23, 2009 *and up from $2 billion in August 2008, remains on balance with the Fed in the form of "excess reserves)*. Just look at the crunch in the consumer credit space (chart to left).

As Prof. Hamilton suggests, the mechanisms of the reverse repos should successfully sterilize the base before it starts to become inflationary (with either the Primary Dealers and/or the Mutual Funds industry). However, one of the programs through which the Fed utilized previously to sterilize its liquidity, and to which Prof. Hamilton refers, – the Supplementary Financing Program – is unlikely to be an avenue for removing liquidity.

In fact, it's quite the opposite. The Treasury already announced its imminent plan to liquidate the bulk of its $200 billion account with the Fed. There's another $200 billion in excess reserves with which the Fed must contend (see my *previous post here*).

It's easy to get the liquidity into the financial system. But getting it out without collapsing the economy or allowing inflation pressures to build? Well, that's a different story.

IMF Global Banking System Assessment: US$1.1 Trillion Losses Recognized, US$1.6 Trillion To Go

The IMF releases the October 2009 Global Financial Stability Report (GFSR), including an update of global expected loan and securities writedowns.

Main findings, cited from IMF Survey (September 30, 2009):

- "For both banks and other financial institutions, the GFSR calculates that actual and potential writedowns from bad assets such as loans and securities have fallen by some $600 billion over the past six months—from about $4 trillion to $3.4 trillion, as a lessening in financial stress has narrowed spreads." U.S. banks are expected to incur US$1.02 trillion, eurozone banks US$814 billion, UK banks US$604 billion, other mature European banks US$200 billion, Asia US$166 billion.
- As of September 30, 2009, global writedowns amount to US$1.6 trillion (capital raised: US$1.375 trillion), of which banks globally have incurred US$1.13 trillion (capital: US$1.12 trillion). Of these, U.S. banks have incurred US$628 billion (US$511 billion), European banks US$463 billion (US$500 billion), and Asian banks US$41 billion (US$108 billion.) (via Bloomberg)
- "The GFSR estimates that commercial banks have already recognized $1.3 trillion through the first half of 2009, but face another $1.5 trillion of potential asset writedowns ahead. Hence, overall, banks have recognized slightly less than half of their expected losses. U.S. banks have recognized slightly more than have those in the United Kingdom and euro area."
- "Even though bank earnings are recovering, they are not expected to be big enough to offset fully the anticipated writedowns over the next 18 months. The insufficient earnings, combined with continuing deleveraging pressure, means banks will have to raise more capital."
- "Banks must refinance a massive amount of maturing debt over the next two to three years. An unprecedented $1.5 trillion in bank borrowing is due to mature in the euro area, the United Kingdom, and the United States by 2012."
- "Although banks' balance sheets have been stabilized, some of it because governments have injected capital, banks are not yet in a strong position to lend support to the economic recovery." The IMF calculates the following additional capital needs for a 4% Total Common Equity (TCE)/Total Assets ratio (i.e. 25 times leverage): U.S. banks (ex GSE): US$130 billion; eurozone banks: US$310 billion; UK banks: US$120 billion; other mature European banks: US$110 billion.
- The IMF warns of a potential "financing gap" ahead if the securitization market fails to resume. This situation would warrant continued policy intervention in order to keep credit flowing.

Risks to Governments

- "Historical evidence from 31 advanced and emerging economies points to the higher costs to sovereign borrowers of taking on too much debt—a persistent 1 percentage point increase in the fiscal deficit leads to a 10 to 60 basis point increase in long-term interest rates (a basis point is 1/100th of a percentage point)."
- "Many private sector financial risks were transferred to the public sector during government rescue operations, leaving the governments vulnerable to future shocks. Countries with high debt-to-GDP ratios and large contingent liabilities (such as bank asset or liability guarantees) are particularly vulnerable."

Emerging market vulnerabilities

- "Although foreign portfolio investment has returned to emerging markets, cross-border bank credit is still falling. Those countries heavily dependent on bank credit have suffered most, especially in emerging Europe."
- "The recovery of portfolio flows has helped mostly Asia and Latin America. In fact, in Asia, property and equity prices have appreciated, partly as a result of inflows from mature markets."
- "Corporate defaults are rising in all regions, with loan losses thus putting pressure on banking systems. Refinancing needs of emerging market businesses and banks are large, revealing substantial rollover risks. For instance, debt service of bonds and syndicated loans denominated in foreign currencies is estimated at $400 billion over the next two years, with much of it concentrated in late 2009 and early 2010."

Reforming the financial system

- "Restore market discipline by increasing the level and quality of capital, which should encourage shareholders to monitor risk-taking more carefully."
- "Widen the perimeter of regulation to include systemically important institutions and assess some type of charge for the contribution they make to systemic risks."
- "Institute a macroprudential approach to policymaking to reduce regulations that amplify the ups and downs of the economic cycle and formulate policies that better account for the potential interactions of monetary, fiscal, and financial policies."
- "Improve international collaboration and coordination to cope with the challenges posed by cross-border institutions that function globally, but become the responsibility of the home government if they fail."

Downloaded from http://www.rgemonitor.com/index.php on October 2, 2009.

U.S. Consumers Boost Spending: Is it Sustainable Without Policy Support?

- Personal income rose 0.2% in August 2009 after rising 0.2% in July, while disposable personal income increased 0.1% in August after remaining flat in July. Real disposable income fell 0.2% after falling 0.1% in July. Personal spending increased 1.3% after rising

0.3% in July, while inflation-adjusted spending rose 0.9% after rising 0.2% in July. The increase was led by purchases of motors vehicles under the "cash for clunkers" program which caused real spending on durable goods to rise 5.8% in August and 1.8% in July. Purchases of non-durable goods rose 0.1% while spending on services rose 0.2%. The personal savings rate declined sharply to 3.0% in August from 4.0% in July. (U.S. Bureau of Economic Analysis)

Downloaded via email from RGE's Daily Top 5 on October 2, 2009.

Stock futures pull back ahead of jobs data

Investors await the government's September jobs report

NEW YORK - Stocks headed toward a lower open Friday as investors await the government's September jobs report.

Stock futures were down after the market began the fourth quarter with its worst drop in three months, sending the *Dow Jonesindustrials* down 203 points Thursday. Investors are having doubts about the economic recovery and whether they should extend this year's rally.
They will get news about unemployment and the number of jobs lost last month when the Labor Department issues its report at 8:30 a.m. Eastern time.

Economists don't expect an improvement in the unemployment rate anytime soon. Economists surveyed by Thomson Reuters project the unemployment rate rose to 9.8 percent from 9.7 percent in August.
Employers are expected to have cut 180,000 jobs in September, down from 216,000 in August and the fewest since August 2008.
Unemployment has been one of the market's biggest concerns throughout the recession. Most economists expect the rate to top 10 percent by early next year.
Ahead of the opening bell, Dow Jones industrial average futures fell 33, or 0.4 percent, to 9,438. *Standard & Poor's 500* index futures lost 3.30, or 0.3 percent, to 1,024.10, while Nasdaq 100 index futures fell 5.25, or 0.3 percent, to 1,665.25.
Corporate news had little impact on the market.
Struggling CIT Group Inc. said late Thursday it launched a debt restructuring program it hopes will trim at least $5.7 billion from its balance sheet. New York-based CIT, one of the nation's largest lenders to small and midsize businesses, is asking bondholders to approve a prepackaged reorganization plan in case it is forced to file for Chapter 11 bankruptcy protection.
The market is also awaiting *the Commerce Department's* factory orders for August. The report, which looks at orders to U.S. factories, likely posted a small increase in August as the manufacturing sector struggles to emerge from the recession.
Economists expect factory orders rose 0.7 percent in August following a 1.3 percent gain in July. The report is due at 10 a.m. EDT.
Disappointing manufacturing data from *the Institute for SupplyManagement* reignited worries Thursday that any economic recovery may be slow and difficult.
Global markets remain modestly lower.

Japan's Nikkei stock average fell 2.47 percent. In afternoon trading, Britain's FTSE 100 was down 0.8 percent, Germany's DAX index was down 0.7 percent, and France's CAC-40 was down 1.2 percent.
Bond prices were mixed Friday. The yield on the benchmark 10-year Treasury note, which moves opposite its price, fell to 3.16 percent from 3.18 percent late Thursday. The yield on the three-month T-bill, considered one of the safest investments, rose to 0.11 percent from 0.09 percent late Thursday.
The dollar was mixed other major currencies, while gold prices fell.

We Could Be Headed For "Worldwide Inflation," Says FT's Wolf

Posted Sep 21, 2009 11:25am EDT by Peter Gorenstein in *Investing*,*Recession*
Related: *UUP*, *UDN*, *SPY*, *DIA*, *GLD*, *TBT*, *TIP*

Thanks to unprecedented central bank intervention and massive stimulus programs, the global economy is no longer teetering on the edge of a cliff. "There's no doubt we have come through this in the short run very, very well," says *Martin Wolf*, chief economics commentator at The Financial Times.

That's not to say all is well. *A year after Lehman's fall*, Wolf questions if we have a "truly healthy financial system" to keep the recovery alive. Even if the economy continues to rebound, "it's going to fell quite depressing, [with] high unemployment" for several years to come, he claims.

And, that's not to mention, the biggest risk of all: inflation.

Short to medium term, deflation remains the top concern, but Wolf acknowledges that could change on a dime if investors decide "the U.S. government and British government will never mange their public debt problems." If that happens, "then there could be a real flight from these currencies and that would generate as it did in the 70s, worldwide inflation," Wolf says.

Inflation, recessions, a bear market… and bell bottoms. I doubt anyone wants to relive the 1970s.

10-Year Bull Market Has Begun; Dow Will "Double For Sure", Hennessy Says

Oct 01, 2009 08:00am EDT by Peter Gorenstein

The Dow Jones Industrial rose 15% in the third quarter, closing the book on its best 3-month span in 11 years.

Skeptics calls it a classic bear market rally.

Neil Hennessy, chief investment officer of the Hennessey Funds, has a more positive assessment.

Much more positive.

"I think we're starting a 10-year bull market," he claims. During that time, he believes, the Dow will "double for sure" from current levels.

His reasoning?

Stocks are the only reasonable money-making investment in this current environment of low interest rates. Why "put your money into a 30-year U.S. government bond at 4% and wait 30 years to get your money back?" he asks.

Instead, he says, buy the Dow Jones Industrial Average. The 30 components are yielding a 3% dividend and, unlike Treasuries, offer a growth opportunity.

Plus, with trillions in cash on the sidelines waiting to get in the game, the market's headed in one direction: Up.

Downloaded from *http://finance.yahoo.com/tech-ticker/Investing;_ylt=Aq796q.S5Z4324R9FRZ5ywFl7ot4;_ylu=X3oDMTB2NTR2M2J1BHBvcwMxBHNlYwNhcnRpY2xlBHNsawNpbnZlc3Rpbmc-* on October 2, 2009.

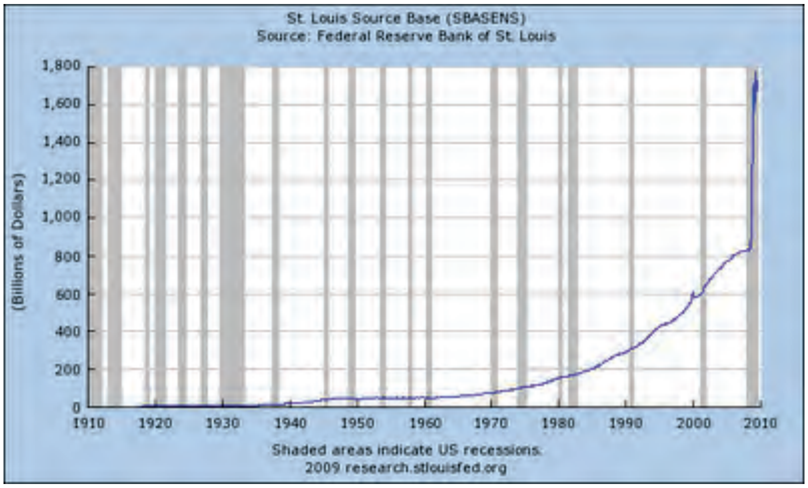
Is Pent-Up Inflation From Fed Printing Waiting On Deck?

Monday, September 21, 2009

Inquiring minds are wondering about the possibility of "pent-up" inflation from the massive expansion money supply by the Fed. Our search for the truth starts with the question "Which Comes First: The Printing or The Lending?"

This is a critical question given the massive expansion of base money by the Fed as shown in the following chart.

Base Money Supply



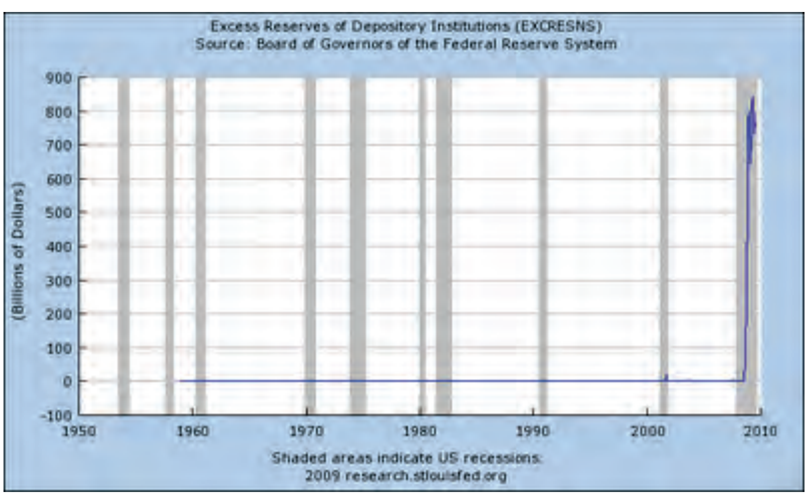
Since the beginning of the recession, the Fed has expanded base money supply from $800 billion to $1.7 trillion. Conventional wisdom suggests this money is going to come soaring into the economy at any second causing hyperinflation on the notion banks will lend out 10 times the amount of reserves.

So is this pent-up inflation just waiting to break out?

Hardly.

A funny thing happened to the inflation theory: Banks aren't lending and proof can be found in excess reserves at member banks.

Excess Reserves



Banks are Insolvent, Consumers Tapped Out

Because of rising credit card defaults, commercial real estate defaults, foreclosures, walk-aways, and other bad debts, banks need those reserves to cover future losses.

In practice, banks are insolvent, unable or unwilling to lend. Moreover, tapped out consumers are unable or unwilling to borrow. As a result, **Spending Collapses In All Generation Groups**. Bernanke can flood the world with "reserves" and indeed he has. However, he cannot force banks to lend or consumers to borrow.

Yet every day someone comes up with another convoluted theory about how inflationary this all is. It is certainly "distortionary" in that it creates problems down the road and prolongs a real recovery by keeping zombie banks alive (as happened in Japan). However, it is not (in aggregate) going to cause massive inflation because it is not spurring the creation of new debt.

Consumers and banks both are suffering from a massive hangover. Their willingness and ability to drink is gone. No matter how many pints of whiskey Bernanke sets in front of someone passed out on the floor, liquor sales will not rise.

In a debt-based economy, it is extremely difficult to produce inflation if consumers will not participate. And as noted above, demographics and attitudes strongly suggest consumers have had enough of debt and spending sprees.

Those pointing to flawed measures of money supply as proof of inflation just don't get it, and likely never will.

Banks Lend, Reserves Come Later

In practice, banks lend money and reserves come later. When defaults pile up, the Fed prints reserves to cover bank losses. Thus, those "excess reserves" aren't going anywhere. They are needed to cover losses. It's best to think of those reserves as a mirage. They don't really exist.

In the meantime, the Fed is pretending banks are solvent and banks are pretending they are well capitalized. Furthermore, in a world of falling asset prices and rampant overcapacity, banks have little reason to lend even if they were solvent.

These are simple concepts, yet few understand them. Australian economist Steve Keen is one of few who do. Some don't want to understand because it shatters their hyperinflation dreams.

Downloaded from http://globaleconomicanalysis.blogspot.com/2009/09/is-pent-up-inflation-from-fed-printing.html on October 2, 2009.

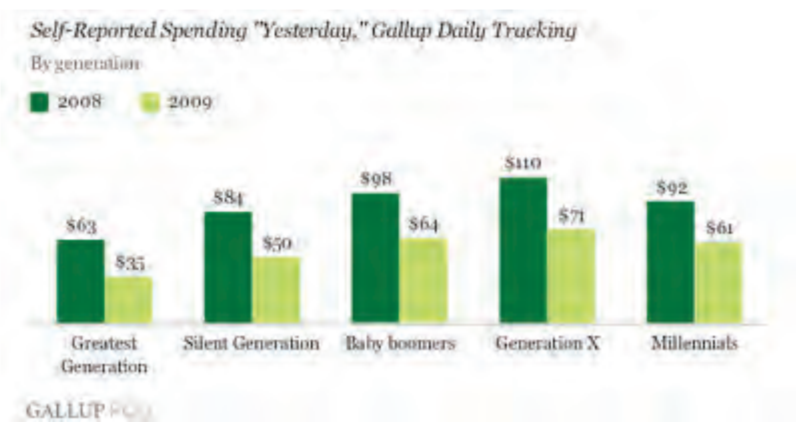
Spending Collapses In All Generation Groups

It's no secret that boomers fearing an underfunded retirement have sharply cut spending. However, it's not just boomers cutting back. Consumer attitudes toward debt have changed across all age groups.

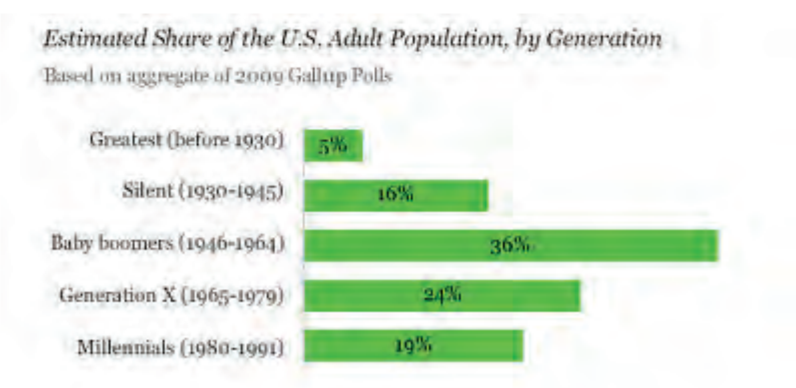
A recent Gallup Poll shows just how dramatic a spending shift has taken place. Please consider **Boomers' Spending, Like Other Generations', Down Sharply**.

Baby boomers' self-reported average daily spending of $64 in 2009 is down sharply from an average of $98 in 2008. But baby boomers -- the largest generational group of Americans -- are not alone in pulling back on their consumption, as all generations show significant declines from last year. Generation X has reported the greatest spending on average in both years, and is averaging $71 per day so far in 2009, down from $110 in 2008.

Self-Reported Spending



Population Share By Age Group

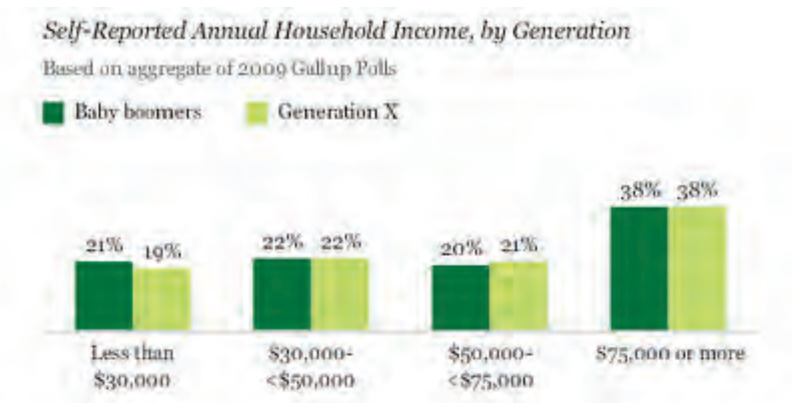


The chart shows Boomers and Generation X are the two demographic largest groups. Spending is down by 34.7% among boomers and 35.4% in Generation X. Spending is down by 33.7% in generation Y, the third largest demographic group. That is a remarkably consistent decline in spending.

Spending by the "Greatest Generation" is down a whopping 44% but that group only constitutes 5% of the population.

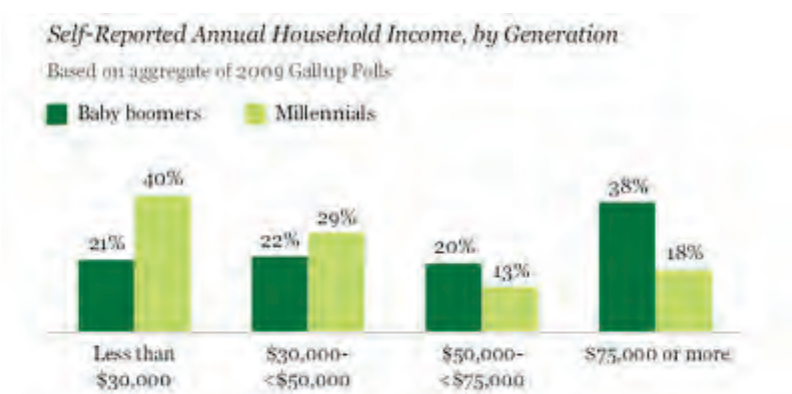
Here are some more interesting charts from the article.

Annual Incomes - Boomers vs. Generation X



Surprisingly, annual incomes are nearly identical for boomers and generation X. However, Generation Y income is dramatically less as the following chart shows.

Annual Incomes - Boomers vs. Generation Y



Bottom Line

Baby boomers have pulled back considerably on their spending this year, but they are not alone in doing so. Gallup finds significant declines among all generations in average reported daily spending in 2009 compared to 2008. Given that consumer spending is the primary engine of the U.S. economy, it's not clear how much the economy can grow unless spending increases from its current low levels. But spending may not necessarily be the best course of action for baby boomers as they approach retirement age and prepare to rely on Social Security and their retirement savings as primary sources of income. Indeed, the two generations consisting largely of retirement-age Americans consistently show the lowest levels of reported spending.

I can add to those thoughts. Boomers and Generation X are loaded to the gills with debt. Boomers in particular are downsizing and income growth is stagnating across the board.

Moreover, boomers headed into retirement are scared half to death about insufficient funds. Those boomers are not about to go on a spending spree.

Please consider the **Incredible Shrinking Boomer Economy**.

Boomer Statistics

- $400 Billion: Amount that will come out of annual U.S. consumption as thrifty boomers push savings rate from 1% to nearly 5%.
- 47%: Boomers share of national disposable income in 2005 before the bubble burst. Boomers contributed only 7% to national savings.
- 2.4%: Forecasted GDP growth over the next three decades as boomers ratchet back. GDP has grown 3.2% a year since 1965.
- 69%: Portion of boomers aged 54 to 63 who are financially unprepared for retirement.
- 78%: Boomers' share of GDP growth during the bubble years of 1995 to 2005

Those stats are from a McKinsey study, and there is nothing remotely inflationary about boomer demographics.

Nor is there anything inflationary about Generation X demographics. Generation X's have seen boomers blow it. By sharply curtailing spending, generation X at least has chance to right the ship before retirement. It's too late for most boomers. Time ran out.

Now consider generation Y with 19% of the population. Think the income levels of generation Y are going to catch boomers or generation X?

When?

Finally, think about tightening lending standards and attitudes about debt in general. Because of lower incomes and tighter lending standards, it is unlikely that Generation Y will be either able or willing to carry debt burdens to sustain a strong recovery.

Distortionary vs. Inflationary

Bernanke can flood the world with "reserves" and indeed he has. However, he cannot force banks to lend or consumers to borrow.

Here is a simple analogy that everyone should be able to understand: You can lead a horse to water but you cannot make it drink. And if the horse does not want to drink, it was a waste of time and energy to lead the horse to the water.

Yet every day someone comes up with another convoluted theory about how inflationary this all is. It is certainly "distortionary" in that it creates problems down the road and prolongs a real recovery by keeping zombie banks alive (as happened in Japan). However, it is not (in aggregate) going to cause massive inflation because it is not spurring the creation of new debt.

Consumers and banks both are suffering from a massive hangover. Their willingness and ability to drink is gone. No matter how many pints of whiskey Bernanke sets in front of someone passed out on the floor, liquor sales will not rise.

In a debt-based economy, it is extremely difficult to produce inflation if consumers will not participate. And as noted above, demographics and attitudes strongly suggest consumers have had enough of debt and spending sprees.

Those pointing to flawed measures of money supply as proof of inflation just don't get it, and likely never will.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com
Downloaded from *http://globaleconomicanalysis.blogspot.com/2009/08/spending-collapses-in-all-generation.html* on October 2, 2009.

Collectively, Economists Are A Perpetually Optimistic Lot

In what should be no surprise to anyone, car sales crashed after the cash-for-clunkers program ended. Nonetheless, economists and analysts once again managed to be surprised by the rate of decline.

Please consider **GM, Toyota, Ford Say U.S. Sales Fell After 'Clunkers' Aid Ended**.

General Motors Co., Toyota Motor Corp. and Ford Motor Co. said sales fell in September as waning demand after the "cash for clunkers" rebates may have cut industry deliveries to the second-slowest rate this year.

The seasonally adjusted annual sales rate slid to 9.3 million vehicles, based on the average of 8 analyst estimates compiled by Bloomberg. Analysts' sales estimates are adjusted for one more sales day this month than in September 2008.

Adjusted Sales vs. Estimates

- GM sales fell 47 percent compared to the 44 percent decline projected by analysts.
- Ford sales fell 8.9 percent compared to the 5 percent decline projected by analysts.
- Chrysler sales fell 8.9 percent, matching the average analyst estimates.
- Nissan sales fell 11 percent compared to the 7.1 percent decline projected by analysts.
- Honda sales fell 23 percent, compared to the 13 percent decline projected by analysts.
- Toyota sales fell 16 percent compared to the 13 percent decline projected by analysts.
- Hyundai bucked the industry slide with a 27 percent increase.

Chicago Surprise

Yesterday, inquiring minds were reading **Reflections on the Unexpected Negative Surprise in Chicago Purchasing Index PMI**.

"A lot of people would be looking for a pullback, but we're going to see improving fundamentals in the base economy, and with that higher earnings," said William Dwyer, chief investment officer at MTB Investment Advisors, which manages $13 billion in Baltimore.

Moments after Dwyer finished yapping, the Chicago PMI numbers came out.

The Standard & Poor's 500 Index lost 0.7 percent to 9,678.27 at 9:47 a.m. in New York after the Institute for Supply Management's gauge of business activity slipped to 46.1 in September, lower than the reading of 52 estimated by economists in a Bloomberg survey.

It's not a recession, just a "dramatic slowing of growth"

Flashback January 24, 2008: **Market Comments From Dwyer**

Bill Dwyer, chief investment officer at MTB Investment Advisors in Baltimore, said Wall Street found some relief from word of the economic stimulus plan as well as the efforts of regulators to help bond insurers. He said the Federal Reserve's decision to lower interest rate this week could also help some struggling homeowners hold onto their properties. The efforts, he said, could ultimately help stave off recession.

"People have that 'R' word stuck on the front of their forehead. It's really just a dramatic slowing of growth. We may not have a recession," he said.

We need a new rule: Those who did not see this coming are in no place to be cheerleading where the economy or the stock market is headed.

Manufacturing Expands Less Than Economists Expect, Jobless Claim More

Inquiring minds are reading **U.S. Economy: Manufacturing Grows at Slower Pace, Claims Rise**.

Manufacturing in the U.S. expanded less than anticipated by economists and more Americans filed claims for unemployment benefits, pointing to a recovery that will be slow to generate jobs.

The Institute for Supply Management's factory gauge decreased to 52.6 in September from 52.9 in August, the Tempe, Arizona-based group said today. Fifty is the dividing line between expansion and contraction. The number of jobless claims climbed to 551,000 last week, more than economists forecast, figures from the Labor Department showed.

The ISM index, which dropped for the first time this year, was forecast to rise to 54, according to the median of 80 estimates in a Bloomberg survey of economists.

Bernanke Out Of magic Magic Bullets

In what is no surprise in this corner, Bernanke admitted he has no magic bullets. Please consider **Bernanke Says Jobless Rate May Be Above 9% in 2010**.

Federal Reserve Chairman Ben S. Bernanke said U.S. economic growth next year probably won't be strong enough to "substantially" bring down the jobless rate, which may remain above 9 percent at the end of 2010.

"Most forecasters including the Fed are currently looking at growth in 2010, but not growth so rapid as to substantially lower the unemployment rate," Bernanke said at a House Financial Services Committee hearing today in Washington. Growth of 3 percent means the rate would "still probably be above 9 percent by the end of 2010," Bernanke said.

"Is there anything else we should be doing to make sure that we bring the unemployment rate more quickly?" asked Representative Leonard Lance, a Republican from New Jersey. Bernanke replied, "I don't have any magic bullets to offer. If I did, I would have offered them by now."

In an interview today, Richmond Fed President Jeffrey Lacker said the central bank will need to raise interest rates when the economic recovery is "firmly" in place, even if unemployment lingers near 10 percent.

"I think the growth outlook, particularly the consumer spending outlook, are more fundamental than labor-market conditions," he said.

Asked in the hearing to comment on remarks this week by World Bank President Robert Zoellick, Bernanke said he also agrees with the official that "if we don't get our macro house in order, that that will put the dollar in danger and that the most critical element there is long-term fiscal stability."

Bernanke Hides Behind Words

At first glance Bernanake offered some sobering news on jobs, but only in relation to even more optimistic expectations elsewhere. I am sticking with a forecast of **Structurally High Unemployment For A Decade**.

Note how Bernanke attempts to hide behind the word "substantially" without saying what really needs to be said: Unemployment is unlikely to drop at all in 2010.

Furthermore, Bernanke had several chances to get it right on Commercial Real Estate but failed.

Bernanke said at the hearing that the commercial real estate market, while posing "a very serious problem," is unlikely to cause another financial crisis.

"We are concerned both because the fundamentals are weakening, and because the financing situation is bad," Bernanke said. Loans may cause "a lot of stress" for "small and regional banks," he said.

Asked by Representative Gregory Meeks, a Democrat from New York, if there's a "crisis brewing," Bernanke said, "I don't think so, but we'll have to watch it carefully."

Another Crisis is Brewing

A commercial real estate crisis is brewing and Bernanke either does not see it or will not admit it. Expect to see dozens of small to mid-sized regional banks go under as a result.

Why Stop There?

There are potential financial crises related to the jobs, currencies, banks, commercial real estate, pay option ARMs, Fannie Mae, pension plans, state funding issues, global trade, protectionism, credit card defaults, deficit spending, unfunded liabilities, derivatives, and a still rising unemployment rate.

Here a the key point to remember: Neither the bailouts nor the stimulus packages solved any structural problems related to the above.

Another crisis of some sort is a virtual certainty.

Just don't expect many economists to say that. Indeed, economics may be called the "dismal science", yet collectively, economists seem to be a perpetually optimistic lot although individual results do vary.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com

Japan's Steel Production Lowest In 40 Years

Those interested the steel industry may wish to take a look at SteelGuru. Here are a few links of general interest.

US Steel Update October 2

US steel market data update for first 7 months

Item	Jan-Jul '09	Jan-Jul '08	Change
Domestic Shipments	45,879	64,190	-28.5
Total Imports	9,615	18,839	-49.0
Semi finished Imports	668	3,952	-83.1
Finished Imports	8,947	14,887	-39.9
US Exports	4,644	7,809	-40.5
Apparent Steel Supply	50,182	71,268	-29.6
Net Imports	4,971	11,030	-54.9

In '000 tonnes
Source: AISI statistics

Chinese onslaught brings down HR steel prices in EU on knees

China's effect on the steel market is interesting. Please consider**Chinese onslaught brings down HR steel prices in EU on knees**.

Prices of HRC are under severe pressure in Europe this week due to several offers of Chinese material.

We have understood from market sources that HRC in quality S235JR and thickness 2 mm and above has been offered at around EUR 350 per tonne CIF FO Italian Port by Chinese mills through their trading houses.

At today exchange rate this equals to about USD 510 per tonne on CNF basis, which would lead to a FOB Chinese port price of about USD 450 per tonne to USD 460 per tonne.

This is a major event as is showing a consistent negative trend with a sudden steep slope.

China will be closed during all next week due to National Holiday. But when Chinese mills return to market on October 9th, situation is likely to get even worse.

Steel Usage In Japan Drops Off Cliff

Inquiring minds are noting **METI sees Japan crude steel output in 2009 to hit lowest in 40 years**.

Thursday, 01 Oct 2009

Ministry of Economy, Trade & Industry said that Japan's crude steel production in 2009 is estimated to hit the lowest level in 40 years due largely to steep demand falls from automakers and other manufacturers in the first half of the year.

MET said that output is projected to total 86.34 million tonnes, the lowest level since 1969.

"Trig" on Silicon Investor writes:

Although steel is just another indicator, it's an important one.

Chinese efforts to maintain jobs and production, plus their huge iron ore imports means that they will be lowballing steel prices for a while. The important thing to note in the stats: despite low prices we aren't importing Chinese steel.

Net imports are down 54.9%. Exports are down 40.5%

The inferences are obvious:

- We're not buying cheap steel,
- We're not using it to manufacture products
- We're not exporting finished products made of steel despite a lower USD.

These are not signs of a healthy economy, or growth.
Steel? Who needs it?

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com
Downloaded from *http://globaleconomicanalysis.blogspot.com/2009/10/japans-steel-production-lowest-in-40.html* on October 2, 2009.

Anemic Job Creation During The "Schumpeterian Depression"
Monday, September 28, 2009

The Wall Street Journal is discussing some interesting trends in business creation and small business hiring. Please consider **Sharp Drop in Start-Ups Bodes Ill for Jobs, Growth Outlook**.

New companies will be crucial to the strength of any economic recovery. Businesses in their first 90 days of life accounted for 14% of hiring in the U.S. between 1993 and 2008, according to the Bureau of Labor Statistics.

But this recession is taking a particularly heavy toll on business creation, as sources of small-business funding dry up and would-be entrepreneurs become more risk-averse. When entrepreneurs do launch businesses, they are hiring fewer employees on average. The trends threaten to damp growth in jobs and economic output for years.

Company formation typically dips slightly in recessions, says Brian Headd, a Small Business Administration economist. Earlier this decade, business starts -- including new businesses and units of existing businesses -- fell 9% between the third quarter of 2000 and the first quarter of 2003, the BLS says.

This time, the decline has been steeper. Business starts fell 14% from the third quarter of 2007 to the third quarter of 2008; the 187,000 businesses launched in that quarter were the fewest in a quarter since 1995. The number ticked up slightly in the fourth quarter, the latest data available. But those new establishments created only 794,000 jobs, the fewest since the government began tracking the data in 1993.

To be sure, as in past recessions, some laid-off workers are starting businesses to stay afloat, or testing long-held dreams. The Kauffman Foundation, a nonprofit research group that promotes entrepreneurship, says more Americans started businesses last year than in 2007. Kauffman cites research by University of California, Santa Cruz, economist Robert Fairlie, who analyzes different BLS data.

Mr. Fairlie, says statistics suggest more businesses are being created more out of "necessity" than "opportunity." That "does not bode as well for economic growth," he says.

The number of new businesses with relatively low income potential -- such as baby-sitting and house-cleaning services -- grew last year. But compared with 2007, there were fewer new businesses with high income potential -- like law firms, medical offices and manufacturing outfits.

Trends In Business Hiring

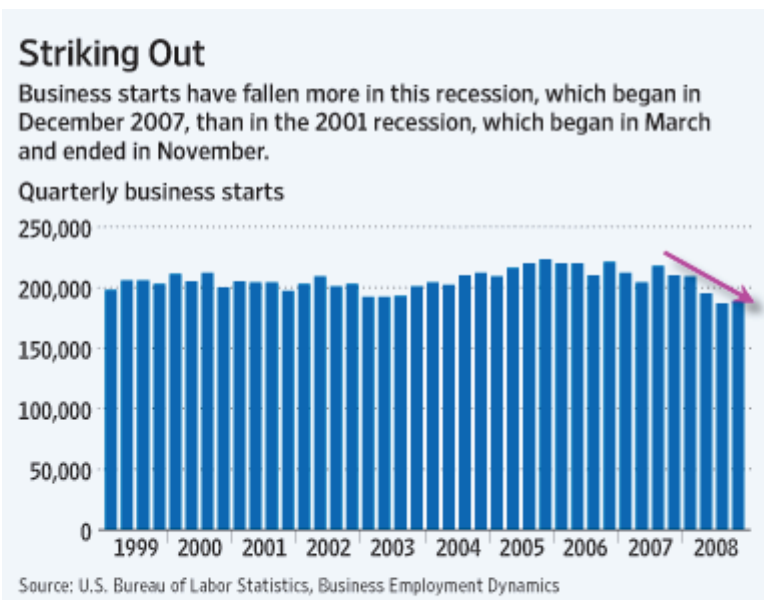


Chart courtesy of the WSJ with data from the BLS. I added the arrow in hot pink.

Birth/Death Numbers Revisited

Inquiring minds are asking "What Birth/Death numbers for 2007 and 2008 did the BLS report?"

Jobs Flashback January 4, 2008

Unemployment Soars as Private Sector Jobs Contract

2007 Net Birth/Death Adjustment (in thousands)

Supersector	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Natural Resources & Mining	-2	1	1	2	1	1	2	-1	1	0	0	0
Construction	-52	11	27	49	40	26	8	15	12	14	-3	-9
Manufacturing	-23	3	6	3	7	7	-10	4	3	-5	4	2
Trade, Transportation, & Utilities	-29	10	19	30	29	19	-13	22	16	28	24	23
Information	-9	5	0	7	5	-1	-3	3	-3	4	4	3
Financial Activities	-17	11	8	26	7	6	6	11	6	25	8	17
Professional & Business Services	-48	28	21	44	19	20	-5	20	6	36	12	5
Education & Health Services	10	12	1	47	13	-9	5	14	11	39	11	9
Leisure & Hospitality	1	34	39	95	75	81	44	26	-36	-37	-10	14
Other Services	-6	3	6	14	7	6	-8	4	1	-1	1	2
Total	-175	118	128	317	203	156	26	120	17	103	51	66

Average Birth Death Adjustment for 2007 is 94,000 jobs per month due to presumed net business job creation.

Jobs Flashback January 9, 2009

Jobs Contract 12th Straight Month; Unemployment Rate Soars to 7.2%

2008 Net Birth/Death Adjustment, not seasonally adjusted (in thousands)

Supersector	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mining & Logging	-2	1	1	1	2	2	1	2	2	1	0	1
Construction	-74	9	28	45	42	29	1	16	12	7	-7	-8
Manufacturing	-36	4	7	-10	9	7	-14	4	3	-6	3	3
Trade, Transportation, & Utilities	-64	11	22	24	31	20	-12	21	20	23	17	20
Information	-20	5	2	3	5	1	-5	4	1	1	3	3
Financial Activities	-37	10	6	8	9	8	-4	9	8	13	5	18
Professional & Business Services	-100	39	23	72	23	22	-2	23	10	43	11	10
Education & Health Services	-11	17	2	31	11	-5	3	16	18	30	10	10
Leisure & Hospitality	-20	35	44	83	77	86	44	26	-35	-40	-12	12
Other Services	-14	4	7	10	8	7	-8	4	3	-1	0	3
Total Nonfarm Birth/Death Adjustment	-378	135	142	267	217	177	4	125	42	71	30	72

Average Birth Death Adjustment for 2008 is 57,000 jobs per month due to presumed net business job creation.

That does reflect a dip, but remember that birth/death adjustments are net figures. The article did not provide a chart of businesses that went out of business in during the recession.

In the third quarter of 2008 the the 187,000 businesses launched were the fewest in a quarter since 1995 and the number of jobs per startup had collapsed, yet the BLS still had positive net numbers for the year.

Presumably the net number of business startup jobs rose during the entire recession even though the number of startups and the number of jobs created per startup were both declining,

I do not buy it. Can we see the data on business deaths please?

Jobs Flashback September 4, 2009

Jobs Contract 20th Straight Month; Unemployment Rate Hits 9.7%

2009 Net Birth/Death Adjustment, not seasonally adjusted (in thousands)

Supersector	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mining & Logging	-2	2	1	1	2	2	1	2				
Construction	-79	8	23	38	43	31	-1	15				
Manufacturing	-28	6	6	-8	7	7	-9	4				
Trade, Transportation, & Utilities	-58	10	17	16	30	21	-5	18				
Information	-14	7	0	5	5	2	-2	5				
Financial Activities	-33	8	5	1	7	7	-3	4				
Professional & Business Services	-99	36	16	65	28	25	8	26				
Education & Health Services	-10	17	-1	25	13	-5	6	16				
Leisure & Hospitality	-19	35	41	76	77	87	43	24				
Other Services	-14	5	6	7	8	8	-6	4				
Total Nonfarm Birth/Death Adjustment	-356	134	114	226	220	185	32	118				

Anyone believe that preposterous set of numbers?

So far in 2009, The Birth Death adjustment is adding 84,000 jobs per month due to presumed net business job creation.

Thoughts on the Schumpeterian Depression

My friend "BC" writes:

During Schumpeterian Depressions, large, cash-rich firms dominate and push increasing scale and standardization, whereas small firms suffer from a lack of capital and a reluctance by banks to lend.

This trend should persist well into the next decade, as deflationary depressions and the associated demographic cycle reduces business start-up activities, and this time around Venture Capital activity.

Also, younger workers of a peak demographic cohort lack the capital and longevity in the occupational structure to have made sufficient contacts and gotten access to capital and equipment in order to reach the necessary critical mass of experience, reputation, and problem solving one demonstrates sometime in their mid- to late 20s to early to mid-30s.

Thus, we are not likely to see a new wave of incremental innovation and new capital formation and business start ups until no earlier than the mid-to-late '10s to early '20s. In the meantime, mass cross-industry consolidation, R&D moving inside large firms, spin-offs, firings, wealth consumption, and shifting composition of household spending led by Boomers in late life will combine to slow growth for years to come.

Moreover it is questionable as to whether China and India can buck the larger demographic and Schumpeterian-curve trends, as they have come to rely so heavily upon US supranational firms' Foreign Direct Investment in plants, equipment, trade credits, and intellectual property. The growth of US and Japanese firms' FDI will likely continue to decelerate with "trade" for years to come.

For more on Schumpeterian Depressions, please see **Creative Destruction**.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com

Obama's 'Stealth Taxes' Estimated at Over $1.5 Trillion
Thursday, October 1, 2009 6:10 PM

David A. Patten

Taxpayers at all income levels could be hit with over $1.5 trillion in new taxes, fees, and other costs over the next 10 years, despite President Obama's repeated promises that he would not raise taxes "one dime" on those earning less than $250,000 a year.

Details of several new tax proposals, including some that would disproportionately affect the middle and lower classes, have emerged following Obama's recent dust-up with host George Stephanopoulos on ABC's “This Week.” The two locked horns over whether the individual mandate in healthcare reform, which requires individuals either to buy healthcare coverage or face considerable fines, amounts to a tax.

Stephanopoulos suggested that fines levied for not complying with the mandate are a tax. Obama's response: "But George, you can't just make up that language and decide that's called a tax increase…. I absolutely reject that notion."

Under the Senate finance version of the healthcare reform bill, individuals could be penalized up to $1,900 a year for not buying insurance. That mandate would generate up to $20 billion in new federal revenue, according to the Congressional Budget Office. But is it a tax?

One strong indicator: The mandate would become part of the Internal Revenue Code. Failing to pay the penalty would result in a misdemeanor crime punishable by a $25,000 fine and/or up to a year in jail. Also, both the House and the Senate versions of the bill refer to the mandate fines as a form of "taxes."

So Stephanopoulos was correct, and Obama was mistaken: The fees assessed as part of the requirement that people purchase insurance coverage are indeed a form of taxes.

Heritage Foundation senior fellow J.D. Foster tells Newsmax that Democrats are searching for "anything to collect revenues" that don't appear to be taxes.

"The stealth taxes masquerading as fees in the various healthcare reform proposals are just another example of this," Foster says, "except that they also violate the president's promise of more transparency in government. And they violate his promise not to raises taxes on the middle class."

Or as a Wall Street Journal editorial recently declared: "His real problem is that the individual mandate really is a tax. But the president doesn't want voters to think of it that way, because taxes are unpopular."

Several other taxes or quasi-taxes are under consideration. Some have been written into proposed legislation, while others are still in the conceptual stage.

So far, Democrats have primarily relied on projected-but-unspecified savings in Medicaid and Medicare to mask the red ink spilling from their proposals. Ultimately, however, balancing the budget will require eliminating government programs or raising taxes. But some de facto taxes hit consumers indirectly.

"If they take your money without your permission, it's either a tax or a mugger," Grover Norquist, founder of the anti-tax Americans for Tax Reform organization, tells Newsmax. "You can call it anything you want, but a fee that you have to pay is a tax."

One tax has already been implemented. In February, Obama signed legislation hiking the federal excise tax on cigarettes by a whopping 156 percent, to $1.01 per pack.

An October 2007 report by Congress' Joint Committee on Taxation estimated the tobacco tax would generate approximately $7.3 billion per year. The tax disproportionately affects the working poor, because one in four smokers lives below the poverty line according to Americans for Tax Reform.

Other new taxes or "fees" that may be on the table:

Health-Insurance Company Fee. The "Baucus bill" passed by the Senate Finance Committee and parallel initiatives in the House would hit health-insurance providers with an annual fee. Robert Zirkelbach, director of communications for the America's Health Insurance Plans trade group, tells Newsmax the industry strongly opposes what he sees as a tax.

“New taxes on healthcare coverage will only make coverage less affordable for families and small businesses," Zirkelbach says. "This is the opposite effect of what health care reform is supposed to accomplish. Unless policymakers focus on the underlying medical cost drivers, healthcare reform will not be sustainable.” Price Tag: Over 10 years, the measure would cost somewhat north of $45 billion, according to the Joint Committee on Taxation.

Energy "Tax." A U.S. Treasury Department document obtained by the Competitive Enterprise Institute following a Freedom of Information Act request reveals that the administration projected revenues of "$100 to $200 billion annually" from auctioning off the right to emit greenhouse gases – the system known as cap and trade. Some of the funds raised by the administration will go to development of alternative forms of energy and conservation, and other government programs. The Treasury report also projected that, "Economic costs will likely be on the order of 1 percent of GDP, making them equal in scale to all existing environmental regulation." But once again, can higher fuel costs and other economic impacts legitimately be called a tax?

The Treasury Department said the difference between cap-and-trade proposals, which auction the right to emit greenhouse gases, and a carbon tax on emissions "have blurred." In April 2008 Peter Orszag, who now serves as Obama's director of the Office of Management and Budget, testified to Congress that: "Under a cap-and-trade program, firms would not ultimately bear most of the costs of the allowances but instead would pass them along to their customers in the form of higher prices … price increases would be essential to the success of a cap-and-trade program." Price Tag: At 1 percent of GDP, cap and trade as currently proposed would cost consumers $140 billion per year. The fact that it's not technically a tax won't be much consolation. The price tag over 10 years: $1.4 trillion.

Medical Device Fee. The Senate Finance Committee's healthcare-reform legislation – the so-called "Baucus bill" – proposes a tax on medical devices. Ironically, the "fee" will increase the cost of medical care, which is the very problem healthcare reform is ostensibly meant to redress. Foster warns employers may react to higher insurance costs by cutting workers' wages. Price Tag: About $30 billion over the next decade, according to the Joint Committee on Taxation.

Fee on Brand-Name Drugs. The Baucus bill would raise $1.7 billion annually by imposing a fee on those who manufacture or import "branded," i.e., non-generic, drugs. Again, these fees, although not defined as a tax, will increase the cost of healthcare to consumers and insurance companies. According to Douglas W. Elmendorf, director of the Congressional Budget Office, it's a given that consumers will foot the bill for the various fees in healthcare reform. "Those fees would increase costs for the affected firms," Elmendorf wrote in a Sept. 22 letter to Senate Finance Committee Chairman Max Baucus, D-Mont., "which would be passed on to purchasers and would ultimately raise insurance premiums by a corresponding amount." Price Tag: $17.2 billion over 10 years.

The so-called "Bo-Tax." This proposal would slap a 10 percent excise tax on cosmetic procedures, such as cosmetic implants or Botox injections. Price tag: About $11 billion over the next decade, according to the Joint Committee on Taxation. It remains to be seen whether the Bo-Tax will be included in the final version of the legislation to be voted on by the Senate.

Soda Tax. When CNBC's John Harwood asked House Speaker Nancy Pelosi in May if Congress would consider levying a "soda tax" to raise money for healthcare reform, she replied "Everything [is] on the table." Since then, the idea of a soda tax has gained momentum. In September, several leading health experts endorsed a soda tax, saying it would help curb the nation's growing obesity problem.

Look for the soft-drink companies and the American Beverage Association to fight it. "I have never seen it work where a government tells people what to eat and what to drink," Coca-Cola CEO Muhtar Kent recently told a Rotary Club audience, according to Bloomberg.com. "If it worked, the Soviet Union would still be around."

Any tax on soda would encounter tough resistance from lobbyists on Capitol Hill. Both The New York Times and doctors writing in the New England Journal of Medicine have called for a 1-cent-per-ounce tax on soda. The soda tax isn't in the current versions of the health-care reform legislation, but will probably resurface. In a recent edition of Men's Health magazine, Obama remarked: "I actually think it's an idea that we should be exploring." Price Tag: According to the publisher of the Beverage Digest trade publication, John Sicher, a 1-cent-per-ounce tax would raise $13 billion annually. But any soda tax faces an uphill legislative battle. If it does pass, insiders say, it would almost certainly cost less than a penny an ounce. "I think that a tax by any other name is still a tax," Sicher tells Newsmax. "If money goes from an individual's pocket into the public coffers, it sounds like a tax, and therefore it probably is a tax."

Even without the soda tax, these items add up to a "stealth tax bill" on Americans of over $1.5 trillion over the next 10 years – most of it stemming from the indirect costs of energy cap and trade. Of course, how many of these proposals make their way into law remain to be seen.

There's one group that won't be surprised to learn Uncle Sam is reaching deeper and deeper into its citizens' pockets: Voters. In August, a Gallup poll reported that 68 percent of them believed their federal income taxes would be higher by the time Obama's first term is completed. Of those, 35 percent expected their taxes to be "a lot higher."

Similarly, The New York Times stated in a recent editorial: "The question then is not whether taxes must go up, but when, how, and how much."

By current estimates, the budget deficit will reach $9 trillion in the next 10 years. Most economists consider that level of debt unsustainable.

Norquist says it's no surprise that those making less than $250,000 will feel the pinch of higher taxes and fees.

"There aren't enough rich people to fund his fantasies," Norquist says of Obama. "So he goes to the middle class and loots them. But because he said he wouldn't, he has to play the game of calling it something else."

Brad Schiller, a professor of economics at the University of Nevada, Reno, tells Newsmax it would be a mistake to strictly limit the economic discussion to taxes.

"I would say the cost burden on business and households in whatever form is a reduction on their income," Schiller says. "So we shouldn't focus exclusively on taxes. We should also look at fees and higher costs."

Schiller believes the added taxes, fees, and costs discussed so far will not represent a significant drag on the economic recovery in the next four years. In fact he calls them "barnacles on a boat," pointing out that major programs such as healthcare are phased in over a period of years anyway.

In the longer term, however, he says taking more money from consumers is "worrisome," because higher taxes and other costs inevitably hurt productivity.

Of more immediate concern, he says, are the higher interest rates that will be triggered by government borrowing and the deficit. Those factors "are going to be what really slows the boat down," he says. And he expects those factors to begin to come into play next year.

Other changes in the tax code are probably in store as well, and none of them is likely to help the economy. President Obama has called for raising the capital gains tax from 15 percent to 20 percent. He also wants to kill the Bush tax cuts that benefited those in the higher income brackets, who disproportionately shoulder the nation's tax burden. And Obama wants to eliminate a provision that allows U.S. corporations to defer paying taxes on overseas profits, as long as the money remains offshore. Once those profits return home to the United States, they are subject to the 35 percent U.S. corporate tax rate, one of the highest in the world.

All of those taxes and fees, however, would pale in comparison to a value-added tax (VAT), which would be similar to a national sales tax on consumption.

Value-added taxes are a common feature of the Western European societies that the globalists in the Obama administration appear to admire so much. John Podesta, the co-chairman of Obama's transition team and founder of the Center for American Progress, recently floated a trial balloon by telling Bloomberg Television that a value-added tax is more plausible than ever before due to the high deficit.

Former Deputy Treasury Secretary Robert Altman suggests the VAT could raise $400 billion per year from taxpayers. And everyone would pay for the tax, regardless of their income bracket.

Comments Reuters columnist James Pethokoukis: "Obama's campaign promise to not raise taxes on households making less than $250,000 a year was always considered a joke here inside the Beltway…. Maybe it was a joke inside the campaign, too."

OMB director Orszag recently confirmed that he's currently looking for additional ways to narrow the budget deficit in the president's 2011 budget.

Does that mean the administration would consider imposing new taxes on those earning less than $250,000 a year?

The Wall Street Journal asked Orszag that question. He replied: "We're in the midst of putting together the 2011 budget, and we'll have more to say about that later."

Orszag's response led the Journal to advise its readers: "Hide the children."

Downloaded from
http://www.newsmax.com/headlines/stealth_tax_obama/2009/10/01/267430.html on October 2, 2009.

U.S. Sept non-farm payrolls plunge 263,000

- On Friday October 2, 2009, 8:32 am EDT

WASHINGTON (Reuters) - U.S. employers cut a deeper-than-expected 263,000 jobs in September, lifting the unemployment rate to 9.8 percent, according to a government report on Friday that fueled fears the weak labor market could undermine economic recovery.

The Labor Department said the unemployment rate was the highest since June 1983 and payrolls had now dropped for 21 consecutive months.

Analysts polled by Reuters had expected non-farm payrolls to drop 180,000 in September and the unemployment rate to rise to 9.8 percent from 9.7 percent the prior month. The poll was conducted before reports, including regional manufacturing surveys, showed some deterioration in employment measures.

The government revised job losses for July and August to show 13,000 more jobs lost than previously reported. Preliminary annual benchmark revisions, released together with September's employment report showed that total non-farm payroll employment for March would have to be revised down about 824,000.

Stubbornly high unemployment is viewed as the missing link in the economy's recovery from its worst recession in 70 years. The economy is believed to have started growing in the third quarter.

Since the start of the recession in December 2007, the number of unemployed people has risen by 7.6 million to 15.1 million, the department said. While the decline in payrolls has moderated from early this year, companies are still not hiring on a wide scale, likely waiting for a signal that the economic recovery is sustainable.

Manufacturing employment fell by 51,000 in September, while construction industries payrolls dropped. The service-providing sector cut 147,000 workers in September, while goods-producing industries shed 116,000 positions.

Education and health services added a mere 3,000 jobs, while government employment fell 53,000.

Downloaded from *http://finance.yahoo.com/news/US-Sept-nonfarm-payrolls-rb-589941939.html/print;_ylt=AihcLZocM6h5C1ZJtEMoZXz9ba9_;_ylu=X3oDMTBwNjZiaWw5BHBvcwMxBHNlYwN0b29scwRzbGsDcHJpbnQ-?x=0* on October 2, 2009.

US jobless rate reaches 9.8 percent in September

US unemployment rate rises to 9.8 percent in September, as employers cut 263,000 jobs

- By Christopher S. Rugaber, AP Economics Writer
- On Friday October 2, 2009, 9:06 am EDT

WASHINGTON (AP) -- The U.S. unemployment rate rose to 9.8 percent in September, the highest since June 1983, as employers cut far more jobs than expected. The report is evidence that the worst recession since the 1930s is still inflicting widespread pain.

Persistently high unemployment could weaken the recovery as consumers, concerned about their jobs and incomes, restrain spending. Consumer spending accounts for about 70 percent of the U.S. economy.

The Labor Department said Friday that the economy lost a net total of 263,000 jobs last month, from a downwardly revised 201,000 in August. That's worse than Wall Street economists' expectations of 180,000 job losses, according to a survey by Thomson Reuters.

The unemployment rate rose from 9.7 percent in August, matching expectations.

If laid-off workers who have settled for part-time work or have given up looking for new jobs are included, the unemployment rate rose to 17 percent, the highest on records dating from 1994.

More than a half-million unemployed Americans gave up looking for work last month. Had they continued searching, the official jobless rate would have been higher.

All told, 15.1 million Americans are now out of work, the department said. And more than 7.2 million jobs have been eliminated since the recession began in December 2007.

Many analysts expect the economy grew at a healthy clip in the July-September quarter, technically ending the recession, but few think the recovery will be strong enough to lower the jobless rate. Most economists expect the rate to top 10 percent and keep climbing.

The economy has received a boost from the Cash for Clunkers auto rebate program and other government stimulus efforts, but many economists believe that growth will slow in the current quarter and early next year as the impact of those programs fade.

Federal Reserve Chairman Ben Bernanke said Thursday that even if the economy were to grow at a 3 percent pace in the coming quarters, it would not be enough to quickly drive down the unemployment rate. Bernanke said the rate is likely to remain above 9 percent through the end of 2010.

Hourly earnings rose by a penny last month, while weekly wages fell $1.54 to $616.11, according to the government data.

The average hourly work week fell back to a record low of 33 in September. That figure is important because economists are looking for companies to add more hours for current workers before they hire new ones.

The uncertainty that surrounds the recovery has made employers reluctant to hire. The Business Roundtable, a group of chief executives from large corporations, said earlier this week that only 13 percent of its members expect to increase hiring over the next six months.

While job losses have slowed since the first quarter of this year when they averaged 691,000 a month, the cuts actually worsened last month in many sectors compared with August.

Construction jobs fell by 64,000, more than the 60,000 eliminated in August. And service sector companies cut 147,000 jobs, more than double the 69,000 in the previous month. Retailers lost 38,500 jobs, compared to less than 9,000 in August.

Temporary help agencies eliminated 1,700 jobs, down from the previous month, but still a sign of labor market weakness. Economists see temporary jobs as a leading indicator, as employers are likely to hire temp workers before permanent ones.

Downloaded from *http://finance.yahoo.com/news/US-jobless-rate-reaches-98-apf-93159528.html/print;_ylt=AihcLZocM6h5C1ZJtEMoZXzeba9_;_ylu=X3oDMTBwNjZiaWw5BHBvcwMxBHNlYwN0b29scwRzbGsDcHJpbnQ-?x=0* on October 2, 2009.

Banks With 20% Unpaid Loans at 18-Year High Amid Recovery Doubt

By James Sterngold, Linda Shen and Dakin Campbell

Oct. 2 (Bloomberg) -- The number of U.S. lenders that can't collect on at least 20 percent of their loans hit an 18-year high, signaling that more bank failures and losses could slow an economic recovery.

Units of ***Frontier Financial Corp.,Towne Bancorp Inc.*** and ***Steel Partners Holdings LP***are among 26 firms with more than one-fifth of their loans 90 days overdue or not accruing interest as of June 30 -- a level of distress almost five times the national average -- according to Federal Deposit Insurance Corp. data compiled for Bloomberg News by ***SNL Financial***, a bank research firm. Three reported almost half of their loans weren't being paid.

While regulators may not force firms on the list to close, requiring them to raise capital and curb loans may impede recovery in Florida, Illinois and seven other states. The banks are among the most vulnerable of a larger group of lenders whose failures the FDIC said could cost $100 billion by 2013.

"There are some zombie banks out there," said ***Bert Ely***, chief executive officer at Ely & Co., a bank consulting firm in Alexandria, Virginia. "Neither the banking industry nor the economy benefits from keeping weak banks in business."

Ninety-five banks have ***failed this year*** at the fastest pace in almost two decades, depleting the FDIC's insurance fund. The agency proposed on Sept. 29 that financial firms prepay three years of premiums, which would add $45 billion of reserves. The fund sank to $10.4 billion as of June 30, the lowest since 1993. It will run at a deficit starting this quarter, the agency said.

Non-Current Loans

The cost of this year's failures to the FDIC equals 25 percent of the banks' assets, according to agency data. Applying the same ratio to the $14.1 billion of assets held by the 26 lenders on SNL's list means the FDIC could face additional losses of $3.5 billion.

Non-current loans averaged ***4.35 percent*** of the total at U.S. banks as of June 30, the most in 26 years of ***FDIC*** data. Regulators typically take notice at 5 percent, according to ***Walter Mix***, a former commissioner of the California Department of Financial Institutions. ***Corus Bankshares Inc.***'s bank unit in Chicago was ***shut Sept. 11*** after 71 percent of its loans soured.

The last time so many banks had 20 percent of their loans more than 90 days overdue was in 1991, near the end of the savings-and-loan crisis, when there were 60, according to an SNL analysis of FDIC data. That year the number of bank failures was less than half those at the peak of the crisis in 1988; this year closings are almost four times what they were in 2008.

For banks with 20 percent of loans overdue, "either they've got a massive amount of capital, or the FDIC just hasn't gotten around to them," said ***Jeff Davis***, an analyst with***FTN Equity Capital Markets*** in Nashville. Lack of staff and money are slowing shutdowns, he said.

Enforcement Orders

At least 17 of the 26 banks have been hit with civil penalties or enforcement orders that demand improved management and more capital, according to data compiled by Bloomberg. Failure to comply can lead to seizure.

The number of distressed banks is larger, with the FDIC counting 416 companies on its confidential list of "problem" lenders at mid-year.

The data were compiled by Charlottesville, Virginia-based SNL from FDIC records. Institutions that had loans less than 50 percent of assets were excluded, as were those closed since the end of June. The calculation didn't include restructured loans modified after borrowers couldn't keep up with the original terms, which have default rates of 40 percent to 60 percent within two months, according to SNL senior analyst***Sebastian Hindman***. Had such loans been included, the list would have swelled to 49 lenders holding $48.4 billion in assets.

'A Surprise'

Firms range in size from Frontier Bank in Everett, Washington, with $3.98 billion in assets, to ***Gordon Bank*** in Gordon, Georgia, with $35 million in assets. Six of the banks are in Florida and five in Illinois.

"While these aren't your giant banks, they are the guys your local strip mall and commercial real estate investors get their funds from," said ***Joseph Mason***, a Louisiana State University banking professor and visiting scholar at the FDIC.

The bank with the highest level of non-current loans, 49 percent, is ***Community Bank of Lemont*** in Lemont, Illinois, a town of about 13,000 people 30 miles southwest of Chicago. Bad loans at the bank, about a third of them in construction and development, increased fivefold from a year earlier, according to FDIC data.

In February, the FDIC ordered Lemont, a unit of Oak Park, Illinois-based FBOP Corp., to***stop*** "operating with management whose policies and practices are detrimental to the bank and jeopardize the safety of its deposits." Calls to the bank seeking comment weren't returned.

Benchmark, Frontier

Another Illinois lender, ***Benchmark Bank***, also had an increase in non-current loans, to 25 percent as of June 30 from about 1 percent a year earlier.

"Everything was so positive for so long in this area, it came as a surprise when it stopped," said ***John Medernach***, Benchmark's CEO, who added that a building boom and bust in his region may have wrecked more than just his balance sheet.

"I stop and think of all the rich farmland that has been developed into subdivisions during the boom years," Medernach said. "It makes you wonder what we've been doing."

Frontier Bank, owned by Frontier Financial, reported a sixfold rise in overdue loans to $764.6 million in the quarter ended June 30 from a year earlier, or 22 percent, according to FDIC data. More than 43 percent of the bank's delinquent loans were in construction and development, FDIC data show. The bank has 51 branches in northwestern Oregon and western Washington.

Steel Partners

In July, Frontier Financial agreed to be acquired by ***SP Acquisition Holdings Inc.,***controlled by CEO ***Warren Lichtenstein***, who heads the New York-based investment firm Steel Partners LLC, according to a ***presentation*** on the bank's Web site. The deal would give Frontier access to about $456 million and create "an over-capitalized bank" that may consider acquisitions, the presentation said. The stock-swap transaction is scheduled to be completed in the fourth quarter.

Frontier "was a well-run organization for the majority of its history," said ***Jeffrey Rulis***, a banking analyst at D.A. Davidson & Co. in Lake Oswego, Oregon. The offer by SP Acquisition is "probably not what current shareholders envisioned a couple of years ago." The company's stock has dropped 92 percent in the last 12 months, and the bank posted an $84 million loss in the first half.

Patrick Fahey, Frontier's CEO, said the transaction will resolve the bank's credit issues. He declined to elaborate while a shareholder vote is pending.

Regulatory Art

Lichtenstein's Steel Partners Holdings LP controls WebBank, a Salt Lake City lender with $35.5 million in assets and 31 percent of its loans overdue, according to SNL. More than 90 percent of construction and development loans weren't current as of June 30, according to the FDIC. ***John McNamara***, WebBank's chairman and a managing director at Steel, declined to comment.

Determining which banks to close is "more of an art than a science," said ***William Ruberry***, spokesman at the Office of Thrift Supervision, which regulates four of the 26 lenders. "Examiners and the supervisory people have a lot of information that's not public, and they know the circumstances of an institution and everything that goes into it."

FDIC spokesman ***Greg Hernandez*** said in an e-mail that the agency doesn't comment on individual institutions. Capital levels, profitability and financial strength of the owners are considered in addition to soured loans when deciding a bank's fate, Hernandez said.

Sources of Capital

"There may be personal guarantees, there may be other collateral that will more than make up for the impairment on the 20 percent," said ***Tom Giallanza***, assistant superintendent for the State of Arizona Department of Financial Institutions, in a Sept. 15 interview. One bank on the list, Mesa, Arizona-based ***Towne Bank of Arizona***, is in Giallanza's state, with 28 percent of its loans non-current. Towne Bancorp CEO Patrick Patrick declined to comment.

H&R Block Bank, with 29 percent of its loans overdue, is dwarfed by the Kansas City, Missouri-based tax preparer that owns it. The bank's deposits totaled $720.1 million as of June 30; assets at the parent company, ***H&R Block Inc.,*** included more than $1 billion in cash and cash equivalents on July 31. The lender's balance sheet is strong enough to be considered "well-capitalized" by regulators, according to FDIC reports.

The bank is a legacy of H&R Block's subprime home lending that ended with more than $1 billion of losses for the parent company. The unit was kept open because it's an inexpensive way to fund the company's financial products, President ***Russell Smyth*** said a year ago. Spokeswoman ***Elizabeth McKinley*** didn't respond to requests for comment.

Pace of Closures

Regulators may be pacing themselves on closings because the FDIC fund "is only so big," there isn't enough staff to close all the struggling banks at once and customers aren't staging mass withdrawals that would force action, said ***Kevin Fitzsimmons***, a managing director at ***Sandler O'Neill & Partners LP***, a New York brokerage firm specializing in banks.

While a high level of non-performing assets doesn't mean a bank can't survive, "in some cases it creates a hole that's too deep to climb out of," Fitzsimmons said.

Jobless Report Is Worse Than Expected; Rate Rises to 9.8%
By *JACK HEALY*

The American economy lost 263,000 jobs in September — far more than expected — and the unemployment rate rose to 9.8 percent, the government reported on Friday, dimming prospects of any meaningful job growth by the end of the year.

The Labor Department's *monthly snapshot of unemployment* dashed hopes that the pace of job losses would continue to slow as the economy clawed its way back from a deep *recession*. Economists had expected 175,000 monthly job losses.

"People have been celebrating that we're through the *financial crisis*, but the underlying issues are all still there," said Dean Baker, co-director of the Center for Economic and Policy Research. "We've lost trillions of dollars in housing wealth, and consumption's going to be weak. It's not the '30s, but there's really nothing to boost the economy."

Despite help Washington's $787 billion stimulus, state and local governments slashed 47,000 jobs in September in the face of shrinking budgets. And auto dealerships, which added jobs in August as business picked up because of the *"cash for clunkers"* rebate program, cut 7,100 positions last month.

In one bright spot, fewer jobs were lost in August than originally reported — with 201,000 positions gone instead of earlier figures of 216,000.

But overall, the report offered little good news for the 15.1 million unemployed people in the United States. The number of hours worked stagnated. Overtime hours slipped in many industries. And temporary help companies — typically, among the first to rebound after a recession — shed 1,700 jobs.

Indeed, while many businesses are making money again and seeing new orders trickle in, most are not ready to hire back the workers they laid off, even part-time.

To economists, that suggests that unemployment could remain at historically high levels through next year, if not longer.

"It's a little bleak," said Marissa Di Natale, senior economist at *Moody's* *Economy.com*. "We're not going to see job growth until the second half of next year. And even when it does start to grow, it's going to be slow."

The economy has been bleeding jobs every month, without interruption, for nearly two years. More than 15 million people in the United States are now unemployed, and more are working part-time jobs for less pay, or have given up looking for work altogether.

“This is still severe,” said Andrew Stettner, deputy director of the National Employment Law Project. “It’s not going to be turning around as fast as people want.”

At the same time, other measures of the economy are beginning to waver, signaling that the initial phase of the recovery — a sharp rebound from a deep bottom — may be giving way to a long grind higher, marked by uncertainty and pain for many.

For Democrats, a slow recovery — and an unemployment rate at a 26-year high — could quickly become a liability, if businesses are not hiring by next year’s mid-term elections.

The Obama administration has said job losses would be even worse without the tax credits and spending projects from the billion stimulus, but Republicans have pilloried the programs as ineffective.

In Elizabeth, N.J., Stephanie Wheeler has been watching her savings and unemployment benefits run out. A year after she lost her job at a data processing company, she has $800 left in her savings account and six more weeks of $379 unemployment checks. After that, she said she does not know what to do.

“It’s terrifying,” Ms. Wheeler, 56, said. “I have an apartment. I’ve been here for eight years. I don’t know what’s going to happen. I’m petrified of being set out on the street.”

She said she has been applying for work as an administrative assistant, receptionist and in customer service, and resorted to paying an online agency $206 to update her résumé, after she said she was guaranteed a job or her money back. So far, she has gotten neither. She said she has been paring back her expenses as best she can, starting with meals.

“I try to eat less,” she said.

Some 52 percent of unemployed people have exhausted state jobless benefits, and some are reaching the end of the makeshift strands of emergency extensions. The House of Representatives has passed a bill that would provide another 13 weeks of benefits, but a similar bill has stalled in the Senate over questions of whether it should only cover people in the hardest-hit states.

On Thursday, *Ben S. Bernanke*, the *Federal Reserve* chairman, nodded at the problems that long-term unemployment creates for workers, saying that they risk losing skills and becoming less employable if they detach from the labor force.

As a construction worker, Richard Hall, 44, of Winter Springs, Fla., spent two decades pouring concrete, framing buildings and helping to erect glittering high-rises, but it has been a year since the company he worked for him shut down. He said he has found no other building jobs in Florida, and his final unemployment check, for $235, arrived on Wednesday. Now, he said, he and a friend drive around in a pickup truck and pick up old washing machines, ovens and loose metal from the street and sell it for scrap.

“They pay you by however many pounds,” he said. “It’s better than sitting around doing nothing. That gets old real quick.”

Downloaded from
http://www.nytimes.com/2009/10/03/business/economy/03jobs.html?_r=1&pagewanted=print
on October 2, 2009.

Since 1985, crashes appear to have been caused by negative shocks to economic activity and/or financial market concerns about current account sustainability.

Downloaded from *http://www.federalreserve.gov/pubs/ifdp/2009/966/ifdp966.pdf* on October 2, 2009.

U.S. Dollar Will Weaken, Currency Crash Possible, Roubini Says

Sept. 4 (Bloomberg) -- The dollar will weaken and the U.S. risks seeing a crash of the currency unless it does more to control the deficit and reduce debt, said New York University Professor ***Nouriel Roubini***, who predicted the financial crisis.

“If markets were to believe, and I’m not saying it’s likely, that inflation is going to be the route that the U.S. is going to take to resolve this problem, then you could have a crash of the value of the dollar,” Roubini said in an interview today in Cernobbio, Italy. “The value of the dollar over time has to fall on a trade-weighted basis, but not necessarily relative to euro and yen.”

Roubini said he didn’t see a risk of a dollar crash in the “‘short term.” The value of the U.S. currency relative to currencies such as the yen or the euro “cannot change too much compared to current levels because if the dollar were to weaken a lot and the euro strengthen a lot, that’s going to warp any chance for the European economy to recover, same argument as to the yen,” he said.

"Most of the adjustment of the dollar in the future has to occur relative to China, relative to emerging Asia and relative to some of the other commodity exporters in the world, whether these are advanced economies or emerging markets," he said.

Foreign creditors need assurances that the U.S. will address its deficit, Roubini said.

"Unless in the medium term these issues of fiscal sustainability are addressed, and unless we mop up that excess liquidity from the financial system, eventually the financial markets and the foreign creditors of the United States might get more concerned about the sustainability of the U.S. fiscal deficit and about the U.S. being tempted to use the inflation tax as a way of resolving its private and public debt problems," he said.

"Tax on the inflation tax"

Although not meant by the term "inflation tax", a related effect is the tax on interest and investment "income" when the tax is levied against the *nominal interest rate* or nominal gains.

$$\frac{1 + \text{Interest}}{1 + \text{Inflation}} = 1 + \text{Real}$$

For instance, if someone buys a bond with a nominal interest rate of 6% and the rate of inflation is 4%, their "real" interest is 1.92%.

$$\frac{1 + 0.06}{1 + 0.04} - 1 = 1.92\%$$

If, however, they are taxed 25% of the 6% interest "income", or 1.5%, this can be thought of as composed of a tax on real income (0.5%) and a tax on inflation (1.0%). The same principle applies to capital "gains" taxes not adjusted for inflation. In any case, this "tax on the inflation tax" is essentially equivalent to a tax on holdings ("wealth tax") equal to the nominal tax rate times the inflation rate (in example above, 25% of 4% inflation equals 1.0%.) This "property tax" can even apply to *non-monetary* assets as well as money earning interest. Thus, money itself is subject to both the inflation tax *and* the tax on the inflation tax, while other assets, on which nominal profit or gains taxes are imposed, are subject only to the tax on inflation.

Another negative effect of this tax is that even *inflation-indexed bonds* carry inflation risk, as the inflation compensation is taxed.

Negative interest rates

If there is a negative *real interest rate*, it means that inflation is more than the interest. Suppose if the *Federal funds rate* is 2% and the inflation rate is 10%, then it means that the borrower would gain 7.27% of every dollar borrowed.

$$\frac{1+0.02}{1+0.10} - 1 = -7.27\%$$

This may lead to *malinvestment* and *business cycles*, as the borrower can profit from the interest.

Gross domestic product (**GDP**) or **gross domestic income** (**GDI**) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a nation in a year . It is a fundamental measurement of production and is very often positively correlated with the *standard of living*.

The most common approach to measuring and quantifying GDP is the expenditure method:

GDP = *private consumption* + *gross investment* + *government spending* + *(exports* − *imports)*,

or,

GDP = C + I + G + (X − M).

"Gross" means that depreciation of capital stock is *not* subtracted out of GDP. If net investment (which is gross investment minus depreciation) is substituted for gross investment in the equation above, then the formula for net domestic product is obtained. Consumption and investment in this equation are expenditure on final goods and services. The exports-minus-imports part of the equation (often called **net exports**) adjusts this by subtracting the part of this expenditure not produced domestically (the imports), and adding back in domestic area (the exports).

Components of GDP

Each of the variables **C (Consumption)**, **I (Investment)**, **G (Government spending)** and **X − M (Net Exports)** (where **GDP** =**C** + **I** + **G** + **(X − M)** as above)[*citation needed*]

(Note: * **GDP** is sometimes also referred to as **Y** in reference to a GDP graph)

- **C (consumption)** is **private** consumption in the economy. This includes most personal expenditures of households such as food, rent, medical expenses and so on but does not include new housing.
- **I (investment)** is defined as investments by business or households in capital. Examples of investment by a business include construction of a new mine, purchase of software, or purchase of machinery and equipment for a factory. Spending by households (not government) on new houses is also included in Investment. In contrast to its colloquial meaning, 'Investment' in GDP does not mean purchases of financial products. Buying financial products is classed as 'saving', as opposed to **investment**. The distinction is (in

theory) clear: if money is converted into goods or services, it *is* investment; but, if you buy a bond or a share of stock, this transfer payment is excluded from the GDP sum. That is because the stocks and bonds affect the financial capital which in turn affects the production and sales which in turn affects the investments. So stocks and bonds indirectly affect the GDP. Although such purchases would be called *investments* in normal speech, from the total-economy point of view, this is simply swapping of deeds, and not part of real production or the GDP formula.

- **G (government spending)** is the sum of government expenditures on final goods and services. It includes salaries of public servants, purchase of weapons for the military, and any investment expenditure by a government. It does not include anytransfer payments, such as social security or unemployment benefits.
- **X (exports)** represents gross exports. GDP captures the amount a country produces, including goods and services produced for other nations' consumption, therefore exports are added.
- **M (imports)** represents gross imports. Imports are subtracted since imported goods will be included in the terms **G**, **I**, or **C**, and must be deducted to avoid counting foreign supply as domestic.

[edit]**Examples of GDP component variables**

C, **I**, **G**, and **NX**(net exports): If a person spends money to renovate a hotel to increase occupancy rates, the spending represents private investment, but if he buy shares in a consortium to execute the renovation, it is saving. The former is included when measuring GDP (in **I**), the latter is not. However, when the consortium conducted its own expenditure on renovation, that expenditure would be included in GDP.

If a hotel is a private home, spending for renovation would be measured as **c**onsumption, but if a government agency converts the hotel into an office for civil servants, the spending would be included in the public sector spending, or **G**.

If the renovation involves the purchase of a chandelier from abroad, that spending would *also* be counted as an increase in imports, so that **NX** would fall and the total GDP is affected by the purchase. Such notion highlights the fact that GDP is intended to measure domestic productionrather than total consumption or spending. Spending provides a convenient means of estimating production.

If a domestic producer is paid to make the chandelier for a foreign hotel, the situation would be reversed, and the payment would be counted in **NX** (positively, as an export). Again, GDP measures production through the means of expenditure. If the chandelier produced had been bought domestically, it would have been included in the GDP figures in **C** or **I** when purchased by a consumer or a business, but because it was exported, it is necessary to 'correct' the amount consumed domestically to assess the domestic production, as in gross domestic **product**.

Types of GDP and GDP growth

1. **Current GDP** is GDP expressed in the current prices of the period being measured
2. **Nominal GDP** is the production of goods and services valued at current prices.
3. **Real GDP** is the production of goods and services valued at a constant price level (ie: not affected by changes in the value of money)

Calculating the real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

GDP income account

Another way of measuring GDP is to measure the total income payable in the GDP income accounts. In such situation, gross domestic income (GDI) may be used rather than gross domestic product. GDI should provide the same amount as the expenditure method described above. (By definition, GDI = GDP. In practice, however, measurement errors will make the two figures slightly off when reported by national statistical agencies.)

The formula for GDP measured using the income approach, called GDP(I), is:

GDP = compensation of employees + gross operating surplus + gross mixed income + taxes, less subsidies on production and imports

- **Compensation of employees** (COE) measures the total remuneration to employees for work done. It includes wages and salaries, as well as employer contributions to social security and other such programs.
- **Gross operating surplus** (GOS) is the surplus due to owners of incorporated businesses. Often called profits, although only a subset of total costs are subtracted from gross output to calculate GOS.
- **Gross mixed income** (GMI) is the same measure as GOS, but for unincorporated businesses. This often includes most small businesses.

Downloaded from *http://en.wikipedia.org/wiki/Gross_domestic_product* on October 2, 2009.

How to put off a currency collapse

Downloaded from *http://faculty.chicagobooth.edu/john.cochrane/teaching/Monetary%20Economics%20PhD%20course/stoping%20crashes%20and%20sgu%20notes.pdf* on October 2, 2009.

Value Investor Whitney Tilson Still Bearish
Sep 17, 2009, 10:17 AM|
Whitney Tilson, founder and managing partner of T2 Partners, thinks "investors are getting overly enthusiastic" as a result of the recent sequential month-to-month home price increases. According to Tilson the uptick is only a seasonal mix issue.
Tilson thinks housing prices have another year to go before hitting bottom. When the market finally sees this, Whitney says, stocks that got exposure to the housing sector will tank.

Rising US Foreclosures Dim Outlook For Loan Modifications

By Jessica Holzer, Of DOW JONES NEWSWIRES
September 8, 2009
WASHINGTON -(Dow Jones)- U.S. officials on Wednesday are set to defend their effort to help borrowers obtain loan modifications amid rising concerns that the government program is no match for the relentless pace of foreclosures.

Mortgage servicers have had trouble coping with the surge in applications from strapped borrowers and have complained of the program's complexity.

Now, rising job losses are placing loan modifications out of reach for more and more households and pushing other borrowers who may have received loan modifications into re-default.

"I think the program probably will be overwhelmed by the magnitude of the problem," Mark Zandi, Moody's Economy.com chief economist, said.

"It's like using a small cup to remove water from the Titanic," Alys Cohen, a National Consumer Law Center staff attorney, said. The administration, with its recent badgering of mortgage servicers to improve their performance in the program, has "switched from cups to buckets," she added.

The Treasury is set to release its second monthly report card on servicer performance in the program early Wednesday. Later, top U.S. Treasury and Department of Housing and Urban Development officials will defend the program before a U.S. House Subcommittee.

Launched in April, the program provides hefty financial incentives for servicers, borrowers and mortgage investors who agree to loan modifications that meet certain standards. The modified loan must complete a three-month trial period before it is finalized.

The administration aims to offer three to four million homeowners a government loan modification within three years, and officials insist they are on track to meet that goal.

Still, about 4.6 million people will nevertheless lose their homes by the end of next year, Moody's Economy.com predicts, helping to bring the total carnage of the housing bust to 9 million homes lost by the end of 2011.

Some people who are offered loan modifications may not accept them due to confusion about the documents they must sign, Brian Dorpalen, national housing director for the Association of Community Organizations for Reform Now, or Acorn, said. Of those who do sign up for the program, a portion won't survive the trial period or will re-default later down the road.

Housing advocates are pushing the administration to hold servicers' feet to the fire. In direct contravention of the program's rules, servicers are continuing foreclosure proceedings against borrowers who are still under review for a government modification, Dorpalen said.

The administration should require participating servicers to take steps where possible to help borrowers where a loan modification is possible, Cohen argued. Under the current program, "people don't have a clearly-articulated right to obtain one," she said.

David Sisko, a director at Deloitte who advises mortgage servicers, said he expects foreclosures to continue to soar as job losses make it more difficult for servicers to modify loans. The industry is "trying to turn lemons into lemonade," he said.

Lawmakers on Wednesday are likely to press officials on ways they can help people who have lost their jobs stay in their homes. At a recent Senate hearing, a senior HUD official said the administration was exploring ways to help such people.

Moody's Economy.com's Zandi said the administration could consider expanding unemployment insurance to cover mortgage payments. It could also adjust its loan-modification program to make it easier for borrowers to receive loan principal reductions subsidized by the government.

Zandi noted the administration has already set aside $75 billion for foreclosure prevention. "If it's not going to work, take the money and try something else," he said.

Downloaded from *http://www.nasdaq.com/aspx/stock-market-news-story.aspx?storyid=200909081644dowjonesdjonline000428* on October 2, 2009.

When Will the Housing Market Recover? Look to Foreclosure Stats to Find Out

By Bob Stahl, MyPhoenixMLS.com For REALTOR.com®

It's a double-edged sword: the huge number of foreclosures on the market in many areas of the country has pushed housing prices down.

With homes once again affordable, first-time homebuyers and investors alike have come back in to the market. They're the primary reason why sales were up 7.2% in July over June (and 5% higher than July 2008). In other words, good news for home buyers. For home sellers, though, that news isn't so good. As foreclosures put downward pressure on prices, homeowners who need to move may find that they're unable to sell for enough to cover their mortgage. (Nearly 25% of homeowners nationwide owe more than their homes are worth.) That, in turn, can push more homeowners to short sales (where the bank agrees to accept a payoff of less than the amount owed) and foreclosure – and the cycle repeats.

The economics of supply and demand Yet while the foreclosure/falling prices cycle has been fueling itself in the last two years, it's not doomed to infinite repetition. That's because it's offset by new buyers entering the market, attracted by those lower prices. It's simply supply-and-demand economics: prices fall until they're at the point that buyers enter the market to snap up the good deals (like we're seeing them do now, in some places). As demand grows, and supply shrinks, prices will once again start to rise. But in addition to new foreclosures entering the market and driving down prices, in many areas of the country there is also a glut of excess inventory – homes that were built during the boom to satisfy the artificially-high demand created by investors and other frenzied home buyers. Even if the foreclosure/falling prices cycle slows, housing markets won't fully recover until buyers have absorbed the excess inventory that's on the market – currently almost a year's worth nationwide. "Until supply can be brought down to a more normalized level of six to seven months, home prices will continue to come under pressure," Lawrence Yun, chief economist for the National Association of REALTORS® (NAR) told CNNMoney.com.

Can the housing market rebound with millions more foreclosures looming on the horizon? For the housing market to recover, then, the foreclosure/falling prices cycle will have to slow and the excess supply of homes will have to be absorbed. But unless the tide of foreclosures subsides, both of those goals will be more difficult to accomplish. In the past, during stable real estate markets, the foreclosure rate has been around 1%. Today, it's 4.3%. And, unfortunately, there aren't many good indications that foreclosures will subside soon. On the contrary, reports suggest that more foreclosures are on the horizon. About 4.6 million more people will lose their homes by the end of next year, Moody's Economy.com predicts, bringing the total to 9 million homes lost by the end of 2011.

What role will government aid programs for borrowers in trouble play? If government aid programs help homeowners stay in their homes, rather than sell them in a short sale or lose them to foreclosure, it keeps those homes out of the inventory, meaning that supply and demand could equalize more quickly – and the housing market could recover sooner. Earlier this month, the Treasury released its second monthly report card on how mortgage servicers have succeeded in modifying loans eligible for the government's Making Home Affordable Program. Overall, servicers instituted trial modifications on just 12% of all loans that were 60 days delinquent and eligible for the program. That's better than July (when servicers modified just 9% of eligible loans). But "we think all the services could do more" Assistant Treasury Secretary Michael Barr told the housing subcommittee of the House Financial Services Committee.

The upshot In the end, the housing bust will have to run its course – prices will have to fall until demand equals supply. There is indication that may already be happening in many areas of the country – the most recent Case-Shiller Index showed prices in the second quarter of the year increasing, for the first time in three years.

Downloaded from *http://www.realtor.com/blogs/2009/10/01/when-will-the-housing-market-recover-look-to-foreclosure-stats-to-find-out/* on October 2, 2009.

First-time Home Buyer Tax Credit Effective to Stimulate and Stabilize Housing Market

New Study Demonstrates Why - with Only Two Months Remaining - Temporary Extension and Expansion of Credit is Critical to Nation's Recovery

Washington, DC (PRWEB) September 30, 2009 -- According to a new economic study released today, the first-time home buyer tax credit has proven to be an effective tool to jump-start the US housing market (*http://www.fixhousingfirst.com/resource-center/index.php*), and should be temporarily extended and expanded to continue the path to economic recovery.

Issued exactly two months before the credit is due to expire, "Examining the First-Time Homebuyer Tax Credit (*http://www.fixhousingfirst.com/media-room/*)," offers empirical analysis on how the tax credit, passed in the American Recovery and Reinvestment Act of 2009, is reducing inventories by almost 30% and stabilizing home prices. As policymakers evaluate the success of the stimulus package, this study illustrates that the tax credit is an unparalleled standout, with stimulative effects that go far beyond the single purchase of a home. Further, the study clearly demonstrates the urgency of passing a temporary extension and expansion of the credit (*http://www.fixhousingfirst.com/the-issues/index.php*) to prevent a halting of the housing recovery and a slowing of the economy's momentum.

"For several months, we have seen the tax credit opening the door to homeownership for hundreds of thousands of first-time buyers - particularly low and middle class families - and giving them an opportunity to benefit from historically low interest rates and affordability," said Dr. Kenneth T. Rosen, lead researcher on the study and Chairman of Rosen Consulting Group (RCG). "Bringing these buyers into the market is reducing inventories and stabilizing prices, while at the same time, providing the road to financial security for our nation's middle class.

"Of the multitude of provisions in the stimulus package, the tax credit stands out as a stellar success. It's efficient in that funding goes directly to taxpayers; it's leveragable because it triggers large amounts of economic activity; and it is achieving its specific goal to begin to reduce inventories and stabilize home prices. In short, it meets President Obama's benchmark for stimulus initiatives - it is temporary, targeted, and timely. Right now housing is one of the only components driving our economic recovery, and the tax credit is largely responsible for housing's momentum. But exactly two months from today, the first-time home buyer tax credit is set to expire, likely causing a relapse in the housing market that the nation's fragile economy could sorely afford."

The study found that the first-time home buyer tax credit has served to stimulate demand for homes, particularly among low and middle-income families. It is proving effective in reducing the supply of homes, as the credit has been the primary cause - buffeted by increased affordability - of the return of buyers to the housing market over the past several months.

The inventory of homes for sale has been reduced as a result of the tax credit, particularly at the lower end of the pricing spectrum. For homes priced at less than $300,000, the supply has decreased by 25.9% versus a year ago; and for homes priced within the $300,000 to $500,000 range, the supply has dropped by 18.4%. These numbers demonstrate that the credit is particularly effective at bringing working families into the market.

When the credit was passed as part of the stimulus package, many were concerned that it might spur speculative new home construction, rather than inspiring purchasers to acquire from the existing supply. However, the study illustrates that housing starts continue to remain very low, with the annualized second quarter starts totaling 423,000 homes, approximately 60% lower than the long-term average, and the second-lowest quarterly figure on record.

But conditions continue to be quite challenging in the housing market with a continuing high rate of foreclosure and a significant demand shortfall. As many foreclosures become lender-owned, they add to the supply of available homes. If the credit is allowed to expire, it is likely that lender-owned properties will quickly increase in available supply, at the same time buyer demand significantly retracts.

"Without a temporary extension of the credit, it is very probable that the housing market will fall back to levels of the fourth-quarter of 2008, when the overall economy imploded," continued Rosen.

Beyond simply extending the tax credit, an expansion of the credit would spur an increase similar to what has occurred in the lower end of the market, by motivating buyers in the "trade-up market" to purchase a higher-priced primary home. Expanding the income limits to $125,000 for individuals and $250,000 for a married couple would also enable more households to take advantage of the credit and spur additional demand.

"The US housing market is faced with unprecedented challenges," concluded Rosen. "A recovery in the residential market has led the nation out of recession in nearly every economic recovery of the past 40 years. Housing is an unusually dynamic industry with home purchases stimulating activity beyond the single transaction to extend into retail, manufacturing, and even provide fiscal benefits to help local governments get back on healthy financial footing. The first-time home buyer tax credit has proven to be an effective tool in stimulating demand and reducing supply. Given current conditions in the housing market, this program should be temporarily extended and expanded."

RCG was retained by the Fix Housing First Coalition (http://www.fixhousingfirst.com/) to evaluate the effectiveness of the first-time home buyer tax credit and the potential need for an extension of the program.

About Dr. Kenneth T. Rosen

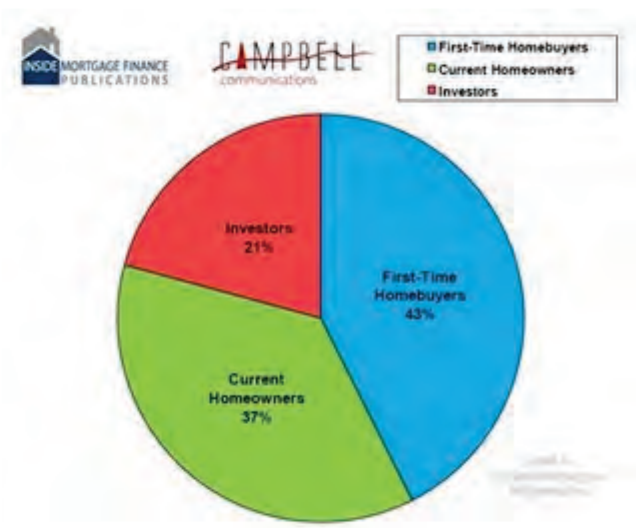
Dr. Kenneth T. Rosen, Chairman of RCG and lead researcher on this study, has authored numerous articles and books on real estate and real estate finance. He is the leading expert on housing economics and originated the premise for the 1974-1975 home buyer tax credit while at the Joint Center for Urban Studies of MIT and Harvard University. He is a special real estate advisor to the World Economic Forum and Chairman of the Fisher Center for Real Estate and Urban Economics at the Haas School of Business, University of California, Berkeley.

About the Fix Housing First Coalition

Fix Housing First Coalition is a diverse group of over 25,000 housing stakeholders - including homeowner and community groups, home builders and manufacturers - dedicated to addressing the root cause of our economic troubles. The coalition is advocating for an extension and expansion of the highly-effective first-time home buyer tax credit. For more information, visit *www.fixhousingfirst.com* or follow Fix Housing First on Twitter: @fixhousingfirst (*http://twitter.com/fixhousingfirst*).

Let the first-time homebuyer tax credit expire

Today's column **argues in favor of letting the credit die on schedule** Nov. 30 because the economy is no longer in free-fall.
Mortgage rates continue to benefit from the Federal Reserve's bond buying and are near all-time lows. The Federal Housing Administration is guaranteeing billions in new mortgages that it probably shouldn't.
The Realtors' Housing Affordability Index - which accounts for rates, family income and prices - is near all-time highs. After all, home prices in many markets are down 40 percent or more from their peaks a few years ago. The homebuyer tax credit - which basically amounts to 5 percent or 10 percent discount on a starter house - looks puny by comparison.
The inventory of unsold homes has plunged to a level that would take buyers 8.5 months to exhaust - down from nearly 12 months when gloom prevailed. In normal times there is a 6-month supply of homes for sale. As the supply gets smaller, prices should stabilize no matter what Congress does.
This chart from **Campbell Communications** shows how important first-time buyers were to the market in August. (HT Calculated Risk.) Am I wrong about ending the credit?



U.S. Economy: Factories' Growth Slows, Claims Rise (Update1)

Oct. 1 (Bloomberg) -- Manufacturing in the U.S. expanded less than anticipated by economists and more Americans filed claims for unemployment benefits, pointing to a recovery that will be slow to generate jobs.

The Institute for Supply Management's ***factory gauge*** decreased to 52.6 in September from 52.9 in August, the Tempe, Arizona-based group said today. Fifty is the dividing line between expansion and contraction. The number of ***jobless claims***climbed to 551,000 last week, more than economists forecast, figures from the Labor Department showed.

Coming a day before the September jobs report, the figures caused stocks to slump on growing concern the seven-month rally has outpaced prospects for economic growth. Consumer spending, boosted last quarter by government programs such as "cash for clunkers," may not be able to keep rising as quickly once the stimulus expires and***unemployment*** keeps climbing.

"The balance of data is still pointing to the economy getting better," said ***Conrad DeQuadros***, a senior economist at RDQ Economics in New York. "The consumer is still facing significant headwinds in the labor market. I wouldn't look for the consumer to significantly boost growth over the next couple of months."

The Standard & Poor's 500 Index closed down 2.6 percent at 1,029.85 today in New York, a day after completing its biggest back-to-back quarterly rally since 1975. Treasury securities jumped, sending the yield on the 10-year note down to 3.18 percent from 3.31 percent late yesterday.

Unexpected Drop

The ISM index, which dropped for the first time this year, was ***forecast*** to rise to 54, according to the median of 80 estimates in a Bloomberg survey of economists. Projections ranged from 51.5 to 56. Manufacturing accounts for about 12 percent of the world's largest economy.

"We're still in positive territory but we're just not advancing at quite the same rate," said ***Brian Bethune***, chief financial economist at IHS Global Insight in Lexington, Massachusetts. "Retailers are anticipating a weak sales season and they're playing it conservative on orders and hiring."

The ISM report showed orders and production advanced at a slower pace last month, while the magnitude of reductions in inventories also cooled.

"The inventory correction, with the exception of a few industries," has played out,***Norbert Ore***, chairman of the ISM's factory survey, said in a press conference. "Overall, September was a good month. For the balance of the year, we should expect to see manufacturing holding this level, possibly improving from this level."

More Claims

Last week's jobless claims figures overshot the median ***estimate*** of economists surveyed by Bloomberg News which projected an increase to 535,000, raising concern tomorrow's jobs report will also disappoint expectations that payroll decreases are slowing.

The Labor Department may say tomorrow that job losses in September totaled 175,000, according to the survey median, while the unemployment rate rose to 9.8 percent, the highest since 1983.

The economy has lost 6.9 million jobs since the recession started in December 2007, the most of any downturn since the Great Depression. The 216,000 drop in payrolls reported for August, meanwhile, was the smallest in a year.

Autos, Houses

So far, the Obama administration's $787 billion stimulus plan, which included the auto incentives and an $8,000 tax credit for first-time home buyers, is giving consumers reason to buy cars and houses.

Household purchases jumped 1.3 percent in August, the largest gain since October 2001, data from the Commerce Department also showed today. ***Incomes*** climbed 0.2 percent for a second month and inflation decelerated, the report also showed.

Inflation-adjusted spending on durable goods, including autos, furniture, and other long-lasting items, jumped 5.8 percent in August, also the most since the month after the 2001 terrorist attacks. Then, the introduction of zero-percent financing to revive sales boosted spending on durable goods by 14 percent.

Auto sales fell 35 percent in September from the previous month to a 9.2 million annual rate, after the clunkers plan expired, according to Bloomberg data.

Pending Sales

Lower home prices and ***mortgage rates*** combined with the first-time buyer credit have helped end the housing-market meltdown that sparked the financial crisis. The index of signed purchase agreements, or pending home sales, jumped 6.4 percent in August, a seventh consecutive increase, the National Association of Realtors said today in Washington.

The tax credit is due to expire at the end of November, raising concern sales will again slow.

Bed Bath & Beyond Inc., the largest U.S. home-furnishings retailer, last month said second-quarter profit rose 14 percent, fueled by rebounding home sales. The Union, New Jersey-based chain also increased its annual profit forecast.

Even so, "looking ahead to the remainder of our fiscal year 2009, we have assumed that the overall business climate will remain challenging," Chief Financial Officer ***Eugene Castagna*** said on a conference call on Sept. 23.

Economists surveyed by Bloomberg earlier this month projected the economy will expand at an average 2.6 percent annual rate and ***grow*** 2.4 percent in 2010.

Downloaded from *http://www.bloomberg.com/apps/news?pid=20601087&sid=anSYoMWPOrHM#* on October 2, 2009.

Housing Bottom Is Not In

September 29, 2009

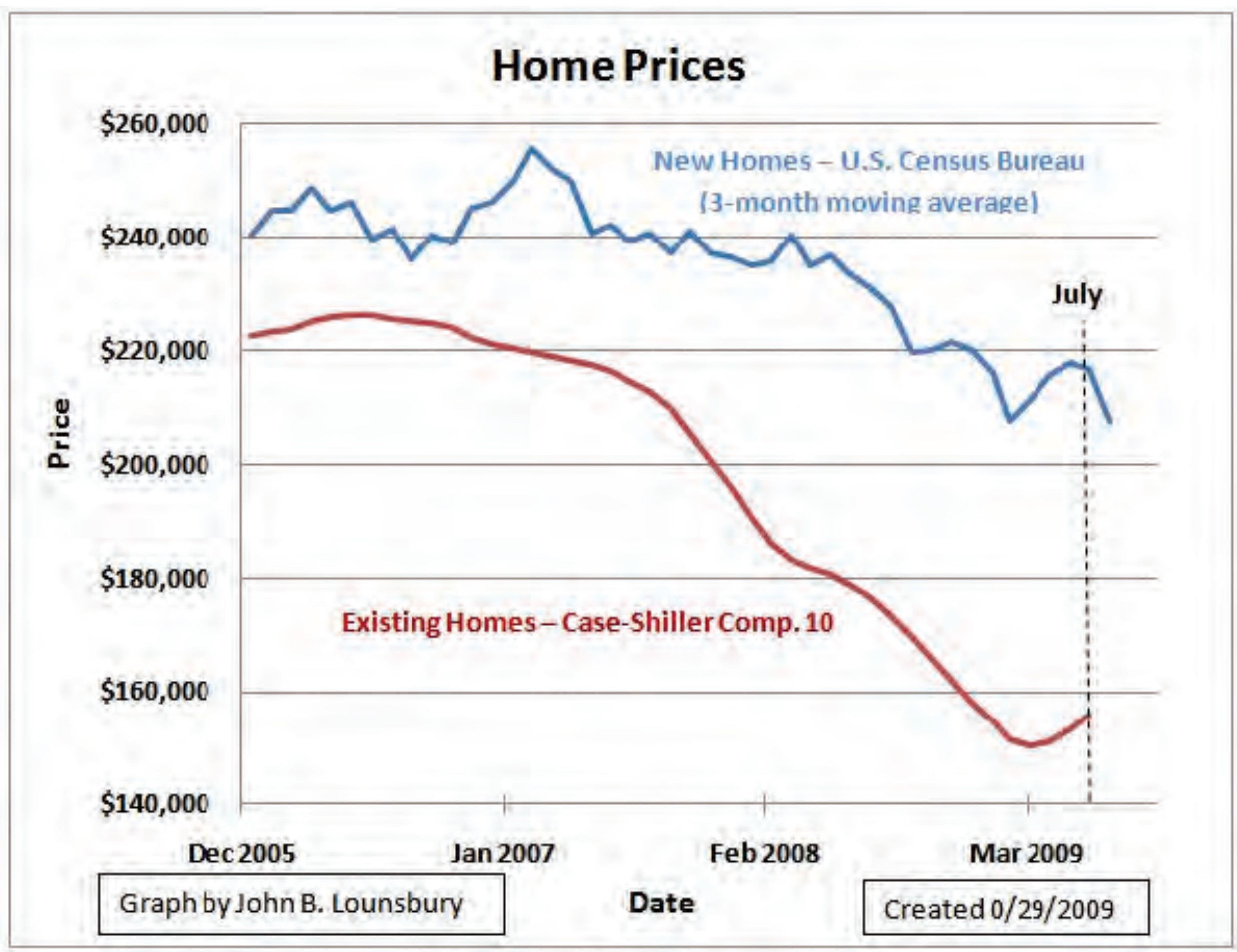
Some have declared that a housing bottom has been reached. What is not often discussed is that a bottom in housing is a very complex issue, much more complicated, for example, than a bottom in stocks.

One complexity is the possible lack of correlation between a low in sales volume and a low in price. Another complexity is the variation among local real estate markets in different parts of the country. Let us look at these factors individually.

Prices

There are two markets that are tracked by different surveys. The new-home market is tracked by the U.S. Census Bureau. The existing-home market is tracked by the NAR (National Association of Realtors) and the Case-Shiller Housing Index.

Prices have risen in all of these surveys for several months through July. Some cracks in this trend have appeared with new *data* out in the past week. Going into the weak seasonality of the fall and winter, it is definitely not the time to declare that home prices have bottomed.



In fact, the new home median price had all-time record declines in August, shown in the following table.

The Ten Most Negative Median Price Changes – New Homes

July to August		Year to Year	
Year	Loss	Mo-Year	Loss
2009	-9.5%	Aug 2009	-9.5%
1969	-7.1%	Sep 1981	-9.4%
2008	-6.9%	Jan 2009	-9.1%
1967	-6.9%	Dec 2007	-8.6%
1988	-6.8%	Jan 2003	-8.0%
1966	-5.0%	Jul 2002	-7.9%
1996	-5.0%	Apr 2007	-7.7%
2007	-3.9%	Jun 1970	-7.4%
1965	-3.8%	May 2006	-7.3%
1963	-3.3%	Dec 2000	-7.3%

Data: U.S. Census Bureau Current bubble

Volumes

This year, sales volumes of existing homes have shown an even stronger seasonal rise than normally experienced in the spring and into the summer. However, the August 2009 existing-home sales were only 2% higher than the same month a year ago and showed an unexpected drop from July.

Sales volumes have been aided by the soon-to-expire, new-home buyer's federal tax *credit*. Barring a double-dip recession, the sales-volume low near 250,000 units in January may prove to be the bottom for that metric. But the current volumes near 500,000 per month are far below what can be considered necessary for a recovering market.

Inventory

Inventories are down over the past six months. This is one of the most frequently cited *data points* for housing-market bulls. However, inventories remain at much higher levels than are considered reasonable for a normally functioning housing market. The big question is whether the inventory improvement can be continued in the face of a potential supply increase from future foreclosures.

Supply Issues

- **New Homes**: For June, July and August, sales have averaged 35,000 per month, while the number remaining for sale at the end of each month has averaged about 270,000. That is a 20/1 ratio! In August, a new-cycle high in median time on the market was reached (12.9 months). The number of building permits issued averaged 39,000 for the last three months. This is 11.4% more than sales. New homes are clearly in excess supply.

- **Existing Homes**: Much has been made of the NAR report of the decline in inventory from more than 11 months several months ago to 7.3 months in August. This is still 50% greater than considered normal. However, the supply problem is not the existing inventory, but the "phantom" supply that may arise from further accumulation of foreclosures. This market overhang has been estimated to be from 5 million to 10 million homes, which is an additional 10 to 20 months of inventory at current sales rates. Existing homes are in a current supply excess of 50% above normal inventory levels for a healthy market at current sales levels. If even only 25% of the foreclosure overhang comes to market, the excess supply of existing-home inventory will go from 95% to more than 200% oversupply. That would be 9.8 months inventory and 12.3 months inventory, respectively.

Demand Issues

Any increases in unemployment will not help demand. There are many indicators in the employment data indicating that persistently high unemployment may be with us for an extended period. There is little hope for demand to pick up because of improved employment in the next year or more.

If we have any significant numbers of foreclosures in the coming one to two years, every one of them removes another potential home purchaser. Not only do foreclosures add supply, they simultaneously diminish demand.

Also, demographics are not helping demand. As baby boomers enter retirement with diminished retirement assets, the likelihood of moving to a new home in retirement is less than it was before the crash.

New household formation, which has been on the order of 1.2 million to 1.4 million per year (net), is probably going to continue. But not many new households have rushed out to buy a home in the past, and the number will be depressed even further by economic conditions. That will probably not have a significant effect on demand.

Location, Location, Location

Conditions will vary from market to market, so supply may be shorter and demand greater in some markets than others. The following table ranks housing markets based on two measurements.

Case-Shiller Price Changes

One Year Change		Change Since April	
Phoenix	0.9%	Cleveland	10.1%
Portland	-1.3%	Minneapolis	9.1%
Seattle	-1.6%	San Francisco	8.8%
Washington	-2.9%	Dallas	6.0%
Detroit	-4.9%	Boston	5.5%
Las Vegas	-9.0%	Denver	5.4%
Miami	-9.8%	Washington	5.4%
Cleveland	-10.3%	Chicago	4.9%
Chicago	-11.8%	San Diego	4.5%
San Francisco	-12.3%	Atlanta	4.4%
Dallas	-13.9%	Los Angeles	2.8%
Boston	-14.2%	Portland	2.2%
San Diego	-14.9%	Charlotte	2.1%
Charlotte	-17.3%	Phoenix	2.1%
Denver	-17.9%	New York	1.8%
Atlanta	-18.4%	Tampa	1.7%
Tampa	-21.2%	Miami	1.0%
Minneapolis	-24.6%	Detroit	0.5%
Los Angeles	-28.5%	Seattle	0.0%
New York	-31.4%	Las Vegas	-5.6%
Composite-10	-15.3%	Composite-10	3.6%
Composite-20	-12.8%	Composite-20	3.6%
Table by John B. Lounsbury		Prepared 9/29/2009	

Five best   Five worst

There are four markets that appear in the top half of both lists: Washington, Cleveland, Chicago, and San Francisco, indicating these may be the strongest markets right now.

Weakest are the four markets that appear in the bottom half of both lists: Charlotte, Tampa, Los Angeles and New York.

Summary

Housing-sales volumes have risen dramatically since the beginning of the year in many markets. We may not see a repeat of the extreme low volumes. Prices remain within 3.6% of the lows and, heading into seasonal weakness, the national average price lows of April have a good chance of being taken out. Supply and demand challenges add to the probability that the price lows are not yet established.

Downloaded from http://ragingdebate.com/economy/housing-bottom-is-not-in on October 2, 2009.

Alt-A Loans and Option ARMs meet Strategic Defaults: The Perfect Recipe for a Toxic California Housing Market in 2010. Behavioral Economics of Housing and Top 7 California Regions with Active Alt-A Loans.

The last week for whatever reason saw the resurgence in mainstream articles covering the *option ARM*fiasco. Even those who are purported to be financial experts still miss the bigger picture. That is, they fail to understand that the category of *Alt-A loans* covers the vast majority of*option ARM*s and Alt-A is basically a category assigned to loans that were no-doc or low doc, had weaker credit scores, and low to zero down payment. In other words, mortgages that make Medusa look like the next Miss USA. Some of the confusion also arises from the difference between a reset and a recast. This is like saying dogs and cats are all the same because they are pets. Resets are no problem in this artificially low interest rate environment (the future is another story). Recasts are a gigantic problem. Another issue being ignored is the fact that current owners of Alt-A infested homes have a selling environment that lacks these maximum leverage products. That is, they bought at a time when leverage was flush in the market. When I look at current reporting I would ask reporters this – think more like a*criminal crony banker*.

On the other side, I would ask reporters to also think like a California HGTV granite countertop obsessed housing speculator. That is why even as far back as *February of 2008* it was easy to see that people would be strategically defaulting on their mortgage. People at the time thought that there would be no way that people would actually stop paying their mortgage if they had the money to do so because people in general were responsible. Yeah right! And option ARMs were only for high income actors and doctors that didn't want to disclose the amount of boob jobs they did in the last year on their tax return. But the no money down world essentially gave buyers a call option on their home with these craptastic mortgages. If prices go up, you sell and keep the difference between the sale price and the premium. If the price tanks, then you are out the premium. But guess what? Some didn't pay a penny! These were basically free call options. The only incentive is a bad credit history but with 1 out of 10 mortgages in the U.S. being delinquent this isn't such a tiny group anymore. Many saw the chance of a foreclosure as a small price to pay to ride the easy appreciation gravy train if the market shifted into mania part two.

One of the popular articles sent in the last few days was from the *San Francisco Chronicle*highlighting the *option ARM* mess in the Bay Area:

"People think option ARMs (will be) a national crisis," he said. "That's not really true. It's just in higher-cost areas like California where you see their prevalence."

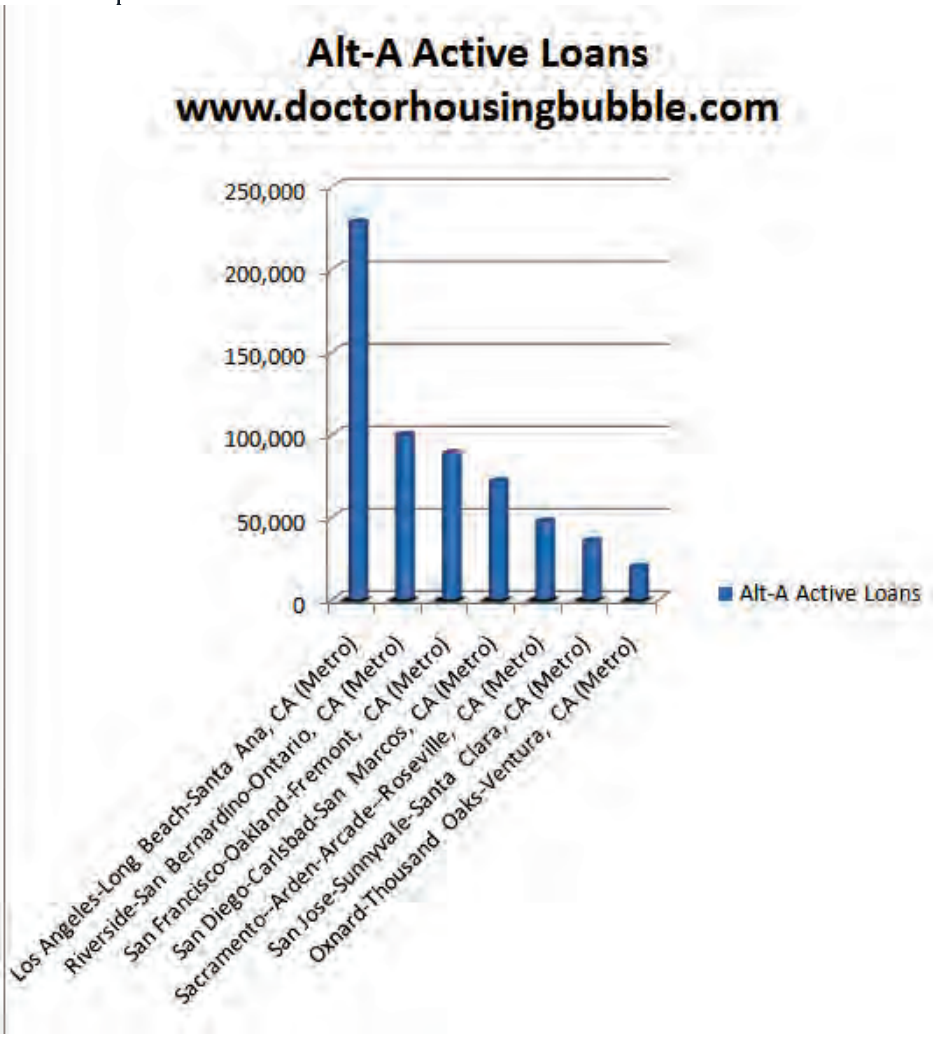
Of the 10 metro areas nationwide with the most option ARMs, three are in the Bay Area, according to Fitch Ratings, a New York research firm. They are the East Bay counties of Alameda and Contra Costa, the South Bay area of Santa Clara and San Benito counties, and the counties of San Francisco, Marin and San Mateo.

Together, these areas account for the second-most option ARMs in the country, although they are still far behind the greater Los Angeles area (including Los Angeles, Riverside, San Bernardino and Orange counties), according to Fitch data.

Understated data

First American shows more than 54,000 option ARMs issued here with a value of about $30.9 billion. Fitch shows more than 47,000 option ARMs here with a value of about $28 billion. Both say their data underestimate the totals."

$30 billion of *option ARM*s are sitting like ugly ducks in the Bay Area. But we do things bigger here in Southern California. We aren't given the actual data regarding the LA/OC area but we can extrapolate from the Alt-A loans that we are in a world of hurt in Southern California:



Thankfully, I have some data on this. We can try and get a figure for Southern California by looking at the Bay Area data.

Bay Area

Alt-A active loans: 136,000

Options ARMs: 47,000

Ratio Alt-A/Option ARMs: 34.5%

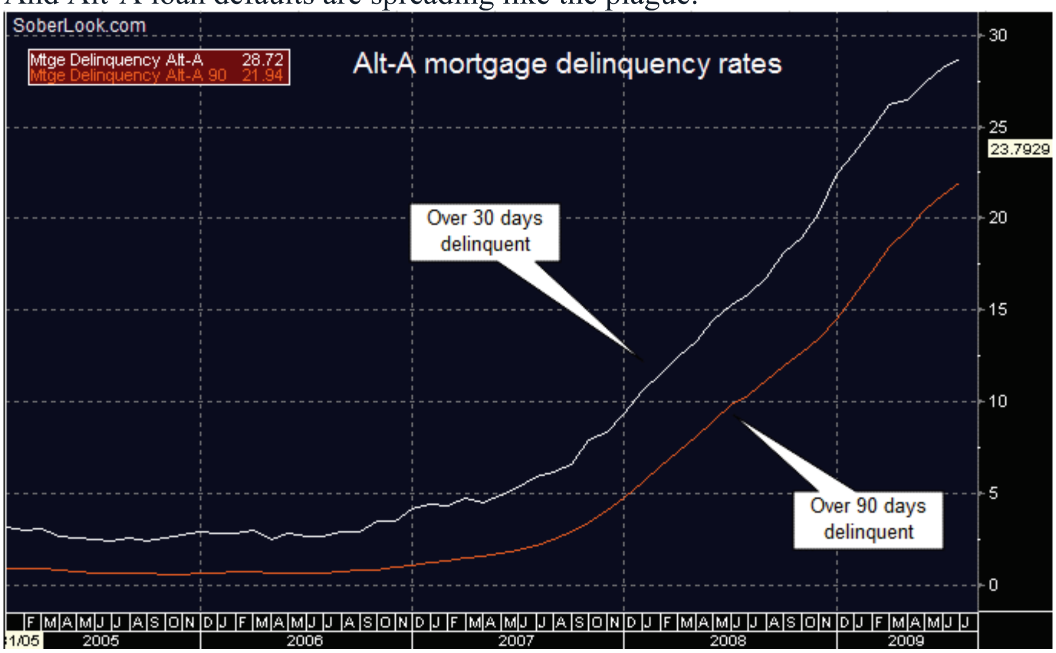
Southern California

Alt-A active loans: 400,000

Option ARMs: 138,000 (appx)

Now given that Southern California is the birth place of the *option ARM*, I would venture to say that the ratio would hold for Southern California. We have various estimates on this data. Some will say that *option ARM*s are not that bad, but given that 80 percent of *option ARM*s were low doc loans, they qualify as *Alt-A loans*. Plus, we are only looking at one item and many of these loans can go from current to non-paying over night. How many were zero down 80/20 loans? 100 percent loans? So at the low range we know 80 percent will fall under the Alt-A category umbrella. Bottom line is California is going to have a smack down with these mortgages. Not only because these mortgages have no shine like *Glitter*, but we have a *23 percent unemployment and underemployment rate*.

And Alt-A loan defaults are spreading like the plague:



Source: Bloomberg, *Seeking Alpha*

Keep in mind the Alt-A universe covers over 2 million active mortgages. And with 2 million mortgages nearly 30 percent are already at the 30 days late mark. 22 percent are already 90 days late. Given the size of these mortgage balances, you can rest assured those 90 days late are going to turn into foreclosures assuming banks move on *shadow inventory*. If they don't they are going to contend with negative cash flow issues. But as we know negative cash flow hasn't stopped the crony banking industry!

I want to go back to something that I have been kicking around in my head. Much of this information has been out there for years. This *option ARM* wave isn't any surprise, certainly not to those that follow the housing market closely. But why is the media suddenly catching on at a point where it really is too late to do anything? My feeling is the lack of understanding in behavioral economics. This is an area that I have studied extensively. A field that also combines the psychology and sociology of human nature into the mix. Neo-classical economists don't want to hear about this because it interferes with their free market ideology of letting Wall Street do what it wants and the market will right everything. The only problem is, when the abyss stares at them in the face they quake and suddenly become corporate welfare recipients. Holding your values is about staying true in the toughest of times. In good times everyone is a saint.

This would also explain a lot of behavior in the current market with Alt-A loans. Of course people leveraged to the max on these loans. It was a premium free call option on the biggest housing bubble in the world. It was like buying a lottery ticket. You won't feel so hurt if you lose $5 but if you win, you better believe you'll be running in the streets in your underwear. But what if you had to pay $500 for that lottery ticket? Or $1,000? With housing, it is so vital to have a down payment because it makes the borrower take a place at the gambling table. That is why anyone that even spends time with friends and family in California and talks about homeownership realized that if things imploded, many would simply walkaway. This was the psychology.

Also, I'm not sure I like the term walkaway. It is more like "stop making payments, save the cash, let the moronic banks sit back for more bailouts, and wait months until they even pay attention to your file" since that is a more accurate description. Many aren't walking away. They are not paying and playing chicken with banks. Those who are paying and want a modification usually find an incompetent boob who really has no idea what to do and can only follow the "higher crony" orders if you are 3 months behind. *Alt-A loans and option ARMs* are the mortgage version of Russian Roulette.

Now some people might think strategic defaults are only a minor problem. 588,000 strategically defaulted in 2008 and most happened in you guessed it, California and Florida:

"(*LA Times*)

* The number of strategic defaults is far beyond most industry estimates — 588,000 nationwide during 2008, more than double the total in 2007. They represented 18% of all serious delinquencies that extended for more than 60 days in last year's fourth quarter…

* Strategic defaults are heavily concentrated in negative-equity markets where home values zoomed during the boom and have cratered since 2006. **In California last year, the number of**

strategic defaults was 68 times higher than it was in 2005. In Florida it was 46 times higher. In most other parts of the country, defaults were about nine times higher in 2008 than in 2005.
* Two-thirds of strategic defaulters have only one mortgage — the one they're walking away from on their primary homes. Individuals who have mortgages on multiple houses also have a higher likelihood of strategic default, but researchers believe that many of these walkaways are from investment properties or second homes."

I bet if we drilled down deeper into the data, you would find that most of these strategic defaults are attached to *Alt-A loans*. The problem (and rest assured there are many) with*option ARM*s isn't the interest rate. Resets are no problems here. The issue is the recast. The rate can be rock bottom and it is, but this doesn't help someone making a $1,500 teaser payment on a $500,000 mortgage. Even at the 5 year mark with a 5 percent interest rate the payment will virtually double because of negative amortization (90% made the minimum payment only) and the fact that you now have a 25 year time horizon to pay off your mortgage with no negative amortization option. Basically the*option ARM* becomes a no option mortgage. These mortgages are the absolute epitome of the crisis we find ourselves in. Financially reprehensible mortgages that had no checks and played upon the greed and cynicism of Wall Street and the herd mentality of the get rich quick population. Didn't we learn any lessons from the *Great Depression*?

Downloaded from *http://www.doctorhousingbubble.com/alt-a-loans-and-option-arms-meet-strategic-defaults-the-perfect-recipe-for-a-toxic-california-housing-market-in-2010-behavioral-economics-of-housing-and-top-7-california-regions-with-active-alt-a/* on October 2, 2009.

A Second Mortgage Disaster On The Horizon?

60 Minutes: New Wave Of Mortgage Rate Adjustments Could Force More Homeowners To Default

Dec. 14, 2008

(CBS) When it comes to bailouts of American business, Barney Frank and the Congress may be just getting started. Nearly two trillion tax dollars have been shoveled into the hole that Wall Street dug and people wonder where the bottom is.

As **correspondent Scott Pelley** reports, it turns out the abyss is deeper than most people think because there is a second mortgage shock heading for the economy. In the executive suites of Wall Street and Washington, you're beginning to hear alarm about a new wave of mortgages with strange names that are about to become all too familiar. If you thought sub-primes were insanely reckless wait until you hear what's coming.

One of the best guides to the danger ahead is Whitney Tilson. He's an investment fund manager who has made such a name for himself recently that investors, who manage about $10 billion, gathered to hear him last week. Tilson saw, a year ago, that sub-prime mortgages were just the start.

"We had the greatest asset bubble in history and now that bubble is bursting. The single biggest piece of the bubble is the U.S. mortgage market and we're probably about halfway through the unwinding and bursting of the bubble," Tilson explains. "It may seem like all the carnage out there, we must be almost finished. But there's still a lot of pain to come in terms of write-downs and losses that have yet to be recognized."

In 2007, Tilson teamed up with Amherst Securities, an investment firm that specializes in mortgages. Amherst had done some financial detective work, analyzing the millions of mortgages that were bundled into those mortgage-backed securities that Wall Street was peddling. It found that the sub-primes, loans to the least credit-worthy borrowers, were defaulting. But Amherst also ran the numbers on what were supposed to be higher quality mortgages.

"It was data we'd never seen before and that's what made us realize, 'Holy cow, things are gonna be much worse than anyone anticipates,'" Tilson says.

The trouble now is that the insanity didn't end with sub-primes. There were two other kinds of exotic mortgages that became popular, called "Alt-A" and "option ARM." The option ARMs, in particular, lured borrowers in with low initial interest rates - so-called teaser rates - sometimes as low as one percent. But after two, three or five years those rates "reset." They went up. And so did the monthly payment. A mortgage of $800 dollars a month could easily jump to $1,500.

Now the Alt-A and option ARM loans made back in the heyday are starting to reset, causing the mortgage payments to go up and homeowners to default.

"The defaults right now are incredibly high. At unprecedented levels. And there’s no evidence that the default rate is tapering off. Those defaults almost inevitably are leading to foreclosures, and homes being auctioned, and home prices continuing to fall," Tilson explains.

"What you seem to be saying is that there is a very predictable time bomb effect here?" Pelley asks.

"Exactly. I mean, you can look back at what was written in '05 and '07. You can look at the reset dates. You can look at the current default rates, and it's really very clear and predictable what's gonna happen here," Tilson says.

Just look at a projection from the investment bank of Credit Suisse: there are the billions of dollars in sub-prime mortgages that reset last year and this year. But what hasn't hit yet are Alt-A and option ARM resets, when homeowners will pay higher interest rates in the next three years. We're at the beginning of a second wave.

"How big is the potential damage from the Alt As compared to what we just saw in the sub-primes?" Pelley asks.

"Well, the sub-prime is, was approaching $1 trillion, the Alt-A is about $1 trillion. And then you have option ARMs on top of that. That's probably another $500 billion to $600 billion on top of that," Tilson says.

Asked how many of these option ARMs he imagines are going to fail, Tilson says, "Well north of 50 percent. My gut would be 70 percent of these option ARMs will default."

"How do you know that?" Pelley asks.

"Well we know it based on current default rates. And this is before the reset. So people are defaulting even on the little three percent teaser interest-only rates they're being asked to pay today," Tilson says.
(CBS) That second wave is coming ashore at a place you might call the "Repo Riviera" - Miami Dade County. Oscar Munoz used to sell real estate; now his company clears out foreclosed homes.

"Business is just going through the roof for us. Fortunately for us, unfortunately for the poor families who are going through this," Munoz explains.

"I wonder do you ever come to houses where the people are still here?" Pelley asks.

"Absolutely," Munoz says. "That's really a sad situation. I'd rather not meet the people."

Asked why not, Munoz says, "It’s not easy to come in and move a family out. It's just our job to do it for the bank. It's just the nature of what's going in the market right now."

Munoz says his company alone gets about 20 to 30 assignments per day. "And we're one of the few companies right now who are hiring. We have to hire people because the demand is so high," he tells Pelley.

People who've been evicted tend to leave stuff behind. The next house is usually much smaller. Banks hire Munoz to move the possessions out where, by law, they remain for 24 hours. Often the neighbors pick through the remains.

Once the homes are empty the hard part starts - trying to find buyers in a free-fall market.

Miami real estate broker Peter Zalewski talks like a man with a lot of real estate to move. "We have 110,000 properties for sale in South Florida today, 55,000 foreclosures, 19,000 bank owned properties. Sixty-eight percent of the available inventory is in some form of distress. They need someone to clean it up."

Asked what the name of his company is, Zalewski says, "It's called Condo Vultures Realty."

What does that mean?

"That in times of distress, and in times of downturn, there's opportunity. And you know, vultures clean up the mess. A lot of people seem to think they kill, but they don't actually kill, they clean," he says.

The killing, in Miami, was done by the developers back when it seemed that the party would never end. They sold hyper-inflated condos at what amounted to real estate orgies-sales parties for invited guests who were armed with option ARM and Alt-A loans. "There were red ropes outside. They had hired cameramen, and they had hired photographers to almost set the scene of a paparazzi," Zalewski remembers.

"They were hiring fake paparazzi? To make the customers feel like they were special?" Pelley asks.

"You were selling a lifestyle," Zalewski says.

Asked what roles these exotic mortgages played, Zalewski says, "They were essential. They were necessary. Without the Alt A or option ARM mortgage, this boom never would've occurred."

It never would have occurred because without the Alt As and the option ARMs, many buyers never would have qualified for a loan. The banks and brokers were getting their money up front in fees, so the more they wrote, the more they made.

"They stopped checking whether the income was even real. They turned to low and no-doc loans, so-called 'liar's loans' and jokingly referred to as 'ninja loans.' No income, no job, no assets. And they were still willing to lend," Tilson says.

"But help me out here. How does that make sense for the lender? It would seem to be reckless, in the extreme," Pelley remarks.

"It was," Tilson agrees. "But the key assumption underlying, the willingness to do this was that home prices would keep going up forever. And in fact, home prices nationwide had never declined since the Great Depression."

On the way up, everyone wanted in. No one expected to feel any pain. People like acupuncturist Rula Giosmas became real estate speculators.
(CBS) Giosmas says she bought about six properties in this last five-year period as investments. She says she put 20 percent down on each. Now they're all financed with option ARM loans.

Asked what she understood about the loans, Giosmas says, "Well, unfortunately, I didn't ask too many questions. I mean in the old days, I would shop around. But because of the frenzy, and I was so busy looking to buy other properties, I didn't really focus on shopping around for mortgage brokers."

"But if you're investing in real estate, you're buying multiple properties, you should be asking a lot of questions," Pelley remarks. "Why didn't you ask?"

"I was busy. I was really busy looking at property all the time, all day long," she replies.

She also acknowledges that she didn't read the paperwork. Now she’s losing money on every property.

"You know that there are people watching this interview who are saying, 'You know, she was just foolish. She was greedy and foolish. She was buying small apartment buildings and wasn't paying enough attention to how they were financed,'" Pelley points out.

"My full-time job is I'm an acupuncturist. So, this was just a side thing," she says.

Giosmas says she was misled and she hopes to renegotiate her loans. But many other buyers have simply walked away from their properties. One Miami luxury building was a sellout, but when ***60 Minutes*** visited, a quarter of the condos were in foreclosure.

Zalewski says one of those condos was originally purchased in October 2006 for $2.4 million. Now he says the asking price from the lender is $939,000.

And there are tough years to come because, just like the sub-primes, the Alt-A and option ARM mortgages were bundled into Wall Street securities and sold to investors.

Sean Egan, who runs a credit rating firm that analyzes corporate debt, says he expects 2009 to be miserable and 2010 also miserable and even worse.

Fortune Magazine cited Egan as one of six Wall Street pros who predicted the fall of the financial giants.

"This next wave of defaults, which everyone agrees is inevitably going to happen, how central is that to what happens to the rest of the economy?" Pelley asks.

"It's core. It's core, because housing is such an important part. We're not going to get the housing industry back on track until we clear out this garbage that's in there," Egan explains.

"That hasn't cleared out yet. We haven't seen the bottom," Pelley remarks.

"It's getting worse," Egan says. "There are some statistics from the National Association of Realtors, and they track the supply of housing units on the market. And that's grown from 2.2 million units about three years ago, up to 4.5 million units earlier this year. So you have the massive supply out there of units that need to be sold."

"What with the housing supply increasing that much, what does it mean?" Pelley asks.

"It means that this problem, the economic difficulties, are not going to be resolved in a short period of time. It's not gonna take six months, it's not gonna 12 months, we're looking at probably about three, four, five years, before this overhang, this supply overhang is worked through," Egan says.

(CBS) In the next four years, eight million American families are expected to lose their homes. But even after the residential meltdown, Whitney Tilson says blows to the financial system will keep coming.

"The same craziness that occurred in the mortgage market occurred in the commercial real estate markets. And that's taking a little longer to show. But there are gonna be big losses there. Credit cars, auto loans. You name it. So, we're still, you know, we're maybe halfway through the mortgage bubble. But we may only be in the third inning of the overall bursting of this asset bubble," Tilson says.

"Does that mean that the stock market is gonna continue plunging as we've seen the last several months?" Pelley asks.

"Actually we're the most bullish we've been in 10 years of managing money. And the reason is because the stock market, for the first time I can say this, in years, has finally figured out how bad things are going to be. And the stock market is forward looking. And with U.S. stocks down nearly 50 percent from their highs, we're actually finding bargains galore. We think corporate America's on sale," Tilson says.

The stock market will still have a lot of figuring to do with more troubling news on the horizon. The mortgage bankers association says one out of 10 Americans is now behind on their mortgage. That's the most since they started keeping records in 1979.

FED COPIES WEIMAR HYPERINFLATION

Yes, That Is a Stimulus Package, And No, I'm Not Happy To See You

by The Basement Team

The only time a nation destroys itself, a civilization destroys itself, is when it becomes *efficient*in enforcing mediocrity. --Lyndon LaRouche, Dec. 16, 1977

The hyperinflationary frenzy which engulfed Weimar Germany in the years immediately after World War I, is a dramatic example of what can happen to a nation when its productive capacity is destroyed, and it turns to the printing of money to preserve its economy. It also serves as a road map of where the United States, indeed the world, is headed, if we were to continue down our present path.

Most people today think of economics in monetary terms, and thus tend to regard the Weimar hyperinflation as having been caused by monetary policy--but that view is wrong. The crisis in Weimar Germany came about as the result of a coordinated effort to destroy the nation of Germany after World War I, orchestrated primarily by the British Empire, with the assistance of France. Thus, the productive capacity of the German agro-industrial economy was deliberately stripped, at the same time that Germany was hit by debilitating demands for war reparations payments, leaving it in the position of either imposing savage austerity upon its own population, or cranking up the printing presses.

Unwilling to commit national suicide through austerity, the Germans chose the printing-press method, in the hope that they could muddle through, and in the process unleashed a hyperinflationary dynamic which destroyed the value of their currency. The Germans wound up triggering the very austerity they had hoped to avoid.

The parallels to our current situation should be obvious. Like Weimar Germany, the productive capacity of our agro-industrial economy has been consciously destroyed, and we have taken to living on debt, paid for by the printing press and its electronic equivalents. Unlike Weimar Germany, however, which was forced at the point of a gun, we have done this to ourselves, through our adherence to the belief in globalization.

- Controlled Disintegration -

After his defeat in World War I, Kaiser Wilhelm II of Germany abandoned his throne, and the monarchy was replaced by a republic, which committed itself to alleviating the afflictions the population had suffered during the war. This new government went to the Versailles peace conference in June 1919, hoping for fair treatment, but what it got instead, was the lash of a vindictive British whip. The victorious powers imposed upon Germany the full responsibility for the costs of reconstruction of Europe, an impossible burden for a defeated nation. Germany was also ordered to give up virtually its entire fleet of merchant marine ships and much of its railroad rolling stock, crippling its ability to trade. Though it was a net importer of food, Germany's food production was also targeted, and it was forced to give up much of its livestock--horses, bulls, cows, sheep, and other farm animals. On top of that, Germany was ordered to turn over significant territories rich in farmland, minerals, and people. By these methods, the productive capacity of the German people was crushed. What followed, was the inevitable effect of the intent of the policy.

Human societies thrive by increasing their mastery over the principles upon which the universe is governed, both in terms of scientific discoveries and the implementation of new technologies based upon those discoveries, as well as the ability to communicate them through enhanced modes of communication, i.e., irony, all of it driven by the power of reason of the human mind. As a society develops intellectually, it increases its ability to support larger populations per unit-area of land, which we measure in terms of relative potential population density. Over time, the population grows in response to this rising potential.

The reverse can also happen, when a nation is subjected to the steep drop in living standards of the sort imposed on Weimar Germany. There, the technological downshift imposed, diminished the ability of the nation to support its population. It also caused a drop in the real valuations of Germany's physical asset-base, since the economic benefits of those assets were reduced by the devolving economy.

It was this economic devolution, imposed by a deliberate policy crafted to remove Germany as a world power and rival to the British Empire, which sowed the seeds of the hyperinflation that would soon emerge.

- The Explosion -

In May 1921, British Prime Minister Lloyd George presented Germany with the final Allied Reparations demands: Germany would have to pay 132 billion gold marks, enforced by the threat of a military occupation of its Ruhr industrial heartland. The German government refused the demand and resigned in protest, but the successor government of Josef Wirth capitulated, and paid the first 2 billion mark installment. Five months later, the League of Nations, acting on behalf of the British, delivered yet another blow to Germany by giving the rich industrial basin of Upper Silesia to Poland and Czechoslovakia.

To pay for these reparations, the government imposed heavy new taxes upon a population and an economy that could not pay them, and the printing presses began to roll. The reichsmark, which had begun in 1918 at a value of five to the U.S. dollar, fell to 62 to the dollar when Lloyd George delivered his demands, and by November of that year, had fallen to 262 reichsmarks to the dollar.

The situation took a turn for the worse with the post-Rapallo assassination of German Foreign Minister Walter Rathenau in June 1922, and the seizure of the Ruhr in January 1923, further demoralizing the German population and weakening its political will to resist. Within the month, the reichsmark plunged from 345 to the dollar, to 1,254, and ended the year at 7,600.

With the devaluations came soaring increases in the cost of living, compounded by the growing shortages of foodstuffs and other necessities of life. This process of paying more while receiving less, accelerated the implosion of the German economy, and the hyperinflation. By May of 1923, the reichsmark had fallen to 48,000 per dollar, then plunged to 110,000, and 353,000, in succeeding months. As bad as that was, it was only the beginning, as the nation was hit with an inflationary shockwave of almost unimaginable intensity. The reichsmark plunged to 4.6 million to the dollar in August 1923; to 98.9 million in September; 25.3 billion in October; and 2.2 trillion in November, ending the year at 4.2 trillion reichsmarks to the dollar.

Friedrich Kroner, in his *Überreizte Nerven* (Overwrought Nerves), captured the effects of this process of disintegration upon the German population:

"It pounds daily on the nerves: the insanity of numbers, the uncertain future, today, and tomorrow become doubtful once more overnight. An epidemic of fear, naked need: lines of shoppers, long since an unaccustomed sight, once more form in front of the shops, first in front of one, then in front of all.... Rice, 80,000 marks a pound yesterday, costs 160,000 marks today, and tomorrow perhaps twice as much.... The piece of paper, the brand-spanking new banknote, still moist from the printers, paid out today as a weekly wage, shrinks in value on the way to the grocer's shop. The zeroes, the multiplying zeroes!|...

"They rise with the dollar, hate, desperation, and need--daily emotions like daily rates of exchange. The rising dollar brings mockery and laughter: 'Cheaper butter! Instead of 1,600,000 marks, just 1,400,000 marks!' This is no joke; this is reality written seriously with a pencil, hung in the shop window, and seriously read."[1]

- On the Edge -

Today, Lyndon LaRouche warns, the entire global economy is in a period equivalent to Weimar Germany in the Autumn of 1923, conditions primed for the same sort of hyperinflationary shock which exploded then. The insane injections of ever more cash by the central banks is the monetary equivalent of throwing gasoline on a fire. The stimulus plan being pushed by Treasury Secretary Henry Paulson is more of the same. Pumping more money into a hyperinflationary system is the worst possible move, a repeat of the error of Weimar Germany, and one which will produce similar results.

Just as Weimar Germany was deliberately targeted by the British Empire to remove it as a competitor on the world stage, the United States has also been deliberately targeted by the British, who are now egging us on to stimulate our economy.

The only way, at this late date, to break the deadly dynamic is to admit the truth--our financial system is awash with trillions of dollars of worthless paper which cannot be saved, and accept that in trying to save it, we will only destroy ourselves. Unlike Weimar Germany, we are not being forced at the point of a gun--we have a choice, and a chance, if we will only take it.

1. Quoted from Bernd Widdig, *Culture and Inflation in Weimar Germany* (Berkeley: University of California Press, 2001).

Downloaded from *http://www.larouchepac.com/news/2008/01/28/fed-copies-weimar-hyperinflation.html* on October 2, 2009.

What is US Dollar Indexsup>®?

Just as Dow Jones Industrial Average reflects the general state of American stock market, US Dollar Index (USDXsup>®) reflects the general assessment of US Dollar. USDX does it through exchange rates averaging of US Dollar and six most tradable global currencies.

$$\mathbf{USDX} = 50.14348112 \times \mathbf{EURUSD}^{-0.576} \times \mathbf{USDJPY}^{0.136} \times \mathbf{GBPUSD}^{-0.119} \times \mathbf{USDCAD}^{0.091} \times \mathbf{USDSEK}^{0.042} \times \mathbf{USDCHF}^{0.036}$$

Those 20 countries (15 eurozone countries and five other countries, whose currencies are represented in USDX) make up the basis of global trade with the USA, have highly developed currency markets with the quotes which are independently determined by market participants. Besides, many currencies not included into USDX, are traded in close correlation with the currencies included in USDX. USDX value is calculated 24-hours a day, seven days a week.

Currencies and weights used in USDX calculation match the currencies and weights used in calculation of trade weighted US Dollar index by US Fed.

As USDX is based on indicative values of quotes, it can vary depending on quote source used.

USDX is calculated as geometric progression weighted average of six currencies rates against US Dollar in comparison with March, 1973. USDX measures the US Dollar value reduced to 100.00. Quote value 105.50 means that US Dollar value in relation to currency basket grew 5.50% from March, 1973.

March, 1973 was chosen as a zero point due to its significance in Forex market history. Those times the leading trade nations allowed their currencies to be quoted freely against each other. Such agreement was made in Smithsonian Institution in Washington, and is considered to be a victory of free market theorists. Smithsonian agreement replaced the collapsed fixed rate regime launched approximately 25 years earlier in Bretton Woods, New Hampshire.

Current rate of USDX reflects the average dollar value against this base period of 1973. Since that time, Dollar Index has reached the peak 165 and the low 76. The volatility of such instrument by amplitude and variability can be compared with stock index futures.

Downloaded from *http://www.akmos.com/forex/usdx/* on October 2, 2009.

Surviving Hyperinflation: An Update

by Eric Englund

In the early 1980s, Harry E. Figgie, Jr. (the founder of Figgie International, Inc.) became concerned that the United States' government was following the same destructive path that lead countries such as Argentina, Bolivia, and Brazil into hyperinflationary economic collapse. In the 1980s, each of these South American countries were running massive annual deficits, were accumulating unmanageable national debts, and each respectively had a central bank creating money, out of thin air, at a reckless pace. In looking at the frighteningly similar profligate behavior, on the part of the U.S. Government, Mr. Figgie became concerned that hyperinflation could emerge in the United States as well.

PARDON THE INTERRUPTION

I wrote the opening paragraph, and the balance of this essay, in January of 2004. Since then, the national debt has grown from \$6.9 trillion up to \$11.4 trillion – an increase of about 65%. Uncle Sam's unfunded liabilities now exceed \$100 trillion. Per the Federal Reserve's own data, the United States' monetary base has skyrocketed from $735 billion, in January of 2004, to over $1.7 trillion today. To believe that the paper tickets in my wallet, Federal Reserve Notes, will somehow gain value over time has always struck me as absurd. In my opinion, the stage has been set for an explosion in the prices of everyday goods and services. Economists Robert Murphy and Thorsten Polleit have recently written essays (linked here and here) affirming my trepidation. To be sure, I firmly believe tough economic times, marred by harsh inflation, lie ahead of us.

AND NOW, BACK TO THE ESSAY

As a businessman and an entrepreneur, Harry Figgie was concerned that his business enterprises may not survive if his management teams were not prepared to operate under the unstable conditions wrought by heavy inflation. Since little had been written about managing a business under hyperinflationary conditions, Mr. Figgie initiated a research project to find out what a business must do to survive the ravages of inflation. So, in his own words, here is what he decided to do:

As a result, we initiated research of our own, and chose our target South America – specifically Bolivia, Brazil and Argentina – as the best available examples of economies suffering high inflation rates.

We put together a three-person team headed by Dr. Gerald Swanson, a University of Arizona economist and director of the Academy for Economic Education.

The team went to South America four times over a two-year period to study the development of inflation and its impact on businesses, individuals and governments. They interviewed 80 leading bankers and industrialists and a considerable number of ordinary citizens throughout Argentina, Brazil and Bolivia.

As a result of this research, Dr. Swanson wrote *The Hyperinflation Survival Guide: Strategies for American Businesses*; which was first printed in 1989. The superb content of this book can be attributed to Mr. Figgie's foresight and to the outstanding research and writing of Dr. Swanson. What follows are a brief "Austrian" perspective about this book and then specific details regarding the book's content.

AN AUSTRIAN PERSPECTIVE

The Hyperinflation Survival Guide: Strategies for American Businesses is a book that provides sound business strategies for business managers and entrepreneurs to implement when operating a business under economic circumstances in which monetary calculation becomes increasingly difficult due to a rapid decline in money's purchasing power. Although the term "monetary calculation" is not found anywhere in this book, it is crucial to understand monetary calculation is a method of thinking for a businessman. As the extraordinary economist Ludwig von Mises explains in his magnum opus *Human Action*:

Monetary calculation is the guiding star of action under the social system of division of labor. It is the compass of the man embarking upon production. He calculates in order to distinguish the remunerative lines of production from the unprofitable ones, those of which the sovereign consumers are likely to approve from those which they are likely to disapprove. Every single step of entrepreneurial activities is subject to scrutiny by monetary calculation. The premeditation of planned action becomes commercial precalculation of expected costs and expected proceeds. The retrospective establishment of the outcome of past action becomes accounting of profit and loss.

A tool businessmen use to determine the success or failure of past actions is a financial statement – which includes a balance sheet and an income statement. It is important to understand that all entries in the balance sheet and income statement are expressed in terms of money. Under conditions in which money's purchasing power is stable, a businessman can directly correlate whether his company's capital base (i.e. the company's net worth as reflected in the balance sheet) is expanding or contracting depending upon if the company turned a profit or made a loss. Such monetary calculation assists a businessman in deciding to maintain or change a business plan based upon satisfying the ever-sovereign consumer.

But what happens to monetary calculation under conditions of inflation? As Murray N. Rothbard explains in his fabulous book *Man, Economy, and State*, businessmen may be "tricked" into making poor decisions thus causing consumption of capital:

…the inflationary process inherently yields a purchasing-power profit to the businessman, since he purchases factors and sells them at a later time when all prices are higher. The businessman may thus keep abreast of the price increases (we are exempting from variations in price increases the terms-of-trade component), neither losing nor gaining from the inflation. But business accounting is traditionally geared to a world where the value of the monetary unit is stable. Capital goods purchased are entered in the asset column "at cost," i.e., at the price paid for them. When the firm later sells the product, the extra inflationary gain is not really a gain at all; for it must be absorbed in purchasing the replaced capital good at a higher price. Inflation leads him to believe that he has gained extra profits when he is just able to replace capital. Hence, he will undoubtedly be tempted to consume out of these profits and thereby unwittingly consume capital as well. Thus, inflation tends at once to repress saving-investment and to cause consumption of capital.

Indeed, inflation can lead to entrepreneurial error and, thus, to business failure.

SPECIFICS FROM THE BOOK

The Hyperinflation Survival Guide provides excellent strategies for businessmen to adopt and act upon should hyperinflation emerge. Although this book is geared more toward owners/managers of manufacturing companies, operating under inflationary conditions, any businessman (and any individual) can garner sound advice from this insightful book. The four chapters in this book cover financial management, marketing strategies, manufacturing decisions, and industrial relations.

Chapter one of this book – titled "Financial Management" – can be summed up as follows: "Cash management is the difference between profits and bankruptcy. The single fact that influences every decision is: Time eats money." The following list highlights a few of the important financial-management issues covered in this chapter:

- Make absolutely certain your managers understand the time value of money.
- Never allow your cash to remain idle.
- Good cash management can provide a major source of profit, while poor cash management can destroy a company in a matter of months.
- Be prepared to convert dollars into a stable foreign currency.
- Be aware that the stock market may become an uncertain source of capital.
- Be prepared to maintain more than one set of books.
- Inventory valuation should be based on NIFO (next in first out) rather than LIFO.
- Develop an appropriate inflationary adjustment for capital replacement or the value of your capital will disappear.

Chapter two is titled "Marketing Strategies." Pertaining to the "4Ps" of marketing (price, promotion, place, and product), this book concentrates on pricing and product.

Since government intervention and regulation inevitably become more oppressive during bouts of high inflation, it is important for businesses to sell products with the largest profit margins. As Dr. Swanson points out:

A fact of life in a hyperinflationary economy is the disappearance of products whose controlled price does not cover the cost of production. In Brazil, for example, dairy products such as milk, eggs and cheese became unavailable when the regulated price was set below their production cost.

Likewise, in the United States, high volume products with extensive competition – characteristic of many consumer products – may be the first to disappear should inflation begin to rise, because they tend to have low profit margins.

With respect to pricing, the book conveys that pricing "…policies undergo a dramatic transformation during hyperinflation. Fluid pricing becomes an absolute necessity, and prices must change frequently and sharply to accurately reflect the impact of inflation. True costs become increasingly difficult to track, even as the need to do so grows more important."

For Americans, it is hard to imagine products disappearing from the marketplace let alone having to cope with hyperinflation. Just imagine the nightmare Bolivian businessmen went through, in 1985, when inflation hit 50,000% annualized. Upward price adjustments would have to be made by the hour. These upward adjustments accumulate to the point of seeming absurd. For example, under 50,000% inflation, a $25 necktie would cost $12,525 one year later.

In chapter 3 (titled "Manufacturing Decisions"), Dr. Swanson emphasizes that management must be flexible and innovative. Corporate survival, furthermore, may require radical decisions. For example, during "…periods of high inflation, manufacturing operations are particularly hard hit.

In fact, in some extreme cases in South America, corporate attempts to survive have led some companies to shut down their manufacturing operations in favor of speculation, which can be a more profitable use of capital." The cold reality here is that the rates of return on speculating in commodities and currencies, under conditions of severe inflation, may exceed the rates of return on capital projects. Correspondingly, this means laborers will lose their jobs.

Other important points, covered in this chapter, include the following:

- Anticipate that your purchasing department will assume a more important role in the long-run survival of your firm.
- Be aware that hyperinflation creates increased opportunities for corruption.
- Effective cost control requires that you develop methods for estimating your internal rate of inflation.
- Anticipate difficulty in maintaining capital expenditure programs.

Chapter 4 of this book is titled "Industrial Relations." It could just as easily be titled "Employee Relations." As Dr. Swanson and his team discovered in South America, the impact of hyperinflation on wages and benefits was stunning. For instance, "…Brazilian employees who were not given raises in the first three months of 1988 watched their buying power plummet 64 percent. Even worse was the spring of 1985, when Bolivians saw their real income drop 90 percent in only three months." Such bouts of inflation become especially difficult for businessmen to cope with as inflation is inflicted upon society by a government's reckless monetary creation (out of thin air) while, in turn, government regulations – for the alleged purpose of controlling inflation – prevent employers from granting raises to employees. Employers, unfortunately, take the brunt of the blame for the declining living standards (that employees experience during bouts of severe inflation) when government is the real culprit.

As standards of living decline, Dr. Swanson found that "…individuals tend to seek the support of a group to represent them in order to survive constantly rising prices." He further articulated:

This is certainly true in Bolivia, Brazil and Argentina, where the union movement is very strong in both the public and private sectors. Some South American business leaders go so far as to complain that union leaders actually use hyperinflation to their own advantage, recognizing it as a major source of their power. Because wages continually lag behind rising prices during hyperinflation, there is a near-constant need for negotiations, as union members press their leaders to push for higher wages.

Other notable labor-relations issues covered in this book are summarized below:

- Labor relations staffs should be prepared to face stronger unions and virtually continuous negotiations.
- There is a high likelihood that wages will at some point be frozen, and labor will apply pressure on management to circumvent controls.
- Prepare to shorten pay periods.
- Anticipate morale problems among middle management, which often bears the greatest burden during hyperinflation.

- Consider the type of index you will use for cost-of-living adjustments, and be prepared to make adjustments often.
- Fringe benefits must be adjusted to reflect inflation or they can disappear.

This book's appendix provides a nice bonus as it covers the disastrous results of the wage and price controls President Nixon implemented to "combat" the United States' 4.7% inflation rate and its 5.8% unemployment rate. Two of the most notable actions President Nixon undertook on August 15, 1971 included an immediate 90-day freeze on wages, prices, salaries and rents and of course, the reprehensible floating of the dollar; by severing the last vestige of the dollar's linkage to gold. For a president to assert that severing the dollar's link to gold will help reduce inflation completely defies logic. In reality, what President Nixon "accomplished" was to enable the federal government to create money without limit. How such an irresponsible action can be construed to be anti-inflationary is a sad testimony to the economic illiteracy of the American populace.

To buttress the point, about economic illiteracy, here is an excerpt from this book's appendix:

Domestic reaction to Nixon's proposal was overwhelmingly positive. Leaders of the nation's corporate giants, believing that some sort of action was overdue, responded with general enthusiasm, and opinion polls showed broad support among the populace.

Financial markets reacted with unprecedented gains, as trading on the New York Stock Exchange hit a record 31.72 million shares, and the Dow Jones Industrial Average set a one-day record by climbing 33 points. Bond prices also rose sharply in heavy trading…

In all, President Nixon implemented four phases of wage and price controls, with the final phase ending in April of 1974; and the results were predictably terrible. There were, for example, shortages of beef and textiles. Prices rose, moreover, at an average annual rate of 6 percent while the controls were in place, yet in the eight months following the end of Phase IV, prices climbed at an annualized rate of over 12 percent.

CONCLUSION

Of the books published regarding hyperinflation, this may be the only one that provides effective strategies for operating a business under conditions of a rapidly depreciating currency. To reiterate, *The Hyperinflation Survival Guide: Strategies for American Businesses* was written by Dr. Gerald Swanson – an associate professor of economics at the University of Arizona. Harry E. Figgie, Jr. sponsored the research and the original production of this book. As it was originally printed in 1989, it was way ahead of its time. This, however, does not change the fact that Dr. Swanson's book will prove to be an excellent resource for businessmen and individuals once the Federal Reserve's destruction of the U.S. dollar enters its terminal stage.

Let me close with a little bit of sobering humor:

There are 10^11 stars in the galaxy. That used to be a huge number. But it's only a hundred billion. It's less than the national deficit! We used to call them astronomical numbers. Now we should call them economical numbers. ~ Richard Feynman (1918–1988)

Downloaded from *http://www.hyperinflation.net/essays/englund60.html* on October 2, 2009.

U.S. Payrolls fell 263,000 in September 2009 after falling by a revised 201,000 in August and 304,000 in July 2009. This brought the economy's total loss of jobs since the recession began in December 2007 to 7.2 million, taking the total unemployed in the economy to 15 million. The private sector lost 210,000 jobs. The unemployment rate rose from 9.7% in August to 9.8% in September 2009, a 26-year high. The long-term unemployment rate (including the marginally attached job seekers and workers who are discouraged or part-time for economic reasons) rose from 16.8% in August to 17% in September 2009. (U.S. Bureau of Labor Statistics)

RGE's Daily Top 5 – October 5, 2009 – email

CAUTION: Crash/Collapse Dead Ahead Say Faber, Rogers, Dent and Celente

October 2, 2009

After a massive upswing in US stocks over the last six months, the recent rally may finally be coming to an end. It seems that the trend of rising stocks on bad or better than expected news may be in a reversal, as evidenced by market participants' caution over the last couple of weeks. For those that follow contrarian investors like *Marc Faber*, *Jim Rogers*, *Gerald Celente* and *Harry Dent*, this should come as no surprise.

Marc Faber, publisher of the Gloom Boom & Doom Report, *advised his subscribers and followers to take positions in US tech stocks, the banking sector and hard assets at the bottom of the markets*in early March of 2006. However, he did provide a *word of caution on March 16, 2009*, making it known that while he was a short-term bull on stocks, that eventually, the economic fundamentals would catch up:

"probably a total collapse in the second half of the year when it becomes clear that the economy is a total disaster."

As recently as *September 3rd, on Delhi TV, he made another call, essentially telling investors to get out*:

"I believe in the next 10 days to two weeks we'll get big moves in markets. And I wouldn't be surprised if the Dollar would for a change strengthen and equity markets would correct and possibly quite meaningfully so."

Gerald Celente, Trends Research forecaster and contrarian thinker, advised listeners of the Jeff Rense show on September 23rd to look out below, calling it the *Christmas Crash*. He believes that*the next collapse will come quickly, sometime this Fall, but as late as January or February of 2010*:

"It's going to really be an ugly scene. We are really encouraging people now to take pro-active measures and prepare for the worst. Don't spend an extra dime."

Jim Rogers, who is well known for making millions during the recession and commodities boom of the 1970's, is also hesitant about acquiring more equities. He is an avid US Dollar bear, but in an interview on September 30th, he turned bullish on the dollar in the short term. His advice?

"I am not buying shares anywhere in the world as we speak."

Finally, we have economist and cyclical analyst Harry Dent Jr., who some may know for having called the real estate Bubble-Boom, and subsequent crash, years before it happened in his book *The Next Great Bubble Boom*. Dent was also bullish on the Dow, calling for it to reach between 9450 and 10,500 after the March lows of 2009. Like Faber, Dent also cautioned investors to stay vigilant once the 9000 mark was breached. In a recent Economic Forecast Alert to subscribers, Dent indicated that the tide was changing:

"The markets are very overstretched here and we think it is very likely that we are seeing a top just above 9,800 on the Dow today.

This is the best intermediate term play we have seen in a long time. Shorting the stock market (for example, ETF symbol SH) could yield 50% to 60%+ gains over the next year with a 5% to 15% downside if the markets keep edging up for awhile, even to extremes."

Though we continue to see most mainstream analysts talk the bull market talk, it looks as if the bull may be in trouble, especially if individual investors realize what all of the big boys talking their books already know - that the economic fundamentals are simply horrific and the markets are already pricing in GDP growth of over 5% for the next 4 quarters. Considering that GDP grew at 0.7% in the 2nd quarter, that seems highly unlikely. Some estimates also suggest the the P/E of the S&P 500 right now is at *unprecedented levels of over 100*!

As of today, it looks as if investor focus is shifting from stocks and commodities into what some consider to be short-term safehaven assets, such as US Treasury Bills/Notes/Bonds. The yield on the 10 yr is at 3.15% as of October 2nd, significantly down since August 7th's 3.85%, suggesting that safety, not risk, is now the name of the game. Interestingly, and unlike November of 2008, gold seems to be holding strong at around $1000, though this may change if the US Dollar rises, as Jim Rogers, Faber and Dent have suggested it may.

For those still in equities, we believe Tyler Durdern at *Zero Hedge* said it best*, "Go long here at your peril."*

Downloaded from *http://www.shtfplan.com/marc-faber/caution-crashcollapse-dead-ahead-say-faber-rogers-dent-and-celente_10022009* on October 5, 2009.

U.S. Factory Orders Plunge Unexpectedly in August

The Commerce Department says demand for manufactured goods dropped 0.8 percent, much worse than the 0.7 percent gain that economists had expected. The August decline reflected plunging demand for commercial aircraft, a category that surged in July.

Friday, October 02, 2009

New orders to U.S. factories fell in August by the largest amount in five months, as American manufacturers struggle to emerge from the recession.

The Commerce Department said Friday that demand for manufactured goods dropped 0.8 percent, much worse than the 0.7 percent gain that economists had expected. The August decline reflected plunging demand for commercial aircraft, a category that surged in July.

Economists worry that factories will remain under pressure because of weak consumer spending as American households deal with continued layoffs and rising unemployment.

In a separate report, the Labor Department said unemployment rose to a 26-year high of 9.8 percent in September as employers cut a net total of 263,000 jobs, far more than had been expected.

While many economists believe that the U.S. has emerged from the worst recession since the 1930s, they worry the rebound could falter once the impact of government stimulus efforts, such as the Cash for Clunkers auto rebate program, wanes.

The overall economy likely grew at an annual rate of 3 percent or better in the July-September quarter, but that growth could slip significantly if consumers worried about further job layoffs don't keep spending. Weak spending would translate into more order cutbacks and prevent the manufacturing sector from mounting a recovery.

For August, the 0.8 percent drop in new orders followed four consecutive gains, including a 1.4 percent jump in July. A 42.6 percent plunge in demand for commercial aircraft, a category that had soared 98.1 percent in July, led the overall decline in August.

Transportation orders overall fell 9.1 percent, after a 17.8 percent July increase. Orders for motor vehicles and parts did rise 2 percent, but economists expect demand to slip in coming months as car sales plunged in September following the end of the clunkers program.

Excluding transportation, orders would have risen 0.4 percent, after falling 0.6 percent in July.

Demand for durable goods such as autos and other products expected to last at least three years fell 2.6 percent in August, even worse than the 2.4 percent preliminary estimate the government made last week.

Demand for nondurable goods, items such as chemicals, paper and food, rose 0.8 percent after a 1.5 percent drop in July.

In another disappointing manufacturing report, the Institute for Supply Management said Thursday that its closely watched gauge of factory activity dipped slightly to a reading of 52.6 in September. While the index remained in expansion territory for the second straight month after 18 straight recessionary readings, the new tally was lower than analysts had expected and below the August mark of 52.9.

The drop in factory orders and the weaker-than-expected ISM report underscored the tentative nature of the recovery as companies work to boost sales and consumers confront rising unemployment, tight credit conditions and heavy household debt.

While consumer spending posted a better-than-expected 1.3 percent jump in August, the biggest increase in nearly eight years, much of the strength came from a temporary surge in demand for new cars spurred by the clunkers program.

U.S. auto sales fell sharply in September, reflecting the end of the popular government incentives in the prior month. General Motors Co. reported that its sales plunged 45 percent last month from the previous year, while Chrysler Group LLC reported a 42 percent decline. Ford Motor Co. had a smaller decline of 5.1 percent.

Downloaded from *http://www.foxnews.com/politics/2009/10/02/factory-orders-plunge-unexpectedly-august/* on October 5, 2009.

Retailers Fear Impact of a CIT Bankruptcy
Many Could Face Disruption in Flow Of Merchandise

By Ylan Q. Mui and David Cho
Washington Post Staff Writers
Friday, July 17, 2009

The potential bankruptcy of lending firm CIT Groupthreatens to disrupt the flow of merchandise between retailers and their vendors just as they are gearing up for the crucial holiday season.

Three prominent retail trade groups sent letters to financial regulators this week warning that the failure of CIT would rip a hole in the industry supply chain. Dunkin' Donuts said the ability of its franchisors to open new stores or expand operations could be affected. And New York bankruptcy lawyer Jerry Reisman said he received more than two dozen calls from panicked stores and apparel manufacturers, some of which said they may not have the money to pay their employees today.

"They are unbelievably concerned right now," Reisman said. "What we may have here is a total disruption in small business."

CIT plays an important behind-the-scenes role in the retail industry. When stores place orders for merchandise, they typically have two to three months to pay for the goods. Suppliers hand those IOUs over to lenders such as CIT -- a process known as factoring -- which in turn provide suppliers with cash upfront to make their merchandise. If that system were to be disrupted, industry experts said, the result could be barren store shelves and a ruined Christmas.

CIT had asked the federal government for help in avoiding bankruptcy, but officials this week refused to step in. The Treasury Department lent $2.3 billion in to the company in December. Some officials now expect that investment to be lost.

Yesterday, the company turned to its bondholders in a last-ditch effort to save itself. CIT gave investors 24 hours to raise an additional $2 billion, though some analysts said even that would not be enough to avoid insolvency. The company's shares fell 75 percent to close at 41 cents.

The ultimatum left bondholders with a dilemma, forcing them to choose between putting even more money into a failing company or a bankruptcy filing in which they would suffer heavy losses. Some of the bondholders floated the possibility of swapping bonds that are due soon for long-term debt to give the company some extra time.

Analysts doubted whether these maneuvers would work. And several credit rating agencies downgraded the firm to junk status in expectation of a bankruptcy.

"We believe the figure is in the range of $4 to $6 billion, making outside capital sources shy away from such a heavy recapitalization," according to a research note released yesterday by CreditSights. "We believe the prudent course for bondholders is to brace for bankruptcy."

The fundamental problem with CIT is that its business model is broken, government officials said, and a fresh round of federal aid would do little to keep the company from failing. In making this determination, the officials were taking a chance that the financial system would be strong enough to absorb the collapse of a large financial firm.

CIT primarily provides financing for small and medium-size businesses; large consumer products companies typically access credit directly from banks. It also is a key source of financing for retail franchises, such as Dunkin' Donuts.

According to its annual report filed in March, CIT accounted for about $42 billion in factoring volume last year. The American Apparel and Footwear Association, a trade group, said about 60 percent of its members have done business with the firm.

"They're basically the bank for the way we do business," AAFA chief executive Kevin M. Burke said. "At any point there where the money stops, then the movement of that product stops as well."

CIT caters to apparel and furniture manufacturers, which typically require long lead times to produce goods and have high manufacturing costs. Stores are currently placing orders for merchandise that will appear in stores in the fall and winter -- the most important selling season of the year. Suppliers are worried that a lack of financing could keep them from buying materials to produce their goods, much less ship them to retailers. Retailers say that any disruption in receiving merchandise could derail hopes of recovering from their sales slump.

"The ripple effects of this kind of event are not really appreciated in the halls of power," said Matt Polsky, managing director of retail investment firm Net Worth Solutions.

The National Retail Federation sent a letter to financial regulators on Wednesday urging them to extend a lifeline to CIT. The Retail Industry Leaders Association, which represents both stores and their suppliers, followed up yesterday with a letter to Treasury Secretary Timothy F. Geithner urging him to reconsider and investigate "every available option."

"Any additional tightening of the credit markets will only exacerbate the constraints on our members' ability to provide the products that consumers seek and most importantly, to maintain millions of retail jobs across the nation," the letter said.

But speaking on his cellphone between meetings on Capitol Hill, the group's senior vice president of government affairs, John Emling, acknowledged the prospects of a reversal seemed dim.

"It doesn't sound good," he said. "But at the same time, what other options do we have?"

Downloaded from *http://www.washingtonpost.com/wp-dyn/content/article/2009/07/16/AR2009071603654.html?referrer=emailarticle* on October 5, 2009.

CIT launches debt-swap plan, warns about bankruptcy

Fri Oct 2, 2009 9:54am EDT
By *Paritosh Bansal* and *Walden Siew*

NEW YORK (Reuters) - CIT Group Inc launched on Thursday a debt-exchange plan that the struggling lender to small and mid-sized companies hopes will prevent it from filing for bankruptcy.

CIT, however, also asked bondholders to approve a prepackaged plan of reorganization that would allow it to initiate a voluntary filing under Chapter 11 if the debt exchange failed.

The lender, founded more than a century ago, said around a third of its bondholders agreed to participate in the exchange offer or vote for the prepackaged plan of reorganization.

Under the terms of the exchange offer, a tendering holder of an existing debt security would receive a pro-rata portion of each of five series of newly issued secured notes, with maturities ranging from four to eight years, and/or shares of newly issued voting preferred stock, CIT said.

The exchange offers are conditional upon achieving a debt reduction of at least $5.7 billion in aggregate, with specific targets for the periods from 2009 to 2012.

The exchange offer expires on October 29.

"We believe this plan ... can be executed quickly and effectively through a series of voluntary debt exchange offers or an expedited in-court restructuring process," Chief Executive Jeffrey Peek said in a statement.

CIT, which serves almost one million small and mid-sized companies, said the plan has been approved by its board of directors and by a committee of bondholders.

CIT's problems emerged in recent years following Peek's idea to tap into potentially profitable but risky businesses such as subprime mortgages and student loans.

The financial meltdown triggered a sharp rise in CIT's loan losses and credit costs, leaving the company on the verge of collapse. The lender to businesses from retailers to sport teams has lost close to $5 billion since the end of 2007.

For the 12 months ending August 31, 2010, CIT's unsecured debt funding needs are about $7.6 billion. The financial company has about $40 billion of long-term debt.

LONG-TERM PLAN

CIT's longer-term plan is to essentially turn itself into a bank. The company is one of scores of lenders and underwriters that relied on bond markets to fund their operations, only to suffer as the credit crunch has raged for two years.

In a regulatory filing, CIT said it expects to seek permission to transfer certain business platforms into its CIT Bank unit within 12 to 18 months after the completion of its restructuring.

It plans to diversify the bank's funding base by adding commercial and retail deposits, it said.

CIT received $2.3 billion in December under the government's Troubled Asset Relief Program (TARP), but federal regulators this year rejected requests by CIT for more help.

The Obama administration also declined help, saying it had set high standards for granting aid to companies and leaving private investors as the one alternative to avoid collapse.

CIT shares closed down 15 cents, or 12.4 percent, at $1.06 on Thursday. (Reporting by Dan Wilchins and Paritosh Bansal; Additional reporting by Jennifer Ablan, Walden Siew and Juan Lagorio; editing by Andre Grenon and Muralikumar Anantharaman)

Downloaded from *http://www.reuters.com/article/email/idUSN0126505420091002* on October 5, 2009.

House prices: rise 'unsustainable'
A leading firm of economists have said that the five consecutive months of house price rises reported by the Nationwide Building Society are unsustainable.
By Kara Gammell
Published: 11:40AM BST 02 Oct 2009

Nationwide Building Society said that house prices rose by 0.9pc in September and are back to levels seen 12 months ago. But property experts warn that the recovery may prove to be short-lived.
Seema Shah, economist from Capital Economics, said that the upturn will not continue for much longer and that falls in house values will be inevitable.

She said: "Prices will start falling again because the rise we are seeing now, is due to lack of supply. There are more buyers than properties, but as prices increase, so will the number of people looking to sell – it's basic psychology."

"Unlike previous recessions, with interest rates so low, many home owners are not struggling as much with their mortgage payments, so there are fewer sellers coming onto the market. The housing market activity is still very low, worse than any point during the crash of the nineties."

Brigid O'Leary, senior economist at the Royal Institution of Chartered Surveyors, also said that the house price recovery could prove short-lived.

She said: "Just as house prices fell very quickly at the start of the downturn, the recent turnaround has been surprisingly strong. The quarterly change now stands at 3.8pc, the highest since August 2004. Significantly, the regional breakdown shows that house prices actually rose in all regions, by an average of 3.7pc, between Q2 and Q3 of this year.

"However, the recent trend in increasing house prices has been supported by very low levels of stock on the market. An increase in properties for sale would improve transaction levels but could also put some renewed downward pressure on house prices. As restricted levels of activity won't ease entirely over the next couple of months some upward price pressure will remain.

"This means house prices are still expensive compared to average earnings, and with lower loan-to-value ratios now more the norm in mortgage lending, first-time buyers may struggle to produce an adequate deposit.

She said: "Looking ahead, high, and still rising, unemployment plus any future increases in mortgage interest rates will weigh on the outlook for house prices over the next 12 to 18 months."

Peter Bolton King, chief executive of the National Association of Estate Agents, also remains cautious on his outlook: He said: "Further evidence that the housing market is recovering should be welcomed and these figures back up what NAEA members are telling us. However, the recovery is a fragile process and not guaranteed.

"House-hunters need access to mortgages from the major lenders. The Government's flawed stamp duty policy also needs re-examining, otherwise these positive signs risk being short-lived."

Martin Gahbauer, chief economist at Nationwide, pointed out that given that the housing market still faces considerable headwinds in the form of high unemployment, restrictive credit conditions and an impending withdrawal of the stamp duty holiday, it would be surprising to see house prices continuing to increase at the very strong rate seen in recent months.

He said: "One reason to remain cautious about the outlook for house prices is that turnover in the market is still well below normal levels. Lead indicators, such as mortgage approvals for house purchase, suggest that turnover should continue edging higher over the next few months, but at the current rate of increase it would take another 18 months for it to reach pre-downturn levels.

Downloaded from http://www.telegraph.co.uk/finance/personalfinance/6254000/House-prices-rise-unsustainable.html on October 5, 2009.

Retailers turn away from baby boomers, focus on younger customers

Oct 1st 2009 at 4:00PM

If you're over 40, you're going to be feeling out of place in most stores soon -- and not just in the clothing stores. There's a generational shift going on in retail, and many merchants will stop focusing on Baby Boomers as we emerge from the recession.

After analyzing recent shopper data, the consulting group Retail Forward concluded the Boomers' spending spree is over, thanks in no small part by the stock market swan dive last year. And in a briefing to retailers, it warned that the younger generations will be a tougher nut to crack.

By contrast, members of Generation X -- the 29- to 45-year-old adults -- are still shopping, but they are fewer in number and less affluent than the Boomers, and will probably stay that way a while. The even younger Generation Y, ages 10 to 28, is a larger group, but it's even harder to market to, thanks to all the media it has grown up with.

Boomers drove the last three decades of retail growth, and their spending led the way out of the last two recessions. During the last recessions of the early 1990's and in the post dot-com bust years, they were in their peak earning years.

Things are different this time. Boomers still make up 42 percent of retail spending, but this recession has hit them hard at the worst time of their lives, says Lois Huff, senior VP of Retail Forward. Many have had to postpone retirement and cut back their budgets after their nest eggs lost nearly half their value in the stock market's slump. Even with the recent market recovery, they haven't gained back even half of what they lost and are not likely to recoup that dramatic loss in wealth soon.

Polls show that Boomers have cut back their household budgets more than any other age group, and they remain more pessimistic about the economic recovery. Huff cited surveys showing that 48 percent of Boomers have cut back their spending in this recession, compared to 41 percent of senior citizens and 42 percent of Gen Y.

"The engine of Boomers that's driving retail is running out of gas, and we don't anticipate a refill," Huff says. "They have taken a smackdown that has taken them out of the market."

That means department stores and luxury merchants will lag behind the rest of retail in coming out of this recession, says Frank Badillo, Retail Forward's senior economist, as Boomers make up the bulk of luxury shoppers and department store customers.

Badillo warns that there will be more shakeups among department stores, where a number of regional players, such as Marshall Field's and Filene's, have disappeared in recent years. He expects more players will bow out as the demographic changes continue. "It's been an ongoing shift for 20 years, " he says.

On the bright side, the Retail Forward analysts note that Gen Xers are still shopping because they're at the age of raising children and setting up households. But they're both fewer in number than either the Boomers or Gen Y, and their prospects are limited. Gen Xers' earning power is being held back by both the economy and the sheer number of Boomers who now can't afford to retire and will be holding up their promotion through the workforce ranks.

Generation Y is also entering the household-forming years, and now makes up 26 percent of U.S. adults and rising, which makes it a tempting target. Members of this group may have less to spend -- they make even less than Gen Xers -- but their spending is up for grabs, because it's almost all discretionary, Huff says: "For the most part, income earned is income spent."

On the downside, their attention is so fragmented from so many media that they're hard for retailers to reach, especially department stores, according to the Retail Forward analysts. But many merchants are beginning to get a handle on how to use social networking and mobile applications to draw them in, such as J.C. Penney Co., which recently announced it would distribute discount coupons by cellphones.

Shoppers -- especially the younger ones -- now engage in what could be described as "ADD shopping," where it's not a separate activity, but an aside in a busy day, says Dan Stanek, executive VP at Retail Forward. "Now it's not an hour where they're browsing the mall -- it's a five minute chunk," he says.

Downloaded from *http://www.dailyfinance.com/2009/10/01/stores-turn-away-from-baby-boomers-focus-on-younger-customers/* on October 5, 2009.

U.S. Proposes Ban on 'Flash' Trading on Wall Street

By JENNY ANDERSON
Published: September 17, 2009

It is an obscure art of Wall Street, a technique that gives a scattering of traders an edge over everyone else — and the *Securities and Exchange Commission* wants to stamp it out.

The S.E.C. on Thursday *proposed banning* what are known as flash orders, which use powerful computers to glimpse at investors' orders. The practice is often associated with a controversial corner of finance called*high-frequency trading*, which has grown, largely hidden from view, into a potent force in the markets.

The proposed ban was announced on the same day that the S.E.C. put forward *new rules* for credit ratings agencies, which were widely criticized for their role in the financial crisis. Together, the moves telegraphed a tougher line from the commission after a series of prominent missteps, including its failure to spot the *Ponzi scheme* orchestrated by *Bernard L. Madoff*.

Critics say flash orders favor sophisticated, fast-moving traders at the expense of slower market participants. Using lightning-quick computers, high-frequency traders often issue and then cancel orders almost simultaneously and get an early peek at how others are trading.

Mary L. Schapiro, the chairwoman of the S.E.C., said on Thursday that in proposing the ban, the commission was trying to balance the often competing interests of long-term investors and short-term traders. The proposal requires a second vote by the commission to become binding.

"Flash orders may create a two-tiered market by allowing only selected participants to access information about the best available prices for listed securities," she said during a meeting in Washington. Other modern market practices, she said, are similarly opaque.

Fast-moving electronic exchanges have upended old-fashioned stock trading. Buyers and sellers no longer must interact on exchange floors and haggle over prices. Today, traders employ powerful computer programs to execute millions of orders a second and scan dozens of marketplaces simultaneously.

While anyone can gain access to flash orders for a fee, only very powerful computers can process and act on the information. In July, flash orders represented 2.8 percent of the roughly 9 billion shares of stocks traded in the United States.

According to Richard H. Repetto, an analyst at Sandler O'Neill who studies stock exchanges, the average trade is executed, or completed, in less than 10 milliseconds and often as fast as 5 milliseconds.

The proliferation of high-frequency trading has pushed up average daily volume on the nation's stock exchanges by 164 percent since 2005. Proponents of the practice argue such trading enhances the liquidity and greases the wheels of the markets.

"High frequency trading has made the markets more efficient, and generally speaking, markets that are more efficient are better for all participants," said Justin Schack, a vice president at Rosenblatt Securities.

Even so, Mr. Schack said he was pleased the S.E.C. was moving to ban flash orders, which he said tended to "benefit everyone except for the customer."

Direct Edge, an electronic exchange, has benefited the most from the use of flash orders, analysts said. But other electronic exchanges, including Nasdaq and BATS also jumped into the market, prodded by competitive pressures.

Getting flashed an order offers traders a distinctive edge. When buy and sell orders come into an exchange, they are first flashed to those paying to see them for 30 milliseconds — 0.03 seconds — before they are available to everyone else. In the blink of an eye, the systems can detect patterns and get a jump on other investors. Before others even sees the order, high-frequency traders swoop in and then out.

The move to ban flash orders drew praise from some on Capitol Hill.

"This ban, as proposed, is pretty much water-tight and should not be weakened by the commission as the rule-making process goes forward," said Senator *Charles E. Schumer*, Democrat of New York. "This proposal will once and for all get rid of flash trading."

The parent of the *New York Stock Exchange*, *NYSE Euronext*, which never adopted flash trades, trumpeted the proposal. "I think this was a practice that gave unfair access to information flow to a select group of brokers, disadvantaged customer orders and led to a two-tier market system," said Larry Leibowitz, head of United States markets and global technology at NYSE Euronext.

The S.E.C. on Thursday also passed rules aimed at improving transparency at credit rating agencies and reducing conflicts of interest at the companies.

One rule will force certain investors to rely less on credit ratings and more on their own research. Another requires the agencies to disclose rating histories and requires them to share information about securities they have rated with competitors so they too can rate the securities.

"These are baby steps, clearly," said Jerome S. Fons, an independent consultant and former managing director at *Moody's*, one of the major ratings agencies. He said even greater public disclosure was needed from the agencies.

Downloaded from *http://www.nytimes.com/2009/09/18/business/18regulate.html* on October 5, 2009.

SEC Proposes Flash Order Ban

FOR IMMEDIATE RELEASE

2009-201

Washington, D.C., Sept. 17, 2009 — The Securities and Exchange Commission today unanimously proposed a rule amendment that would prohibit the practice of flashing marketable orders.

A flash order enables a person who has not publicly displayed a quote to see orders less than a second before the public is given an opportunity to trade with those orders. Investors who have access only to information displayed as public quotes may be harmed if market participants are able to flash orders and avoid the need to make the order publicly available.

"Flash orders may create a two-tiered market by allowing only selected participants to access information about the best available prices for listed securities," said SEC Chairman Mary Schapiro. "These flash orders provide a momentary head-start in the trading arena that can produce inequities in the markets and create disincentives to display quotes."

Currently, flash orders are permitted as result of an exception to Rule 602 of Regulation NMS that exempts these orders from requirements that apply generally to other orders. The Commission is concerned that the Rule 602 exception may no longer be necessary or appropriate in today's highly automated trading environment.

The Commission today voted unanimously to propose the elimination of the flash order exception from Rule 602. If adopted, the proposed amendment would effectively prohibit all markets - including equity exchanges, options exchanges, and alternative trading systems - from displaying marketable flash orders.

In its proposal, the Commission is seeking public comment and data on a broad range of issues relating to flash orders, including the costs and benefits associated with the proposal. It also seeks comment on whether the use of flash orders in the options markets should be evaluated differently than their use in the equity markets.

* * *

Public comments on today's proposal must be received by the Commission within 60 days after its publication in the Federal Register.

The full text of the proposed rule amendment will be posted to the SEC Web site as soon as possible.

# # #

The U-Haul Index

By *Mark J. Perry*
September 29, 2009, 9:55 am

One-Way U-Haul 26-Foot Truck Rental Rates

		Ratio
Detroit, MI to Fairfax, VA	$1,109	**1.85**
Fairfax, VA to Detroit, MI	$599	
Providence, RI to Fairfax, VA	$532	**1.80**
Fairfax, VA to Providence, RI	$295	
Detroit, MI to Fargo, ND	$1,580	**2.20**
Fargo, ND to Detroit, MI	$718	
Providence, RI to Fargo, ND	$1,892	**1.48**
Fargo, ND to Providence, RI	$1,279	
Detroit, MI to Houston, TX	$2,215	**3.59**
Houston, TX to Detroit, MI	$617	
Providence, RI to Houston, TX	$2,158	**1.78**
Houston, TX to Providence, RI	$1,211	

Source: Uhaul.com

Forbes magazine just released its fourth annual ranking of the best states for business (see *full article here* and *full data set here*). According to Forbes:

Our Best States ranking measures six vital categories for businesses: costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. We factor in 33 different points of data to determine the ranks in the six main areas. Business costs, which include labor, energy and taxes are weighted the most heavily.

Virginia nabbed the top spot with the best business climate in the country for the fourth straight year. Relative to the rest of the country, Virginia is booming. Its 6.5% unemployment rate is fifth lowest in the country with the four states ahead of it all having dramatically smaller economies and employment bases. Virginia is the only state ranked in the top 20 in each of the six broad categories we examined. The state finished in the top three in half of those categories (labor supply, regulatory environment and quality of life).

The two worst states for business this year were Rhode Island, which dropped five full places from last year to finish in last place in 2009, and second-to-last place Michigan, falling from 47th in 2008. Other highlights of the Forbes study include Texas ranking first for “economic climate,” Virginia ranking first for “quality of life,” and some states, such as North Dakota, Oregon, Montana, and Iowa, gaining six places or more from last year’s rankings.

One outcome of the huge differences in business climate among states documented in the Forbes study is that we should expect to see a movement of business, employment and people *away* from the worst states such as Rhode Island and Michigan *to* business-friendly states like Virginia, Texas, and North Dakota. Interestingly, one-way truck rental rates from U-Haul confirm this exact movement—see the chart above.

Each of the six paired quotes in the table shows the one-way rental rate for a 26-foot truck from cities in the two worst-ranked states (Detroit, Michigan and Providence, Rhode Island) to cities in some of the highest ranked states (Fairfax, VA; Fargo, ND; and Houston, TX), and rental rates in the opposite direction: from the cities in the business-friendly states to the cities in the business-unfriendly states.

In each of the six city pairs, the one-way truck rental rates going to cities in the business-friendly states are much higher than the rental rates in the opposite direction, by a factor of about 2 to 1 on average. Since the equipment is exactly the same for a one-way rental in either direction (a 26-foot truck), and since the distance is exactly the same, we can assume that U-Haul dynamically prices its one-way rentals based largely on the relative demand for trucks in each direction. If there are about 360 people moving and renting one-way trucks from Detroit to Houston for every 100 people moving from Houston to Detroit, we could then explain a pricing differential of $2,215 for a truck from Detroit to Houston (high demand) that is about 3.6 times higher than the $617 to rent a truck going in the reverse direction (low demand). The other pricing differences in the chart would explain differences in relative demand for the other city pairs.

Therefore, the significant differences in U-Haul one-way truck rental rates complements the Forbes rankings, by suggesting an outmigration of trucks and people from the lowest ranked states, with those people and trucks heading towards the most business-friendly states. Fortunately, the American people and businesses can vote with their feet, and with their one-way truck rentals, and that is apparently what the U-Haul data show they are doing—moving away from places like Detroit and Providence with high unemployment and business-unfriendly environments, to cities like Fairfax, Fargo, and Houston that rank high for business climate in the Forbes study.

The Government Averted a Depression

October 5, 2009
By Robert Samuelson

How close did we come to the Great Depression 2.0? That question will spawn a cottage industry of books, studies and conferences. But Christina Romer, the head of President Obama's Council of Economic Advisers, already has an answer: pretty darn close. Her conclusion deserves attention because Romer, in her previous academic career, was a scholar of the Great Depression.

"Depression" is a term of art. It's more than a serious economic downturn. What distinguishes a depression from a harsh recession is paralyzing fear of the unknown -- so great that it causes consumers, businesses and investors to retreat and panic. They hoard cash and desperately curtail spending. They sell stocks and other assets. A devastating loss of confidence inspires behavior that overwhelms the normal self-correcting mechanisms (lower interest rates, inventory resupply, cheap prices) that usually prevent a recession from becoming deep and prolonged: a depression.

Comparing 1929 with 2007-09, Romer finds the initial blow to confidence far greater now than then. True, stock prices fell a third from September to December of 1929; but fewer Americans then owned stocks, and prices had risen early in the year. Moreover, home prices barely dropped. From December 1928 to December 1929, total household wealth declined only 3 percent. By contrast, the loss in household wealth between December 2007 and December 2008 was 17 percent -- more than five times as large. Both stocks and homes, more widely held, suffered larger losses.

Thus traumatized, the economy might have gone into a free fall ending in depression. Indeed, it did go into a free fall. The anniversary of Lehman Brothers' bankruptcy in mid-September inspired much commentary that saving the investment bank wouldn't have averted the crisis. Too many other lenders held bad loans. True. But allowing Lehman to fail almost certainly made the crisis worse. By creating more unknowns -- which companies would be rescued, how much were "toxic" securities worth? -- Lehman's bankruptcy converted normal anxieties into extreme fears that triggered panic.

As credit markets froze, stock prices collapsed. By year-end, the Dow Jones industrial average was down 23 percent from its pre-Lehman level and 34 percent from a year earlier. Financial panic poisoned popular psychology. In September 2008, the Conference Board's index of consumer confidence was 61.4. By February, it was 25.3. Shoppers recoiled from buying cars, appliances and other big-ticket items. Spending on such "durables" dropped at a 12 percent annual rate in 2008's third quarter and at a 20 percent rate in the fourth. With a slight lag, businesses canned investment projects; that spending fell at a 20 percent rate in the fourth quarter and a 39 percent rate in 2009's first quarter.

That these huge declines didn't lead to depression mainly reflects, as Romer argues, countervailing government actions. Private markets for goods, services, labor and securities do mostly self-correct; but panic, driven by the acute fear of the unknown, feeds on itself and disarms these stabilizing tendencies. In this situation, only government can protect the economy as a whole, because most individuals and companies are involved in the self-defeating behavior of self-protection.

Government's failure to perform this role in the early 1930s transformed recession into depression. That changed when newly inaugurated Franklin Roosevelt closed all banks on March 5, 1933. Many were already shut, having suffered massive withdrawals by terrified depositors who feared their funds would be lost. Yet when banks reopened in mid-month, Americans redeposited most of that money. The reason was not just Roosevelt's first calming fireside chat ("It is safer to keep your money in a reopened bank than under the mattress"), argues a study by economist William Silber of New York University. FDR's pledge was credible because the Federal Reserve was authorized to supply currency to any reopened bank equal to 100 percent of its deposits.

Something analogous happened over the past year. Scholars will debate which interventions -- the Federal Reserve propping up a failing credit system, the Troubled Assets Relief Program, Obama's "stimulus" plan and bank "stress test" -- counted most. Regardless, they all aimed to reassure people that the free fall would stop and thereby curb the fear perpetuating the free fall. Confidence had to be restored so the economy's normal recovery mechanisms could operate. This seems to have happened. By last month, the consumer confidence index had rebounded to 53.1. Housing prices had stopped falling. By the Case-Shiller index, they've increased for three months.

But this improved confidence is not optimism. It is the absence of terror. The consumer sentiment index is still weak. Unemployment (9.8 percent) is abysmal, the recovery's strength unclear. Here, too, there is an echo from the 1930s. Despite bottoming in 1933, the Depression didn't really end until World War II. Government didn't ensure recovery. Some policies helped, some hurt. The good news today is simply that the bad news is not worse.

HSBC sees tipping point of Western decline
Commentary: But is rise of East more than a bubble?
Oct. 5, 2009, 12:38 a.m. EDT

HONG KONG (MarketWatch) -- Last month's decision by HSBC Holdings to relocate its group chief executive officer from London to Hong Kong sent a strong signal about where the bank sees its future.

Now it looks as if new research from its economics team explains this move in report titled, "The Tipping Point -- The rise of the East and Demise of the West."

Have events reached the point where the threshold has been passed and everyone just "gets it," or is this a case of just following the new bubbles in the East?

The International Monetary Fund seems to "get it." Last week, it released forecasts saying the world economy will recover next year, but it will clearly be led by emerging economies, namely China with 9% growth in 2010 and India with 6.4%. That compares with U.S. growth at 1.5% and a mere 0.3% for the euro region. *See full story on IMF World Economic Outlook.*
And this two-speed growth is certainly reflected in the economic headlines of the day. Last week, U.S. unemployment reached a 26 year-high of 9.8%. For the U.K., the IMF warned of a structurally unsustainable debt mountain approaching a massive 13% of gross domestic product.

It's a different story in Hong Kong where attention is focused on an influx of free- spending Chinese tourists for the eight day mainland holiday centered on National Day and the Mid Autumn festival. More than half a million tourists are forecast to visit, and property developers, retailers and hotels are all expecting a brisk trade.

At the same time, for those worried about a changing of the balance of power on the world stage, it seems evidence is everywhere. Last week we watched China's bold 60th anniversary National Day Celebration parade in Beijing, including reportedly 50 new weapons systems. Meanwhile, it was Rio de Janeiro that got the vote to host the 2016 Olympics, and not Chicago, despite a personal plea by President Obama. And how many more times will we see Group of Seven meetings in the future, rather than G20, to reflect the new profile of world growth?

HSBC forecast emerging nations will dominate world economic activity in the years ahead.

A key reason is the debt burden of the developed world. Recent policy may have stabilized financial markets in the West, says HSBC, but individuals and governments remain awash in debt. Banks no longer enjoy the funding conditions of old, and this will combine to be a drag on growth.

Looking ahead, difficult choices will need to be made on "exit strategies" from stimulus programs. The IMF says the British will have to get used to working longer before retirement and paying for health care. Alan Greenspan now says the U.S. should consider tax increases to bring down debt.

The other trend HSBC economists highlight in their "tipping point" theory is that continued low interest rates will lead to global excess liquidity flowing into developing markets. That's where the growth is, and where banking systems are robust. We have certainly seen this in Hong Kong.

In his new residence, HSBC's CEO Michael Geoghegan will likely spend more time with the new Hong Kong Monetary Authority Chief, Norman Chan, than with embattled British finance ministers. *See full story on HSBC CEO move.*
Here, Geoghegan will have a ringside seat for the action as China moves to develop yuan trading in Hong Kong and internationalize its banking system. No doubt he will also want to be close at hand if the changing dynamics of the world economy mean Hong Kong eventually pegs its currency to the yuan and not the greenback. This is a policy to which there will be no change, Chan said during his first day in the job, as might be expected.

Playing 'tipping point' theory

For investors, even if you agree with this tipping point theory, playing this transition is not straightforward.

Slow growth and debt is usually bad new for respective currencies and HSBC says developing country currencies should strengthen against debt-burdened currencies like sterling and the dollar.

But for corporates, it's a more complicated story. For China with its mercantile-style economy with a large degree of state-owned enterprises, country and corporate interests are often aligned, but shareholder interests less so.

In the West, international corporates are adept at minimizing the debt burdens of their home nations with careful tax planning.

HSBC's CEO can cut his tax bill from 50% to 17% by relocating to Hong Kong. So far the group has not changed its tax domicile.

For investors, however, playing this new growth dynamic does not necessarily mean having to buy Chinese or Indian companies. The other option is global companies positioned for this growth.

One potential scenario to which this HSBC analysis leads is the excess global capital being channeled into developing markets, not just driving growth but a new propensity for bubbles.

We may be witnessing one in the initial public offering market in Hong Kong. After a recent massive over-subscription of new IPOs (*See Sep. 20 column.*), subsequently five IPOs in Hong Kong closed below subscription price. Only time will tell -- how much of the rise of the East is just the rise of a bubble?

Recession Is Over; Depression Has Just Begun

For the last few months I have been casting around looking for bullish data points as counterfactuals to my more bearish long-term outlook. I have found some, but not enough. If you recall, early this year, I stated that we are in depression, making the case for the ongoing downturn as a depression with a small 'd.' Nevertheless, I was quite optimistic about the ability of policymakers to engineer a fake recovery predicated on stimulus and asset price reflation and I certainly saw this as bullish for financial shares if not the broader stock market. But, I saw these events as temporary salves for a deeper structural problem.
As a result, I have been on a quest to find data which disproves my original thesis – signs that the green shoots that everyone keeps talking about (and a term I had banned from my site) are part of a sustainable economic recovery. Unfortunately, I have concluded that they are not. **This post will discuss why we are in a depression, not a recession and what this means about likely future economic and investing paths**. I will try to pull together a number of threads from previous posts, add some context via Wikipedia links and draw in some good discussion via recent posts by Prieur du Plessis on balance sheet recessions and Marshall Auerback on the sector financial balances model of economics which completed the picture for me.

This post is very long and I have had to shorten it in order to pull all of the ideas into one post. Please do read the linked posts for background as I left out some of the detail in order to create this narrative.

Let's start here then with the crux of the issue: debt.

Deep recession rooted in structural issues
Back in my very first post in March of 2008, I said that the U.S. was already in a recession, the only question being how deep and how long – a question I answered in the next post saying "we are definitely in recession. And according to Gary Shilling, this recession is going to be a big one. Worse than 2001, 1990-91 or the double dip recession of 1980-82." This has certainly turned out to be true. The issue was and still is overconsumption i.e. levels of consumption supported only by increase in debt levels and not by future earnings. This is the core of our problem – debt.

I see the debt problem as an outgrowth of pro-growth, anti-recession macroeconomic policy which developed as a reaction to the trauma of the lost decade in the U.S. and the U.K.. This was a period of low growth, high inflation and poor market returns, in which the U.K. became the sick man of Europe and labor strife brought that economy to its knees. It is a period that saw the resignation of an American President and the humiliation of the Iran Hostage Crisis.

In essence, after the inflationary outcome that many saw as an outgrowth of the Samuelson-Keynesianism of the 1960s and 1970s, the Reagan-Thatcherera of the 1990s ushered in a more 'free-market' orientation in macroeconomic policy. The key issue was government intervention.

Policy makers following Samuelson (more so than Keynes himself) have stressed the positive effect of government intervention, pointing to the Great Depression as animus, and the New Deal, and World War II as proof. Other economists (notably Milton Friedman, and later Robert Lucas) have stressed the primacy of markets, pointing to the end of Bretton Woods, the Nixon Shock and stagflation as counterfactuals. They point to the Great Moderationand secular bull market of 1982-2000 as proof. This is a divisive and extremely political issue, in which the two sides have been labelled Freshwater and Saltwater economists (see my post "Freshwater versus saltwater circa 1988").

However, just as the policy of the 1950s to the 1970s was not really Keynesian (read Keynes' General Theory as Richard Posner did and you will see why), the 1980s-2000 was not really an era of true 'free markets.' I call itderegulation as crony capitalism. What this has meant in practice is that the well-connected, particularly in the financial services industry, have won out over the middle classes (a view I take up in "A populist interpretation of the latest boom-bust cycle"). In fact, hourly earnings peaked over 35 years ago in the United States when adjusting for inflation.

Remember, the 1970s was a difficult period in which the U.K. and the U.S. saw jobs vanish in key industrial sectors. To stop the rot and effectively mask the lack of income growth by average workers, a new engine of growth had to be found. Enter the financial sector. The financialization of the American and British economies began in the 1980s, greatly increasing the size and impact of the financial sector (see Kevin Phillips' book "Bad Money"). The result wasan enormous increase in debt, especially in the financial sector.

This debt problem was made manifest repeatedly during financial crises of the era. Not all of these crises were American – most were abroad and merely facilitated by an increase in credit, liquidity, and international capital movement. In March 2008, I wrote in my third post on the US economy in 2008:

From the very beginning, the excess liquidity created by the U.S. Federal Reserve created an excess supply of money, which repeatedly found its way through hot money flows to a mis-allocation of investment capital and an asset bubble somewhere in the global economy. In my opinion, the global economy continued to grow above trend through to the new millennium because these hot money flows created bubbles only in less central parts of the global economy (Mexico in 1994-95, Thailand and southeast Asia in 1997, Russia and Brazil in 1998, and Argentina, Uruguay, and Brazil in 2001-03). But, this growth was unsustainable as the global imbalances mounted.

Eventually, the debt burdens became too large and resulted in the housing meltdown and the concomitant collapse of the financial sector, a looming problem that our policymakers should have seen. This is why my blog is named Credit Writedowns. But, make no mistake, the housing and writedown problems are only symptoms. The real problem is the debt – specifically an overly indebted **private** sector (note the phrase 'private sector' as I will return to this topic).

This is a depression, not a recession

When debt is the real issue underlying an economic downturn, the result is a period of stagnation and short business cycles as we have seen in Japan over the last two decades. This is what a modern-day depression looks like – a series of W's where uneven economic growth is punctuated by fits of recession. A recession is merely a period of recalibration after businesses get ahead of themselves by overestimating consumption demand and are then forced to cut back by making staff redundant, paring back inventories and cutting capacity. Recessions can be overcome with the help of automatic stabilzers like unemployment insurance to cushion the blow. Depression is another event entirely. Back in February, I highlighted a blurb from David Rosenberg which summed up the differences between recession and depression quite well.

Depressions marked by balance sheet compression

Recessions are typically characterized by inventory cycles – 80% of the decline in GDP is typically due to the de-stocking in the manufacturing sector. Traditional policy stimulus almost always works to absorb the excess by stimulating domestic demand. Depressions often are marked by balance sheet compression and deleveraging: debt elimination, asset liquidation and rising savings rates. When the credit expansion reaches bubble proportions, the distance to the mean is longer and deeper. Unfortunately, as our former investment strategist Bob Farrell's Rule #3 points out, excesses in one direction lead to excesses in the opposite direction.

The next day, I highlighted Ray Dalio's version of this story because it takes a historical view and rightly emphasizes the debtor instead of the lender as the crux of the problem. Notice the part about printing money and devaluing the currency if the debt is in your own currency.

… economies go through a long-term debt cycle — a dynamic that is self-reinforcing, in which people finance their spending by borrowing and debts rise relative to incomes and, more accurately, debt-service payments rise relative to incomes. At cycle peaks, assets are bought on leverage at high-enough prices that the cash flows they produce aren't adequate to service the debt. The incomes aren't adequate to service the debt. Then begins the reversal process, and that becomes self-reinforcing, too. In the simplest sense, the country reaches the point when it needs a debt restructuring…

This has happened in Latin America regularly. Emerging countries default, and then restructure. It is an essential process to get them economically healthy.

We will go through a giant debt-restructuring, because we either have to bring debt-service payments down so they are low relative to incomes — the cash flows that are being produced to service them — or we are going to have to raise incomes by printing a lot of money.

Commence the fake recovery

So where are we, then? We have left the fake recovery and are entering a new era of growth that could last as long as three or four years or could peter out very quickly in a double dip recession. By now, you have seen my post onthe fake recovery, so I won't cover that ground here. However, I do want to highlight how I came to believe in the fake recovery and how asset prices have played into this period (the S&L crisis played out nearly the same way). I see writedowns as core to the transmission mechanism of debt and credit problems to the real economy via reduced supply and demand for credit. Again, this is why my site is called Credit Writedowns.

In March, at the depths of the downturn I wrote:

The problem is the writedowns. You see, if you get $30 billion in capital from the government, but lose another $40 billion because of credit writedowns and loan losses, you aren't going to be lending any money. To me, that says **the downturn will only end when the massive writedowns end, not before**.

The U.S. government has finally realized this and is now moving to stem the tide. Their efforts point in four directions:

Increase asset prices. If the assets on the balance sheets of banks are falling, then why not buy them at higher prices and stop the bloodletting? This is the purpose of the TALF, Obama's mortgage relief program and the original purpose of the TARP.

Increase asset prices. If assets on the balance sheet are falling, why not eliminate the accounting rules that are making them fall? Get rid of marking-to-market. This is the purpose of the newly proposedFASB accounting rule change.

Increase asset prices. If asset prices on the balance sheet are falling, why not reduce interest rates so that the debt payments which are crushing debtors ability to finance those assets are reduced? This is why short-term interest rates are near zero.

Increase asset prices. If asset prices on the balance sheet are falling, why not create Public-Private partnerships to buy up those assets at prices which reflect their longer-term value? This is what Geithner's Capital Assistance Program is designed to do.

So I lied, there is only one direction the government is headed: increase asset prices (or, at least keep them from falling). Read White House Economic Advisor Larry Summers' recent prepared remarks to see what I mean. (Summers on How to Deal With a 'Rarer Kind of Recession' – WSJ)

I was more on target in my thinking here than I could have known. Within two weeks, the mark-to-market model was dead and mark-to-make believe had begun. It was then that I knew a recovery was likely to take hold. And it was going to be bullish for bank stocks and the broader market. What you should realize is that, despite the remaining problems in credit cards, commercial real estate or high yield loans, limiting credit growth, the changes instituted by government definitely have meant 1. that banks will earn a shed load of money and 2. that house price declines have stalled, underpinning the asset base of lenders. This necessarily means an end to massive writedowns, a firming of banks' capital base, and a reduction in private sector deleveraging.

As an aside, I should mention that this dynamic called the asset-based economy, where economic well-being is dependent on asset prices, is far more pronounced in Anglo-Saxon countries like the U.S. and the U.K. (and Australia, Ireland, and Canada to a degree). While the free market ideal has gained sway globally, it is viewed with much more skepticism elsewhere. In Germany, for example, the term Anglo-Saxon is often bandied about as an epithet for political demagoguery to represent free market ideology. These cultural differences are something I explored in my post "Cultural attitudes on work, leisure and wealth in Europe and America."

As for the recent asset-based economic reflation, be under no illusion that these measures 'solve' the problem. The toxic assets are still impaired and banks are still under-capitalized. But the increased asset value and the end of huge writedowns has underpinned the banks and led to a rise in the broader market in a feedback loop that has been far greater than I could have imagined at this stage in the economic cycle.

The double dip or the economic boom?

So what's next? A lot of the economic cycle is self-reinforcing (the change in inventories is one example). So it is not completely out of the question that we see a multi-year economic boom.

Higher asset prices, lower inventories, fewer writedowns all lead to higher lending capacity, higher cyclical output, more employment opportunities and greater business and consumer confidence. If employment turns up appreciably before these cyclical agents lose steam, you have the makings of a multi-year recovery. This is how every economic cycle develops. This one is no different in this regard.

However, longer-term things depend entirely on government because we are in a balance sheet recession. Ray Dalio and David Rosenberg make this case well in the previous quotes I supplied, but it was a recent post about Richard Koo from Prieur du Plessis which got me to write this post. His post, "Koo: Government fulfilling necessary function" reads as follows:

According to Koo, American consumers are suffering from a balance sheet problem and will not increase consumption until their personal finances are back in order. The banks are not lending mainly because nobody wants to borrow and, furthermore, the banks want to build their own balance sheets (raise cash) and get rid of toxic garbage…

Again, when asked what would happen if the government cuts back on its fiscal stimulus, Koo replies: "Until the private sector is finished repairing its balance sheets, if the government tries to cut its spending, we're going to fall into the same trap Franklin Roosevelt fell into in 1937 (a crushing bear market) and Prime Minister Hashimoto fell into in 1997, exactly 70 years later.

"The economy will collapse again and the second collapse is usually far worse than the first. And the reason is that, after the first collapse, people tend to blame themselves. They say, 'I shouldn't have played the bubble. I shouldn't have borrowed money to invest – to speculate on these things.'

This view of a second, more serious downturn mirrors the one I wrote of when I wrote about high structural unemployment last week. And, again, it is predicated on what government does. I wrote last November that if government stops the support, recession is going to happen. The U.S. economy cannot possibly work itself out of the greatest financial crisis in some 70-odd years in a mere 4 years and then expect to raise taxes on the middle class without a major recessionary relapse.

So, when you hear policy makers talking about reducing the deficit as soon as possible, what you should think is 1938 and continued depression.

Right now, if you listen to what President Obama is likely to do when we see more economic growth, you know that the government prop for the economy is going to be taken away. Koo again:

So the fact that Larry Summers was talking about 'temporary' fiscal stimulus had me very, very worried. That whole Larry Summers idea that one big injection of fiscal stimulus will get the US out of the recession, and everything will be fine thereafter, probably led to President Obama's saying he's going to cut his budget deficit in half in four years."

Get ready because the second dip **will** occur. It will be nasty: unemployment will be **higher** and stocks will go **lower** than in 2009. I am convinced that it is politically unacceptable to have the government propping up the economy as Koo suggests it should. The question now is one of timing: when will the government stop propping up the economy? **The more robust the recovery, the quicker the prop ends and the sooner we get a second leg down**.

So to recap:

1. A depression was borne out of high levels of private sector debt, the unsustainability of which became apparent after a financial crisis.
2. The effects of this depression have been lessened by economic stimulus and government support.
3. Government intervention led to a reduction in asset price declines, which led to stock market increases, which led to asset price stabilization and more stock market increases and eventually to asset price increases. This has led to a false sense that green shoots are leading to a sustainable recovery.
4. In reality, the problems of high debt levels in the private sector and an undercapitalized financial system are still lurking, waiting for the government to withdraw its economic support to become realized
5. Because large scale government deficit spending is politically impossible, expect a second economic dip within three to four years at the latest.

Why is government spending necessary?

The government plays a crucial role here because of the huge private sector indebtedness. In the U.S. and the U.K., the public sector is not nearly as indebted. So while, the private sector rebuilds its savings and reduces debt, the public sector **must** pick up the slack. Why do I say must? It's because of an accounting identity which comes from the financial sector balances model.Marshall Auerback says it best in a recent post:
We've said it before and we'll say it again. As a matter of national accounting, the domestic private sector cannot increase savings unless and until foreign or government sectors increase deficits. Call this the tyranny of double entry bookkeeping: the government's deficit equals by identity the non-government's surplus.

So, if the US private sector is to rebuild its balance sheet by spending less than its income, the government will have to spend more than its tax revenue. The only other possibility is that the rest of the world stops saving on a massive scale — letting the US run a current account surplus. But that is highly implausible and socially undesirable, since it means we export our economic output, rather than consume it domestically. And if the government deficit does not grow fast enough to meet the saving needs of the private domestic sector, national income will decline, which, given the size of the private sector's debt problem, will generate a huge debt deflation.

This is the foundation of modern monetary theory. Would that the IMF and the G20 understood these basic facts.
If the private sector is a net saver, the public sector must, I repeat must, run a deficit. That's the law of double entry book-keeping. The only other way to prevent the government from running a deficit when the private sector is net saving is to run huge current account surpluses by exporting your way out of recession – what Germany and Japan tried in the 1990s and in this decade. But, of course, the G20 and the IMF are all talking about global re-balancing. This cult of zero imbalances is something Marshall first brought forward back in April. And it ignores the accounting identity inherent in the financial sector balances model. I highlighted this model in my post, "Minsky: Turning neoclassical economics on its

head." However, I must admit to having a preternatural disaffection for large deficits and big government which is what Koo and Minsky advise respectively – a recent cartoon shows why. It is this knee-jerk aversion to what is viewed as fiscal profligacy which is at the core of the cult of zero imbalances.

So, what does this mean for the American and global economy?

1. The private sector (particularly households) is overly indebted. The level of debt households now carry cannot be supported by income at the present levels of consumption. **The natural tendency, therefore, is toward more saving and less spending in the private sector (although asset price appreciation can attenuate this through theWealth Effect)**. That necessarily means the public sector must run a deficit or the import-export sector must run a surplus.
2. Most countries are in a state of economic weakness. That means consumption demand is constrained globally. There is no chance that the U.S. can export its way out of recession without a collapse in the value of the U.S. dollar. That leaves the government as the sole way to pick up the slack.
3. Since state and local governments are constrained by falling tax revenue (see WSJ article) and the inability to print money, only the Federal Government can run large deficits.
4. Deficit spending on this scale is politically unacceptable and will come to an end as soon as the economy shows any signs of life (say 2 to 3% growth for one year). Therefore, at the first sign of economic strength, the Federal Government will raise taxes and/or cut spending. The result will be a deep recession with higher unemployment and lower stock prices.
5. Meanwhile, all countries which issue the vast majority of debt in their own currency (U.S, Eurozone, U.K., Switzerland, Japan) will inflate. They will print as much money as they can reasonably get away with. While the economy is in an upswing, this will create a false boom, predicated on asset price increases. This will be a huge bonus for hard assets like gold, platinum or silver. However, when the prop of government spending is taken away, the global economy will relapse into recession.
6. As a result there will be a Scylla and Charybdis of inflationary and deflationary forces, which will force the hands of central bankers in adding and withdrawing liquidity. Add in the likely volatility in government spending and taxation and you have the makings of a depression shaped like a series of W's consisting of short and uneven business cycles. The secular force is the D-process and the deleveraging, so I expect deflation to be the resulting secular trend more than inflation.
7. Needless to say, this kind of volatility will induce a wave of populist sentiment, leading to an unpredictable and violent geopolitical climate and the likelihood of more muscular forms of government.
8. From an investing standpoint, consider this a secular bear market for stocks then. Play the rallies, but be cognizant that the secular trend for the time being is down. The Japanese example which we are now tracking is a best case scenario.

Not particularly uplifting, but hopefully well-documented. Your comments are very greatly appreciated.

Expert on Structured Finance and Derivatives: Rampant Fraud and Ponzi Scheme Caused Crisis

S A T U R D A Y , O C T O B E R 3 , 2 0 0 9

Janet Tavakoli is one of the foremost experts on structured finance and derivatives.

Tavakoli made an outstanding presentation to the IMF last week on the fraud which led to the financial crisis.

Tavakoli was kind enough to send me a summary of the IMF presentation (and to give me permission to reprint the summary).

Making many of the same points that William K. Black (senior S&L regulator and professor of law and economics) has made about fraud and the big picture of what has occurred in the current as well as the S&L crisis - see this and this - Tavakoli told the IMF:

Wall Street gave mortgage lenders large credit lines (similar to credit card debt) and packaged the loans into private-label residential mortgage backed securities (RMBS). Most of the RMBS was rated "AAA" ... But many RMBSs were backed by portfolios comprising risky fraud-riddled loans. Most of the "AAA" investment was imperiled, and subordinated "investment grade" components were worthless. **Wall Street disguised these toxic "investments" with new value-destroying securitizations and derivatives.**

Meanwhile, collapsing mortgage lenders paid high dividends to shareholders (old investors) and interest on credit lines to Wall Street (old investors) with money raised from new investors in doomed securities. **New money allowed Wall Street to temporarily hide losses and pay enormous bonuses. This is a classic Ponzi scheme...**

A large share of certain banks' tax-subsidized profits is due as reparation to unsophisticated investors, the U.S. taxpayers...

By the end of 2006, public reports of implosions of large mortgage lenders eliminated CEOs' plausible deniability. By January 2007, many (including me) publicly challenged the failure to account for losses. Instead, toxic securitization *accelerated* in the first half of 2007—classic malfeasance as a Ponzi scheme collapses...

In the spring of 2007, the Fed and the U.K.'s FSA reported that the degree of leverage in the global financial system was less than at the time of Long Term Capital Management, but in reality it was much greater. They are now repeating their mistakes. Winston Churchill said we must alert somnolent authority to novel dangers; but our regulators are complacent, and the dangers are not novel.[Remember: Tavakoli is an expert on various forms of leverage, such as securitization and derivatives. So if she is warning about too much leverage, we should take her seriously]

Wall Street supplies a swinging door of jobs for its financial regulators, and—in the case of many members of Congress and our Presidents—campaign contributions. This dependence is known as "capture," and the result is that instead of reigning in Wall Street, dependent thinking enables mayhem.

In the recent Ponzi scheme only the agents—mortgage lenders, rating agencies, fund managers, securitization professionals, CFOs, CEOs, and other fee or bonus beneficiaries—prospered. Controls and risk management were undermined. The financial institutions and their shareholders, for which these agents are failed stewards, collapsed. Investors in toxic securitizations lost money. **Had regulators done their jobs, they would have shut down Wall Street's financial meth labs, and the Ponzi scheme would have quickly choked to death from lack of monetary oxygen.**

After the Savings and Loan crisis of the late 1980's, there were more than 1,000 felony indictments of senior officers. Recent fraud is much more widespread and costly. The consequences are much greater. Congress needs to fund investigations. Regulators need to get tough on crime.

Troubled financial entities should be put into receivership and restructured. Old shareholders will be wiped out. Debt-holders will take a haircut (discount) along with a debt for new equity swap to recapitalize the entity. But the job won't be complete until we separate high risk activities from traditional banking in a return to a Glass-Steagall like structure with regulators that indict fraudsters, snuff out systemic fraud, and allow honest bankers to prosper.

The fact that many U.S. banks stuck to traditional banking and protected shareholders during this crisis is under-publicized, but their prudence worked.

We have the solutions. We need the will to implement them.

Chart of the day, hours-worked edition

October 2nd, 2009

Jake is on fire with employment charts this morning in the wake of the atrocious payrolls report. *This one* in particular is new to me, and extremely sobering:

Even at the worst points of the worst recessions of the 1970s and 1980s, never has the number of hours worked per US person been lower than it is now. And this isn't happy productive people taking time off because they don't need to work as hard any more: this is unhappy unemployed people who desperately want and need to earn money but can't.

What we're seeing in this graph is, I think, the violent implosion of a large swathe of the working classes. Many of those jobs — the ones which, in the boom, were in or connected to the housing or auto industries in particular — will never come back; if they're replaced at all it will be with lower-wage, lower-skill service-industry jobs. That bodes very ill for the US economy as a whole, and reinforces my notion that the best-case scenario right now, economically speaking, is essentially a square-root-shaped recession where we rebound from the lows but then fail to grow over the medium or long term.

That said, previous plunges in this graph have been followed by relatively sharp rebounds, so maybe we'll see the same thing happen again. I just can't work out what the driver of all that new employment will be.

Downloaded from http://blogs.reuters.com/felix-salmon/2009/10/02/chart-of-the-day-hours-worked-edition/ on October 5, 2009.

World Bank could 'run out of money' within 12 months
The World Bank is close to 'running out of money', its president, Robert Zoellick, has disclosed.
By Edmund Conway, Economics Editor in Istanbul
Published: 8:36PM BST 02 Oct 2009

The Bank, whose job it is to support low-income countries, has had to hand out so much cash in the wake of the financial crisis that it faces a shortfall in what it can spare for new projects within 12 months.
“By the middle of next year we will face serious constraints,” said its president Robert Zoellick, as he launched a major campaign to persuade rich nations to pour more money into the Washington-based institution.

He conceded that such a task was likely to be extremely difficult, given the difficulties facing countries in the wake of the developed world’s biggest recession since the Second World War.
Although the Bank has enough cash to fund existing projects and its day-to-day operations, the demands thrown up by the global recession have meant it may need extra capital contributions from rich nations to bolster its balance sheet if it is to satisfy such needs.
Mr Zoellick, speaking at the opening of the IMF and World Bank annual meetings in Istanbul, said the Bank needed a capital increase of $3bn-$5bn, though others suspect the eventual need could be higher still.
He said he hoped that its shareholders, including the UK and other leading nations, would decide on resources before its spring meeting next April.
The money would be shared between the International Bank for Reconstruction and Development – the key part of the bank, which lends to poor nations – and the International Financial Corporation (IFC), which lends to companies.
Mr Zoellick said: “We recognise that all countries are under budgetary strain and it is not an easy time to be asking for these things”. He said that a shortfall of cash for the IFC was a cause for particular concern, Mr Zoellick added, “because one of the issues in this recovery is the hand-off from government stimulus programs to private-sector development.”
Critically, the Bank’s three-year $100bn programme, committed to last year because of the virulence of the financial and economic crisis, is expected to fall short of the eventual demand from struggling economies. The majority of the money has been spent ensuring the survival of the most vulnerable nations.

Downloaded from
http://www.telegraph.co.uk/finance/financetopics/financialcrisis/6255816/World-Bank-could-run-out-of-money-within-12-months.html on October 5, 2009.

Economy Losing 11,000 Jobs per day since December of 2007. 824,000 Jobs Lost in Statistical Revision: 8 Million Jobs Lost Since Start of Recession. Nationwide Unemployment Rate at 17 Percent.

Since the start of this **deep recession** back in December of 2007 some 7.2 million jobs have been lost in the official BLS reports. The official non-farm employment has dropped from 138 million to 130 million. Think of it this way, for 21 months we have lost on average over **11,000**

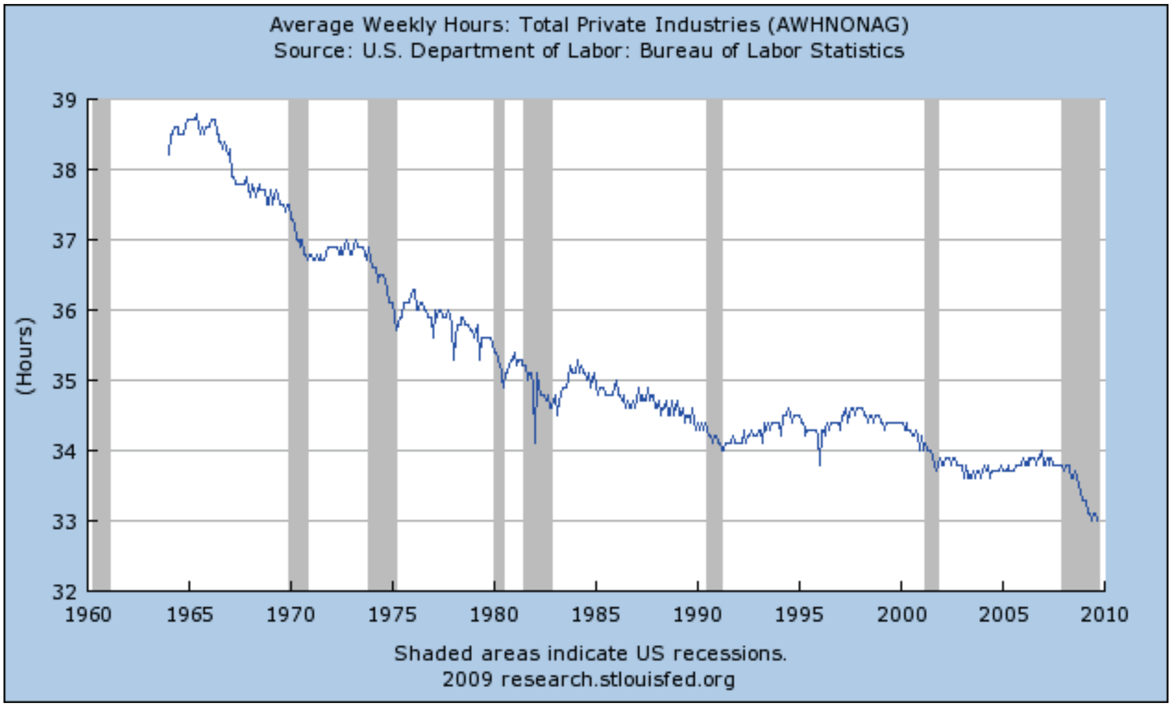
jobs per day. As we reach the two year anniversary of this recession not much has changed for the**average American**. The **banking system** is still in shambles and the employment picture is still bleak. Yet a surprising revision was made in the recent BLS report. That is, in February of 2010 when revisions are made some additional 824,000 jobs were lost! That is correct, some 824,000 jobs have been lost and these do not show up in the current BLS data. Take a look at the revision:

Table B. National Current Employment Statistics March 2009 preliminary benchmark revisions by major industry sector

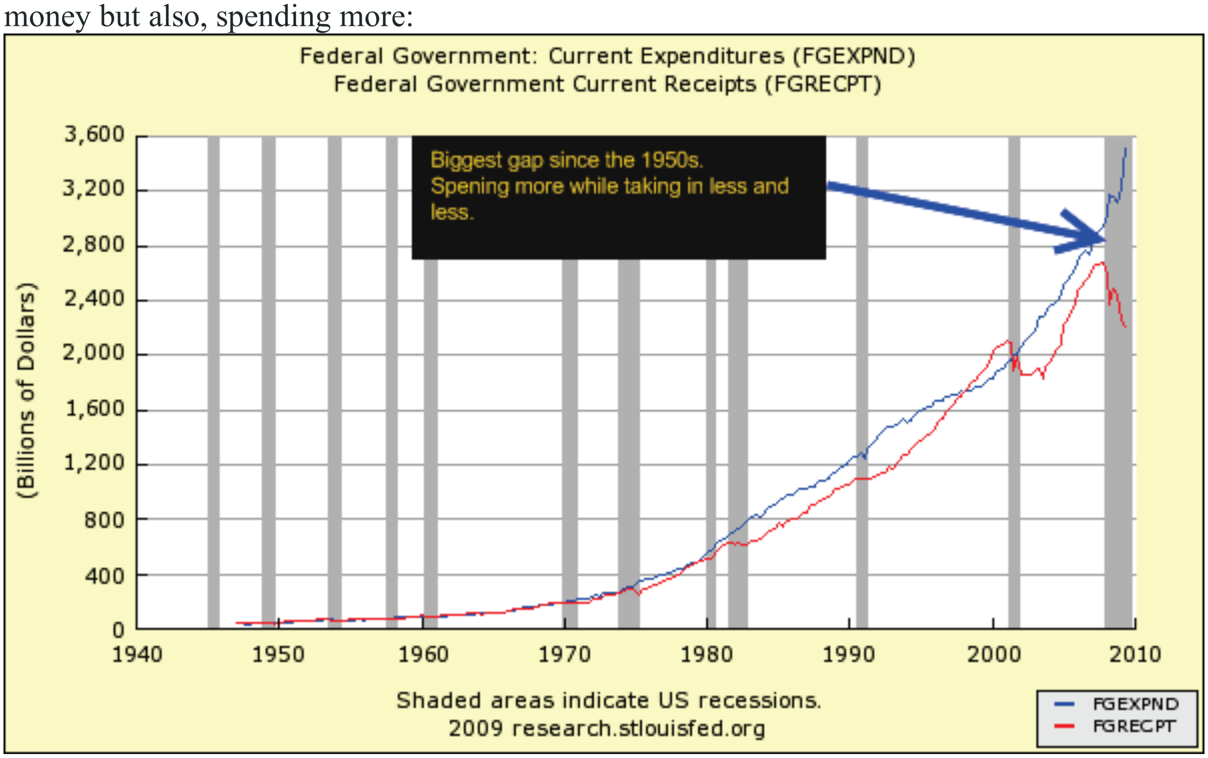
Industry	Benchmark revision	Percent benchmark revision
Total nonfarm	-824,000	-0.6
Total private	-855,000	-.8
Mining and logging	-23,000	-3.2
Construction	-152,000	-2.5
Manufacturing	-67,000	-.6
Trade, transportation, and utilities	-282,000	-1.1
Information	-36,000	-1.3
Financial activities	-9,000	-.1
Professional and business services	-111,000	-.7
Education and health services	-57,000	-.3
Leisure and hospitality	-76,000	-.6
Other services	-42,000	-.8
Government	31,000	.1

Interestingly enough the only industry that has seen a revision to the upside is in government employment. The **U.S. Treasury and Federal Reserve** have been pumping trillions into the economy but only into specific sectors. This revision if incorporated today would put the official number of jobs lost during this recession at **8 million**, or 10 percent higher than what is being fed in the headline numbers. But the headline number as we all know understates the real problems in our economy. The U-6 data is now at 17 percent and this looks at unemployment and underemployment.

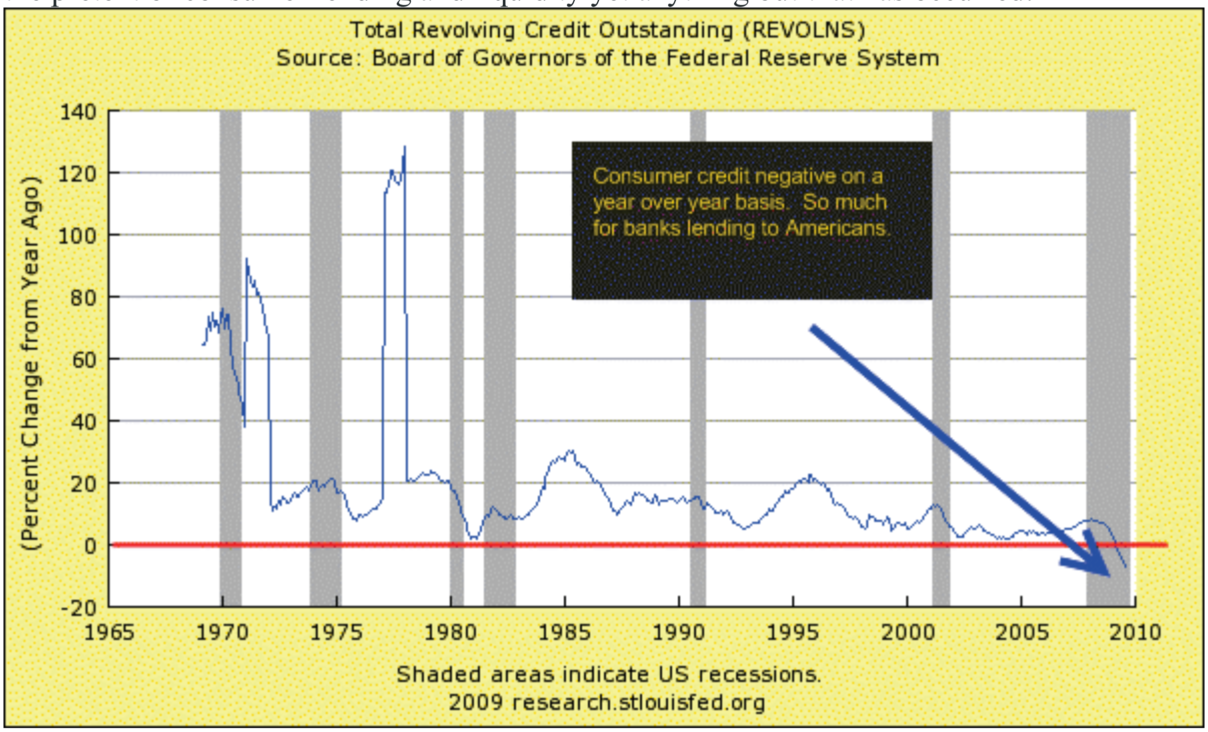
U-6 is an important measure because we are seeing a big leap in part-time employment in this recession. Through furloughs or hours cut, people are losing their purchasing power and given our economy is 70 percent based on consumption this is a vital indicator on whether we move out of recession anytime soon. The average amount of hours worked is still dropping at a steady pace:



This trend is unmistakable. People are working less and seeing stagnant growth in their wages. Why then would we expect people in this economic climate to be spending more money? The **housing bubble** occurred in this backdrop and instead of adjusting to the new drop in wages and working conditions people were provided easy credit to create a false economy for a decade. As you would expect with so many people not working the government is now collecting less money but also, spending more:

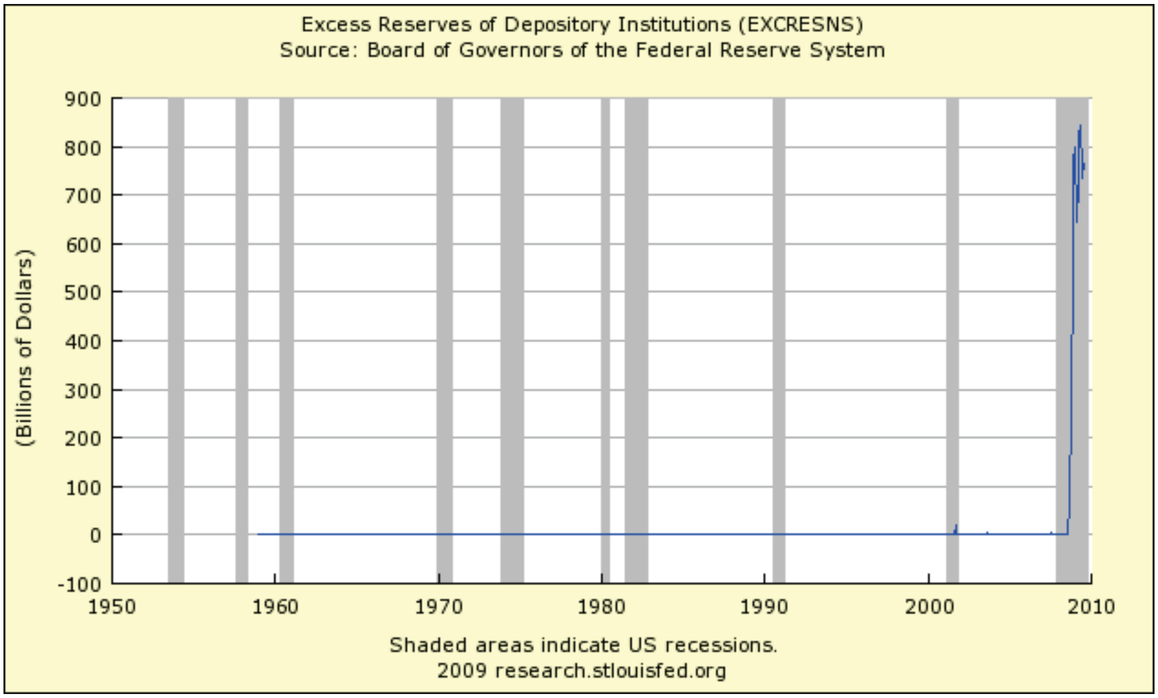


The above chart is probably one of the most important charts that we have. Going back to the late 1940s, never have we seen government spending ramp up this quickly while tax receipts have pulled back. We would have to go back to the Great Depression for data like this. Why is it hard to find data like this for the Great Depression? Not many statistical agencies existed back then. In fact, most of the macro data tracking we now have is because of the Great Depression. Yet even though some of the government spending during the Great Depression put people back to work today's government spending is basically a free giveaway to the crony banking system. In fact, the largest amount of money has gone directly into the banks. This isn't like we put aside $1 trillion for direct job creation. Instead, we have set aside $12 trillion for banks under the pretext of consumer lending and liquidity yet anything but that has occurred:



Consumer credit - revolving

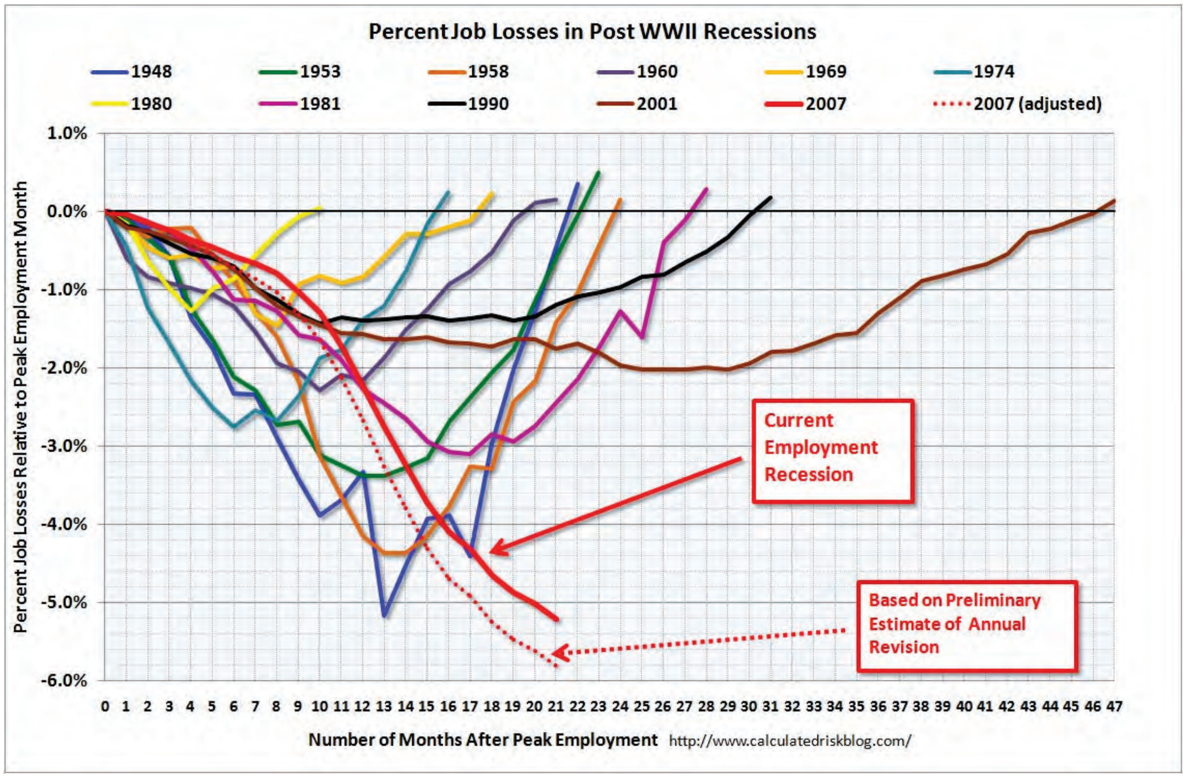
For the first time since the 1960s has consumer credit contracted on a year over year basis. The **U.S. Treasury and Federal Reserve** sold the American people that banks needed money to lend out in the so-called liquidity crisis. What really happened is banks got money to protect themselves from additional losses that they know they will face. We can see this in excess reserves:



Banks are holding tight to this money because we have many issues coming down the pipeline including the **$3 trillion in commercial real estate** that will cause further problems. In fact, I have felt this first hand. Instead of getting 15 to 20 credit card offers a week I now get about 2 or 3 a week. Also, I have had my credit line cut back on a couple of credit cards even though I have perfect credit and have never missed a payment. I'm sure many of you are in a similar situation. I have had friends have home equity lines disappear because their home is no longer worth what they once thought it was. The banks stated that they are cutting back because of "a willingness to work with me" and the fact that I have never maxed out my credit cards like a B-list celebrity on Rodeo Drive.

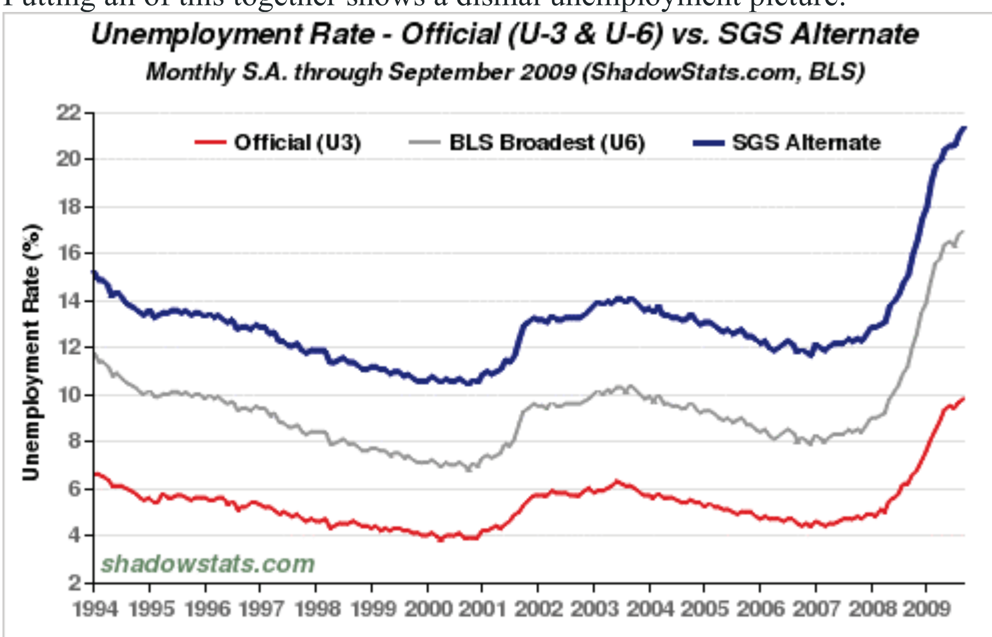
What banks are doing is understandable. They should have been doing this in 2000 and not now when they have taken trillions from taxpayers. I think there will be a tipping point in the near future when the public wakes up from this massive scheme and robbery. Banks realize this and that is why Bank of America and JP Morgan Chase have come out on the overdraft robbery. They are now trying to cut these down but somehow I doubt they'll give back those billions they have made over the years. This is just a PR stunt.

Yet all of this ties back to the employment report. If we tie in the additional job losses since the start of the recession it would look like this:

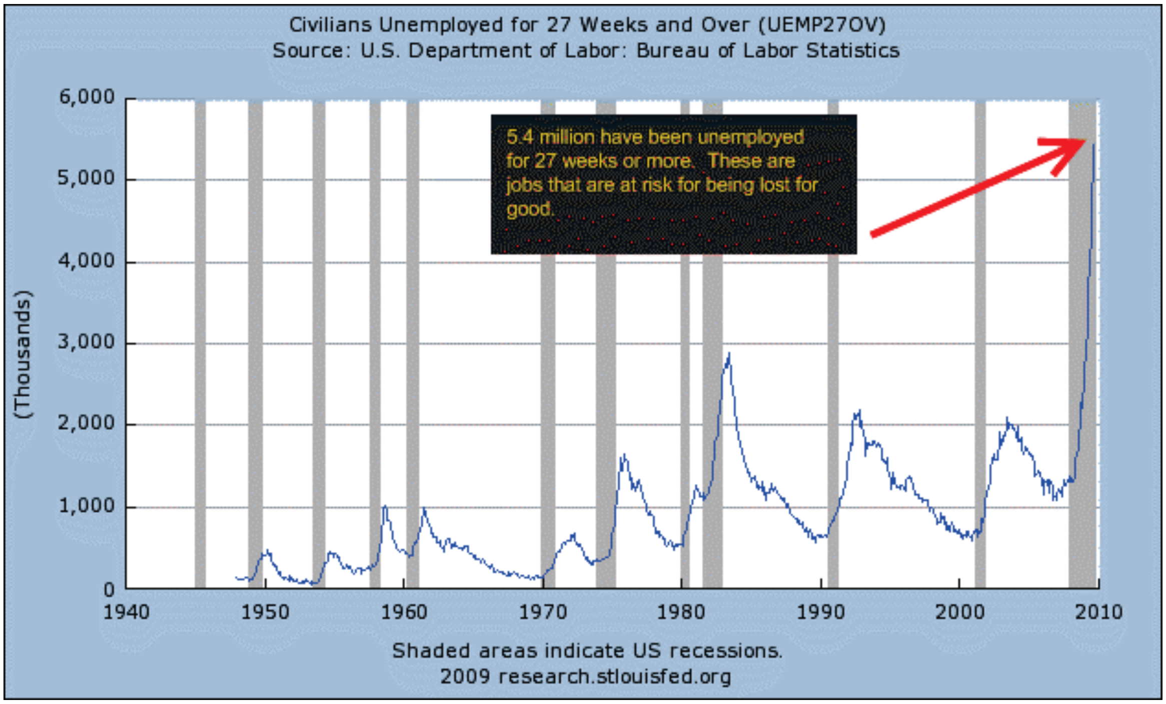


Source: **Calculated Risk**

Putting all of this together shows a dismal unemployment picture:



And the job losses in this recession are more permanent than in other recession. If we look at how many people have been unemployed for 27 weeks or more, the number is off the charts:



This long term unemployment tells us that we can expect structural changes in our economy for years to come. Someone that has been unemployed for this long is at risk of losing employment in their industry. Just think of all the mortgage brokers, construction workers, and those closely tied to the real estate industry. The only way they will get their jobs back at the peak rate is if we have another **housing bubble**. That is highly unlikely.

The 824,000 revision is enormous. Historically this revision is off the charts:

"For national CES employment series, the annual benchmark revisions over the last 10 years have averaged plus or minus **two-tenths of one percent** of total nonfarm employment. The preliminary estimate of the benchmark revision indicates a downward adjustment to March 2009 total nonfarm employment of 824,000 (**0.6 percent**)."

In other words, the headline numbers don't tell the real story of the current economic situation.

Downloaded from *http://www.mybudget360.com/economy-losing-11000-jobs-per-day-since-december-of-2007-824000-jobs-lost-in-statistical-revision-8-million-jobs-lost-since-start-of-recession-nationwide-unemployment-rate-at-17-percent/* on October 5, 2009.

Will California become America's first failed state?

Los Angeles, 2009: California may be the eighth largest economy in the world, but its state staff are being paid in IOUs, unemployment is at its highest in 70 years, and teachers are on hunger strike. So what has gone so catastrophically wrong?

October 4, 2009

California has a special place in the American psyche. It is the Golden State: a playground of the rich and famous with perfect weather. It symbolises a lifestyle of sunshine, swimming pools and the Hollywood dream factory.

But the state that was once held up as the epitome of the boundless opportunities of America has collapsed. From its politics to its economy to its environment and way of life, California is like a patient on life support. At the start of summer the state government was so deeply in debt that it began to issue IOUs instead of wages. Its unemployment rate has soared to more than 12%, the highest figure in 70 years. Desperate to pay off a crippling budget deficit, California is slashing spending in education and healthcare, laying off vast numbers of workers and forcing others to take unpaid leave. In a state made up of sprawling suburbs the collapse of the housing bubble has impoverished millions and kicked tens of thousands of families out of their homes. Its political system is locked in paralysis and the two-term rule of former movie star *Arnold Schwarzenegger* is seen as a disaster – his approval ratings having sunk to levels that would make George W Bush blush. The crisis is so deep that Professor Kenneth Starr, who has written an acclaimed history of the state, recently declared: "California is on the verge of becoming the first failed state in America."

Outside the Forum in Inglewood, near downtown Los Angeles, California has already failed. The scene is reminiscent of the fallout from Hurricane Katrina, as crowds of impoverished citizens stand or lie aimlessly on the hot tarmac of the centre's car park. It is 10am, and most have already been here for hours. They have come for free healthcare: a travelling medical and dental clinic has set up shop in the Forum (which usually hosts rock concerts) and thousands of the poor, the uninsured and the down-on-their-luck have driven for miles to be here.

The queue began forming at 1am. By 4am, the 1,500 spaces were already full and people were being turned away. On the floor of the Forum, root-canal surgeries are taking place. People are ferried in on cushions, hauled out of decrepit cars. Sitting propped up against a lamp post, waiting for her number to be called, is Debbie Tuua, 33. It is her birthday, but she has taken a day off work to bring her elderly parents to the Forum, and they have driven through the night to get here. They wait in a car as the heat of the day begins to rise. "It is awful for them, but what choice do we have?" Tuua says. "I have no other way to get care to them."

Yet California is currently cutting healthcare, slashing the "Healthy Families" programme that helped an estimated one million of its poorest children. Los Angeles now has a poverty rate of 20%. Other cities across the state, such as Fresno and Modesto, have jobless rates that rival Detroit's. In order to pass its state budget, California's government has had to agree to a deal that cuts billions of dollars from education and sacks 60,000 state employees. Some teachers have launched a hunger strike in protest. California's education system has become so poor so quickly that it is now effectively failing its future workforce. The percentage of 19-year-olds at college in the state dropped from 43% to 30% between 1996 and 2004, one of the highest falls ever recorded for any developed world economy. California's schools are ranked 47th out of 50 in the nation. Its government-issued bonds have been ranked just above "junk".

Some of the state's leading intellectuals believe this collapse is a disaster that will harm Californians for years to come. "It will take a while for this self-destructive behaviour to do its worst damage," says Robert Hass, a professor at Berkeley and a former US poet laureate, whose work has often been suffused with the imagery of the Californian way of life.

Now, incredibly, California, which has been a natural target for immigration throughout its history, is losing people. Between 2004 and 2008, half a million residents upped sticks and headed elsewhere. By 2010, California could lose a congressman because its population will have fallen so much – an astonishing prospect for a state that is currently the biggest single political entity in America. Neighbouring Nevada has launched a mocking campaign to entice businesses away, portraying Californian politicians as monkeys, and with a tag-line jingle that runs: "Kiss your assets goodbye!" You know you have a problem when Nevada – famed for nothing more than Las Vegas, casinos and desert – is laughing at you.

This matters, too. Much has been made globally of the problems of Ireland and Iceland. Yet California dwarfs both. It is the eighth largest economy in the world, with a population of 37 million. If it was an independent country it would be in the G8. And if it were a company, it would likely be declared bankrupt. That prospect might surprise many, but it does not come as news to Tuua, as she glances nervously into the warming sky, hoping her parents will not have to wait in the car through the heat of the day just to see a doctor. "It is so depressing. They both worked hard all their lives in this state and this is where they have ended up. It should not have to be this way," she says.

It is impossible not to be impressed by the physical presence of Arnold Schwarzenegger when he walks into a room. He may appear slightly smaller than you imagine, but he's just as powerful. This is, after all, the man who, before he was California's governor, was the Terminator and Conan the Barbarian.
But even Schwarzenegger is humbled by the scale of the crisis. At a press conference in Sacramento to announce the final passing of a state budget, which would include billions of dollars of cuts, the governor speaks in uncharacteristically pensive terms. "It is clear that we do not know yet what the future holds. We are still in troubled waters," he says quietly. He looks subdued, despite his sharp grey suit and bright pink tie.

Later, during a grilling by reporters, Schwarzenegger is asked an unusual question. As a gaggle of journalists begins to shout, one man's voice quickly silences the others. "Do you ever feel like you're watching the end of the California dream?" asks the reporter. It is clearly a personal matter for Schwarzenegger. After all, his life story has embodied it. He arrived virtually penniless from Austria, barely speaking English. He ended up a movie star, rich beyond his dreams, and finally governor, hanging Conan's prop sword in his office. Schwarzenegger answers thoughtfully and at length. He hails his own experience and ends with a passionate rallying call in his still thickly accented voice.

"There is people that sometimes suggest that the American dream, or the Californian dream, is evaporating. I think it's absolutely wrong. I think the Californian dream is as strong as ever," he says, mangling the grammar but not the sentiment.

Looking back, it is easy to see where Schwarzenegger's optimism sprung from. California has always been a special place, with its own idea of what could be achieved in life. There is no such thing as a British dream. Even within America, there is no Kansas dream or New Jersey dream. But for California the concept is natural. It has always been a place apart. It is of the American West, the destination point in a nation whose history has been marked by restless pioneers. It is the home of Hollywood, the nation's very own fantasy land. Getting on a bus or a train or a plane and heading out for California has been a regular trope in hundreds of books, movies, plays, and in the popular imagination. It has been writ large in the national psyche as free from the racial divisions of the American South and the traditions and reserve of New England. It was America's own America.

Michael Pollan, author of *The Omnivore's Dilemma* and now an adopted Californian, remembers arriving here from his native New England. "In New England you would have to know people for 10 years before they let you in their home," he says. "Here, when I took my son to his first play date, the mother invited me to a hot tub."
Michael Levine is a Hollywood mover and shaker, shaping PR for a stable of A-list clients that once included Michael Jackson. Levine arrived in California 32 years ago. "The concept of the Californian dream was a certain quality of life," he says. "It was experimentalism and creativity. California was a utopia."

Levine arrived at the end of the state's golden age, at a time when the dream seemed to have been transformed into reality. The 1950s and 60s had been boom-time in the American economy; jobs had been plentiful and development rapid. Unburdened by environmental concerns, Californian developers built vast suburbs beneath perpetually blue skies. Entire cities sprang from the desert, and orchards were paved over into playgrounds and shopping malls.

"They came here, they educated their kids, they had a pool and a house. That was the opportunity for a pretty broad section of society," says Joel Kotkin, an urbanist at Chapman University, in Orange County. This was what attracted immigrants in their millions, flocking to industries – especially defence and aviation – that seemed to promise jobs for life. But the newcomers were mistaken. Levine, among millions of others, does not think California is a utopia now. "California is going to take decades to fix," he says.

So where did it all wrong?

Few places embody the collapse of California as graphically as thecity of Riverside. Dubbed "The Inland Empire", it is an area in the southern part of the state where the desert has been conquered by mile upon mile of housing developments, strip malls and four-lane freeways. The tidal wave of foreclosures and repossessions that burst the state's vastly inflated property bubble first washed ashore here. "We've been hit hard by foreclosures. You can see it everywhere," says political scientist Shaun Bowler, who has lived in California for 20 years after moving here from his native England. The impact of the crisis ranges from boarded-up homes to abandoned swimming pools that have become a breeding ground for mosquitoes. Bowler's sister, visiting from England, was recently taken to hospital suffering from an infected insect bite from such a pool. "You could say she was a victim of the foreclosure crisis, too," he jokes.
But it is no laughing matter. One in four American mortgages that are "under water", meaning they are worth more than the home itself, are in California. In the Central Valley town of Merced, house prices have crashed by 70%. Two Democrat politicians have asked for their districts to be declared disaster zones, because of the poor economic conditions caused by foreclosures. In one city near Riverside, a squatter's camp of newly homeless labourers sleeping in their vehicles has grown up in a supermarket car park – the local government has provided toilets and a mobile shower. In the Los Angeles suburb of Pacoima, one in nine homeowners are now in default on their mortgage, and the local priest, the Rev John Lasseigne, has garnered national headlines – swapping saving souls to saving houses, by negotiating directly with banks on behalf of his parishioners.

For some campaigners and advocates against suburban sprawl and car culture, it has been a bitter triumph. "Let the gloating begin!" says James Kunstler, author of *The Long Emergency*, a warning about the high cost of the suburban lifestyle. Others see the end of the housing boom as

a man-made disaster akin to a mass hysteria, but with no redemption in sight. "If California was an experiment then it was an experiment of mass irresponsibility – and that has failed," says Michael Levine.
Nowhere is the economic cost of California's crisis writ larger than in the Central Valley town of Mendota, smack in the heart of a dusty landscape of flat, endless fields of fruit and vegetables. The town, which boldly terms itself "the cantaloup capital of the world", now has an unemployment rate of 38%. That is expected to rise above 50% as the harvest ends and labourers are laid off. City officials hold food giveaways every two weeks. More than 40% of the town's people live below the poverty level. Shops have shut, restaurants have closed, drugs and alcohol abuse have become a problem.

Standing behind the counter of his DVD and grocery store, former Mendota mayor Joseph Riofrio tells me it breaks his heart to watch the town sink into the mire. His father had built the store in the 1950s and constructed a solid middle-class life around it, to raise his family. Now Riofrio has stopped selling booze in a one-man bid to curb the social problems breaking out all around him.

"It is so bad, but it has now got to the point where we are getting used to it being like this," he says. Riofrio knows his father's achievements could not be replicated today. The state that once promised opportunities for working men and their families now promises only desperation. "He could not do what he did again. That chance does not exist now," Riofrio says.

Outside, in a shop that Riofrio's grandfather built, groups of unemployed men play pool for 25 cents a game. Near every one of the town's liquor stores others lie slumped on the pavements, drinking their sorrows away. Mendota is fighting for survival against heavy odds. The town of 7,000 souls has seen 2,000 people leave in the past two years. **But amid the crisis there are a few sparks of** hope for the future. California has long been an incubator of fresh ideas, many of which spread across the country. If America emerges from its crisis a greener, more economically and politically responsible nation, it is likely that renewal will have begun here. The clues to California's salvation – and perhaps even the country as a whole – are starting to emerge.
Take Anthony "Van" Jones, a man now in the vanguard of the movement to build a future green economy, creating millions of jobs, solving environmental problems and reducing climate change at a stroke. It is a beguiling vision and one that Jones conceived in the northern Californian city of Oakland. He began political life as an anti-poverty campaigner, but gradually combined that with environmentalism, believing that greening the economy could also revitalise it and lift up the poor. He founded Green for All as an advocacy group and published a best-selling book,*The Green Collar Economy*. Then Obama came to power and Jones got the call from the White House. In just a few years, his ideas had spread from the streets of Oakland to White House policy papers. Jones was later ousted from his role, but his ideas remain. Green jobs are at the forefront of Obama's ideas on both the economy and the environment.
Jones believes California will once more change itself, and then change the nation. "California remains a beacon of hope… This is a new time for a new direction to grow a new society and a new economy," Jones has said.

It is already happening. California may have sprawling development and awful smog, but it leads the way in environmental issues. Arnold Schwarzenegger was seen as a leading light, taking the state far ahead of the federal government on eco-issues. The number of solar panels in the state has risen from 500 a decade ago to more than 50,000 now. California generates twice as much energy from solar power as all the other US states combined. Its own government is starting to turn on the reckless sprawl that has marked the state's development.

California's attorney-general, Jerry Brown, recently sued one county government for not paying enough attention to global warming when it came to urban planning. Even those, like Kotkin, who are sceptical about the end of suburbia, think California will develop a new model for modern living: comfortable, yes, but more modest and eco-friendly. Kotkin, who is writing an eagerly anticipated book about what America will look like in 2050, thinks much of it will still resemble the bedrock of the Californian dream: sturdy, wholesome suburbs for all – just done more responsibly. "We will still live in suburbs. You work with the society you have got. The question is how we make them more sustainable," he says.

Even the way America eats is being changed in California. Every freeway may be lined with fast-food outlets, but California is also the state of Alice Waters, the guru of the slow-food movement, who inspired Michelle Obama to plant a vegetable garden in the White House. She thinks the state is changing its values. "The crisis is bringing us back to our senses. We had adopted a fast and easy way of living, but we are moving away from that now," she says.

There is hope in politics, too. There is a growing movement to call for a constitutional convention that could redraw the way the state is governed. It could change how the state passes budgets and make the political system more open, recreating the lost middle ground. Recently, the powerful mayor of Los Angeles, Antonio Villaraigosa, signed on to the idea. Gerrymandering, too, is set to take a hit. Next year Schwarzenegger will take steps to redraw some districts to make them more competitive, breaking the stranglehold of party politics. He wants district boundaries to be drawn up by impartial judges, not politicians. In previous times that would have been the equivalent of a turkey voting for Christmas. But now the bold move is seen for what it is: a necessary step to change things. And there is no denying that innovation is something that California does well.

Even in the most deprived corners of the state there is a sense that things can still turn around. California has always been able to reinvent itself, and some of its most hardcore critics still like the idea of it having a "dream".

"I believe in California. It pains me at the moment to see it where it is, but I still believe in it," said Michael Levine.

Perhaps more surprisingly, a fellow believer is to be found in Mendota in the shape of Joseph Riofrio. His shop operates as a sort of informal meeting place for the town. People drop in to chat, to get advice, or to buy a cold soft drink to relieve the unrelenting heat outside. The people are poor, many of them out of work, often hiring a bunch of DVDs as a cheap way of passing the time. But Riofrio sees them as a community, one that he grew up in. He is proud of his town and determined to stick it out. "This is a good place to live," he says. "I want to be here when it turns around." He is talking of the stricken town outside. But he could be describing the whole state.

Downloaded from *http://www.guardian.co.uk/world/2009/oct/04/california-failing-state-debt* on October 5, 2009.

Roubini Says Stocks Have Risen 'Too Much, Too Soon, Too Fast'

Oct. 4 (Bloomberg) -- New York University Professor **Nouriel Roubini**, who accurately predicted the financial crisis, said stock and commodity markets may drop in coming months as the gradual pace of the economic recovery disappoints investors.

"Markets have gone up too much, too soon, too fast," Roubini said in an interview in Istanbul yesterday. "I see the risk of a correction, especially when the markets now realize that the recovery is not rapid and V-shaped, but more like U- shaped. That might be in the fourth quarter or the first quarter of next year."

Stocks have surged around the world in the past six months as evidence mounts that the economy is emerging from its deepest recession since the 1930s. The **Standard & Poor's 500 Index** has soared 51 percent from a 12-year low in March while Europe's Dow Jones **Stoxx 600** is up 48 percent. The euphoria contrasts with the cautious tone of Group of Seven policy makers, who said after their meeting in Istanbul yesterday that prospects for growth "remain fragile."

"The real economy is barely recovering while markets are going this way," Roubini said. If growth doesn't rebound rapidly, "eventually markets are going to flatten out and correct to valuations that are justified. I see a growing gap between what markets are doing and the weaker real economic activities."

'Anemic' Recovery

The International Monetary Fund predicts the global economy will expand 3.1 percent in 2010, led by growth in Asia, after a 1.1 percent contraction this year. That is still "anemic" and "very weak," Roubini said.

U.S. stocks fell last week after manufacturing expanded less than anticipated and **unemployment** climbed to a 26-year high, fueling concern the economy is rebounding more slowly than forecast.

Gains in the S&P 500 have pushed valuations in the index to more than 19 times reported operating profits from the past year, **data compiled by Bloomberg** show. That's near the most expensive level since 2004.

The performance of the U.S. economy is probably more sluggish than reflected in stock markets, risking a correction in equities, Nobel Prize-winning economist **Michael Spence** said last month. U.S. stock-market investors have "over processed" the stabilization of growth in the world's largest economy, Spence said.

Creating Bubbles

The global equity **rally** has added about $20.1 trillion to the value of stocks worldwide since this year's low on March 9. Governments have poured about $2 trillion of stimulus into the global economy while central banks have cut interest rates to close to zero in efforts to revive growth.

"In the short run we need monetary and fiscal stimulus to avoid another tipping point and to avoid deflation, but now this easy money has already started to create asset bubbles in equities, commodities, credit and emerging markets," Roubini said. "For the sake of achieving growth stability again and avoiding deflation, we may be planting the seeds of the next cycle of financial instability."

To contact the reporters on this story: **Shamim Adam** in Istanbul at**sadam2@bloomberg.net**; **Francine Lacqua** in Istanbul at **flacqua@bloomberg.net**

The Recovery That Isn't

Peter Schiff
Lew Rockwell
October 3, 2009

For those market boosters who are prattling on about the possibility of a "jobless recovery," I offer an invitation to join me for a breakfast of "fat-free bacon," "eggless omelets," and "no-carb bread." As unappetizing as such a meal may sound, it would nevertheless offer more substance than the oxymoronic concept of an economic resurgence without job creation.

Those who do cling to the absurd belief that, absent exponential productivity gains, the economy can expand while workers are being laid off will undergo a massive test of their convictions now that it's clear the employment picture is bleak. Today's weaker-than-expected report on non-farm payrolls revealed that employers shed 263,000 jobs in September. The losses propelled the headline unemployment rate to a 26-year high of 9.8%. U6, the Bureau of Labor Statistics' most complete measure of unemployment, has risen to a dismal 17%. This figure includes those people who want to work full time, but have simply given up looking, or who have accepted part-time work in the interim. As it is similar to the methodology used during the Great Depression, U6 offers better historical perspective on the severity of our current crisis.

Taken together with yesterday's larger-than-expected pickup in unemployment claims (first time claims rose by 17,000 to 551,000), today's report makes it certain that the job market is still contracting, even while some indicators like GDP and consumer confidence are moving in the opposite direction.

There is no question that the sense of panic has temporarily subsided. In recent interviews, Treasury Secretary Geithner has been almost giddy in his descriptions of the recovery – all the while crediting his own policies for averting disaster. Americans are once again taking the government's bait by spending money they don't have to buy things they can't afford. Evidence of this trend was contained in data released earlier this week which showed that even while income growth was largely stagnant, U.S. consumers showed the biggest month-over-month increase in personal spending in ten years! With the same report showing a 25% drop in the savings rate, the source of the spending money is clear. But depleting savings and increasing borrowing does not a recovery make.

To really recuperate, the government must allow market forces to restructure our economy. The government and individuals must rein in their spending; we must replenish our stock of savings, allow interest rates to rise, asset prices to adjust to economic reality, insolvent businesses to fail, and wages to reflect productivity. To accomplish these goals, subsidies that distort market forces must be removed and regulations that undermine our competitiveness must be repealed.

None of this can be accomplished without a degree of short-term economic pain. However, if we endure it, the payback will be a real recovery with plenty of new jobs that don't rely on government stimulus money. If we refuse to allow the economy to experience a real recession, we will never have the benefit of a real recovery. Instead, we get the "jobless recovery," a veneer of apparently positive indicators that merely obscures the underlying rot.

Over the last few decades, our industrial job market has atrophied while service- and public-sector jobs have grown unsustainably. We must restore balance. New jobs will have to come from areas that produce goods; bloated service and government sectors must be allowed to shrink. By propping up the sectors that need to contract, and running staggering budget deficits, the government cuts off the capital necessary to fund sectors that need to expand.

In truth, many of the service-sector jobs that exist today, such as real estate sales, mortgage finance, home improvement, and auto sales, were created in an environment of ever-increasing home equity, rising stock prices, and almost unlimited access to cheap consumer credit. With home equity gone, stock markets flat, and credit depleted, Americans find themselves needing to save rather than spend. But Washington has put through policies that have counteracted our good instincts.

While we were focusing our economy on consumer spending, much of the rest of the world was saving for the future. As such, we must begin to produce more for export, so that we can sell goods to those who have the savings to pay for them. That is the only way we can repay our debts, replenish our savings, repair our infrastructure, and rebuild our industrial base.

Another prerequisite to any real economic expansion is the potential for business owners to earn profits. With increased regulation and higher taxes on the way, these incentives are being diminished. In fact, via a phenomenon called "regime uncertainty," our current policy path is actually encouraging businesses to contract in order to prepare for a more hostile business environment.

Robust economies utilize all spare capacity, or restructure it for better use. Having 17% of our able-bodied population sitting at home or working part-time at Cinnabon indicates that our present policies are weakening the economy – even if GDP is growing. There is no "jobless recovery," only senseless cheerleading.

Downloaded from *http://www.lewrockwell.com/schiff/schiff50.1.html* on October 5, 2009.

Dangers, Failures, Diversions and Shortfalls

Posted: September 30 2009

G20 amuses us, policy changes end national sovereignty, fighting off a deflationary depression, trillion dollar shortfalls, uptick in market does not represent recovery, fixes and funds not reaching new entrants of the workforce, DC more dangerous than Iraq, it turns out.

The G-20 Pittsburgh Summit ended last Friday. Their official statements made for some novel and interesting reading.

We were informed that the group could by working together could manage a transition to a more balanced pattern of global growth. Tending to domestic demand as private savings increase. It is obvious to us this cannot work. We are seeing increased savings and decreased consumption. The IMF as well agrees with these policies. We cannot recall that the IMF has made a correct decision over the past 50 years. The group gushed forth the same platitudes we've heard for years. The shared understanding and deepened dialogue that produces no solutions, only more power and wealth for the entrenched elite.

We were treated to the never-ending story of rising living standards in emerging markets and developing countries as North American and European economies go into the economic and financial tank. This is to be achieved by balancing current accounts and the support of continued free trade. This would, of course, would be aided by the lack of tariffs and the continued use of slave labor from the third and second worlds as transnational conglomerates get richer by parking their profits in tax havens.

There would be centralized monetary policy and price fixing along with structural reforms to implant more socialistic policies. These policies would end sovereignty, as we have known it.

Needless to say magically members with sustained, significant external deficits will end them and foster savings. We wonder if they ever considered that if everyone saves less buying will be done. There was the call to increase investment, but why would corporations do that in the reality of decreased demand, 67% of capacity utilization and massive idle capacity worldwide, particularly in China. These policies would dramatically affect China whose world exports have already fallen 40%.

If this is the result of this 2-day sideshow it accomplished nothing and little will change. It is just more smoke and mirrors.

The US in a scramble to fight off a deflationary depression is doing just the opposite. Trillion-dollar a year fiscal shortfalls for as far as the eye can see, accompanied by wars upon wars. Government spending accounts for 25% of GDP; the same as we experienced in WWII We have Fannie Mae, Freddie Mac, Ginnie Mae and FHA all bankrupt. Government is not only financing homes, but also companies, cars, Wall Street, banks and insurance companies. Taxpayers own 60% of GM and 80% of AIG, both of which are bound to fail. Under TARP government owns the banking system, most of which is insolvent. They all survive for now with government guarantees. We did not hear these problems being addressed at the G-20 meeting. All we saw was police and military beating innocent people or the use of tear gas, rubber bullets and sound cannons on innocent demonstrators some 20 and 30 blocks away from the downtown meeting area. Your Gestapo goons at work.

Yes, too big to fail is still in vogue, just as it was in the 1930s. The Illuminati still does as it pleases, will continue to do so until we stop them. The past and current solution is taxpayer finance to just keep them in business. This cannot succeed because government is too big, irresponsible and incompetent to succeed in this venture. This is not temporary. It is impossible to unwind. It will continue indefinitely as corporatist fascism until the edifice collapses. The elitists cannot step back and let the economy function on its own. If they do it will collapse. This time they have gone too far. It is going to take the elitists and everyone else down with it. The solution should have been used in 1990, but that didn't interest the elitists. It will never be safe to do what these people have done. There is no easy way out. No two-year depression. A long drawn out depression is the best that can be expected, although at the rate the shadow government is progressing in the Middle East we could end up in a nuclear war. Zero interest rates cannot work. All they do is foster financial asset speculation. That means failure for many and loans that will never be paid back. Just look at the horrendous numbers in the last issue of corporate loans gone bad. The banks are buried in these nonperforming assets. That means more taxpayer funds to keep the banks solvent. The elitists and our government are running amok. There are no controls. That in part is why the President and House and Senate have plunging approval ratings. Last week's hearings in the House on HR 1207 were pathetic. Rep. Grayson destroyed the attorney for the Fed. It was legal disembowelment. We had best get HR 1207 and SB 604 or government could be facing all out revolution. 66% of Americans want the Fed audited and investigated. This is an extremely high figure considering what the Fed does is difficult for most people to understand. Our guess is that Americans are tired of seeing their savings dwindle and their wages and buying power fall.

In July, Americans cut outstanding credit by almost $22 billion. This brings us back to the stupidity of the G-20 announcing that savings must increase and at the same time consumption as well. They must think we are dumb. This is the biggest cutback in credit usage in over 66 years. Economists projected a reduction of $4 billion just to show you how wrong they continue to be.

Cash for Clunkers may have increased borrowing and consumption in the third quarter, but we ask in January what will GDP look like? Will the government falsify the statistics again? Of course, they will.

The stock market is up because of massive liquidity injections as corporate insiders sell their shares on a 30 to 1 basis. This is absurd, there is no recovery only a flattering out which will stretch into the next election. After that its just more stimulus and money and credit injections accompanied by hyperinflation. At the height of that inflation 1-1/2 to 2 years from now the dollar will be officially devalued and default will take place. These events will bring much higher gold and silver prices. As long as the dollar depreciates gold will move higher. In order to create a false stimulation of the economy the elitists have sacrificed the value of the dollar and the conclusion will be that they are going to lose control of their suppression of the gold market. From here on out the situation will become desperate for the elitists. They either increase money and credit, which is presently over 20%, the banks start increasing lending, or there is a $2 trillion stimulus. The big five money center banks will need massively more funding otherwise they will fail and take 75% of American depositors with them in a world of little if no insurance. Why do you think corporate America is bailing out of their shares? They have no confidence in the economy. In addition the invasions of Afghanistan and Pakistan will bring an end of the American empire. It is simply no longer affordable.

What is going to happen next is that the 6-month stock rally is about to end. It took everything the Fed could muster to accomplish this. As the market heads lower government, Wall Street and banking will have to contend with irate shareholders and retirees as well as owners of stock, life cash value insurance policies and annuities. This time when the market falls it isn't coming back. The bottom on the Dow will be 2,600 to 4,200 if we are lucky. This time the financial system is in too deep. There can be no reversal. How can there be if the American taxpayer guarantees 90% of all mortgages, so that the legacy banks, as they are now called, can make ever more money.

Just to give you an idea of what government was up too in the second quarter, corporate debt rose marginally, but at half the level of the first quarter. Federal government debt grew at 8.3%, up from 4.9% in the first quarter. Annualized that is an increase of from 22.6% to 28.2%. Fed holdings of federal securities increased from $20 billion to $559 billion. How is that for monetization? This as mortgage debt contracted by $53 billion. Government and Wall Street say the recession is over, but polls show 86% of Americans disagree.

While all this transpires unemployment payouts worldwide are running out. Spain is on its back along with Ireland and Italy tells us that without a continuation of cash for clunkers there will be a disaster in the country. In the US car sales are expected to fall 40% in September. European sales are expected to fall by one million units in 2010. In the US banks' lending has fallen 14% in the third quarter. It is like the 1930s all over again. This points out the fallacy of the G-20 of saving and increased consumption simultaneously. There is no mystery. Even though government lies about its statistics we can figure them out and the result is not good. The conclusion is the Fed and other European banks will have to partake in massive additional monetization to stave off a deflationary depression and it has already begun.

During this past week the Dow gave up 1.6%; S&P 2.2%; the Russell 2003, 3.1% and Nasdaq 1.8%. Consumers fell 1.1%; utilities 1.5% cyclicals 4.4%; transports 4.3%; banks 3.3%; broker/dealers 3.4%; high tech 2.8%; semis 1.7%; Internets 1.5% and biotechs 3.1%. Gold bullion fell $16.75, and the HUI fell 6.2%. The dollar index rose 0.4% to 76.74.

Two-year T-bill yields fell 7 bps to 0.87%; the 10-year yields fell 14 bps to 3.32% and the 10-year German bund fell 12 bps to 3.26%.

Freddie Mac's 30-year fixed rate mortgage rates were unchanged at 5.04%. The 15's fell 1 bps to 4.46% and 1-year ARMs fell 6 bps to 4.52%. The jumbos fell 1 bps to 6.17%.

Fed credit jumped $44.1 billion. Fed foreign holdings of Treasuries and Agencies increased $11.6 billion to a new record $2.854 trillion. Custody holdings for foreign central banks has risen 18.4% ytd, up $432 billion yoy or 17.9%.

Total money fund assets were unchanged at $3.483 trillion. Assets have declined $350 billion ytd, or 12.4% annualized.

M2, narrow money supply, fell $3.9 billion to $8.303 trillion. It is up 1.9% ytd and 7.6% yoy.

The unemployment rate for young Americans has exploded to 52.2 percent -- a post-World War II high, according to the Labor Dept. -- meaning millions of Americans are staring at the likelihood that their lifetime earning potential will be diminished and, combined with the predicted slow economic recovery, their transition into productive members of society could be put on hold for an extended period of time.

And worse, without a clear economic recovery plan aimed at creating entry-level jobs, the odds of many of these young adults -- aged 16 to 24, excluding students -- getting a job and moving out of their parents' houses are long. Young workers have been among the hardest hit during the current recession -- in which a total of 9.5 million jobs have been lost.

"It's an extremely dire situation in the short run," said Heidi Shierholz, an economist with the Washington-based Economic Policy Institute. "This group won't do as well as their parents unless the jobs situation changes."

Al Angrisani, the former assistant Labor Department secretary under President Reagan, doesn't see a turnaround in the jobs picture for entry-level workers and places the blame squarely on the Obama administration and the construction of its stimulus bill.

"There is no assistance provided for the development of job growth through small businesses, which create 70 percent of the jobs in the country," Angrisani said in an interview last week. "All those [unemployed young people] should be getting hired by small businesses."

There are six million small businesses in the country, those that employ less than 100 people, and a jobs stimulus bill should include tax credits to give incentives to those businesses to hire people, the former Labor official said.

"If each of the businesses hired just one person, we would go a long way in growing ourselves back to where we were before the recession," Angrisani noted.

During previous recessions, in the early '80s, early '90s and after Sept. 11, 2001, unemployment among 16-to-24 year olds never went above 50 percent. Except after 9/11, jobs growth followed within two years.

A much slower recovery is forecast today. Shierholz believes it could take four or five years to ramp up jobs again.

A study from the National Longitudinal Survey of Youth, a government database, said the damage to a new career by a recession can last 15 years. And if young Americans are not working and becoming productive members of society, they are less likely to make major purchases -- from cars to homes -- thus putting the US economy further behind the eight ball.

Angrisani said he believes that Obama's economic team, led by Larry Summers, has a blind spot for small business because no senior member of the team -- dominated by academics and veterans of big business -- has ever started and grown a business.

"The Reagan administration had people who knew of small business," he said.

"They should carve out $100 billion right now and create something like $5,000 to $6,000 job credits that would drive the hiring of young, idled workers by small business."

Angrisani said the stimulus money going to extending unemployment benefits is like a narcotic that is keeping the unemployed content -- but doing little to get them jobs.

Labor Dept. statistics also show that the number of chronically unemployed -- those without a job for 27 weeks or more -- has also hit a post-WWII high.

The Army grants the officer's resignation under "other than honorable conditions."

First Lt. Ehren Watada, the first commissioned military officer to refuse deployment to Iraq because he believed it was an illegal war, has won his three-year legal battle with the Army.

With little fanfare the Army at Fort Lewis, Wash., accepted the resignation of the 1996 Kalani High School graduate, and he will be discharged the first week in October.

Rather than seek a second court-martial against the artillery officer, the Army will grant Watada a discharge under "other than honorable conditions." [It took lots of guts to do this.]

Junk bond sales in Asia will register robust growth as investor appetite for riskier debt increases and companies turn attention toward 2010 financing requirements, according to Nomura Holdings Inc. Issuance of junk, or high yield, securities in the region will follow a resurgence in U.S. and European sales, Glenn Schiffman said, ‘High yield in Asia is about to come back strongly,’ Schiffman said. Junk bond sales in the U.S. total $99 billion this year, a 63 percent increase on the same period in 2008.

The Federal Reserve decided to keep pumping $1.25 trillion of new money into the mortgage market to focus on rescuing the U.S. economy as the financial system revives and banks ask for less help. The US has lent, spent or guaranteed $11.6 trillion to bolster banks and fight the longest recession in 70 years, according to data compiled by Bloomberg.

Ford Motor Co. will build a third car factory in China as the nation’s economic growth spurs auto demand, two people familiar with the plans said. Ford plans to add capacity after China Ford-brand car sales jumped 30% in the first eight months.

Five US states that were among the hardest hit by job losses and the construction slump also had declines in household incomes during the first year of the recession. Arizona, California, Florida, Indiana and Michigan all saw median household incomes drop in 2008, the Census Bureau said. Only one state had a decline the previous year.

The global recession is taking its toll on even the priciest shopping streets, where rents have plunged the most in at least 24 years, according to Cushman & Wakefield, Manhattan's Fifth Avenue ranked as the world's most expensive retail address for the eighth straight year, even as annual rents dropped 8.1% to $1,700 a square foot.

Manhattan apartment rents dropped an average of at least 8% in the year's most active leasing season as Wall Street job cuts and the recession rippled through the economy, real estate broker Citi Habitats said.

Puerto Rico's government announced yesterday that it will lay off more than 16,000 public workers in the US Caribbean territory, adding to an unemployment rate higher than that of any US state.

The government hopes the layoffs will help close a $3.2 billion deficit.

The island is struggling through its third year of recession and a 15 percent unemployment rate. Union leaders announced an island-wide strike in protest on Oct. 15.

The layoffs of 16,970 employees are needed to prevent the government from shutting down and sinking the island's credit, said Carlos Garcia, president of the Government Development Bank of Puerto Rico.

An interesting observation appeared in the Australian Shooter Magazine this week: If you consider that there has been an average of 160,000 troops in the Iraq theater of operations during the past 22 months, and a total of 2112 deaths, that gives a firearm death rate of 60 per 100,000 soldiers.

The firearm death rate in Washington, DC is 80.6 per 100,000 for the same period. That means you are about 25 percent more likely to be shot and killed in the US capital, which has some of the strictest gun control laws in the US, than you are in Iraq.

Conclusion: "The US should pull out of Washington."

Downloaded from *http://theinternationalforecaster.com/International_Forecaster_Weekly/Dangers_Failures_Diversions_and_Shortfalls* on October 5, 2009.

US economic decline forges new world order

Agence France-Presse
October 4, 2009

The crisis is redrawing the world map of economic power as the influence of US consumer spending declines and major emerging markets like China and India take the lead, finance chiefs said.

“One of the legacies of this crisis may be a recognition of changed economic power relations,” World Bank president Robert Zoellick said Friday in Istanbul ahead of annual meetings of the World Bank and the International Monetary Fund.

“Recent forecasts show that China and India are helping to pull the global economy out of recession…. A multipolar economy less reliant on the US consumer will be a more stable world economy,” he added.

Consumer spending accounts for around two-thirds of economic activity in the United States — by far the world’s biggest economy — and experts say lower spending could have radical effects on the US’s world standing.

Downloaded from *http://www.infowars.com/us-economic-decline-forges-new-world-order/* on October 5, 2009.

World Bank and IMF join global attack on the dollar!
by Larry Edelson 10-04-09

In my emails to you over the past couple of weeks, I’ve shown you why Washington has no choice but to devalue the dollar — and how global leaders and even the United Nations have joined the attack on the greenback by demanding it be replaced as the world’s reserve currency.

Now, just this week, the International Monetary Fund and the World Bank have begun adding their voices to the international choir calling for a new global reserve currency:

- Last week, World Bank President Robert Zoellick warned that the dollar’s status will be challenged and shouldn’t be taken for granted.
- According to Turkish Deputy Prime Minister Ali Babacan, it’s likely that the role of special drawing rights (SDRs) based on a basket of currencies will be discussed as an alternative to the dollar during meetings of the World Bank and IMF in Istanbul next week.
- Meanwhile, global governments, central banks, companies and investors continue to slash their dollar holdings. According to the IMF, in April through June of this year, the greenback’s share of global currency reserves fell to the lowest level in a decade. Holdings of euros, in contrast, rose to a new all-time record high.

All this adds weight and momentum to the devaluation of the dollar. It is DEFINITELY ON THE TABLE. Indeed, for the first time I can remember, the G-7 finance officials, meeting this weekend, are rumored to be breaking with tradition and choosing not to release a statement on the global economy and currencies.

I feel this is an *extremely* significant development: At last week’s G-20 meeting, the group officially anointed itself as being in charge of global economic affairs.
Plus, we now have the G-7 refusing to discuss the dollar, which is highly unusual. Many will say that, if the G-7 does indeed refuse to comment on the dollar at this weekend’s meeting, it’s merely a sign they’re beginning to turn the reigns over to the G-20 for currency matters.

Baloney! The G-7 WILL discuss the huge “global economic imbalances” in the world. And to me, that’s code talk for a currency devaluation on the agenda. Members of the G-7 ARE discussing it. They’re just NOT doing it in public.

It reminds me of the 1985 Plaza Accord, where James Baker committed the U.S. to a depreciating dollar, bulldozing over our creditors, and ultimately precipitating the ‘87 crash.

The difference: Back then the U.S. was in a position *to lead* the devaluation. Today, it’s not. Today, our creditors are going to bulldoze over us.

Downloaded from *http://www.moneyandmarkets.com/world-bank-and-imf-join-global-attack-on-the-dollar-3-35705* on October 5, 2009.

More Dependent on the Consumer than Ever

October 4, 2009

America's over-reliance on consumer spending helped create the mess we are in. To finance our spendthrift ways, we borrowed more than we could afford. We also saved less than necessary and bet that rising home and stock prices would make up the difference. In addition, our willingness to consume more than we produce led to unhealthy imbalances with nations like China.

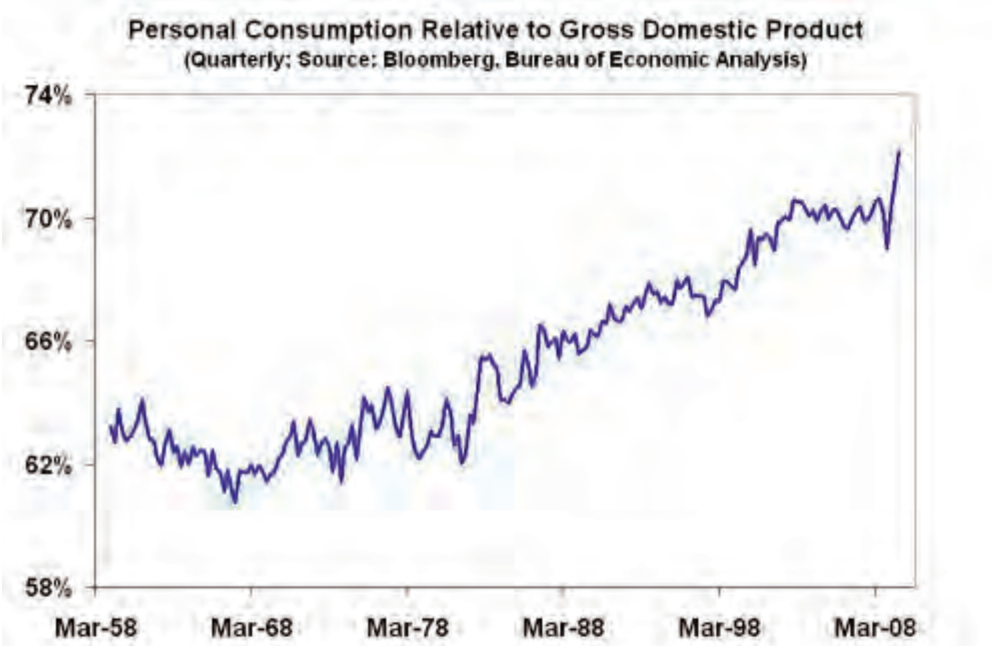
Well, guess what? The latest data reveals that America is more dependent on the consumer than ever.

Last Thursday, the Commerce Department's Bureau of Economic Analysis (BEA) revealed that personal spending in August rose 0.9 percent, its biggest monthly jump since 2001. Reports suggest the increase stemmed from stepped-up purchases of durable goods like cars, aided by Washington's cash-for-clunkers scheme, as well as aggressive back-to-school promotions by nervous retailers.

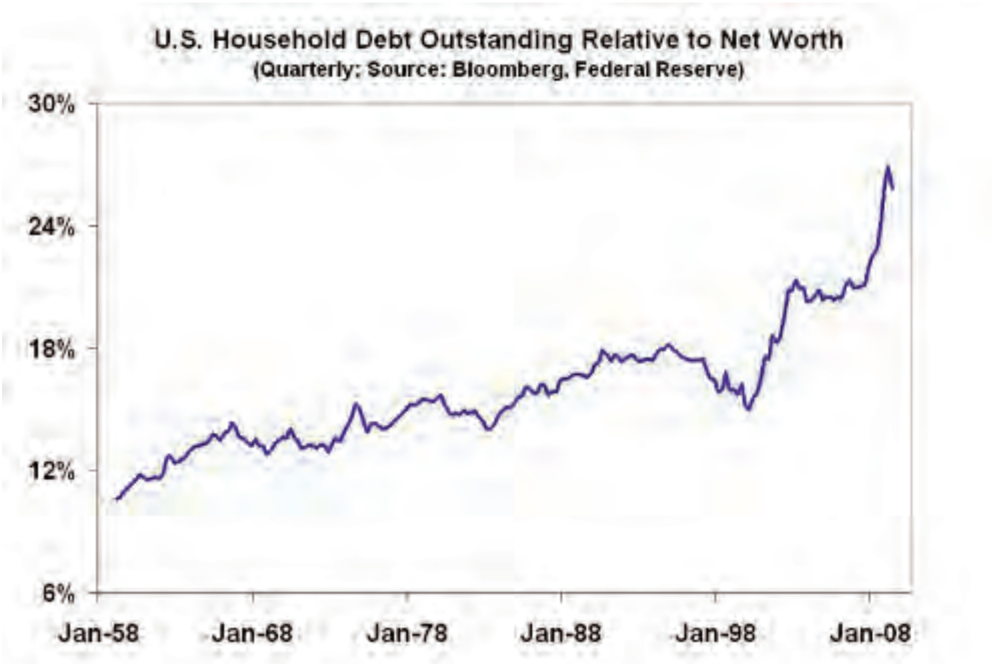
The BEA also announced that personal income -- the sum received from all sources, including wages, government transfer payments, and interest -- rose a more subdued 0.2 percent. While the result beat Wall Street's expectations, the gap between the two data points helped to highlight an unsettling development.

More specifically, the relationship between the two has diverged to the point where personal spending is now at a record high relative to income, surpassing the level seen at the pre-financial crisis peak of housing bubble-induced euphoria.

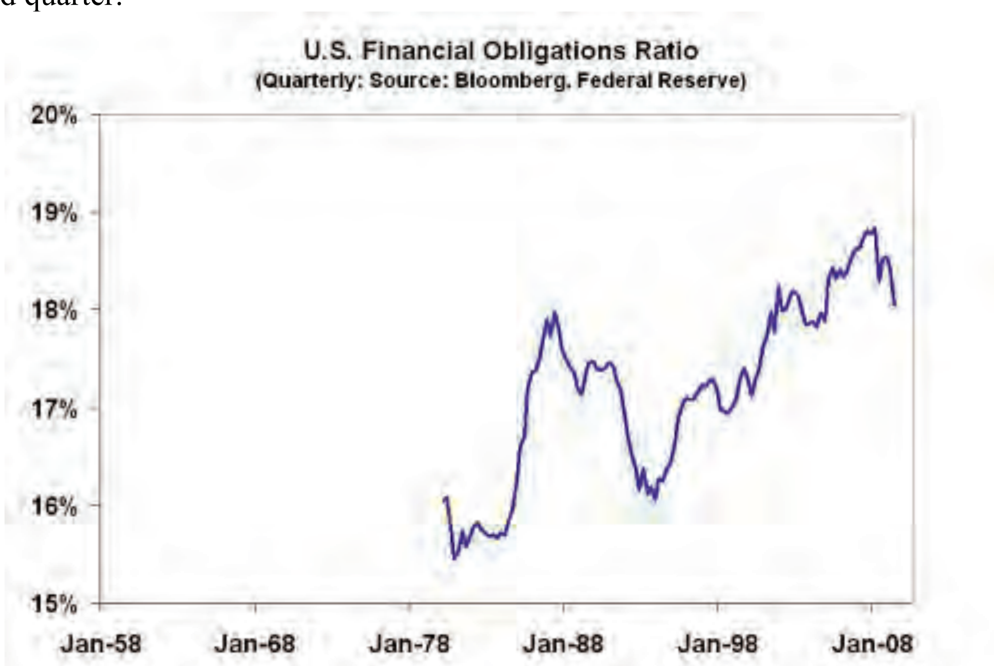
Other data paints a similarly troubling picture. Personal consumption relative to gross domestic product (GDP), the sum total of U.S.-produced goods and services, has also hit a record. Based on estimated data for third quarter GDP, the consumer now accounts for around 72 percent of output, a far cry from the 50-year median of 64.5 percent.



That might not be so bad if the consumer was in better shape than he (or she) was in the past, but various data indicate that is not the case. For example, although household debt relative to net worth is marginally below the second quarter record of 26.9 percent, it is still two-thirds higher than its long-term average.



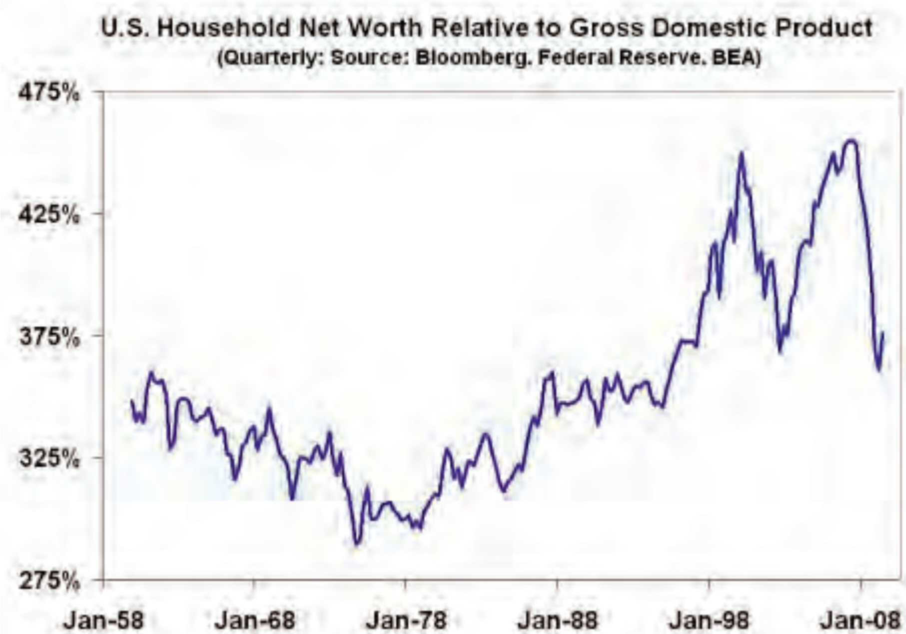
Another series also shows that households remain stretched, despite some improvement from the record highs seen in the spring of 2008. According to the Federal Reserve, Americans devoted just over 18 percent of their monthly disposable personal income -- the amount left over after income taxes -- to debt, auto lease, rental, homeowners' insurance, and property tax payments in the second quarter.



Aside from the fact that the median average of the Financial Obligations Ratio (FOR) since 1980, when the Fed started keeping tabs on it, is 17.3 percent, or less than we have now, the current measure is above the range that prevailed prior to the accelerated lift-off in housing prices following the 2001 recession.

And while the personal savings rate is no longer scraping along at the unsustainably low levels we saw in the middle of the current decade, at 3 percent it is still less than half of its long-term median and well below the more "normal" levels of 8-10 percent that were commonplace since the Great Depression.

It doesn't help, of course, that severe declines in stock prices and property values have undermined what economists refer to as "the wealth effect," which helped power a measure of past spending. The fact that American's net worth relative to GDP has fallen back to more normal levels while debt loads have remained high is not at all reassuring.



This doesn't even take account of other developments that suggest the health of the consumer is seriously at risk. Along with data released this past week, which revealed that a growing number of Americans are losing their jobs, being forced into foreclosure, and filing for bankruptcy, recent research also highlights the fact that income inequality has hit an all-time high.
In the end, none of this bodes well for an economy whose fortunes are (still) so closely tied to the spendthrift ways of the U.S. consumer. In fact, once the man in the street figures out that, despite the sorry state of his finances, *he* is the one that is being counted on to rescue the economy, that's when the real trouble will begin.

Downloaded from http://www.huffingtonpost.com/michael-j-panzner/more-dependent-on-the-con_b_309094.html on October 5, 2009.

Nervous US retailers brace for critical holiday season

Approaching a holiday shopping season critical to economic recovery, US retailers are bracing for a difficult period with credit still tight and consumer caution lingering.

Many early projections suggests retail spending in the final two months of 2009 -- a season that accounts for a large proportion of sales and profits -- will be flat or lower.

Consulting group Deloitte expects total holiday sales to be around 810 billion dollars excluding cars and gasoline, unchanged from a year ago.

That would be better than last season's 2.4 percent decrease, which was the first decline since 1967, according to Deloitte.

"Although there are signs that suggest the economy is nearing the end of its darkest days, many consumers remain burdened by restricted credit availability, high unemployment and foreclosures," said Carl Steidtmann, chief economist with Deloitte Research.

"Americans continue to save at historically high rates while also paying down debt, and these factors combined suggest another chilly holiday season for retailers."

Others point out that retailers are being squeezed by tight credit that prevents them from stocking up as much as they might like, and the concern that consumers will pull back further.

"Retailers are still caught between a rock and a hard place," said Ted Vaughan, partner in the consultancy BDO Seidman LLP.

"Reducing inventory is necessary, but retailers run the risk of hindering selection, which can lead to disappointed customers and fewer sales. On the other hand, merchandise overflow can lead to a frenzy of deep discounts, which can cheapen the brand and slash profits."

The research firm Retail Forward also expects flat spending over the holiday season, saying it would be the worst in 42 years behind last year's tumble.

The group sees apparel and home furnishing sales falling 2.0 percent compared with last year, and grimmer results for consumer electronics stores.

Sung Won Sohn, economist at California State University, said there is a danger of an economic relapse if retailers and consumers remain gripped by fear.

"Expecting weak economic recovery in demand ahead including the upcoming holiday shopping season, the employers are in no mood to start hiring," Sohn said.

"They want to make sure that a sustained economic recovery is here before hiring. This type of fear could undermine the budding economic recovery."

A slightly more upbeat outlook came from the International Council of Shopping Centers, which projects a 1.0 percent increase in same-store sales in November and December. With January included, sales may rise 1.5 percent, their best performance in three years, ICSC said.

"Retailers will experience their first non-recession holiday season in three years, and economic growth is fundamentally on the mend, even though there will be lingering pockets of weakness," said ICSC chief economist Michael Niemira.

"The wear and tear of the recession and financial crisis on the consumer psyche are slowly giving way to renewed hope, optimism and most likely gift buying."

Joel Naroff at Naroff Economic Advisors said prospects remain bleak unless confidence improves.

"Until we break the logjam in confidence, the prospects are for a mediocre holiday season at best," he said.

"There is the possibility it could turn out better than we fear now. There are so many people with jobs and income who are still spending as if they could lose their jobs. If we get to the holiday season they may decide to splurge a little. If that happens then we might be surprised with the level of sales."

Downloaded from *http://rawstory.com/news/afp/Nervous_US_retailers_brace_for_crit_10032009.html* on October 5, 2009.

Email from Eric Tymoigne dated October 2, 2009.

be aware of existing macro-accounting identities. Remember that:
Yd + T = C + I + G + NX
with Yd + T the GDP, C private domestic consumption, I private domestic investment, G gov. spending, and NX net exports.
If you substract taxes from both sides you get:
Yd = C + I + DEF + NX

with DEF (=G - T), the gov. deficit.
Then substract C from both side (S = Yd - C) then you get:
S = I + DEF + NX
or
DEF = (S - I) - NX
S-I is private net saving, -NX is the Rest of the World net saving so:

Government deficit = Private net saving + RoW net saving

This is true by definition (an accounting identity). What this identity tells you is that if the private sector and the RoW net save (which they are doing now and are trying to do more and more), the gov. must be deficit spending. So the rise in gov. debt is a pre-requirement to allow deleveraging in the private sector (that is the real big problem).
This brings me to the second point. The federal government of a sovereign country cannot go bankruptcy on its debt dominated in its domestic currency. In this case (which applies to the US) the federal gov. can always pay it debt.

You should check the following blog posts:
http://neweconomicperspectives.blogspot.com/2009/08/primer-on-government-surpluses.html
http://neweconomicperspectives.blogspot.com/2009/08/monetization-of-budget-deficits.html
http://neweconomicperspectives.blogspot.com/2009/08/teaching-fallacy-of-composition-federal.html
http://neweconomicperspectives.blogspot.com/2009/07/another-take-on-financial-balances.html
http://neweconomicperspectives.blogspot.com/2009/06/will-run-up-in-government-debt-doom-us_17.html
http://neweconomicperspectives.blogspot.com/2009/06/dont-fear-rise-in-feds-reserve-balances.html
http://neweconomicperspectives.blogspot.com/2009/06/how-big-is-debt-problem.html

Overall the point is that this large government intervention was a necessity and was good for the economy. The problem lies, not in the government debt, but in the private debt, especially financial institutions.

AAR Reports Rail Traffic Remains Down

1 Oct 2009
FOR IMMEDIATE RELEASE
For more information contact:
AAR Communications, 202-639-2100
Holly Arthur harthur@aar.org
Lauren Sandberg lsandberg@aar.org

AAR Reports Rail Traffic Remains Down

Data Shows Impact from Flooding In Tennessee, Georgia

WASHINGTON, D.C., Oct. 1, 2009 — The Association of American Railroads today reported 271,659 carloads for the week ending Sept. 26, 2009, down 17.1 percent compared with the same week in 2008. The traffic numbers were affected by severe flooding in Tennessee and Georgia

which halted freight shipments in those areas from Sept. 21-23. Flooding also impacted the western freight carriers who operate through Atlanta. At this time, freight rail operations have returned to normal. Regionally, carloadings were down 15.5 percent in the West and 19.3 percent in the East.
Intermodal traffic of 205,627 trailers or containers on U.S. railroads was down 16.5 percent from the same week last year. Container volume fell 11 percent and trailer volume dropped 37.2 percent.

All of the 19 carload freight commodity groups were down from last year with declines ranging from 6 percent for chemicals to 38.5 percent for metals and products.

For the first 38 weeks of 2009, U.S. railroads reported cumulative volume of 10,104,171 carloads, down 18.2 percent from 2008; 7,141,006 trailers or containers, down 16.8 percent, and total volume of an estimated 1.08 trillion ton-miles, down 17.3 percent. Total volume on U.S. railroads for the week ending September 26 was estimated at 28.8 billion ton-miles, off 17.2 percent from the same week last year.

Canadian railroads reported volume of 69,342 cars for the week, down 15.1 percent from last year, and 44,838 trailers or containers, down 13.8 percent. For the first 38 weeks of 2009, Canadian railroads reported cumulative volume of 2,304,419 carloads, down 22.6 percent from last year, and 1,545,090 trailers or containers, down 16.3 percent.

Mexican railroads reported originated volume of 11,782 cars, down 8.9 percent from the same week last year, and 6,636 trailers or containers, down 13.9 percent. Cumulative volume on Mexican railroads for the first 38 weeks of 2009 was reported as 432,036 carloads, down 14 percent from last year; and 195,933 trailers or containers, down 18.9 percent.

Combined North American rail volume for the first 38 weeks of 2009 on 13 reporting U.S., Canadian and Mexican railroads totaled 12,840,626 carloads, down 18.9 percent from last year, and 8,882,029 trailers and containers, down 16.8 percent from last year.

# # #

Editors' Note: The Association of American Railroads (AAR) is the world's leading railroad policy, research and technology organization focusing on the safety and productivity of rail carriers. AAR members include the major freight railroads, or Class I railroads, of the U.S., Canada and Mexico, as well as Amtrak. Class I railroads represent 67 percent of the U.S. freight rail mileage and 90 percent of freight railroad industry employees. Railroads account for 43 percent of intercity freight volume — more than any other mode of transportation. To learn more about how freight rail works for America, the environment and for you, please visit: www.freightrailworks.org.

CONSUMER BANKRUPTCY FILINGS SURGE PAST ONE MILLION DURING FIRST NINE MONTHS OF 2009

October 2, 2009, Alexandria, Va.— Consumer bankruptcies totaled 1,046,449 filings through the first nine months of 2009 (Jan. 1-Sept. 30), the first time since the 2005 bankruptcy overhaul that filings have surged past the 1 million mark during the first three calendar quarters of a year, according to the American Bankruptcy Institute (ABI), relying on data from the National Bankruptcy Research Center (NBKRC). The filings for the first three-quarters of 2009 were the highest total since the 1,350,360 consumer filings through the first nine months of 2005.

"Bankruptcy filings continue to climb as consumers look to shelter themselves from the effects of rising unemployment rates and housing debt," said ABI Executive Director **Samuel J. Gerdano**. "The consumer filing total through the first nine months is consistent with our expectation that consumer bankruptcies will top 1.4 million in 2009."

The September 2009 consumer filing total reached 124,790, a 41 percent increase from the 88,663 consumer filings in September 2008. The September 2009 filings also represented a 4 percent increase over the 119,874 filings in August 2009 and it is the fourth highest single month since the 2005 law change. Chapter 13 filings constituted 28 percent of all consumer cases in September, unchanged from the August rate.

Downloaded from *http://www.abiworld.org/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=58852* on October 5, 2009.

Obama's permanent depression
By Spengler

President Barack Obama may be remembered for permanent depression, the way that Leon Trotsky's name is linked with permanent revolution. Fiscal stimulus combined with near-zero interest rates have proven to be a toxic cocktail for the United States, the macroeconomic equivalent of barbiturates and alcohol.
Keynesian spending creates a deficit that sucks all the available capital out of the grassroots economy and transfers it to the Treasury market. Easy funding terms from the Federal Reserve allow financial institutions to make money in government bonds while shutting off credit to the rest of the economy. It's classic crowding out, in which the government's misguided effort to spend its way out of recession pushes the productive economy deeper into the hole.

Panic is starting to take hold at the Obama White House over the relentless deterioration of the job market. US jobs in September declined by about 263,000 jobs, worse than the 175,000 drop expected by Wall Street economists. To the 15.1 million on the official unemployment count, add 9.2 million "involuntary part-time workers" and 2.2 million who were dropped from the tally because they had not sought work in the past month, and the unemployment rate would rise to 17.1 million.

That doesn't include another three million long-term discouraged workers - those who want to work but who have long since stopped looking. That would take the number up to 20%. In past recoveries, a number of economists observed, all the job growth came from small business, but small business is lagging in the present crisis. The financial crisis crushed the entrepreneurs, as surely as Joseph Stalin crushed the *kulaks*, the relatively affluent peasants.

Obama inherited a crisis, to be sure, but he has made it much worse. America is in the kind of trap into which Japan fell during the "lost decade" of the 1990s, whence it never really emerged. In the Keynesian world of Larry Summers, director of the White House's National Economic Council, and the Obama economics team, the problem is that Americans save too much and spend too little. To restart the economy, the government has to spend money for them - hence the US$800 billion stimulus package.

There are two things terribly wrong with this notion. The first is that it is simply a matter of what John Maynard Keynes called the "marginal propensity to consume". Americans have saved almost nothing during the past 10 years, relying instead on home equity that now has vaporized. The proportion of Americans over 60 will jump to 25% from 19% during the next 10 years, an unprecedented shift. Americans must save to compensate for past profligacy, from a lower starting point after the destruction of so much wealth, and with lower prospective returns. The demand for savings is bottomless.

The second problem is that even if the government borrows money, the money has to come from somewhere. Right now it's coming from households who choose to save rather than borrow, and from the balance sheet of the Federal Reserve or the banks, as well as foreign investors.

A quick walk through the numbers puts the problem in context.

Lenders to the US federal government, first half 2009.

All Federal borrowing (annualized, in $US billions)	**$1,667.4**
Households	$709.4
Rest of the world	$545.6
Fed balance sheet	$368.1
Banks	$44.3
Broker dealers	$24.4

Obama's government borrowed $1.7 trillion at an annual rate, or about 12% of gross domestic product (GDP). Households coughed up less than half of that as they shifted from spending to savings. Foreigners bought $545 billion, a bit less than a third of the total. The Federal Reserve and the banks bought $400 billion worth, or about a quarter of the total.

Household purchases of Treasuries kept spending low and the economy contracting. Even with this massive shift, though, the central bank still had to print money. Most alarming is that the Federal Reserve's rate of purchase of Treasuries is accelerating:

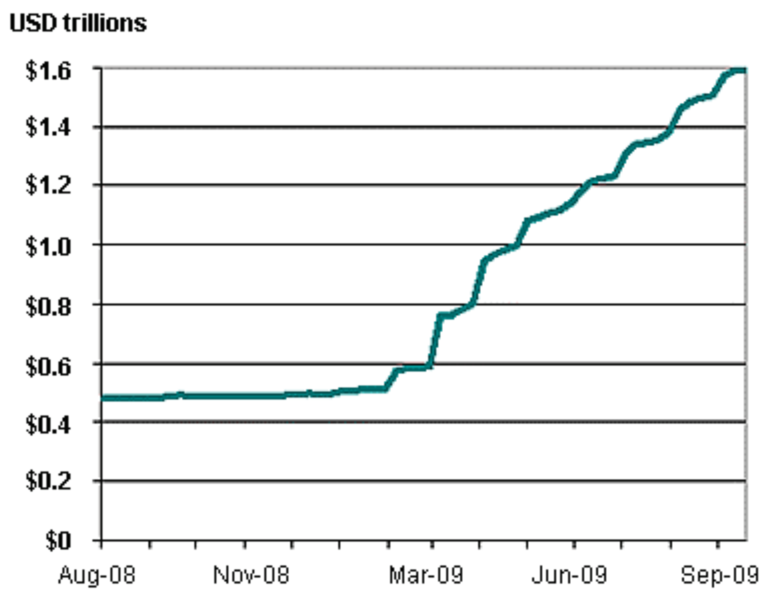
Federal Reserve monetization of government debt, 2009

Fed purchases of treasuries (annualized, in $US billions)	
First quarter	$88.9
Second quarter	$647.4
Third quarter est	$676.1

The rest of the world doesn't want an additional half-trillion dollars worth of Treasury securities each year; it doesn't want the Treasuries it now has to own. Households can't continue to put a trillion dollars worth of Treasuries away per year - that's 8% of all personal income.

That leaves the Fed and the banking system. The central bank bought Treasuries during the third quarter at an annual rate of nearly $700 billion, and provided nearly zero-interest money to banks and broker-dealers, who bought a good deal more. The Fed is buying much more than Treasury securities, to be sure; during 2009, it bought a remarkable $700 billion of mortgage-backed securities in a fruitless attempt to stimulate the housing market.

Federal Reserve total securities holdings

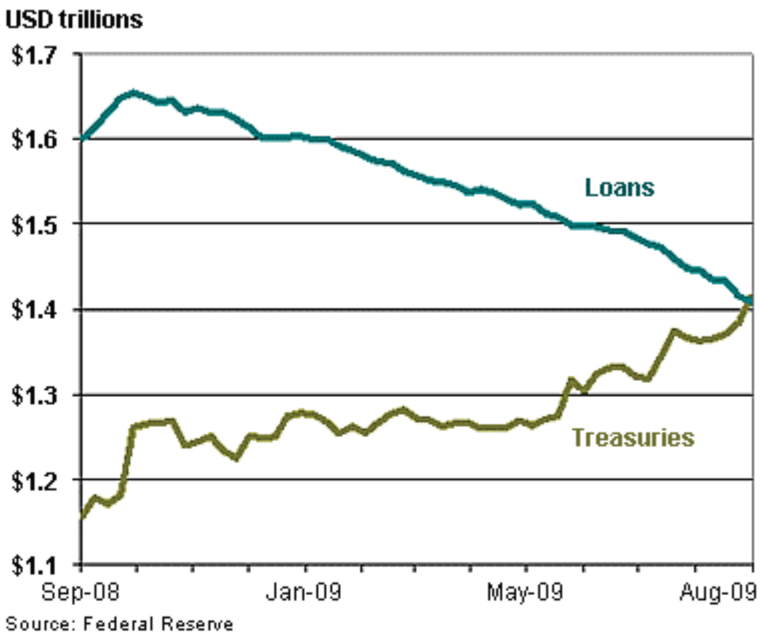


Source: Federal Reserve

Despite the unprecedented largesse of the Federal Reserve, banks are reducing risk and cutting off the small-business sector in particular. During the third quarter, US commercial banks added Treasury securities to their balance sheets at a $350 billion annual rate. But they cut loans to business at a $300 billion annual rate. Extremely cheap funding makes it possible for a bank to finance the purchase of a two-year Treasury note paying 0.86%, or a two-year AAA municipal note yielding 0.75%, with overnight money costing 0.25%. Cheap money turns the commercial banks into an extension of the balance sheet of the Federal Reserve.

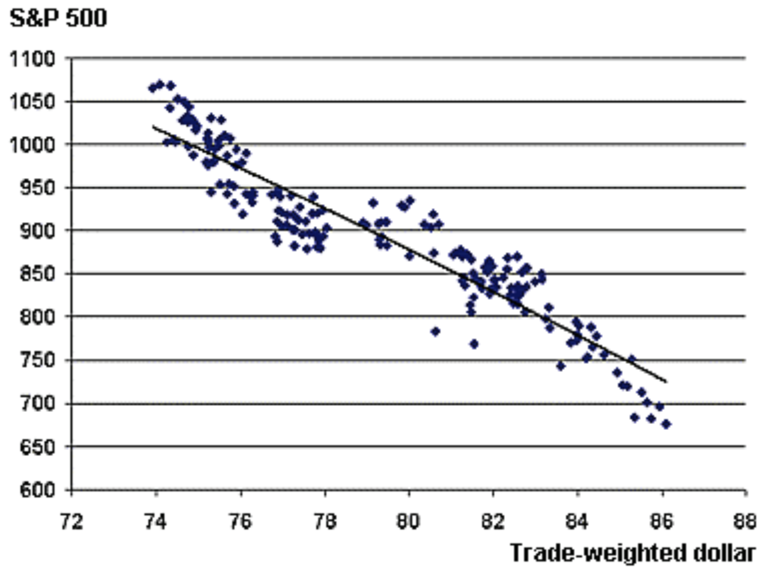
The near-zero interest rate allows banks to shift their balance sheets towards nearly riskless assets, and reduce risky commercial and industrial loans.

US commercial banks' holdings of Treasury securities vs commercial and industrial loans, past 12 months



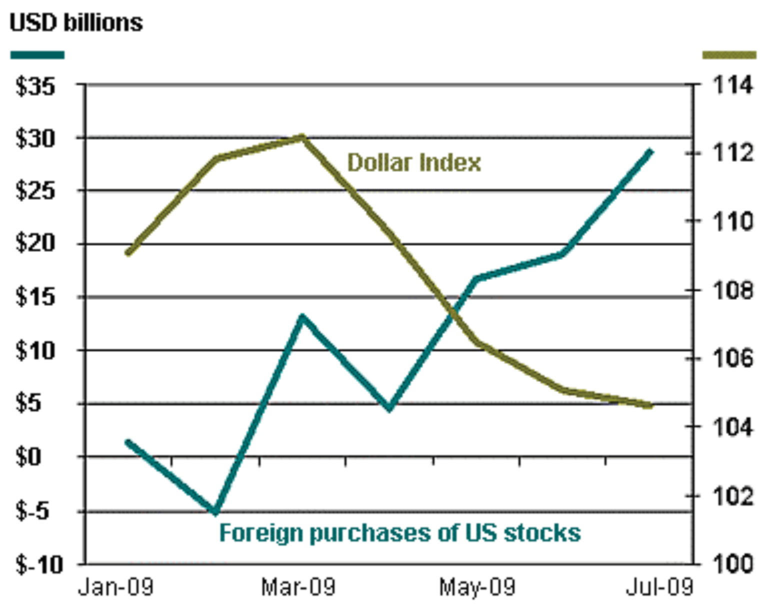
Cheap money has crushed the dollar, and the sinking dollar has buoyed equity prices, perversely enough.

Trade-weighted US dollar vs S&P 500 Equity Index, 2009 to date



Source: St. Louis Federal Reserve, Yahoo! Finance

American assets are cheaper to foreign investors, and as the dollar fell against other major currencies, foreign investors bought more American stocks:



Source: St. Louis Federal Reserve, US Treasury

In short, the rise in US stock prices has less to do with economic recovery than with the drop in the global price of American assets. The dollar can only fall so far, however, because other currencies can only rise so far before a rising currency parity damages competitiveness. This game seems to be played out for the moment.

This outcome was perfectly foreseeable a year ago; in fact, I forecast just this result last November (see Who will finance America's deficit?, Asia Times Online, November 13, 2008). I reviewed the difficulties attendant on financing America's deficit and concluded:

Monetization of debt remains a possibility, and to some extent would only continue the current trend. Total Federal Reserve Bank credit outstanding has more than doubled in the year to November 6, 2008, rising by $1.2 trillion to $2.06 trillion. This reflects loans, securities purchases, and related actions by the Fed to bail out the financial system. If the deflation persists, the Federal Reserve may be compelled to purchase US government debt ...

The point of lowering the risk-free rate is to push investors towards riskier assets. In a normal business cycle, falling output leads to lower yields on low-risk bonds, which in turn encourages investors to add risk to their portfolios by investing in businesses. If the safest of all investments, namely US Treasuries, suddenly offer much higher real yields, comparable to the boom years of the late 1990s, why should investors take risk? ... If the Treasury tries to spend its way out of recession, the results are likely to be very disappointing.
The parallels between America in 2009 and Japan in 1989 are uncanny. An asset price bubble has collapsed, just before a tsunami of prospective retirements that the asset bubble was supposed to fund. Demand for savings is bottomless, and the government satisfies demands for savings by running a huge deficit and issuing debt. The crippled banking system borrows at an interest rate of zero and buys government securities. And the economy shrivels up and dies.

Japan, though, had one advantage: it knew how to export. There is only one way to drastically increase savings while maintaining full employment, and that is to export. America has neither the export capacity nor the customers. It could get them, but that is a different story. Francesco Sisci and I told it here US's road to recovery runs through Beijing (Asia Times Online, November 15, 2008).

Downloaded from *http://www.atimes.com/atimes/Global_Economy/KJ06Dj04.html* on October 5, 2009.

Waking up to discover the mortgage market was a giant criminal enterprise

A landmark ruling in a recent Kansas Supreme Court case may have given millions of distressed homeowners the legal wedge they need to avoid foreclosure. In Landmark National Bank v. Kesler, 2009 Kan. LEXIS 834, the Kansas Supreme Court held that a nominee company called MERS has no right or standing to bring an action for foreclosure. MERS is an acronym for Mortgage Electronic Registration Systems, a private company that registers mortgages electronically and tracks changes in ownership. The significance of the holding is that if MERS has no standing to foreclose, then nobody has standing to foreclose – on 60 million mortgages. That is the number of American mortgages currently reported to be held by MERS. Over half of all new U.S. residential mortgage loans are registered with MERS and recorded in its name. Holdings of the Kansas Supreme Court are not binding on the rest of the country, but they are dicta of which other courts take note; and the reasoning behind the decision is sound.

via *Landmark Decision: Massive Relief for Homeowners and Trouble for the Banks.*

This is a potentially gigantic story. It seems that a court has ruled that about half of the mortgage market has been run as a criminal enterprise for years, which would invalidate any potential forelosure proceedings for about, oh, 60 million mortgages. The court ruled that the electronic transfer system used by the private company MERS — a clearing system for mortgages, similar to a depository, that is used for about half the mortgage market — is fundamentally unreliable, and any mortgage sold and/or transferred through MERS can't be foreclosed upon, at least not in Kansas.

Coincidentally I'd been working on something related to this all day yesterday. All over the country, lawyers are contesting foreclosures because of similar chain-of-custody issues. I have some material about this coming out in my next *Rolling Stone* story, so I can't get into this too much, but suffice to say the lenders and the banks were extremely sloppy about their paperwork (at best — there is a fraud angle as well) and jammed up the system with missing and/or mismarked mortgage notes. Since a sale isn't legal unless there's full transfer of the physical note, a lot of the sales of mortgage-backed securities were not entirely legal, since the actual notes were often not transferred.

Nothing like waking up in the morning and finding out a whole sector of the economy is completely screwed. Are these good times or what?

Although this particular case pertains to MERS, non-MERS mortgages were often even worse. Anyway I have more on this coming next week. Thanks again to Eric at *MonkeyBusiness* for the heads-up.

Downloaded from *http://taibbi.rssoundingboard.com/waking-up-to-discover-the-mortgage-market-was-a-giant-criminal-enterprise* on October 5, 2009.

Systemic Failure Approaches

by Jim Willie, CB. Editor, Hat Trick Letter | October 1, 2009

Debate stirs on whether the financial structure of the USEconomy is broken irreparably. Debate stirs on whether actions taken in the last year or two have put the nation on a path that can even achieve stability, let alone recovery. Debate stirs on whether a pernicious and not so secret syndicate has taken control of the USGovt financial ministries, let alone be removed. Debate stirs on whether lack of US Federal Reserve audits and disclosure of their accounting is integral to sustaining the syndicate control as well as its probable egregious fraud. Debate stirs whether the nationalizations have actually enabled adoption of wrecked assets, have concealed executive ransacking, and have buried massive counterfeit of bonds. Debate stirs whether the mountainous federal deficits, the nationalizations of essentially Black Holes, and the endless war spending make deficit reduction a distant dream. Debate stirs on whether the gargantuan accumulation of USFed reserves will spill over to produce widespread price inflation. Debate stirs on why after causing the foundation failure of the US financial structure from Wall Street and the USFed offices, these institutions not only remain in power but demand greater power.

It is my contention that the US financial structures broke without any remote potential for repair and revival in the summer of 2007. The symptoms became obvious in the summer of 2008 to the slower observers with visible shock waves bathed in crisis. The reactions from shock waves have come since the autumn months of 2008. The system has broken, but the syndicate in control wishes to keep the music going, keep the machinery turning, keep the money flowing, so that they can continue the massive rackets, bury the frauds & counterfeit, cover their tracks, process the bad paper into USGovt coffers, continue to corner the printing press operations, continue to con the USCongress into granting more funds for Goldman Sachs to dictate dispensation secretly, and to continue the endless war whose rivers of blood are matched only by rivers of redirected private contractor fraudulent payments. Nobody seeks justice and prosecution for over $1 trillion in mortgage bond fraud. Nobody seeks to remove Goldman Sachs and JPMorgan from control posts at the USDept Treasury and USFed respectively. Nobody seeks even to locate the missing $50 billion from the Iraq Reconstruction Fund, or to announce the known location of the stolen $100 billion from the Madoff Ponzi Scheme (it aint $50B and they know its exact hiding place). **Foreigners have been very busy since the autumn 2008, as they dismantle the levers, knock down the pillars, block the escape routes, yank the collateral from the paper marketplaces, and otherwise thwart the US-UK schemes.**

To claim that the system can be put on proper stable footing is lunatic. To expect that the nation can be recalibrated so as to return to the Good Ole Days of US global dominance and leadership is lunatic. To urge that the economic signposts, megaphones, and billboards be once again guided by policies best described as Bubbly Economic Mythology is lunatic. Yet delusional Americans actually believe the dominant ship at sea can lead as flagship, when it has taken on more water than the Titanic. Since the autumn months of 2008, marred by the Lehman Brothers failure, marred by the Fannie Mae adoption, marred by the AIG adoption, punctuated by a shameful 0% interest rate policy (ZIRP) and a green light for limitless money creation (QE), the United States has lost any semblance of leadership. Instead, its leadership has earned scorn, criticism, and disrespect. **The last people on the globe to comprehend the American condition of failure, corruption, and military aggression seem to be the Americans themselves, who live within the USDome of Perception.** They suffer from perhaps the worst education levels in the industrialized world, coupled with a co-opted national news media network, clouded by the grandest drugstore medication in history. Debate stirs on whether the US actually controls its own news media. The US does not cover the global Paradigm Shift underway that will change its landscape radically.

The clearest conclusions center on almost nothing put on a sustainable viable course for the nation. **Amplification and widened breadth of all that failed cannot serve as the core for revival or recovery, let alone stability.** Yet such policies seem the only ones our hapless bank leaders are able to execute. It is a dog returning to gobble his vomit. It is akin to managers urging their worst workers to intensify their efforts, and to join the ranks of management. **These Keynesians cannot admit that the central bank franchise model has failed, not to be resurrected.** In my view, the debates, the foundations, and the reactions scream two major messages. 1) The system is out of control, with the drivers ramming down the accelerator for even more of everything that failed, for a locomotive within a monetary system based upon illegitimate money. 2) The USGovt finances are heading toward a recognized failure, identified by both a banking system bankrupt seizure and a USTreasury default. **The nation cannot come**

to grips with the bold stark notion that foreigners control our fate, from their revolt against the USDollar as a global reserve currency, from their revolt in supplying additional credit to the USGovt and USEconomy. The reaction so far to crisis has been to rely more heavily upon the Printing Pre$$, to monetize the debts, and to conceal such operations, all while permitting syndicates to operate with impunity. The revolving doors spin freely that fill job posts at the USDept Treasury, Wall Street firms, USGovt regulatory bodies, and key foundations, warranting charges of incest at best and corruption at worst. Things are out of control!

<u>In fact, my forecast is for systemic failure.</u> Its primary elements will be a failed US banking system (as in seizure) and a USTreasury Bond default (as in coerced restructure). Again, martial law and declaration of economic emergency will be the final solution. The prison camps will become debtor prisons and warehouses for illegals, maybe a processing plant for those who refuse virus vaccination. They are already constructed with over 200 ready for occupancy. Those in denial might become residents. They could also feature some dissidents, along with some writer analysts. Two years ago, my analysis regularly mentioned martial law and imposed order to handle the chaos from a disintegrated economy and insolvent dysfunctional banking system. Here we are in the present, when such forecasts do not sound so outrageous anymore. The Jackass has featured a string of seemingly outrageous forecasts that have come true. The US system is credit dependent, and credit will soon be cut off, in the next chapter of isolation. The Printing Pre$$ is a temporary solution, en route to a failed state. The US leaders and citizens do not learn from history. They defy history amidst delusions of omnipotent power. See the Weimar Republic, which has gone global! Even Gore Vidal expects recognition of the Untied States having adopted communism. Even the World Bank led by yet another Goldman Sachs pupil warns the Untied States not to assume the USDollar will remain the unchallenged global reserve currency.

GOLD IS RESILIENT

The true sanctuary is gold, in the face of debauchery of paper money. **We see some clear first hand evidence of the 'Beijing Put' at work.** It could provide a banking system foundation, except that the Gold Cartel and Banker Elite would have to forfeit power, maybe face poverty. Notice the quick recovery. With a slightly lower gold price, the off-take delivery of physical gold has been magnificent, much greater than a week or two ago. **The Wall Street banksters are shocked to learn that demand is not isolated, but rather comes from diverse global sources.** The Powerz threw all they could at gold, mentioned some half-baked story about I.M.F. gold sales (more like closure to decade old short sales), and upped the ante of illicit gold futures contract sales (without benefit of COMEX collateral). Notice the moving averages all aligned and rising. Notice the stochastix cyclical index that come down quickly to the 20 low trigger, ready to rise on a quick reload. The response breakout was very typical, seen a million times before. The breakout loses the amateurs and fast traders who miss the big picture. Like a diver off a springboard, the dive commences for a lift upward. The pullback was really miniscule. The recovery was rapid and impressive, in symmetry with the suddenness of the controlled correction. The Chinese are obviously thanking the corrupted Powerz for their paper games, loading on more acidic paper, offering the Middle Kingdom yet more gold bullion at reasonable prices. The Chinese want to maximize their accumulation of gold from the PaperBoyz, at the best price. They do not want a catapult upward in the gold price. They want a gradual controlled price. The Gold Cartel seems extremely willing to accommodate.

ABSENT A STRONG FOUNDATION

Widespread **Insolvency** is a major theme of the broken condition. The banks have assets and income grossly below their debts and liabilities. They must rely upon phony FASB accounting, which was the basis of the stock recovery beginning in April. They must bring fresh capital, lost as fast as it arrives. They now tell the public what their assets are worth, backwards to any market concept. The households are suffering from mortgage obligations even as housing prices continue to slide lower. With almost one third of American homeowners who hold mortgages operating with an underwater status, whereby their home loans exceed the home value, the army of consumers is more than hampered. Unlike the bankers, the households of America cannot just pound the table, engineer an absurd Stress Test, and declare they are solvent enough for equity extensions. The households line up for defaults and foreclosures instead. The smart ones demand that the bankers prove clear certified title of their property. See the Kansas MERS case that might serve as precedent to jam the gears of the bankers intending to seize homes in foreclosure. The bankers cannot prove they hold clear title. Such is the vagary of mortgage bond fraud, as it seeps to the surface.

The USGovt finances are in shambles, with $1800 billion in fiscal 2009 deficits, and easily $1300 billion to come in the next year. Take away the Printing Pre$$ from the desperate delinquent devils running the USGovt finance ministries, and national debt default would take place within 60 days. The nation does not even contemplate budget surplus, but rather justifies yawning deficits and lies using lunatic forecasts. The industrial base is also largely depleted. The Chinese Most Favored Nation granted in 1999 set the stage for shipment of much of the US factories to China. In the process, the USEconomy replaced income with debt, all in the name of 'Low Cost Solutions' moronically. Corporate leaders in America reacted to heavy burdens of government regulations and higher taxes, even to rugged labor unions. Maybe their relocation decisions constituted betrayal, or maybe just reaction to onerous conditions that evolved over decades.

The **Albatross** of falling property prices, both residential and commercial, continues to hang around the neck of the USEconomy. The full impact of the commercial property decline has yet to be felt, more in delayed reaction. A queer factor comes into play with commercial mortgages and loans. Even if the majority of payments are current, even if most tenants pay rent on time, the loans tend not to be viable for refinance and rollover. The Loan-to-Value ratios are all horrible after a broad 30% to 40% property price decline. Banks require more equity. On the residential side, the Prime Option ARMortgages are lined up for the kill. It seems that payment of less than the required interest was not a good idea after all. It seems that leaving homeowners the option to build their loan balance when property prices fell was not a good idea after all. Now they face 100% to 200% monthly loan payment increases, all in the fine print unread years back. So liquidations and foreclosures will continue to come, complete with outsized bank losses. The**Perpetuation of Loss** is ensured by continued property foreclosures and liquidation. Despite all talk, the process continues. Despite the pain, the statistics continue to be mangled with a purposeful motive.

The **Accounting Fraud** for bank balance sheets and stock valuation runs like a cancerous streak throughout the financial sector. The best way to cover up fraud is with more fraud. The best way to cover up accounting chicanery is to have the USCongress bless it as legal, vital, and essential. Once the stock market rose for consecutive months, talk of phony accounting rules is forgotten, SINCE IT SUCCEEDED, even served as proof of recovery. What nonsense! A moral depravity has permeated not just the financial sector, but the public as well. They cry out from the corners laden with pain, but without specific targets. The end of the FASB relaxed rules is scheduled for January 1st. Let's see if a compromised USCongress and corrupt Wall Street demand its extension. They obviously will. Furthermore, both Basel 2 and Basel 3 guidelines are ignored, since from outsiders. Ignore them at one's own peril, as they gather as Enemies at the Gate among the USGovt creditors. Theirs might turn into an angry lynch mob. Foreign creditors are the #1 adversary to all things American right here, right now.

SUSTAINING FORCES

Numerous hidden forces sustain the current breakdown and hamper anything remotely resembling a recovery. The only thing in recovery is the banter, billboards, and propaganda. In fact, most praise of success comes from people who praise their own efforts, like USFed Chairman Bernhacky. His predecessor was also very accomplished at praising his own craft and alchemy. Sir Alan Greenspasm left the national banking system hanging over the precipice, from where it fell in a short time after passage of the mantle at his retirement. He believed his housing bubble saved America from disaster. He believed that credit derivatives offloaded risk. Little did he realize that the next disaster is always much greater than the saved previous one, when amplified credit and monetary ease are the solutions relied upon, all pure heresy. He lives now in London, and spends much time in Switzerland. These nations paid his secretive other paychecks.

These nations are where his loyalty and all directives came from in my opinion. **Many hidden forces will work to undermine the current efforts to instill a recovery to the USEconomy and a resuscitation of the US banking system.** Bernhacky will soon realize that reliance upon the same toxin and formaldehyde to course through the increasingly cancerous bodies will produce even worse problems during the next crisis phase. It comes.

Numerous sustaining forces will contribute toward the inexorable path to systemic failure. It will begin with the relapse failure of the US banking system. Citigroup is facing real bankruptcy, whose numerous segments are underwater and growing worse. Bank of America is in a death spiral, whose CEO Ken Lewis departs amidst political and shareholder legal pressures. Wells Fargo is so dead that its true balance sheet makes a skeleton come to life, whose prime Option ARM and second mortgage exposure is monumental. Maybe Citigroup, BOA, and Wells will use USFed funds to acquire the entire US banking system and subject it to their brilliant acumen, leadership, and access to the corrupt money pits. Lock in those executive bonuses!

The **hidden housing inventory** will ensure that housing prices continue down for a couple more years. At best they will stabilize somewhat, but only if a monumental hidden housing inventory is permitted to accumulate. The big banks, the very same that abused mortgage bonds with leveraged instruments, own an outsized supply of foreclosed homes. What a fitting reward! They tend to release only a portion of this home supply, so as to permit some price stability as demand catches up. Lenders are reluctant to lend though, even while the foreclosure process continues. Job loss is the main driving factor, amidst household insolvency.

The **Zero Interest Rate Policy** is worn as a badge of shame to reflect central bank failure. It rewards savings not at all. It encourages the same speculation that produced bubbles to kill the banks and households. It encourages a Dollar Carry Trade, which ensures a pressured decline in the USDollar itself. The October Hat Trick Letter will discuss additional risks and dangerous consequences from the Dollar Carry Trade. Remember, Bernhacky assured the USCongress, the US conferences of economists, and the US people that the USFed would not resort to 0% rates. He did just that. In addition to powering with leverage the US$ exchange rate downward, this carry trade takes away a viable Exit Strategy for the USFed. Imagine Wall Street leveraged speculative machinery interrupting any potential lift in the official US interest rate! Recall that the USFed does take orders from the Wall Street syndicate. They selected him. They hired him. His job is to run the Printing Pre$$ day and night, to invent new liquidity facilities, to preach solutions to the USCongress, to shut up, and to follow orders. **In the last year, the USFed has acted like it is the entire banking system.** What exactly is the exit doorway to take from that strategy?

Without hesitation, one can claim that **No Meaningful Reform or Restructure** has occurred. The US financial and economic structures continue to suffer from precisely the same problems that resulted in systemic breakdown in the autumn months of 2008. The difference now is that the previous high volume of acidic money is exceeded with higher volumes now. USGovt debts are now much higher. Lending institutions are less prone to lend now than one or two years ago. Commercial paper used not to flow at all, and now flows but with less volume and from fewer channels and with more USFed assistance than ever before. Innovative thought is totally suppressed, if not crushed. Advocates for a reformed system without paper fiat money are dismissed. The syndicate continues to ply its trade and to control the levers. But their work is frenzied, and they are sure to lose control.

No meaningful reform comes even to the hundreds of thousands of mortgage loans that undergo**Home Loan Modification**. They cannot alter the loan balances, since that would require alteration of the associated mortgage loans that rely upon income stream from loan payments. This is not acceptable, since it would reveal the pervasive bond fraud, the counterfeit bonds, and the duplicate usage of home loans in multiple mortgage bonds. So solutions come to toss billion$ at the big banks, without solution, an assuredly failed Top-Down approach that appeals to Wall Street. The extort the money and hide the paths of funds. Also, on the small business front, the restructure of the Small Business lender & insurer CIT failed to produce any meaningful revitalization. Its June debt restructure agreement with bond holders failed to stick. It now seeks a $5 billion loan as debtor in possession. A million businesses would be affected if CIT folded and was liquidated. We are told of a recovery in progress. Its roots are in propaganda, crowd control, and shaping of public opinion. George Orwell would smile and smirk from his 1984 address on Cemetery Lane.

No national initiative has come to bring back US industry to the US shores. No national initiative has come to retain businesses by means of reduced taxation and reduced regulatory burdens. No national initiative has come to remove from power those responsible for Wall Street bond fraud. No national initiative has come to even force a proper accounting to Wall Street firms or Fannie Mae or AIG. No national initiative has come to conduct a true autopsy of Lehman Brothers, like to see what assets they held, what hedge funds they sponsored, what counterfeit Fannie Mae bonds they were soon to toss onto the table, and **whether JPMorgan did indeed pay off private Lehman accounts with the $138 billion in slush funds**. The booty was handed to them at a bankruptcy court meeting held before dawn on an September Saturday morning. No national initiative has come to force disclosure of the TARP fund distribution, or to reveal what the USFed does with its trillion$ of created money. They destroyed the USDollar, and the victims enduring the crisis from inside the USDome need to know. Without hesitation, one can claim that all attempts to shine light on the financial sector and its ivory towers have been obstructed.

Two further factors ensure the sustained crisis in the USGovt finances, with certain continued contagion to the financial sector and the tangible economy. The **Endless War** with its increasingly less credible banter against terrorism drains the United States of funds, saps its national spirit, cripples its soldiers, and extends risk in countless ways. **The USDollar and USTreasury Bond suffer from lost foreign confidence and faith.** The real threat to national security lies in the finance sector rooted in Wall Street. Almost all talk about foreign threat is a grand distraction from the internal threat, even as incredibly grand fraud is committed in the name of patriotism. The **Entrenched Financial Syndicate** remains in power, controls all financial policy, directs funds from the Printing Pre$$, influences the USCongress with slush contributions, controls regulatory body heads, engineers nationalizations of fraud-ridden financial firms, interferes with FBI investigations (see the GSax trading software), integrates with foreign policy, and provides segments to the US press networks. Fully 70% of US press network content comes from the USGovt and its myriad agencies with spokesmen and public relations offices.

FAILURE & DEFAULT ON THE HORIZON

Going hand in hand with the destructive 0% policy is the **Hidden Monetization of USGovt Debt**, clearly. The zero rate encourages new asset bubbles, like the historically unprecedented spectacular USTreasury bubble. USTBONDS MAKE THE FINAL BUBBLE. The zero rate enables new carry trades with no cost. The zero rate permits a private banker party to engage in their own corner carry trade, buying long-dated USTreasurys with free money while shorting the short-term USTBills. This acts like a money machine for bankers to restore their balance sheets. The only trouble is their balance sheets have a hemorrhage at work, with additional ongoing relentless credit portfolio losses. The accounting fraud can only mask the problem, which happens to grow worse with each passing month. **With lost integrity from the 0% rate comes disdain for the monetary system generally and for the USDollar specifically, along with other major currencies locked near 0% also.** INVESTORS TURN TO GOLD AND SILVER, the proven sanctuary during crisis.

While the 0% official rate creates problems much like those that erupted in a crisis, **the monetization of debt issuance signals to the entire world to abandon the USDollar**. The monetization assures the death of the USDollar. It is Weimar revisited, but with more military might and far more arrogance. Megalomania gone awry results in catastrophe. Monetization represents back-door devious measures to stave off the disaster of bond auction failures. Monetization is a broken promise made to creditors, who must feel betrayed. Monetization is a vast undermine to the validity, value, and very authenticity of a currency. **The government debt for the custodian to the global reserve currency is being monetized, thereby creating gigantic air pockets, and funding a carry trade.** The most dangerous asset bubble on the planet right now is the USTreasury. It pays 0% on short maturities. What is next? The forced USGovt worker pension contribution to USTreasurys? How about all state workers too, in their pensions? Maybe eventually all 401k and IRA and Keough pension plans as well, in their pensions? Every citizen maybe support the USTreasurys in pensions, out of patriotism, for national security? **With lost integrity from the monetization patterned schemes, comes fear of a repeated Weimar hyper-inflation episode.** INVESTORS TURN TO GOLD AND SILVER, the proven sanctuary during crisis.

What comes is the US bank system failure. The endless rounds of bank credit portfolio losses dictate it. The Stress Tests are soon to be discredited, less than one year after their farcical production. The leading losers will be commercial mortgages, prime Option ARMortgages, and credit card losses. Banks are not prepared, having inadequate Loan Loss Reserves, guarding their profits, denying their reserves, managing their stock prices. They deceive their share holders on continued portfolio risk. They try to shove all their garbage assets on the USFed and to Fannie Mae under the USGovt roof, amidst the shrill cries of 'Too Big To Fail' nonsense. A US bank system failure is coming. **With lost integrity from the banking system, insolvent in its own core, supplanted in function by the USFed itself, lending so little as to force declines in the consumer credit funds, comes distrust of financial institutions generally.** INVESTORS TURN TO GOLD AND SILVER, the proven sanctuary during crisis.

Downloaded from *http://financialsense.com/fsu/editorials/willie/2009/1001.html* on October 5, 2009.

Does money contraction signal serious trouble?

Many readers think I have been talking balderdash about the money supply. Specifically, that contraction of credit and M3 money in both the US and Europe signals double-dip trouble ahead.

I have dabbled in this subject from time to time. The money and credit data gave a crystal clear warning in July 2008 (as I wrote in a *blog* at the time). It is worth looking at the charts in that blog. They could not have been uglier.

I have returned to this theme over the last month — with slightly less conviction than a year ago, I must admit — mostly relying on the thoughts of Tim Congdon from International Monetary Research, the team at Lombard Street Research, and David Rosenberg at Gluskin Sheff.

M3 money — the best leading indicator, a year or so in advance — has been shrinking at a 5pc annual rate since June in the US. It has been slightly negative since March in the eurozone.

The Fed says M2 contracted at a 7.3pc annual rate in August, and 3.1pc rate in July. It has shrunk since May.

M1 contracted at a 3.7pc rate.

The monetarists do not agree among themselves about the meaning of this, however. Germany's top theorist, Prof Roland Vaubel from Mannheim University, tells me this is all tosh because narrow M1 is growing fast, at least in Europe.

Simon Ward from New Star Management, one of the UK's small club of monetarists, has been in touch to tell me that I am barking up the wrong tree. The picture is much more benign than it looks.

His argument is that velocity of circulation is picking up fast. This can be inferred because money is pouring into mutual funds and there is growth in narrow M1 as people shift funds out of savings accounts into cash and cash-like accounts. Such shifts are a leading indicator that M3 velocity is rising, even if growth is not yet visible in the data.

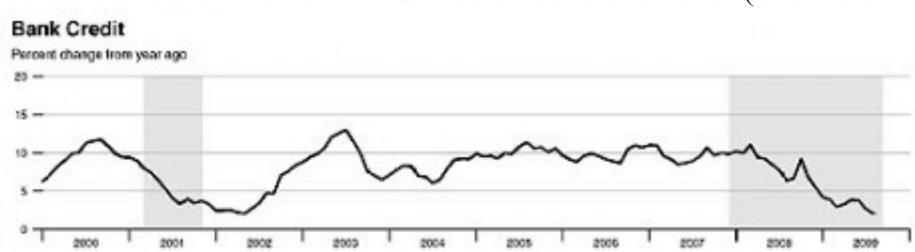
This mimics the US in the early 1990s, not Japan at the onset of the Lost Decade, let alone the Great Depression. A steep yield curve (as banks and funds play the carry trade by borrowing at near zero short-rates to buy longer-dated bonds at higher interest) is artificially depressing the broad money indicator — for now.

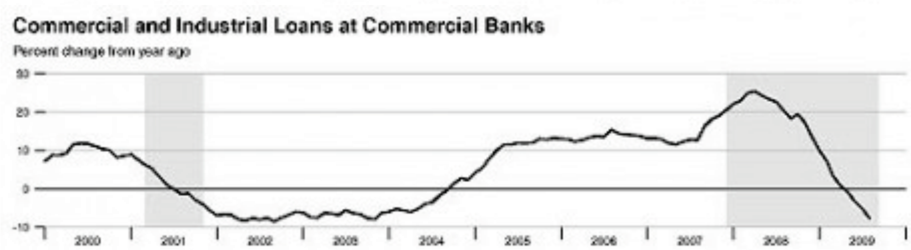
Simon argues that credit stagnation is in any case caused by lack of demand for money, not by the refusal of banks to lend (Ergo, no credit crunch), and that bank lending data in the US does not include the Fed's purchase of mortgage bonds.

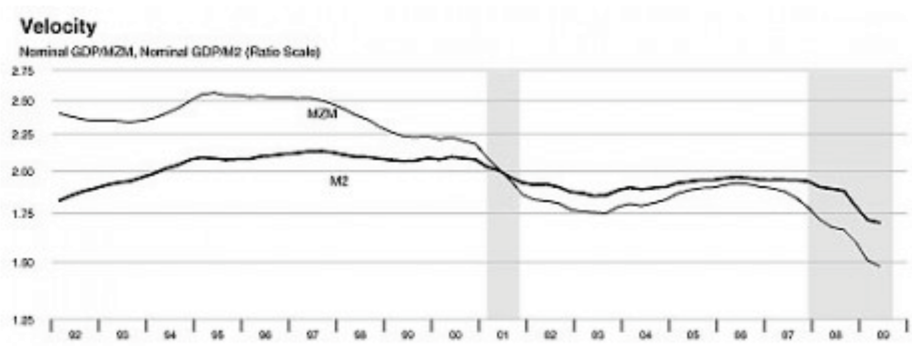
Here's his *latest note* on this.

Hmhh. He may be right, (I dispute that M1 is growing in the US) but I suspect that the rush by banks to meet tougher capital adequacy ratios is acting as a form of vicious monetary tightening (Tim Congdon says the G20 drive for higher ratios in the middle of a downturn is the equivalent of the liquidationist stupidity of the early 1930s. Our leaders risk pushing the world economy over a cliff).

I also suspect that something totally different is going on with M1, and won't be so pretty. People are putting savings in narrow money accounts because you get zilch interest whatever you do — not because they are about to go on a spending spree. This may distort M1 in the other direction entirely. In any case, M1 shrank over August in the US.
What is clear is that zero rates are playing havoc with the indicators, so nobody really know what is going on — and that includes the central banks. You have to trust your instincts here. We are in the field of psychology and anthropology. Econometric models are useless once events take a dramatic turn. They are dangerous, allowing ideologues to push their theories beyond the point of common sense.
Ben Bernanke, of course, stopped paying any attention to M3 broad money a long time ago. He was largely responsible for abolishing the data at the Fed (though it is easily reconstructed). This was another of his grave errors. Had he been watching M3, he would have known that the bubble was getting out of hand in 2005 to 2006, and equally that the banking system was going to start collapsing in 2007, and to disintegrate in 2008. It was all there, as clear as daylight.
It took some cheek for Bernanke to say at Jackson Hole this August that nobody could have seen the banking crisis coming. They did it fact see it, and shrieked from the rooftops. He had cloth over his ears.
In as much as he pays any attention to money, it is only to narrow M1. I fear that this is going to take him –and the world — smack into another crisis. You need to look at everything.
Here are a few charts from the St Louis Fed to chew over (click to enlarge):







Downloaded from http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100001234/does-money-contraction-signal-serious-trouble/ on October 5, 2009.

US Faces Retro 70s Inflation: Jim Rogers

The US faces high inflation because of the weak dollar and the Federal Reserve's policy of printing money to counter the effects of the crisis, legendary investor Jim Rogers told CNBC Thursday.

Price rises in the US are already steeper than the inflation rate reported by the government, Rogers added.

"There's no question the US is vulnerable to hyperinflation down the road or certainly the inflation we saw in the 1970s, I would expect that to come back in the foreseeable future, certainly in the next few years," he said.

"The true inflation rate in America? It's certainly at least 6 or 7 percent, the US government lies about it, as you know, everybody who shops knows that prices are up, everybody except the US government, and I wish we knew where they shopped so we can shop there too and get good prices."

Rogers repeated his view that the Fed's quantitative easing program is "debasing the currency" and said he was "extremely worried" about the fate of the dollar over the long term.

Asia is the region where investors should go, as countries in that region have strong reserves while once-strong economies such as the US and the UK are now in debt, he said. But investors should do their homework.

"If you don't know where China is on the map you shouldn't invest any in Asia… but if you know a lot about Asia and know what you're doing, you should probably have a lot in Asia," he said, adding that stock markets aren't attractive now.

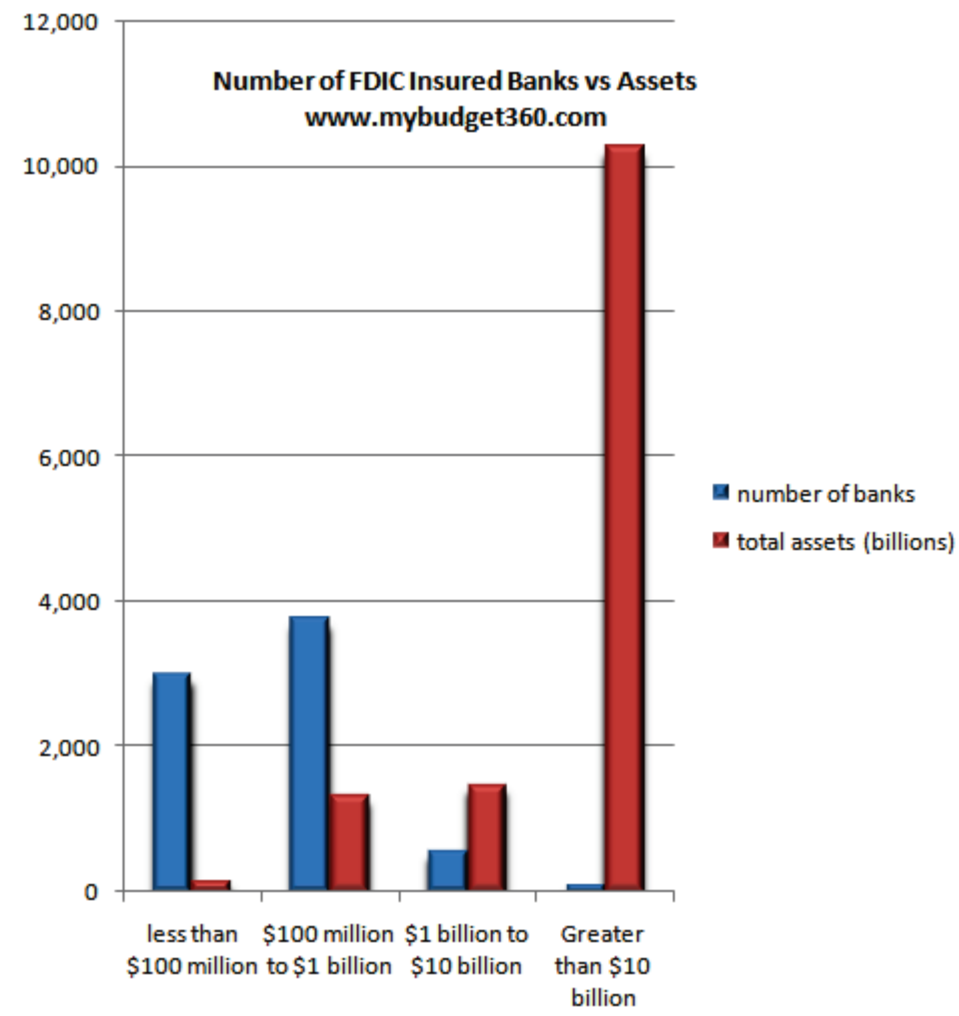
"I'm not buying shares in any country right now, most stock markets around the world are up through the roof, especially in Asia," Rogers said.

Downloaded from http://www.cnbc.com/id/33114243 on October 5, 2009.

FDIC Insuring 8,200 Banks with $9 Trillion in Deposits and Zero in the Deposit Insurance Fund. Calling Banks to Prepay Assessment of $45 Billion.

The FDIC has greatly underestimated the problems of our nation's banking system. Earlier in the week the FDIC proposed that banks put up $45 billion to protect bank depositors. The ***average American*** must be amazed that a system backing $9 trillion in deposits is essentially broke. Clearly the FDIC has the backing of the ***U.S. Treasury and Federal Reserve*** but there is some irony in having the FDIC tell banks to pay an early assessment to protect our money. These banks are going to use bail out money to pay to protect taxpayer deposits! The banking system is going to have some deep and profound issues as the ***$3 trillion in commercial real estate loans*** go bad in the next few years.

The problem is how the banking system is structured. Take a look at how assets are distributed over the 8,204 banks:



This is an incredible chart. Total assets at FDIC insured banks amount to $13.3 trillion. However, out of 8,204 banks 116 hold a stunning $10.28 trillion of these assets. We can have the smaller banks fail and the asset base would hardly move. Yet the issue of course is that the vast majority of big dollar problems are in the bigger banks.

The FDIC made the call for the prepayment this week because it is now officially in the red. It is no surprise given that a system backing some $7.42 trillion in loans with what is now no reserve is doomed to fail. It was destined to run out of money. Yet it is naïve to think that only $45 billion is going to protect the system from the ***$3 trillion in commercial real estate loans*** that are held in many not too big to fail banks. The end outcome is more trouble for banks and the taxpayer should gear up for a second round of bailouts. If you doubt this the Federal Reserve has already discussed "***Plan C***" which was a backroom talk to preemptively bailout the commercial real estate industry.

The plan from the FDIC would front load bank assessment fees making institutions pay up for fees that were due up until 2012. This assessment is going to wipe out the $1.8 billion in supposed bank profits from the first half of the year. There isn't any issue with the prepayment per se, but the fact that banks are claiming that all is well is a massive bait and switch on the American people. The insurance fund is wiped out not because of great bank performance but because the FDIC is virtually taking over a few banks every Friday. Of course this flies in the face of a recovering economy.

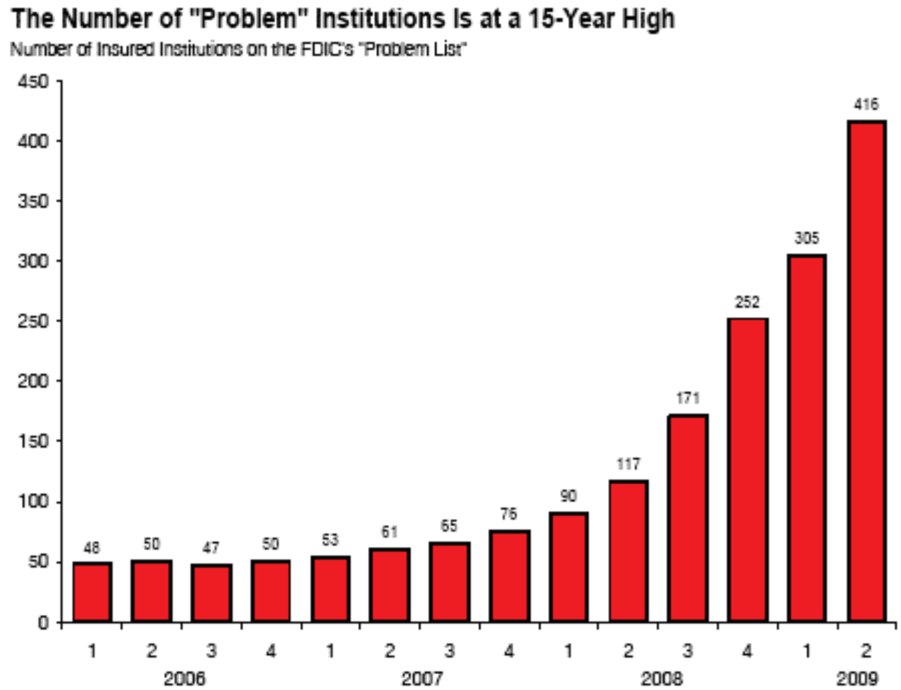
With recent auto sales data out, car sales plummeted as expected after the cash for clunkers gimmick ran out. So banks with their $1.8 billion "profit" was nothing more than accounting chicanery and bailout money moved around to give the appearance of profit.

To show you how quickly things are changing the FDIC in May had projected losses of $70 billion from failed banks. That number is now up to $100 billion and this is with the stock market going gangbusters and the financial sector rallying with hot money. The insurance fund started out the year with $30 billion but most of that has already disappeared with rising delinquencies and ***high unemployment***.

The problem with the FDIC approach is that it is exchanging liquid assets from reserves and taking over toxic mortgages from these failed banks. These assets have much lower values in today's market and chances are the FDIC is over estimating the value of the assets they are acquiring. What is even more disturbing is their extremely optimistic outcomes on***commercial real estate*** which are more toxic loans than even their residential property siblings.

The problem with the deposit insurance fund is we are told no depositor has ever lost a penny from insured deposits:

Of course this isn't taking into account the subsidies and taxpayer money going to bail out banks or the devaluation and ***destruction of the U.S dollar***. You don't lose a penny, you lose a dollar with how things are being approached. The number of troubled institutions is growing exponentially:



This is by the FDIC estimates so we can assume that more are on the troubled list. By the end of this recession (or two) we will have 1,000 or more failed banks.

Downloaded from *http://www.mybudget360.com/fdic-insuring-8200-banks-with-9-trillion-in-deposits-and-zero-in-the-deposit-insurance-fund-calling-banks-to-prepay-assessment-of-45-billion/* on October 5, 2009.

TARP: Taxpayers on the hook for $200 billion
Experts say the cost of the $700 billion bailout to taxpayers is a small price to pay for saving the economy. Others argue we are just staving off an inevitable collapse.
By *David Goldman*, CNNMoney.com staff writer
Last Updated: October 3, 2009: 9:06 AM ET

NEW YORK (CNNMoney.com) -- Taxpayers stand to lose between $100 billion and $200 billion on TARP -- Treasury's $700 billion financial market bailout.

While that's nothing to sneeze at, many experts say that the Troubled Asset Relief Program helped rescue the economy from a second Great Depression.

But there are others whoargue that the billions of dollars that taxpayers shelled out simply delayed an inevitable epic collapse of the financial sector.

A year ago, when the financial markets were in turmoil, the Bush administration and supporters in Congress said TARP would be used to buy banks' troubled assets, and would be an investment -- it could even turn a profit.

But TARP, which celebrates its first birthday on Oct. 3, has been used for many programs it was not initially intended for, like saving AIG, automakers and helping struggling homeowners.

Some quick math: Of the authorized $700 billion, the Treasury Dept. has needed to deploy only about $450 billion.

About half of that has gone to investments in hundreds of financial institutions in exchange for preferred shares. From these programs, the government has gotten $71 billion back through repayments and $12 billion back through warrants and dividends.

The other half of TARP has gone to much riskier emergency lending programs or other non-lending initiatives. A big chunk of that will filter back to the Treasury's coffers eventually. But a lot won't be returned.

- **Foreclosure help:** Treasury said it will not get any money back from a foreclosure mitigation program called Making Home Affordable. Treasury has spent $22.3 billion so far and will eventually spend $50 billion on that program.

- **Automakers:** Taxpayers have sent $83.5 billion to automakers, $2.1 billion of which has been returned. Of the $50 billion in loans to General Motors, all but $6.7 billion were converted into common stock, and Treasury estimated that about $23 billion of that will be subject to "much lower recoveries." Of the $15.2 billion that went to Chrysler, Treasury said $5.4 billion is highly unlikely to be recovered.

- **AIG:** The troubled insurer has a $182 billion bailout available to it, $70 billion of which is available from TARP. So far, Treasury has lent $44 billion to AIG (*AIG*, *Fortune 500*), and economists are dubious about getting the whole thing back. The company has pledged to repay its TARP loan in three to five years, but the insurer has missed three dividend payments already and won't pay back most of its other loans.

- **Citigroup:** Treasury converted its entire $20 billion emergency loan to Citigroup (*C*, *Fortune 500*) into common stock. Financial industry experts note that though Citi's stock is up 365% from its March low, Treasury didn't convert the stock into common shares until the end of July, missing the vast majority of that rally.

- **Other programs:** Economists are also doubtful that companies like GMAC, Bank of America (*BAC*, *Fortune 500*) and CIT (*CIT*, *Fortune 500*) will pay back all or any of their loans. GMAC failed the capital stress test from May, and many believe the government will convert its $13.5 billion loan into common shares. We have $45 billion on the line with Bank of America, which is still struggling to work through its Merrill Lynch deal. And CIT is nearing bankruptcy, which would put the return of its $2.3 billion loan in jeopardy.

And that's how financial experts calculated the $100 billion to $200 billion that Treasury is likely to lose.

Why it was worth it: "We were presented with the worst case scenario last September: the collapse of the financial markets," said Steven Adamske, spokesman for the House Committee on Financial Services. "For anyone worried about losing a dollar over this, let's talk about the trillions of dollars more that would have been lost on retirement savings and the many more jobs that would have been lost."

Others even argue that TARP's value cannot be calculated in dollar terms.

"There are portions of TARP we'll never see a monetary return from," said Lawrence Kaplan, former special counsel at the Office of Thrift Services who is now counsel in the financial institutions practice at Paul Hastings. "But we've seen a significant economic return that is greater than just dollars."

For some, the alternative was simply too risky to stand pat.

"People will never understand the enormity of the disruption that we never saw: No one would have had credit, no one could have accessed their savings," said Edward Gainor, a partner at Bingham McCutchen in Washington who represents funds dealing with distressed assets. "As a society, we shouldn't regret that some amount was invested in keeping the wheels on the cart."

Why it wasn't worth it: There are many financial sector experts who say that TARP was a mistake.

"If you get a very expensive treatment that saves your life, but you don't sort out the underlying problem, it may not come back for awhile, but it will come and get you again," said Simon Johnson, professor of global economics and management at MIT.

Johnson contends that the government had an opportunity with TARP to really fix what ailed the economy: Regulators could have thrown out failing corporations' management, ensured that bad banks are less politically powerful and reformed regulation to rid financial institutions of irresponsible practices. Though the Obama administration is pushing for regulatory reform now, Johnson said the solutions don't go far enough because there isn't the same political will to ensure that the events of last year won't happen again as there was during the crisis.

As a result, Johnson and others argue that it's a false dichotomy between the bailout that Treasury drafted up and epic failure of the economy.

"There are serious questions about how TARP was managed, because it became much more intrusive into the economy than it should have been," said James Gattuso, senior fellow of regulatory policy at the conservative-leaning Heritage Foundation. "The market was more resilient than many gave it credit for ... but instead we gave money to companies like AIG and automakers. We aren't going to see that money again."

Liquidity Shocks, Systemic Risk, and Market Collapse: Theory and Application to the Market for Perps

http://faculty-staff.ou.edu/F/Chitru.Fernando-1/Research%20Paper/Perp_RFS_finalfinal.pdf

Security and the Falling Dollar
FEBRUARY 15, 2008
By JUDY SHELTON

Every year, the Senate Select Committee on Intelligence is briefed by the chief of U.S. intelligence on potential threats to the nation. The list is sobering, but usually predictable and typically includes global terrorism, nuclear proliferation and regional conflicts.

But this year, there was a surprising potential foe: the falling dollar. In his report to Congress last week, Director of National Intelligence Michael McConnell went beyond the conventional world of spycraft. Mr. McConnell specifically acknowledged "concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to achieve political ends." He noted, in particular, the impact a weak dollar can have on national security: "As the dollar has weakened this year, some oil producers -- such as Syria, Iran, and Libya -- have asked to be paid in currencies other than the dollar while others -- such as Kuwait -- are delinking their currency pegs to the dollar."

It's not every day a former Navy vice admiral steeped in the culture of the defense intelligence community talks like a central banker, but Mr. McConnell clearly recognizes a threat: "Continued concerns about dollar depreciation could tempt other major producers to follow suit."

The rest of Washington -- and every presidential contender -- needs to start paying attention to the declining dollar before it develops into a full-blown currency crisis with damaging geopolitical consequences. What happens if major oil-producing nations decide to abandon the dollar for measuring the value of their most important export? What if they set up their own monetary union to serve as an alternative to a currency that is no longer a reliable store of value?

At a time when the Pentagon is focusing on the importance of rebuilding war-torn nations -- restoring civil and economic stability -- as a prerequisite for lasting peace, we should be emphasizing the confidence-building aspects of sound money. The dollar's primary role in the world financial system is the most vital nonmilitary instrument of our national power. We cannot afford to neglect the dollar and thereby give up the global influence that comes from providing the world's key reserve currency.

It's a matter of global energy security, first and foremost. Russia makes no secret of its ambitions to elevate the ruble to world reserve currency status. President Vladimir Putin, in a major televised speech last Friday outlining his strategic goals for the next 12 years, stated that Russia must become "one of the world's financial centers" -- a logical step, he asserted, given that Russia has accumulated $484 billion in gold and foreign currency reserves. Mr. Putin earlier called for denominating transactions for Russian oil and gas exports in rubles. When his chosen successor, Dmitry Medvedev, is inaugurated in May, we can expect a tightening of the link between Russian energy deliveries and currency requirements imposed on recipient countries.

A perfect storm for dollar desertion may already be brewing. In the months ahead, China is expected to export fewer consumer goods to the U.S. with a forcibly-appreciated yuan. Meanwhile, Chinese spending for Russian oil and gas will likely start to ramp up. Mr. Medvedev, whose duties include serving as chairman of Gazprom, observed this past summer that the U.S. dollar was not immune to crisis of a "comprehensive, global character." He was thinking ahead about potential opportunities. "A situation may arise where we, China, and some other Asian countries will speak of the emergence of a regional reserve currency." The yuan was a possibility, Mr. Medvedev conceded. "But it is in our interest that it be the ruble."

If gold and foreign currency reserves were the only prerequisite for harboring global ambitions in the monetary arena, China could make impressive claims of its own with $1.7 trillion as of December 2007, the world's highest level. Japan comes in second at $973 billion. If you add together the gold and foreign currency reserves of EU member states that have adopted the euro, including those of the European Central Bank, the total amount in the EU is $511 billion.

Russia trails not so far behind. And beyond its considerable official reserves (which increased by 57% last year alone) and its alarming energy clout in European and Asian markets, Russia has a growing military presence. Not that Russia's military capabilities were ever truly contained. But those capabilities have been constrained as Russia struggled to emerge from its Communist past and join the family of democratic nations. Political transformation and economic renewal took precedence, so it seemed, over the large demands on funds that clinging to military superpower status would have required.

Building up a menacing force of strategic bombers, nuclear submarines and new intercontinental ballistic missiles is a financial luxury -- one that Mr. Putin now seems eager to indulge as Russia fills its coffers. It may be that he sees it as the essential appendage to global power needed to carry out his strategic vision.

How else to explain the incursion of a Russian warplane on Saturday into Japanese air space, a violation that caused 22 Japanese fighter jets to scramble and elicited a strong protest to Moscow from the Japanese foreign ministry? The TU-95 "Bear" bomber is equipped to carry cruise missiles that can deliver a nuclear warhead.

Japanese newspapers speculate that the intrusion might have been prompted by an annual rally held two days before in Tokyo demanding the return of four islands seized by Russia in the closing days of World War II. Both Japan and Russia are strongly motivated to settle the long-standing dispute; Japan wants greater access to Russian energy supplies while Russia seeks Japanese financial capital to develop its far eastern regions.

Just last week -- only three days before the Russian warplane sortie -- Japanese Prime Minister Yasuo Fukuda announced he had received a letter from the Russian president offering to hold talks to resolve the dispute over the islands. Mr. Fukuda has made plans to visit Moscow in late April or early May, convinced that working out a settlement with Mr. Putin "is essential to lift Russo-Japanese ties to higher levels." If he waits until May 9, Mr. Fukuda can take in Mr. Medvedev's inaugural ceremonies as well as the planned full-scale, Soviet-style military parade -- the first display of weapons on Red Square since 1990.

Not that the crude maneuvering of carrot-and-stick incentives isn't effective, but it is dangerous. Especially when the dealmaker has shown a high propensity to rely on the stick.

A weakening U.S. currency plays directly into fears about a weakening U.S. economy and gives credence to self-serving pronouncements about America's weakening role in the world arena. The dollar won't be strengthened by further interest-rate cuts or more fiscal stimulation leading to inflationary consumer spending. If the U.S. is to reclaim its position as provider of the world's most trusted currency, we must think more boldly.

It's time to confront currency disorder. Our goal should be to put forward a new proposal for international monetary relations on the scale of the 1944 Bretton Woods agreement, invoking the same sentiments that inspired architects John Maynard Keynes and Harry Dexter White to provide a foundation of hope for a world all too prone to violence. A global system based on a universally-accepted monetary asset -- the U.S. has the world's highest level of official gold reserves, followed by Germany and France -- would not only counter Russia's offensive. It would convert a national security threat into a golden opportunity.

Ms. Shelton, an economist, is author of "The Coming Soviet Crash" (Free Press, 1989).

A Capitalist Manifesto

Markets remain our best hope for a better future.

By *JUDY SHELTON*

"Le laisser-faire, c'est fini."

It was French president Nicolas Sarkozy who actually uttered the words, but you could draw the same message from watching the televised debates in the United States at both the vice-presidential and presidential level. You know that America's founding economic philosophy is in deep trouble when candidates for our nation's highest office refer easily to "Wall Street greed" and "predatory lenders" to explain the global financial crisis. And those are the Republicans.

Where are the champions of free-market capitalism? Someone needs to remind us all that two great works were published in 1776, both representing game-changing advances in human freedom: The Declaration of Independence, authored by future American president, Thomas Jefferson, and "The Wealth of Nations" by Scottish economist Adam Smith. Both embrace the social wisdom of individual liberty; both extol the importance of personal responsibility.

These days, it seems difficult to defend the efficacy, let alone the morality, of an economic approach to human interaction that is now blamed for having put the entire global economy at risk. But that is exactly what we need -- most importantly, from America's next leader.

Sometimes it takes an outsider to help us gain perspective. Deep within the condemning speeches delivered by Mr. Sarkozy, both in New York and Toulon, are the grains of a new approach to capitalism that should give Americans reason to hope, not only for economic salvation but for a sense of redemption on a deeper level. France's president held out the possibility that all is not lost, that we can fix what is broken. "The financial crisis is not the crisis of capitalism," according to Mr. Sarkozy. "It is the crisis of a system that has distanced itself from the most fundamental values of capitalism, which betrayed the spirit of capitalism."

It is a distinction that could make all the difference. The world at large is drawing lessons from this economic crisis that will influence the political destiny of mankind. Mr. Sarkozy is trying to harness the collective dissatisfaction into a bold call for global reform. He is calling on world leaders to hold a summit before the end of this year to lay out proposals for a new approach to international financial and monetary relations. It could be the world's biggest boondoggle -- or the dawn of a new beginning for capitalism.

If we are to build a new foundation for global financial and monetary relations on the scale of the Bretton Woods Agreement conceived as World War II was still raging, we must summon the intellectual depth and political will that can only derive from a strong sense of moral purpose. Give credit to Mr. Sarkozy for demonstrating leadership in attempting to salvage what we know is true -- that democratic capitalism is the best hope for mankind -- while jettisoning the abuses and fraudulent practices that have distorted the outcomes of free-market competition. The French president's call for a global summit should be heeded.

What are the basic principles that we can forge together toward this "true capitalism" that Mr. Sarkozy has described, this market economy that utilizes the power of genuine competition to serve the needs of individual producers and consumers? It is a capitalism that accords primacy to the entrepreneur -- that compensates hard work, innovative solutions, stalwart commitment and personal discipline. The values that define the character of individuals should find expression in the policies that underpin the legitimacy of governments. Honest capitalism requires the following:

- *Free-market clarity.* Consumers must be able to properly judge the inherent value of goods brought to the marketplace if markets are to function properly; this applies to financial instruments as wholly as it does to products and services. When the trade-off between risk and return is obscured by an implicit government guarantee -- as exemplified by Fannie Mae and Freddie Mac securities offered with a "wink" from Uncle Sam to eager purchasers around the world -- the consequences can prove extremely damaging. False advertising leads to compromised market outcomes; it constitutes a betrayal of the consumer.

- *Monetary integrity.* Monetary-policy decisions that "stimulate" the economy by issuing too many claims to real production, or "constrict" the economy by reducing the amount of available purchasing power or capital investment, utterly confound the notion of stable money. Money represents a moral contract between government and ordinary citizens -- the sanctity of money rests in its reliability as a store of value. Inflation robs the worker of savings he has accumulated through his labors; by means of government stealth, it diminishes his future purchasing power. The U.S. mortgage mess can be partially traced to the environment of perpetual inflation that seduced citizens into believing the price of housing would rise forever.

- *Financial validity.* What turns the reputable practice of granting credits to deserving borrowers into a high-stakes casino game where the biggest stacks of chips are held by speculators working for the world's largest banks and investment houses? The $700 billion in bailout money begrudgingly approved by Congress only begins to address the problem of estimating the total overhang of outstanding financial instruments by settling on a price for the mortgage-backed securities. Imagine the Blackjack dealer staring into the anxious faces around the green velvet table; all the players are desperate to know what is printed on the face-down card as trillions in wagered bets await resolution. Exotic financial derivatives that gamble on the anomalies of the global economy -- currency movements, interest-rate disparities, governance incongruities -- mock the very concept of "investment" to generate future higher returns from production.

- *Regulatory responsibility.* Rule of law is a core requirement for civil society; without it, anarchy reigns. Government regulation does not create wealth, but it is a necessary condition to provide the stable and predictable environment that permits buyers and sellers to carry out economic and financial transactions with confidence. Trust is achieved through transparency, first and foremost. And while government regulation, at its best, merely functions as the incorruptible referee -- it will never dream up the breakthrough projects that become capitalism's greatest success stories, nor have the discernment of the venture capitalist who recognizes an entrepreneur with a brilliant idea -- it nevertheless plays a key role. Governments should view economic freedom as a basic human right, to be respected and protected by ensuring that markets function smoothly and openly.

- *Entrepreneurial opportunity.* Much of the resentment felt by citizens toward the massive investment companies who peddled bad government paper, and the craven politicians who promoted the practice, stems from the perception that capitalism is rigged toward the most powerful. When the owner of a small retail outlet or medium-sized service firm gets into financial trouble -- who steps in to help? Why are the rules to start a business so onerous, why is the bureaucratic process so lengthy, why are the requirements for hiring employees so burdensome? When does the entrepreneur receive the respect and cooperation he deserves for making a genuine contribution to the productive capacity of the economy? Equal access to credit is sacrificed to the overwhelming appetite of big business -- especially when government skews the terms in favor of its friends. It is time to pay deference to the real economic heroes of capitalism: the self-made entrepreneurs who have the courage to start a business from scratch, the fidelity to pay their taxes, and the dedication to provide real goods and services to their fellow man.

If we can build a new financial and monetary order to serve the needs of these people -- wherever they exist around the world -- we will help to bring about the fulfillment of the highest ideals of capitalism. With freedom comes choice; with choice comes responsibility. What is true within one's own life and one's own community should be true for the world at large. Integrity matters, competence counts, and earnest effort finds its reward. The Latin root of the word "credit" --*credere* -- means "to believe." There is no better starting point for restoring morality to capitalism.

Who would have guessed that it would take a Frenchman to remind us that hope is the limitless source of power that drives the human spirit to create, to improve, to achieve its dreams; it is the greatest civilizing influence in our culture. Yet it was Mr. Sarkozy, speaking before Congress last November, who offered the most profound assessment of our nation's gift to the world. "What made America great was her ability to transform her own dream into hope for all mankind," he said. "America did not tell the millions of men and women who came from every country in the world and who -- with their hands, their intelligence and their heart -- built the greatest nation in the world: 'Come, and everything will be given to you.' She said: 'Come, and the only limits to what you'll be able to achieve will be your own courage and your own talent.'"

It's a lesson that should never be lost or forgotten.

Ms. Shelton, an economist, is author of "Money Meltdown: Restoring Order to the Global Currency System" (Free Press, 1994).

Oil states say no talks on replacing dlr

By Simon Rabinotvitch and Wayne Cole

Tuesday October 6, 09:13 AM

ISTANBUL/SYDNEY (Reuters) - Big oil producing nations denied on Tuesday a newspaper report that Gulf Arab states were in secret talks with Russia, China, Japan and France to replace the U.S. dollar with a basket of currencies in trading oil.

The U.S. dollar eased in response to the report, which was written by The Independent's Middle East correspondent Robert Fisk and cited unidentified sources in Gulf Arab states and Chinese banking sources in Hong Kong.

It said the proposal was for trade in crude oil to move over nine years to a basket of currencies including the Japanese yen, the Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council, which includes Saudi Arabia and Kuwait.

But top officials of Saudia Arabia and Russia, speaking on the sidelines of International Monetary Fund meetings in Istanbul, denied there were such talks.

Asked by reporters about the newspaper story, Saudi Arabia's central bank chief Muhammad al-Jasser said: "Absolutely incorrect." He repeated the same response when asked whether Saudi Arabia was in such talks.

Russia's deputy finance minister Dmitry Pankin said: "We did not discuss this at all."

Algerian Finance Minister Karim Djoudi told Reuters: "Oil producing countries need to stabilise revenues but...I don't see a need for oil trade to be denominated differently.

"But we are at the IMF conference where all sorts of subjects are raised and discussed," he added.

SLIP

The U.S. dollar slipped in the wake of the newspaper story. The euro edged up as high as $1.4749 in European trade from $1.4662 before the story appeared.

The euro fell back to $1.4701 when the Saudi Arabian and Russian officials denied the story, but it subsequently resumed strengthening because of the currency market's continued concern over the dollar's trend.

Russia has in the past publicly raised the idea of shifting its oil trade away from the dollar because of the weakness and volatility of the currency, which has been undermined by the U.S. trade and budget deficits.

China, holder of the world's biggest foreign exchange reserves, has suggested that in the long term, the dollar should lose its role as the globe's top reserve currency.

A main focus of the talks among global finance officials in Istanbul has been correcting big trade imbalances that can destabilise the world economy. Many economists think the dollar may have to weaken further to reduce the imbalances.

However, analysts said that while individual countries would find it relatively easy to stop using the dollar in settling their oil trades, as Iran has already done, replacing the currency in which oil is priced would require a massive effort.

The newspaper story did not make clear how the change would work, and many analysts doubted it would occur any time soon.

"I don't think we will see much concrete action coming out of such discussions because even when the dollar is weak, it doesn't mean that commodities are undervalued," said David Moore, commodities analyst at Commonwealth Bank of Australia.

"In fact, when the dollar weakens, commodities prices tend to increase by a higher ratio."

And apart from the strong political links between Gulf nations and the United States, the lack of convertibility for many Gulf currencies and the yuan tops the list of practical hurdles to making such a shift.

Saudi Arabia and some other Gulf states now peg their currencies to the dollar.

"First, they will need to select a basket of currencies, and issues surrounding that are: which are the currencies to be included in the basket and what ratios to use," said Victor Shum, energy analyst at Purvin & Gertz Consultancy in Singapore.

"It's already a big hurdle just to move oil from one currency to another, let alone a basket of currencies. If there was already a significant proportion of global oil trade being priced in non-U.S. dollar now, than perhaps there would be more pressure to price crude in another currency. But we're still far from that."

Sources with refiners in Japan, China and South Korea all said they had not been approached by any oil suppliers about changing the terms of their settlement for crude oil purchases.

SECRET MEETINGS

"Secret meetings have already been held by finance ministers and central bank governors in Russia, China, Japan and Brazil to work on the scheme, which will mean that oil will no longer be priced in dollars," said the newspaper story, adding that France had also been involved in the talks.

The Independent said U.S. authorities were aware that the meetings had taken place but had not discovered the details and were "sure to fight this international cabal."

To see The Independent's story, click on: http://www.independent.co.uk/news/business/news/the-demise-of-the-dollar-1798175.html

(Additional reporting by Fayen Wong in PERTH, Anirban Nag in SYDNEY, and Toni Vorobyova and Alexandra Hudson in ISTANBUL) (Editing by Andrew Torchia)

Downloaded from *http://uk.biz.yahoo.com/06102009/325/oil-states-say-talks-replacing-dlr.html* on October 6, 2009.

Chicken Feet and Chump Change

Don't worry about the U.S.-China trade war over poultry and car tires. Worry about the coming conflict over T-bills and derivatives.

By Daniel Gross

Oct 5, 2009

Has a mini-trade war has broken out between the United States and China? On Sept. 12, the *Obama administration imposed* a 35 percent tariff on tires imported from China. In response, China *said it would look into* the prices of chicken feet sent from the United States to China. Last week, the New York Times*reported* that tariffs have been slapped on U.S. imports of Chinese solar panels. Free-traders have begun to worry that President Obama might be back-pedaling on his commitment to open markets. (*Click here to follow Daniel Gross*)

They shouldn't be too concerned. Such tiffs are a permanent feature of the contentious, deep, complex economic relationship between China and the United States. So long as there are unions and domestic manufacturers in the United States and excess manufacturing capacity in China, these conflicts will arise in the future, regardless of who controls the White House. As part of a bid to shore up Republican electoral prospects, the Bush administration in 2002 *levied* tariffs on steel (including steel made in China) and in 2003 enacted trade restrictions on Chinese-made bras. What's more, the sums involved are a drop in the bucket. Chicken feet, regarded as garbage in Berrien, Ill., but as delicacies in Beijing, account for nearly 50 percent of the $800 million in American pullet products sold to China each year. The *46 million tires* imported from China to the United States in 2008 amounted to about $1.8 billion, according to the United Steelworkers. So *far this year*, the United States has imported $159 billion in goods and services from China and exported $35.7 billion to the Middle Kingdom.

What's more, the real area to be concerned about has more to do with commodity futures than chicken feet. That's because the volume of China-U.S. trade in physical goods is dwarfed—in size and importance—by the trade in financial products. The dollars American consumers and businesses ship abroad for plastic, metal, and cotton goods from China return to these shores through the purchase of financial instruments. In July 2009, China *held* $800 billion of U.S. Treasury securities, up from $550 billion in July 2008, according to the Treasury Department. China, which has surpassed Japan as the largest foreign holder of U.S. Treasuries, accounts for 23 percent of total foreign holdings. In a period in which the U.S. Treasury is flooding the market with new supply—thanks to the massive deficits we're running—China is a leading export destination. The same holds true, albeit to a lesser degree, for debt issued by quasi-government agencies such as Fannie Mae and Freddie Mac. (Market analysts fretted in August when it was revealed that China *had sold* a net $4.6 billion of so-called agency debt in the previous month.)

But it's no longer just the Chinese central bank buying government debt. Now entities controlled by the Chinese government are buying stakes in American financial intermediaries. *China Investment Corp*., the sovereign wealth fund that is sitting on nearly $300 billion in assets, owns 10 percent of the Blackstone Group, the large private equity firm. In June, CIC*bought* $1.2 billion worth of Morgan Stanley shares, bringing its stake in the chastened investment bank to 9.9 percent. (CIC had spent $5.6 billion on Morgan Stanley shares back in late 2007.)

While these transactions raise their own bilateral trade issues—competitors worry that Morgan Stanley and Blackstone might now get a leg up while doing business in China—there's still another kind of emerging financial arrangement that could be even more worrisome. During the panic of 2008, we learned that derivatives, credit-default swaps, hedging contracts, and other arrangements bind companies all over the world to one another in ways that may not be transparent or even apparent. According to the *International Swaps and Derivatives Association*, the notional value of credit derivatives outstanding is $31.2 trillion. That's nearly half the pre-crisis peak, but it still means a lot of money is at stake in those markets. A significant chunk of those obligations to make good on big financial bets rests on the balance sheets of Chinese companies. And that could pose a new set of trade issues that would make chicken feet look like chicken feed.

China may have come of age industrially, but it's still maturing financially. According to ISDA, in Britain, France, and Japan, 100 percent of large companies use derivatives; in China, only 62 percent do. And many of them may lack the talent and experience necessary to manage such instruments effectively. Several Chinese companies, including some with ties to the government, have taken big losses on derivatives and hedging contracts. CITIC Pacific, which is owned by a state enterprise, last year said it could face loses of up to $2 billion on foreign exchange investments. Airlines like China Eastern and Shanghai Air have similarly taken a bath on jet fuel hedges gone sour.

That's why markets stood on edge in late August, when *Caijing*, a Chinese magazine, reported that an investigation into hedging and derivative strategies by the State-owned Assets Supervision and Administration Commission might lead some state-owned companies to simply refuse to honor financial contracts. SASAC hastened to correct the reports and suggested it was simply investigating whether the state-owned enterprises had tread into dangerous financial areas. Yet in mid-September, Caijing*reported* that, with SASAC's blessing, several state-owned companies "have sent legal warnings to six international investment banks over derivatives trade losses." Caijing further reported that, "according to incomplete data, 28 central government SOEs were involved in the financial derivatives business in September, and that most had chalked up losses."

It's obvious that the "real" economies of China and the United States are tightly bound to each other—the export/import data prove that every month. But the degree of financial integration and interdependency between the two nations is less understood. Tariffs on snow tires or chicken feet may garner media attention, but they're a side show. The prospect that China's central bank might not be such a willing purchaser of U.S. government debt, or that many U.S. and European banks could find Chinese counterparties that are unwilling to honor contracts, is far more serious than tariffs on chicken feet. The merchandise that matters most—to Washington and Wall Street, to Shanghai and Beijing—isn't the stuff that crosses the Pacific in container ships. It's the material that courses through the world's financial system via fiber-optic cable.

Downloaded from *http://www.newsweek.com/id/216754* on October 6, 2009.

Why There Was No Depression

By Robert J. Samuelson
Monday, October 5, 2009

How close did we come to the Great Depression 2.0? That question will spawn a cottage industry of books, studies and conferences. But Christina Romer, the head of President Obama's Council of Economic Advisers, already has an answer: pretty darn close. Her conclusion deserves attention because Romer, in her previous academic career, was a scholar of the Great Depression.

"Depression" is a term of art. It's more than a serious economic downturn. What distinguishes a depression from a harsh recession is paralyzing fear of the unknown -- so great that it causes consumers, businesses and investors to retreat and panic. They hoard cash and desperately curtail spending. They sell stocks and other assets. A devastating loss of confidence inspires behavior that overwhelms the normal self-correcting mechanisms (lower interest rates, inventory resupply, cheap prices) that usually prevent a recession from becoming deep and prolonged: a depression.

Comparing 1929 with 2007-09, Romer finds the initial blow to confidence far greater now than then. True, stock prices fell a third from September to December of 1929; but fewer Americans then owned stocks, and prices had risen early in the year. Moreover, home prices barely dropped. From December 1928 to December 1929, total household wealth declined only 3 percent. By contrast, the loss in household wealth between December 2007 and December 2008 was 17 percent -- more than five times as large. Both stocks and homes, more widely held, suffered larger losses.

Thus traumatized, the economy might have gone into a free fall ending in depression. Indeed, it did go into a free fall. The anniversary of Lehman Brothers' bankruptcy in mid-September inspired much commentary that saving the investment bank *wouldn't* have averted the crisis. Too many other lenders held bad loans. True. But allowing Lehman to fail almost certainly made the crisis worse. By creating more unknowns -- which companies would be rescued, how much were "toxic" securities worth? -- Lehman's bankruptcy converted normal anxieties into extreme fears that triggered panic.

As credit markets froze, stock prices collapsed. By year-end, the Dow Jones industrial average was down 23 percent from its pre-Lehman level and 34 percent from a year earlier. Financial panic poisoned popular psychology. In September 2008, the Conference Board's index of consumer confidence was 61.4. By February, it was 25.3. Shoppers recoiled from buying cars, appliances and other big-ticket items. Spending on such "durables" dropped at a 12 percent annual rate in 2008's third quarter and at a 20 percent rate in the fourth. With a slight lag, businesses canned investment projects; that spending fell at a 20 percent rate in the fourth quarter and a 39 percent rate in 2009's first quarter.

That these huge declines didn't lead to depression mainly reflects, as Romer argues, countervailing government actions. Private markets for goods, services, labor and securities do mostly self-correct; but panic, driven by the acute fear of the unknown, feeds on itself and disarms these stabilizing tendencies. In this situation, only government can protect the economy as a whole, because most individuals and companies are involved in the self-defeating behavior of self-protection.

Government's failure to perform this role in the early 1930s transformed recession into depression. That changed when newly inaugurated Franklin Roosevelt closed all banks on March 5, 1933. Many were already shut, having suffered massive withdrawals by terrified depositors who feared their funds would be lost. Yet when banks reopened in mid-month, Americans redeposited most of that money. The reason was not just Roosevelt's first calming fireside chat ("It is safer to keep your money in a reopened bank than under the mattress"), argues a study by economist William Silber of New York University. FDR's pledge was credible because the Federal Reserve was authorized to supply currency to any reopened bank equal to 100 percent of its deposits.

Something analogous happened over the past year. Scholars will debate which interventions -- the Federal Reserve propping up a failing credit system, the Troubled Assets Relief Program, Obama's "stimulus" plan and bank "stress test" -- counted most. Regardless, they all aimed to reassure people that the free fall would stop and thereby curb the fear perpetuating the free fall. Confidence had to be restored so the economy's normal recovery mechanisms could operate. This seems to have happened. By last month, the consumer confidence index had rebounded to 53.1. Housing prices had stopped falling. By the Case-Shiller index, they've increased for three months.

But this improved confidence is not optimism. It is the absence of terror. The consumer sentiment index is still weak. Unemployment (9.8 percent) is abysmal, the recovery's strength unclear. Here, too, there is an echo from the 1930s. Despite bottoming in 1933, the Depression didn't really end until World War II. Government didn't ensure recovery. Some policies helped, some hurt. The good news today is simply that the bad news is not worse.

Unemployment to peak in 8-12 months: IMF chief
Oct 5 12:40 PM US/Eastern

World unemployment will not peak for at least another eight to 12 months at least as the economic recovery takes root, the head of theInternational Monetary Fund said on Monday.

For all countries "it will take from now on at least eight to 12 months before unemployment will decrease," IMF managing director Dominique Strauss-Kahn said at a news conference on the eve of IMF and World Bank meetings in Istanbul.

In advanced countries the peak could occur in 10 to 12 months, Strauss-Kahn said.

He warned that unemployment lags economic recovery and was not expected to decrease very rapidly amid the worst economic crisis since the Great Depression.

"The problem we are going to face in the coming year may be much more important, much more difficult to solve in low-income countries and some emerging countries than in advanced economies," he said.

Compared with advanced countries, where the recession has meant a couple of percentage point changes in purchasing power or unemployment, in low-income countries "it goes to a question of life and death, or starvation," he said.

Strauss-Kahn said the issue of how to fight unemployment was at the top of the agenda of a meeting held by the *Development Committee,*representing all 186 members of the Washington-based IMF and World Bank. Its decisions largely affect the strategic direction of the World Bank.

Strauss-Kahn called for members to increase the resources of World Bank so it can aid developing and poor countries cope with *rising unemployment.*

"What the World Bank, and for a much more limited part, the IMF can provide to these countries will be absolutely critical and that's why the question of resources is so important," he said.

The question of resources for the IMF had been solved, "at least for a while," he said. "Now the question that is at stake is to find enough resources for the World Bank."

The IMF on Thursday raised its projections for world economic growth for next year but warned that the recovery would be sluggish in most regions and employment would continue to rise.

According to its semiannual World Economic Outlook report, IMF economists estimated growth of 3.1 percent in 2010, hiking its July forecast of 2.5 percent.

The global economy was forecast to shrink 1.1 percent this year, the worst slump since *World War II.*

The IMF forecast unemployment in advanced economies would rise to 9.3 percent in 2010 from 8.2 percent this year. It did not provide jobless projections for other types of economies.

Downloaded from *http://www.breitbart.com/article.php?id=CNG.78eddf1f537d8956756a2a2b646264db.f1&show_article=1* on October 6, 2009.

The demise of the dollar
October 6, 2009

In a graphic illustration of the new world order, Arab states have launched secret moves with China, Russia and France to stop using the US currency for oil trading
In the most profound financial change in recent Middle East history, Gulf Arabs are planning - along with China, Russia, Japan and France - to end dollar dealings for oil, moving instead to a basket of currencies including the Japanese yen and Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council, including Saudi Arabia, Abu Dhabi, Kuwait and Qatar.
Secret meetings have already been held by finance ministers and central bank governors in Russia, China, Japan and Brazil to work on the scheme, which will mean that oil will no longer be priced in dollars.
The plans, confirmed to The Independent by both Gulf Arab and Chinese banking sources in Hong Kong, may help to explain the sudden rise in gold prices, but it also augurs an extraordinary transition from dollar markets within nine years.
The Americans, who are aware the meetings have taken place - although they have not discovered the details - are sure to fight this international cabal which will include hitherto loyal allies Japan and the Gulf Arabs. Against the background to these currency meetings, Sun Bigan, China's former special envoy to the Middle East, has warned there is a risk of deepening divisions between China and the US over influence and oil in the Middle East. "Bilateral quarrels and clashes are unavoidable," he told the Asia and Africa Review. "We cannot lower vigilance against hostility in the Middle East over energy interests and security."
This sounds like a dangerous prediction of a future economic war between the US and China over Middle East oil - yet again turning the region's conflicts into a battle for great power supremacy. China uses more oil incrementally than the US because its growth is less energy efficient. The transitional currency in the move away from dollars, according to Chinese banking sources, may well be gold. An indication of the huge amounts involved can be gained from the wealth of Abu Dhabi, Saudi Arabia, Kuwait and Qatar who together hold an estimated $2.1 trillion in dollar reserves.
The decline of American economic power linked to the current global recession was implicitly acknowledged by the World Bank president Robert Zoellick. "One of the legacies of this crisis may be a recognition of changed economic power relations," he said in Istanbul ahead of meetings this week of the IMF and World Bank. But it is China's extraordinary new financial power - along with past anger among oil-producing and oil-consuming nations at America's

power to interfere in the international financial system - which has prompted the latest discussions involving the Gulf states.
Brazil has shown interest in collaborating in non-dollar oil payments, along with India. Indeed, China appears to be the most enthusiastic of all the financial powers involved, not least because of its enormous trade with the Middle East.
China imports 60 per cent of its oil, much of it from the Middle East and Russia. The Chinese have oil production concessions in Iraq - blocked by the US until this year - and since 2008 have held an $8bn agreement with Iran to develop refining capacity and gas resources. China has oil deals in Sudan (where it has substituted for US interests) and has been negotiating for oil concessions with Libya, where all such contracts are joint ventures.
Furthermore, Chinese exports to the region now account for no fewer than 10 per cent of the imports of every country in the Middle East, including a huge range of products from cars to weapon systems, food, clothes, even dolls. In a clear sign of China's growing financial muscle, the president of the European Central Bank, Jean-Claude Trichet, yesterday pleaded with Beijing to let the yuan appreciate against a sliding dollar and, by extension, loosen China's reliance on US monetary policy, to help rebalance the world economy and ease upward pressure on the euro.
Ever since the Bretton Woods agreements - the accords after the Second World War which bequeathed the architecture for the modern international financial system - America's trading partners have been left to cope with the impact of Washington's control and, in more recent years, the hegemony of the dollar as the dominant global reserve currency.
The Chinese believe, for example, that the Americans persuaded Britain to stay out of the euro in order to prevent an earlier move away from the dollar. But Chinese banking sources say their discussions have gone too far to be blocked now. "The Russians will eventually bring in the rouble to the basket of currencies," a prominent Hong Kong broker told The Independent. "The Brits are stuck in the middle and will come into the euro. They have no choice because they won't be able to use the US dollar."
Chinese financial sources believe President Barack Obama is too busy fixing the US economy to concentrate on the extraordinary implications of the transition from the dollar in nine years' time. The current deadline for the currency transition is 2018.
The US discussed the trend briefly at the G20 summit in Pittsburgh; the Chinese Central Bank governor and other officials have been worrying aloud about the dollar for years. Their problem is that much of their national wealth is tied up in dollar assets.
"These plans will change the face of international financial transactions," one Chinese banker said. "America and Britain must be very worried. You will know how worried by the thunder of denials this news will generate."
Iran announced late last month that its foreign currency reserves would henceforth be held in euros rather than dollars. Bankers remember, of course, what happened to the last Middle East oil producer to sell its oil in euros rather than dollars. A few months after Saddam Hussein trumpeted his decision, the Americans and British invaded Iraq.
Downloaded from http://www.independent.co.uk/news/business/news/the-demise-of-the-dollar-1798175.html on October 6, 2009.

Fed Planning 15-Fold Increase In US Monetary Base
by Eric deCarbonnel

FRIDAY, MARCH 20, 2009

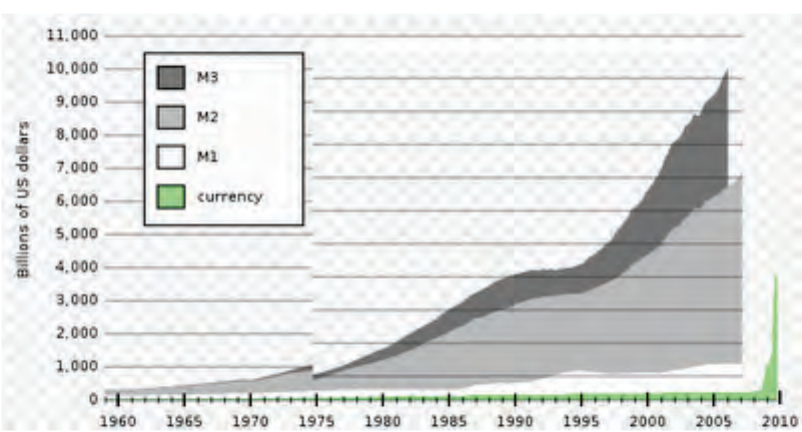
The fed is planning moves that would more than double its balance-sheet assets by September to \$4.5 trillion from \$1.9 trillion. Whether expressing approval or concern over the fed's intentions, most commentators fail to understand the real magnitude of the projected expansion of the US monetary base because they don't take into account the amount of dollars circulating abroad.

At least 70 percent of all US currency is held outside the country, and this means the US monetary base is considerably smaller than the fed's overall balance sheet. Take, for example, the true US domestic money supply at the beginning of September 2008, before the fed started its quantitative easing. From the Federal Reserve's website, we know that currency in circulation was 833 Billion. This translates as 583 Billion dollars circulating abroad (70 percent), and 250 Billion dollars circulating domestically (30 percent). Since the bank reserve balances held with Federal Reserve Banks were 12 billion, that gives us a 262 Billion domestic monetary base as of September 2008. Now compare that to the projected US domestic monetary base for September 2009 which is 3,818 billion (4,500 billion – 583 billion (dollars circulating abroad) – 99 billion (other fed liabilities not part of the money supply)). The fed's planned balance sheet expansion results in a 15-fold increase in the base money supply.

262 Billion = US monetary base as of September 2008 (minus dollars held abroad)
3,818 Billion = projected US monetary base in September 2009 (minus dollars held abroad)

3,818 Billion / 262 Billion = **15-Fold Increase in US monetary base**

This is a staggering devaluation of the US currency! It means that for every dollar in America in September 2008, the fed is going to create fourteen more of them! Below is a rough sketch of what this increase in US monetary base would look like:



This 15-Fold Increase will be impossible to reverse

Next September, when the fed realizes it has gone too far and tries to reverse its balance sheet expansion, it will be unable to do so. The realities which will hinder the fed's control of the money supply are:

1) The toxic assets filling its balance sheet

Expanding the money supply is easy. All the fed has to do is print dollars and then use them to buy assets. There is no effective limit to how much the fed can print and spend.

Shrinking the money is much trickier. To shrink the base money supply, the fed sell assets and takes the dollars it receives for them out of circulation. The amount the fed can shrink the money supply is therefore effectively limited by the market value of assets on its balance sheets. Since the fed is in the process of loading up on toxic securities while trying to restore health to the financial sector, it is now sitting billions of unrealized losses. These unrealized losses means the fed has little ammunition available to bring the money supply under control.

Once September rolls around, If the fed wants to reverse the expansion of its balance sheet and shrink the monetary base back down from 3,818 billion to 262 billion, then it will need to sell 3,556 billion worth of assets. However, the market value of its assets will only be worth a fraction of that.

2) Political constrains on fed's actions

Even if the fed does try to shrink the money, it is likely to run into political constrains on its actions:

A) Selling toxic assets at a loss could become a crippling source of major embarrassment for the fed, undermining its authority. For example, last year when the fed took 29 billion toxic assets to help JPMorgan's takeover of Bear Stearns, it assured Americans that by holding those securities till maturity, the cost to taxpayers would be minimal. If the fed sells those toxic Bearn Stearns assets at a catastrophic loss, it would cause fury and outrage from voters and lawmakers.

B) Selling assets at below book value will quickly cause the fed's equity to turn negative. The Federal Reserve would then need to be recapitalized by new debt from the treasury, which would increase the national debt.

3) The benefits from of its balance sheet expansion would be lost if the fed starts selling assets

The fed is accumulating toxic mortgage backed securities, long term treasuries, and other assets to unfreeze the credit markets and spur economic growth. Turning around and selling those assets would result in the collapse of the credit markets and the financial system, which the fed has been desperately trying to prevent.

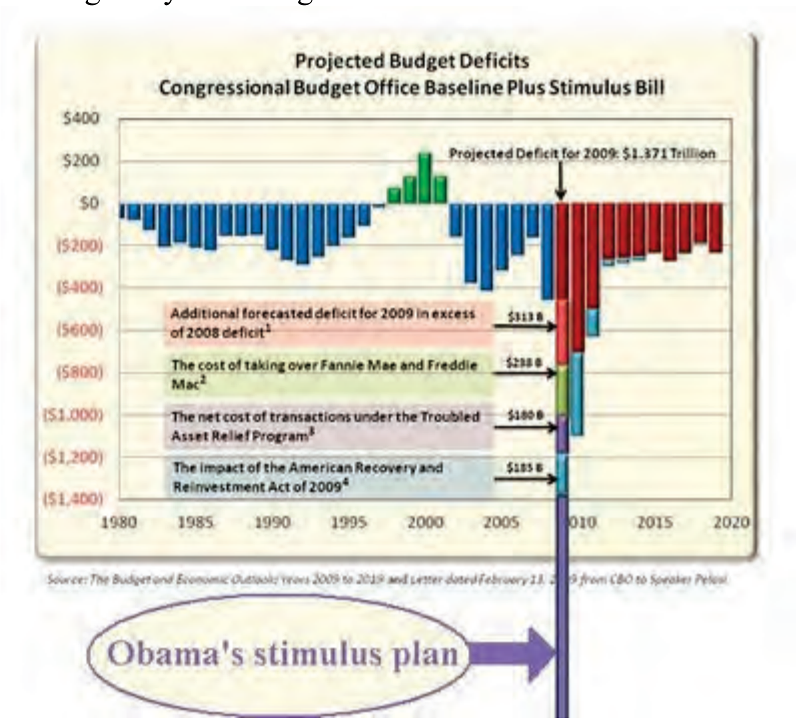
Upwards pressure on interest rates

On top of all the issues above, the fed's woes are going to be compounded by upwards pressure on the yields of treasuries and other US debt. This upwards pressure will likely force the fed to monetize far more treasuries than the planned $300 billion purchases it has already announced, and will greatly complicate any efforts by the fed to control the money supply.

Below are the nine factors which will cause yields to move higher.

1) Massive supply of treasuries in the pipeline

The biggest force pressuring treasury yield upward is without a doubt the trillions of debt the treasury has to sell to finance the enormous 2009 budget deficit. There is nowhere near enough buyers to absorb this supply. The graph below demonstrates the challenge facing the treasury in funding this year's budget.



2) As a reserve asset, treasury bonds will face enormous selling pressure in 2009

There is the mistaken belief that the role of treasuries as a safe haven is bullish for treasury bonds. It is not. This logic ignores the reality that reserve assets, such as treasuries, are accumulate in good times and sold in bad times:

Federal and state agencies will be selling treasury reserves. For example, the Deposit Insurance Fund (a.k.a. FDIC) will be selling treasuries to pay back depositors of failed banks, and the Unemployment Trust Fund will be selling treasuries to make payments to the unemployed.

State and local governments will be selling treasury reserves. As an example, states have already begun drawing down reserves as their budget troubles worsen. The bulk of those reserve remain, and they will be sold over the course of this year.

Banks and insurers will be selling off their treasury loan-loss reserves. Financial institutions have been building their treasury loan-loss reserve for the last year in anticipation of growing defaults. In 2009, this process will reverse as loans go bad and insurers make good on claims.

Foreign central banks will be selling off their treasury foreign reserves. Saudi Arabia, for example, is projecting a 2009 Budget Deficit, which it intends to finance by selling off its US holdings. Russia, meanwhile, has already sold over 20% of its $598.1 billion reserves, and India's central bank has been forced to sell off its US holdings to curb its currency's decline, and its total reserves have decreased by $62.2 billion. Japan, which is now running a record current account deficit, can also be expected to sell treasuries.

Even China could become a seller of treasuries as it mobilizes its dollar reserves. The Chinese government has sent clear signals that it is shifting from passive to active management of its reserve and is exploring more efficient ways to use its reserves to boost its domestic economy.

3) Retirement inflows into treasuries are over

The steady accumulation of treasuries by government retirement funds has helped absorb the supply of treasury bonds for over three decades. This accumulation of government debt to secure the retirement of baby boomers helped drive down treasury yields and fund deficit spending. As of September 2008, the four biggest of these funds held 3.3 trillion treasuries:

2150 billion (Federal old-age and survivors insurance trust fund)
615 billion (Federal employees retirement fund)
318 billion (federal hospital insurance trust fund)
217 billion (federal disability insurance trust fund) (for more on these four funds, see where social security tax amounts are deposited)

3300 billion total

Today, the accumulation of treasuries by government retirement funds is over. Baby boomers are beginning to retire, increasing outflows, and unemployment is rising, cutting inflows. More importantly, the 3.3 trillion already accumulated in these funds provides an enormous political incentive to prevent treasury prices from collapsing. Faced with a run on treasuries, politicians, rather than explaining to baby boomers that their retirement savings are gone, will instruct the fed to monetize treasury bonds. This alone will prevent the fed from reversing its current balance sheet expansion.

4) Deleveraging in credit-default swap market will drive up risk premiums

If you have been following the credit crisis in any detail, you might have heard that the 53 trillion credit-default swap market threatening the solvency of the financial system. What you might not have heard is the other dire threat posed by the CDS market: drastically higher risk premiums on all forms of debt.

These higher risk premiums are the result of reversing the process by which credit-default swaps were leveraged up and packaged into investment vehicles. Some examples of these horrors are:

Synthetic CDOs
As opposed to regular CDOs (which contain actual bonds), synthetic CDOs provide income to investors by selling credit-default swaps on hundreds bonds from companies and governments. To juice returns, these synthetic CDOs disproportionally insured the riskiest AAA rated debt, such as Lehman's bonds. Synthetic CDOs are estimated to have sold insurance on between $1.25 trillion to $6 trillion worth of bonds.

Constant-Proportion Debt Obligations
CPDOs are specialized funds which work exactly like synthetic CDOs but with one major difference: they used leverage to boost returns. These CPDO funds typically borrowed about $15 for every dollar invested with them. They also contain safety triggers that force the liquidation of their investments if losses reach a predetermined level, and most CPDO funds have begun to hit these triggers. For example, Three CPDO funds launched in 2006 by Dutch bank ABN Amro Holding NV have already been forced to liquidate as credit insurance costs spiked and their credit ratings were downgraded.

Credit Derivative Product Companies
CDPPs are another group of specialized funds which work exactly like synthetic CDOs and CPDO funds, except for one *key* difference: they used an ***insane*** amount of leverage, as much as $80 for every dollar invested. CDPP funds together with subprime CDOs squared are finalists for the title of ***"most idiotic financial instrument ever created"***.

Since these leveraged investment vehicles sold an enormous amount of insurance, the premiums for CDS insurance dropped sharply, making corporate debt seem safer and lowering interest rates. In effect, the process of building up the 53 trillion CDS market created an era of artificially low risk premiums on all forms of debt. Unfortunately, the pendulum is now swinging in the other direction, and the pain has just begun.

As investors attempt to get out of synthetic CDOs and CPDO/CDPP funds try to deleverage, they push up the cost of default insurance. In turn, that raises the risk premium on all forms of debt since most investors use the cost of default insurance as a guide when deciding at what interest rate they will buy bonds. Many banks are also tying corporate loan rates to credit-default swaps, raising borrowing costs and exposing companies to an overleveraged derivative market which is largely responsible for crippling the financial system.

The graph below shows how the cost of insuring the debt of EU nations is being driven up.

The rising cost of insuring debt is impacting treasuries too. The cost to hedge against losses on $10 million of Treasuries is now about $100,000 annually for 10 years, up from $1,000 in the first half of 2007. These rising insurance costs have helped push up treasury yields in the last few months. Worse still, the rising costs of insuring against government defaults will undermine faith in dollar. After all, the CDS market is telling us that 10-year treasury notes have become 100 times riskier in the last two years.

5) Unwinding the Gold carry trade

The massive expansion in the US money supply will undoubtedly drive gold prices several times higher and force the unwinding of the gold carry trade. To see the threat which unwinding the gold carry trade poses, it is necessary to understand how US and UK financial institutions got themselves stuck in an enormous short position in gold from which they have no hope of ever escaping. For that purpose, I have outlined below the five steps Wall Street seems to repeat endlessly on its path to ruin.

Step 1: Wall Street embraces a false paradigm

“Housing prices never fall”

“gold is a relic” or “gold is in a permanent downtrend”

Step 2: Wall Street makes billions embracing this false paradigm…

US/UK Financial institutions made billion in fees from making mortgage loans and securitizing them.

US/UK Financial institutions made billions via gold carry trade. Here is an ultra quick explanation how it works from zealllc.com

> So, if you can find a cheap enough cost of capital, a safe enough destination, and you have the credit to borrow large amounts of money, you too could make enormous profits in carry trades. The notorious gold carry trade is based on the exact same idea. Elite money-center bullion banks were given sweetheart opportunities to borrow central bank physical gold at 1%, sell it in the open market, and immediately invest the proceeds in higher yielding “safe” investments and reap vast profits.

As Moneyweek further explains:

> It seemed like a no-brainer. The central banks got to squeeze a yield from their gold. The borrowers got to sell the gold on, and use the proceeds to fund more exciting investments like 10-year US Treasuries yielding 4% per year or so. Yes, these 'carry trade' returns were tiny. But the cost of borrowing gold was tinier still.

Step 3: …and creates a catastrophic mess in the process

Enormous housing bubble
Subprime CDOs squared
Off balance sheet SIVs
Etc…

Commercial banks and speculators are left inescapably short gold. These ridiculous short positions are best captured by John Hathaway in his 1999 article, The Golden Pyramid.

> The recipe for a shortage has been carefully followed. A few finishing touches may be required before a market epiphany. **There is no known reconciliation between paper and physical positions, and none will be attempted until after the squeeze.** The weakness of credit analysis and supervisory oversight, as well as the many ambiguities in the linkage between paper gold and physical can flourish only if there is supreme confidence in gold's permanent downtrend.**The trust and confidence essential to balance the gold derivatives pyramid depends on three critical errors: that mine reserves = physical gold; that gold receivables = gold on hand; and that financial markets will enjoy smooth sailing indefinitely.** Trust is nothing more than a state of mind. **When this levitation is finally exposed and its illusions shattered, it is ludicrous to think the imbalances can be corrected by a small rise in the price and within a comfortable time frame.** Expect the resolution to be swift, furious, and uncomfortable for those caught short.

Step 4: Something goes horribly wrong

Subprime borrowers start defaulting
Housing prices plummet

Gold prices shoot up after the 1999 Washington Agreement on Gold (EU central banks agreed to limits on gold sales/leasing).

This gold bear trap is best described by Reginald H. Howe in his report about central banks at the abyss.

> **The first Washington Agreement on Gold, announced in September 1999 at the close of the annual meetings of the International Monetary Fund and World Bank in Washington, D.C., placed limits for the next five years on the official gold sales of the signatories as well as on their gold lending and use of futures and options. Put together at the instigation of major Euro Area central banks in response to the decline in gold prices caused by the series of U.K. gold auctions announced in May of the same year, WAG I caused gold prices to shoot sharply higher.**
>
> Within days, as gold shorts rushed to cover, the price jumped from around $265 to almost $330/oz. and gold lease rates spiked to over 9%. **The rally caught the major bullion banks completely wrong-footed, resulting in the panic later described by Edward A.J. George, then Governor of the Bank of England (Complaint, 55):**

> **We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it.** It was very difficult to get the gold price under control but we have now succeeded. The U.S. Fed was very active in getting the gold price down. So was the U.K.

Despite managing to "get the gold price under control", US/UK bullion banks (JPMorgan, HSBC, etc…) have been stuck on the short side of gold ever since.

Step 5: The US fed and UK do everything in their power to "save the financial system"

Royal Bank of Scotland bailout
Bear Stearns bailout
Freddie/Fannie bailout
AIG bailout
US/UK Quantitative easing
Etc…

Leasing out all US/UK gold to bullion banks
Gold swaps with foreign central banks (then leasing out the gold)
Convincing allies to sell gold
Writing naked call options on gold
Britain's 1999 gold sales
Pre-emptive gold sales
Allowing JPMorgan's and HSBC's manipulation of COMEX futures
Etc…

Make no mistake, gold prices have suppressed, but calling this process a "conspiracy" would be inaccurate. Gold suppression by the US and UK is better characterized as a desperate cover-up. Furthermore, while a side affect of the gold carry trade and gold suppression was to drive down interest rates, that was never their intended effect. A desire to hold interest rates would not have been enough to push the fed or the Bank of England to manipulate gold prices. It was only the threat of the total collapse of US/UK financial system which prompted the suppression of gold. The unwinding of the gold carry trade would have (and will) dragged down the some of the biggest US/UK banks under (JPMorgan, HSBC, etc…) and that was what had to be prevented at any cost.

Stay away from any form of paper gold: GLD (HSBC is custodian), gold pools and unallocated gold accounts, gold futures, etc… Paper gold investments are guaranteed to default before this crisis ends.

Besides leaving the financial system inescapably short gold, the gold carry trade also drove down yields on treasuries and other US debt, as commercial banks invested the proceeds from the sale of borrowed central bank gold and other naked short positions. Unwinding the gold carry trade involves the purchase of physical gold, but also the sale of the investments linked to the gold short positions. As the fed begins 15-fold expansion of the monetary base (which logically should eventually send gold prices up at least ten times where they are now), the unwinding and fallout of the gold carry trade seems imminent.

6) The return of the 580 billion dollars circulating abroad

Over the last thirty years, the steady outflow of 580 billion dollars has helped drive down interest rates. For example, If 10 billion dollars leaked out of the US and began circulating abroad, the fed would print 10 billion and buy treasuries in order to replenish the domestic money supply. So the 580 billion dollars held abroad resulted in the purchase of roughly 580 billion treasury bonds by the fed, thereby increasing demand for US debt.

While the accumulation of oversea dollars has been beneficial in the past, today the large pools of dollars circulating in foreign hands pose a threat. With many dollar alternatives becoming available, US oversea currency looks increasingly likely to start flowing back home. The main currencies with the potential to displace dollars are:

A) The Chinese yuan which is becoming an international currency
B) The Khaleeji, a new currency being launched by Gulf states which will be possibly backed by gold.
C) The Euro with its partial gold backing
D) Gold

Furthermore, now that the fed has begun creating money at an accelerating rate, the extensive foreign holdings of US currency might exacerbate the effects of inflation fears. As foreign dollar holders' confidence in the dollar is eroded, they will trade their dollars for alternate stores of value (yuan, euro, gold, etc…), potentially sending a flood of currency back to the US. If the Fed failed to reduce the supply of currency to counteract dollars being unloaded from abroad, the inflationary consequences would be made worse as the mass reversal of currency flows from foreigners to the US becomes overwhelming.

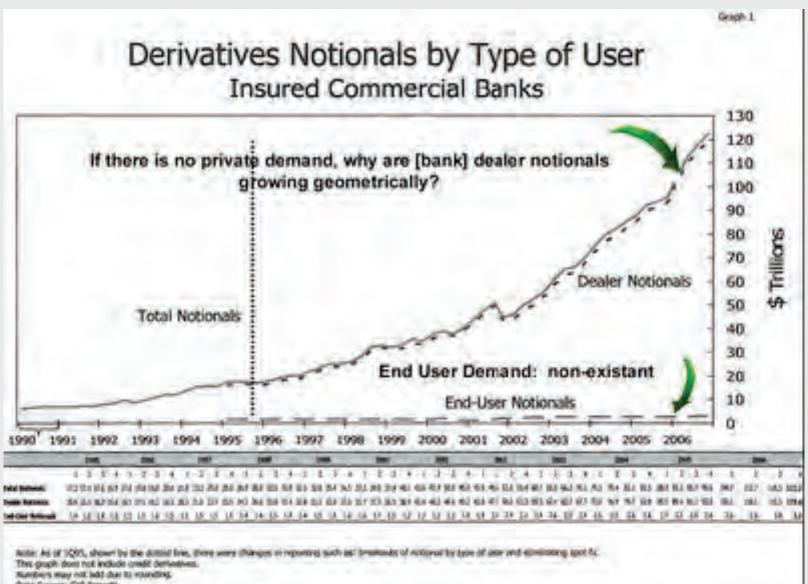
7) Interest rate derivates nightmare

The threat posed by interest rate derivates is perhaps the greatest out of all the ones outlined so far. It is also the one hardest to understand. The first thing to note about interest rate swaps is the size of the market, as explained by the Wikipedia:

> The Bank for International Settlements reports that **interest rate swaps are the largest component of the global OTC derivative market. The notional amount outstanding as of December 2006 in OTC interest rate swaps was $229.8 trillion, up $60.7 trillion (35.9%) from December 2005.These contracts account for 55.4% of the entire $415 trillion OTC derivative market.** **As of Dec 2007 the number rose to 309,6 trillion according to the same source.**

The growth in interest rate swaps creates demand for bonds because many of these interest derivatives require the purchase of bonds as a hedge. Rob Kirby on 321gold.com explains this in his article, the real ponzi scheme - "unreal interest rates".

> **Interest Rate Swaps create demand for bonds because bond trades are implicitly embedded in these transactions. Without end user demand for the product - trading for "trading sake" creates ARTIFICIAL demand for bonds. This manipulates rates lower than they otherwise would be.**



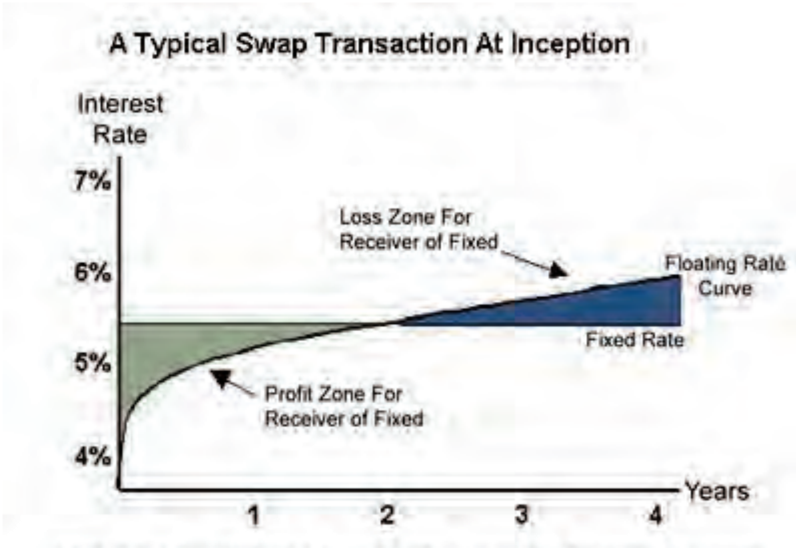
> …
> Interest rate swaps were originally developed to [1] allow parties to exchange streams of interest payments for another party's stream of cash flows; [2] manage fixed or floating assets and liabilities and [3] to speculate - replicating unfunded bond exposures to profit from changes in interest rates. **Growth in the first two of these activities are dependent on their being increased end-user-demand for these products - graph 1 above indicated that this is not the case:**
>
> **In the case of J.P. Morgan in particular** [forgetting about the lesser obscenities at Citi and B of A]; **their interest rate swap book is so big that there are not enough**

> **U.S. Government bonds being issued or in existence for them to adequately hedge their positions.**
>
> **This means that the obscene, explosive growth in interest rate derivatives was all about overwhelming the long end of the interest rate complex to ensure that every and any U.S. Government bond ever issued had a buyer on attractive terms for the issuer.** Concurrent with the neutering of usury, the price of gold was also "capped" largely through Fed appointed banks "shorting gold futures" as well as brokering gold leases [sales in drag] sourcing vaulted Sovereign Central Bank gold bullion. The gold price had to be rigged concurrently because historically, according to observations outlined in Gibson's Paradox - lowering interest rates leads to a higher gold price. Gold price strength is historically synonymous with U.S. Dollar weakness which leads to higher financing costs or the possibility of capital flight.

Same as with the gold carry trade, while the explosive growth in interest rate derivatives did reduce interest rates by creating demand for bonds, I am not sure about the conspiracy element. From everything I have seen and read during the credit crisis, the wizards of Wall Street (ie: the creators of the subprime CDO squared and other horrors) and the Federal Reserve seem more like children playing with dynamite rather than masterminds capable of pulling off vast conspiracies.

The greater threat posed by interest rate swaps

Besides creating artificial demand for bonds, the interest rate swap market poses a systematic risk exceeding that of the credit-default swap market because of its enormous size and the fact that each interest rate swap contract offers the potential for unlimited losses. The graph below should help show this danger.



When an investor enters into a swap, the difference between the fixed rate payments and the expected future floating rate payments should be zero (the blue zone equals the gray zone.)
Source: PIMCO

In a currency collapse (which is where we are headed with Bernanke's 15-fold increase in the money supply), interest rates follow inflation to astronomical heights. Loans run for 24 hour periods. Interest rates in the five or six digits range are common in hyperinflation, and, should they occur here in the States, anyone "short the swap" (the floating-rate payers in interest rate swaps) will be crushed into oblivion. At least with credit default swaps, there is a limit to how much investors can lose.

8) The liquidation of the 8 Trillion dollar holdings of overleveraged European banks

European banks increased their dollar assets sharply in the last decade which helped drive down US interest rates and absorbed a large portion of America's growing debt. Their combined long dollar positions grew to more than $800 billion by mid-2007. This $800 billion was then leveraged into $8 trillion in US assets. The low capital ratios of these dollar positions were acceptable to regulators because European banks are allowed to apply a lot more leverage as long as they are buying exclusively AAA rated securities.

Unfortunately, as we have learned over the past 18 months, AAA is not always AAA. While much of the AAA rated securities bought by European banks were treasuries and agencies, some of these AAA rated securities were senior securitized loans that are still marked close to par on the balance sheet of European banks despite the fact they trade around 70 cents on the dollar in the markets. The enormous unrealized losses on their US holdings are only one of the problems facing European banks.

The other is the loss of their dollar funding. The enormous leverage employed by European banks to purchase toxic AAA rated assets was funded in great part by loans from US money market funds. After Lehman's default led to massive withdrawals from those money market funds, European banks lost access to billions in dollar funding.

If European banks are forced to sell their 8 trillion US assets, it will crash the credit markets, and they will have to recognize enormous losses. Since the fed is desperate to prevent the collapse of the US financial system, it lent those European banks 600 billion dollars so that they wouldn't be forced to sell. Meanwhile, European banks accepted this 600 billion because they don't want to recognize losses on their toxic US securities.

What is going to happen next with these overleveraged European banks?

Well, if history is any guide, the outlook isn't good for the US financial system:

"When the American economy fell into depression, US banks recalled their loans, causing the German banking system to collapse"

The same thing will happen in 2009, except the roles will be reversed. It will be European banks that will recall their loans and sell off dollar assets, causing the US banking system to collapse.

What could convince European banks sell off their US assets at firesale prices?

The answer is simple: fear of a dollar collapse. With the fed increasing the monetary base 15-fold, the strategy of waiting for impaired assets to recover becomes meaningless: with the dollar likely to lose nine tenths of its value in the next year, waiting for assets trading 70 cents on the dollar to recover is a senseless venture.

9) Inflation expectations

The US's experience during the Great Depression has left America dominated by Keynesian thinking and prone to deflation fears. As a result, inflation expectations are about nonexistent right now despite the current financial crisis. However, the fed's latest plan to expand the monetary base 15-fold should give pause to even the most hardened deflationist. Indeed someone must be worried, because the fed's Wednesday announcement has caused a dramatic collapse of the dollar:

The sheer size the fed's monetary expansion and the dollar's fall will soon increase both inflation and inflation expectations. This in turn will put upwards pressure on treasury yields.

Conclusion

During the last three decades, long-term interests rates have fallen steadily in US, as demonstrated by the chart below

Logically speaking, the chart above makes no sense. The fundamentals underlying the US economy have grown steadily worse over the last thirty years. For example, in 2006, the US's current account deficit nearly hit 9 percent of our gdp, and economists usually consider 4 percent to be unsustainable. There are also the US's chronic budget deficits and the massive projected social security shortfalls. Even more incomprehensible, over the last six months the yield on long-term treasuries has fallen in the face of a disintegrating economy and massive expansion in the supply of treasuries. This is NOT how the world works: as the financial health of borrowers decrease, their interest rates are supposed to go up. The only rational explanation is that some combination of forces has been unnaturally driving rates lower. These forces, (outlined above) which have been driving interest rates down, are today threats and issues which need to be resolved before the financial crisis can end:

The US budget deficit
The crisis in entitlement spending
The trade deficit and large holdings of treasury reserves
The credit-default swap market
The gold carry trade
The 580 billion dollar circulating overseas
The 8 trillion dollar assets accumulated by European banks
The interest rate swaps market
The Keynesian thinking dominating US economic and fiscal policy

Downloaded from *http://www.marketskeptics.com/2009/03/fed-is-planning-15-fold-increase-in-us.html* on October 6, 2009.

Capitalism Needs a Sound-Money Foundation

Let's give the Fed some competition. Abolish legal tender laws and see whose money people trust.

FEBRUARY 11, 2009, 11:02 P.M. ET

By JUDY SHELTON

Let's go back to the gold standard.

If the very idea seems at odds with what is currently happening in our country -- with Congress preparing to pass a massive economic stimulus bill that will push the fiscal deficit to triple the size of last year's record budget gap -- it's because a gold standard stands in the way of runaway government spending.

Under a gold standard, if people think the paper money printed by government is losing value, they have the right to switch to gold. Fiat money -- i.e., currency with no intrinsic worth that government has decreed legal tender -- loses its value when government creates more than can be absorbed by the productive real economy. Too much fiat money results in inflation -- which pools in certain sectors at first, such as housing or financial assets, but ultimately raises prices in general.

Inflation is the enemy of capitalism, chiseling away at the foundation of free markets and the laws of supply and demand. It distorts price signals, making retailers look like profiteers and deceiving workers into thinking their wages have gone up. It pushes families into higher income tax brackets without increasing their real consumption opportunities.

In short, inflation undermines capitalism by destroying the rationale for dedicating a portion of today's earnings to savings. Accumulated savings provide the capital that finances projects that generate higher future returns; it's how an economy grows, how a society reaches higher levels of prosperity. But inflation makes suckers out of savers.

If capitalism is to be preserved, it can't be through the con game of diluting the value of money. People see through such tactics; they recognize the signs of impending inflation. When we see Congress getting ready to pay for 40% of 2009 federal budget expenditures with money created from thin air, there's no getting around it. Our money will lose its capacity to serve as an honest measure, a meaningful unit of account. Our paper currency cannot provide a reliable store of value.

So we must first establish a sound foundation for capitalism by permitting people to use a form of money they trust. Gold and silver have traditionally served as currencies -- and for good reason. A study by two economists at the Federal Reserve Bank of Minneapolis, Arthur Rolnick and Warren Weber, concluded that gold and silver standards consistently outperform fiat standards. Analyzing data over many decades for a large sample of countries, they found that "every country in our sample experienced a higher rate of inflation in the period during which it was operating under a fiat standard than in the period during which it was operating under a commodity standard."

Given that the driving force of free-market capitalism is competition, it stands to reason that the best way to improve money is through currency competition. Individuals should be able to choose whether they wish to carry out their personal economic transactions using the paper currency offered by the government, or to conduct their affairs using voluntary private contracts linked to payment in gold or silver.

Legal tender laws currently favor government-issued money, putting private contracts in gold or silver at a distinct disadvantage. Contracts denominated in Federal Reserve notes are enforced by the courts, whereas contracts denominated in gold are not. Gold purchases are subject to taxes, both sales and capital gains. And while the Constitution specifies that *only* commodity standards are lawful -- "No state shall coin money, emit bills of credit, or make anything but gold and silver coin a tender in payment of debts" (Art. I, Sec. 10) -- it is fiat money that enjoys legal tender status and its protections.

Now is the time to challenge the exclusive monopoly of Federal Reserve notes as currency. Buyers and sellers, by mutual consent, should have access to an alternate means for settling accounts; they should be able to do business using a monetary unit of account defined in terms of gold. The existence of parallel currencies operating side-by-side on an equal legal footing would make it clear whether people had more confidence in fiat money or money redeemable in gold. If the gold-based system is preferred, it means that people fully understand that the purpose of money is to facilitate commerce, not to camouflage fiscal mismanagement.

Private gold currencies have served as the medium of exchange throughout history -- long before kings and governments took over the franchise. The initial justification for government involvement in money was to certify the weight and fineness of private gold coins. That rulers found it all too tempting to debase the money and defraud its users testifies more to the corruptive aspects of sovereign authority than to the viability of gold-based money.

Which is why government officials should not now have the last word in determining the monetary measure, especially when they have abused the privilege.

The same values that will help America regain its economic footing and get back on the path to productive growth -- honesty, reliability, accountability -- should be reflected in our money. Economists who promote the government-knows-best approach of Keynesian economics fail to comprehend the damaging consequences of spurring economic activity through a money illusion. Fiscal "stimulus" at the expense of monetary stability may accommodate the principles of the childless British economist who famously quipped, "In the long run, we're all dead." But it shortchanges future generations by saddling them with undeserved debt obligations.

There is also the argument that gold-linked money deprives the government of needed "flexibility" and could lead to falling prices. But contrary to fears of harmful deflation, the big problem is not that nominal prices might go down as production declines, but rather that dollar prices artificially pumped up by government deficit spending merely paper over the real economic situation. When the output of goods grows faster than the stock of money, benign deflation *can* occur -- it happened from 1880 to 1900 while the U.S. was on a gold standard. But the total price-level decline was 10% stretched over 20 years. Meanwhile, the gross domestic product more than doubled.

At a moment when the world is questioning the virtues of democratic capitalism, our nation should provide global leadership by focusing on the need for monetary integrity. One of the most serious threats to global economic recovery -- aside from inadequate savings -- is protectionism. An important benefit of developing a parallel currency linked to gold is that other countries could likewise permit their own citizens to utilize it. To the extent they did so, a common currency area would be created not subject to the insidious protectionism of sliding exchange rates.

The fiasco of the G-20 meeting in Washington last November -- it was supposed to usher in "the next Bretton Woods" -- suggests that any move toward a new international monetary system based on gold will more likely take place through the grass-roots efforts of Americans. It may already be happening at the state level. Last month, Indiana state Sen. Greg Walker introduced a bill -- "The Indiana Honest Money Act" -- which would, if enacted, allow citizens the option of paying in or receiving back gold, silver or the equivalent electronic receipt as an alternative to Federal Reserve notes for all transactions conducted with the state of Indiana.

It may turn out to be a bellwether. Certainly, it's a sign of a growing feeling in the heartland that we need to go back to sound money. We need money that works for the legitimate producers and consumers of the world -- the savers and borrowers, the entrepreneurs. Not money that works for the chiselers.

Ms. Shelton, an economist, is author of "Money Meltdown: Restoring Order to the Global Currency System" (Free Press, 1994).

Stable money is the key to recovery

How the G-20 can rebuild the 'capitalism of the future.'

By Judy Shelton
The Wall Street Journal
Friday, November 14, 2008

Tomorrow's "Summit on Financial Markets and the World Economy" in Washington will have a stellar cast. Leaders of the Group of 20 industrialized and emerging nations will be there, including Chinese President Hu Jintao, Brazilian President Luiz Inacio Lula da Silva, King Abdullah of Saudi Arabia and Russian President Dmitry Medvedev. French President Nicolas Sarkozy, who initiated the whole affair, in order, as he put it, "to build together the capitalism of the future," will be in attendance, along with the host, our own President George W. Bush, and the chiefs of the World Bank, the International Monetary Fund and the United Nations.

One thing is guaranteed: Most attendees will take the view that Wall Street greed and inadequate regulatory oversight by U.S. authorities caused the global financial crisis -- never mind that their own regulatory agencies missed the boat and that their own governments eagerly bought up Fannie Mae and Freddie Mac securities for the higher yield over Treasurys.

But whatever they agree to pursue, whether new transnational regulatory authority or globally mandated limits on executive remuneration, would only stultify prospects for economic recovery -- and completely miss the point.

At the bottom of the world financial crisis is international monetary disorder. Ever since the post-World War II Bretton Woods system -- anchored by a gold-convertible dollar -- ended in August 1971, the cause of free trade has been compromised by sovereign monetary-policy indulgence.

Today, a soupy mix of currencies sloshes investment capital around the world, channeling it into stagnant pools while productive endeavor is left high and dry. Entrepreneurs in countries with overvalued currencies are unable to attract the foreign investment that should logically flow in their direction, while scam artists in countries with undervalued currencies lure global financial resources into brackish puddles.

To speak of "overvalued" or "undervalued" currencies is to raise the question: Why can't we just have money that works -- a meaningful unit of account to provide accurate price signals to producers and consumers across the globe?

Consider this: The total outstanding notional amount of financial derivatives, according to the Bank for International Settlements, is $684 trillion (as of June 2008) -- over 12 times the world's nominal gross domestic product. Derivatives make it possible to place bets on future monetary policy or exchange-rate movements. More than 66% of those financial derivatives are interest-rate contracts: swaps, options or forward-rate agreements. Another 9% are foreign-exchange contracts.

In other words, some three-quarters of the massive derivatives market, which has wreaked the most havoc across global financial markets, derives its investment allure from the capricious monetary policies of central banks and the chaotic movements of currencies.

In the absence of a rational monetary system, investment responds to the perverse incentives of paper profits. Meanwhile, price signals in the global marketplace are hopelessly distorted.

For his part, British Prime Minister Gordon Brown says his essential goal is "to root out the irresponsible and often undisclosed lending at the heart of our problems." But if anyone has demonstrated irresponsibility, it is not those who chased misleading price signals in pursuit of false profits -- but rather global authorities who have failed to provide an appropriate international monetary system to serve the needs of honest entrepreneurs in an open world economy.

When President Richard Nixon closed the gold window some 37 years ago, it marked the end of a golden age of robust trade and unprecedented global economic growth. The Bretton Woods system derived its strength from a commitment by the U.S. to redeem dollars for gold on demand.

True, the right of convertibility at a pre-established rate was granted only to foreign central banks, not to individual dollar holders; therein lies the distinction between the Bretton Woods gold exchange system and a classical gold standard. Under Bretton Woods, participating nations agreed to maintain their own currencies at a fixed exchange rate relative to the dollar.

Since the value of the dollar was fixed to gold at $35 per ounce of gold -- guaranteed by the redemption privilege -- it was as if all currencies were anchored to gold. It also meant all currencies were convertible into each other at fixed rates.

Paul Volcker, former Fed chairman, was at Camp David with Nixon on that fateful day, Aug. 15, when the system was ended. Mr. Volcker, serving as Treasury undersecretary for monetary affairs at the time, had misgivings; and he has since noted that the inflationary pressures which caused us to go off the gold standard in the first place have only worsened. Moreover, he suggests, floating rates undermine the fundamental tenets of comparative advantage.

"What can an exchange rate really mean," he wrote in "Changing Fortunes" (1992), "in terms of everything a textbook teaches about rational economic decision making, when it changes by 30% or more in the space of 12 months only to reverse itself? What kind of signals does that send about where a businessman should intelligently invest his capital for long-term profitability? In the grand scheme of economic life first described by Adam Smith, in which nations like individuals should concentrate on the things they do best, how can anyone decide which country produces what most efficiently when the prices change so fast? The answer, to me, must be that such large swings are a symptom of a system in disarray."

If we are to "build together the capitalism of the future," as Mr. Sarkozy puts it, the world needs sound money. Does that mean going back to a gold standard, or gold-based international monetary system? Perhaps so; it's hard to imagine a more universally accepted standard of value.

Gold has occupied a primary place in the world's monetary history and continues to be widely held as a reserve asset. The central banks of the G-20 nations hold two-thirds of official world gold reserves; include the gold reserves of the International Monetary Fund, the European Central Bank and the Bank for International Settlements, and the figure goes to nearly 80%, representing about 15% of all the gold ever mined.

Ironically, it was French President Charles de Gaulle who best made the case in the 1960s. Worried that the U.S. would be tempted to abuse its role as key currency issuer by exporting domestic inflation, he called for the return to a classical international gold standard. "Gold," he observed, "has no nationality."

Mr. Sarkozy might build on that legacy if he can look beyond the immediacy of the crisis and work toward a future global economy based on monetary integrity. This would indeed help to restore the values of democratic capitalism. And Mr. Volcker, an influential adviser to President-elect Barack Obama, could turn out to be a powerful ally in the pursuit of a new stable monetary order.

Ms. Shelton, an economist, is author of "Money Meltdown: Restoring Order to the Global Currency System" (Free Press, 1994).

Downloaded from *http://online.wsj.com/article/SB122663373660027575.html* on October 6, 2009.

The Dollar is a Big Element of U.S. Security

The following letter to the editor from Dr. Paul ran in today's Wall Street Journal:

February 29, 2008

"I was delighted to read in Judy Shelton's op-ed, "Security and the Falling Dollar" (Feb. 15), that at long last the security implications of the dollar's collapse have made their way into the mainstream media. The dollar's strength (or lack thereof) has been of paramount concern to me, and the subject of many of my statements over the past several years. Decades of manipulation by the Federal Reserve have benefited the government and certain politically-connected firms, while gradually destroying the purchasing power of middle-class Americans. Despite numerous warnings in the past, it is only now at a point of acute crisis that Washington insiders are beginning to awaken to the reality of the end of dollar hegemony.

"While I desire reform of our current monetary system, my own proposals have not been as all-encompassing as **Ms. Shelton's suggestion to return to a Bretton Woods-style system. Her recommendation, though, that gold backing should make up a component of a future monetary system, is one that we would all do well to heed.**

My own legislative proposals focus around eliminating the taxes and laws that dissuade individuals and institutions from using gold as currency or as a backing for currency.

By allowing market processes to determine the issuance of currency, **we can allow individuals to decide for themselves what currency they wish to use.**This would lead to a gradual reintroduction of sound money and avoid the market shocks that occur when monetary decisions are mandated by government fiat."

Rep. Ron Paul (R., Texas)

Washington

http://ronpaul2008.typepad.com/ron_paul_2008/2008/02/the-dollar-is-a.html

: The Dollar is a Big Element of U.S. Security
: The following letter to the editor from Dr. Paul ran in
: today's Wall Street Journal: February 29, 2008

: "I was delighted to read in Judy Shelton's op-ed,
: "Security and the Falling Dollar" (Feb. 15), that
: at long last the security implications of the dollar's
: collapse have made their way into the mainstream media. The
: dollar's strength (or lack thereof) has been of paramount
: concern to me, and the subject of many of my statements
: over the past several years. Decades of manipulation by the
: Federal Reserve have benefited the government and certain
: politically-connected firms, while gradually destroying the
: purchasing power of middle-class Americans. Despite

: numerous warnings in the past, it is only now at a point of
: acute crisis that Washington insiders are beginning to
: awaken to the reality of the end of dollar hegemony.

: "While I desire reform of our current monetary system, my
: own proposals have not been as all-encompassing as Ms.
: Shelton's suggestion to return to a Bretton Woods-style
: system. Her recommendation, though, that gold backing
: should make up a component of a future monetary system, is
: one that we would all do well to heed. My own legislative
: proposals focus around eliminating the taxes and laws that
: dissuade individuals and institutions from using gold as
: currency or as a backing for currency. By allowing market
: processes to determine the issuance of currency, we can
: allow individuals to decide for themselves what currency
: they wish to use. This would lead to a gradual
: reintroduction of sound money and avoid the market shocks
: that occur when monetary decisions are mandated by
: government fiat."

: Rep. Ron Paul (R., Texas)

Downloaded from *http://www.rumormillnews.com/cgi-bin/archive.cgi/noframes/read/119872* on October 6, 2009.

*Judy Shelton, the Wall Street Journal's Gold Bug*March 20, 2009

Posted by federalist in *Finance*.

Tags: *dollar inflation*, *money supply*, *quantitative easing*

trackback

Judy Shelton published *a book* 15 years ago advocating a return to gold-backed currencies. She has *few credentials* and no online presence or ongoing academic involvement that I have been able to find. But almost every month for the last year the *Wall Street Journal's* editorial page has printed an essay by her that, ultimately, argues for a return to gold-backed currency:

- *Is Inflation Baked Into the Budget Plan?* – March 19, 2009
- *Capitalism Needs a Sound-Money Foundation* — February 11, 2009
- *Stable Money Is the Key to Recovery* — November 14, 2008
- *A Capitalist Manifesto* — October 13, 2008
- *Loose Money And the Roots Of the Crisis* — September 30, 2008
- *The Weak-Dollar Threat to World Order* — June 9, 2008
- *It's the Dollar, Stupid* — March 5, 2008
- *Security and the Falling Dollar* — February 15, 2008

As I have previously written, concerns about dollar integrity are certainly justified: The central bank and government are colluding to try to print their way out of a financial crisis. And as our government compounds its borrowing it will face increasing incentives to simply inflate its way out of debt. Today's WSJ has *an article about the increasing money* supply showing that money creation has been more than offset to this point by the Great Delevering of this crisis. No inflation will occur until the former overcomes the latter, although the more the money supply is built up in advance of that tipping point the greater the risk of a "snap" inflation that the Fed cannot easily unwind.

I agree that nobody with significant assets should count on the dollar or any other fiat currency to conserve value. *But as I have explained before*, the point Shelton and other gold-fanatics gloss over is that nobody has to: While fiat currencies are generally the most liquid and fungible medium of exchange, markets offer many practical means of avoiding currency valuation risk. Derivatives markets for currencies and interest rates are enormous and efficient, allowing any particular currency risk to be priced and neutralized. Dollar inflation insurance can be purchased explicitly through inflation-protected bonds: *Another article today* quotes a bond fund manager reiterating *my view that TIPS are currently bargain insurance*.

Currency owners are also free to store and trade value using many other media — including gold. For small fees, an individual can convert dollars into gold, and then back into any currency to facilitate trade.

Governments cannot be counted on for "sound money," but capitalism has given us efficient means to create it ourselves.

Downloaded from *http://federalist.wordpress.com/2009/03/20/judy-shelton-the-wall-street-journals-gold-bug/* on October 6, 2009.

Is Inflation Baked Into the Budget Plan?

MARCH 19, 2009

By JUDY SHELTON

Trust, honesty, accountability -- these are the watchwords of President Barack Obama's administration. In his inaugural speech, Mr. Obama made it clear that these principles are especially applicable to fiscal and budgetary matters. "Those of us who manage the public's dollars will be held to account -- to spend wisely, reform bad habits, and do our business in the light of day -- because only then can we restore the vital trust between a people and their government."

Fiscal accountability is imperative because when government spends more than its citizens can afford, it hollows out the productive capabilities of the nation. Resources that should be used to create new wealth are allocated to pay interest on accumulated debt; instead of investing in tomorrow, people must labor to pay yesterday's bills. When deficit spending is accommodated by loose monetary policy, it leads to internal bankruptcy -- indeed, whole nations have foundered on this path.

Which is why the Obama administration should be asked to provide assurances it won't compromise the integrity of our money as it strives to implement its $3.9 trillion budget and simultaneously reduce the deficit. We cannot balance the budget by resorting to the dodge of inflation. Fiscal honesty demands a meaningful measure of value, an honest dollar.

Therefore, it is crucial that as Mr. Obama talks up his blueprint for reducing the deficit from 12.3% of GDP to a mere 3% within the next four years, the underlying economic assumptions that drive his projections are subjected to close scrutiny. One factor that tends to get overlooked is that the year-to-year growth in projected GDP is a function of two estimates: real growth and inflation. It is the *combination* of these two estimates that provides the budget number that serves as the denominator for calculating the deficit as a percentage of GDP.

Here's an example of some fuzzy math: The Obama budget shows GDP at $14.240 trillion in 2009 and projects it at $17.498 trillion in 2013. In other words, it projects that the total value of U.S. economic output will increase by 23% over the next four years, i.e., it will be nearly one-quarter larger. The projected deficit for 2013 is $533 billion in the Obama budget; hence, $533 billion divided by $17.498 trillion is 3% -- *voila!* the impressive deficit-at-3%-of-GDP claim four years out.

The trick lies in getting a big number for GDP growth, and the fudge factor arises from assigning relative weights for real growth versus inflationary growth. The Obama budget assumes 70% of the increase can be attributed to real growth, 30% from inflation.

The fact that the mainstream summary of private economic forecasts known as the Blue Chip Consensus predicts nominal GDP in 2013 will be $730 billion *lower* than does the Obama budget -- and also assumes lower real growth and higher inflation across the same four-year period -- was dismissed not long ago by Christina Romer, chair of Mr. Obama's Council of Economic Advisers. "We are economists and not soothsayers," she quipped.

Economists are notorious for disagreeing with each other, true. If you were to poll economists right now whether the bigger threat on the horizon is deflation or inflation -- you would receive a continuum of opinions.

But what most Americans are concerned about, it's safe to say, is not so much the possibility of declining prices -- after all, lower prices can serve as a stimulus to start buying -- but rather the likelihood that the purchasing power of their wages and savings will be eroded through inflation. It's small comfort to have more dollars rounding out the economy these next few years if those dollars are worth less. So it very much matters how much of the projected growth touted in the Obama budget will turn out to be real, and how much is apt to be achieved through money illusion.

Economists may not be soothsayers, but they should strive to be truth tellers. It's one thing to claim that the dollar value U.S. economic output will be one-quarter higher in four years; it's quite another to suggest that the U.S. GDP in 2013 will be worth one-quarter more.

Can the president's economic team definitively state that inflation is not baked into the plan? Would Mr. Obama be willing to guarantee the stable purchasing power of the dollar?

The notion that monetary policy might be in cahoots with fiscal policy is sure to elicit howls of protest all the way from the Treasury to the Federal Reserve -- about a mile's distance. But no one can seriously suggest that the Fed has not been politicized beyond all pretenses toward independence. The Fed has become a key player in the government's efforts to deal with the credit crisis, purchasing hundreds of billions in mortgage-backed securities guaranteed by federal agencies and taking them onto its own balance sheet. Last month the Fed issued a joint statement with Treasury that they stood ready to inject more capital into banks "to provide a cushion against larger-than-expected future losses." And according to yesterday's surprise announcement, the Fed now plans to buy up long-term Treasury bonds -- an act of fiscal incest -- while taking another $1 trillion or so onto its balance sheet to boost consumer spending.

So the Fed is involved up to its neck in this blueprint for the future. Does anyone doubt that former Treasury Secretary Larry Summers, who heads the White House's Economic Council, is slated to be the next Fed chairman?

All of which brings into urgent focus the need to put down a marker for sound money. How can capitalism find its footing when the monetary foundation is shifting with each new government bailout -- each new infusion of deficit-financed government expenditure?

American families deserve better than to be punished by wasteful public spending and ruinous inflation.

We must require the Obama administration to abide by its professed willingness to be held to account. We should demand a new form of savings bond from the government aimed at safeguarding the purchasing power of the currency. "Make the dollar, once again, an honest dollar," Jack Kemp urged as a Republican candidate for president in 1988. "The dollar should be so trustworthy, so predictable, so lasting in value, that it's as good as gold." Thirty years later, gold remains a surrogate for long-term confidence in U.S. fiscal policies. Judging from the steep rise in the dollar price of gold -- and runaway sales of gold coins -- the verdict is not positive.

It is time to take a stand. Honest money is essential to an honest budget; we need to safeguard the integrity of America's currency. As Republicans put forward an alternative blueprint for America's future based on pro-growth tax policies and entitlement reform, they should also seek to pass legislation authorizing the issuance of gold-backed Treasury bonds -- payable at maturity in dollars or ounces of gold, at the option of the holder.

A limited issuance of gold-backed Treasury bonds would serve as a sign to U.S. citizens that the dollar will not be the default mechanism for governmental excesses. "The Honest Dollar Act" will function as a barometer measuring the fiscal rectitude of the Obama administration. If the promised deficit reduction has been sufficiently accomplished to stem inflationary fears, holders of gold-backed Treasury obligations are unlikely to redeem in gold; after all, gold pays no interest and normally engenders warehousing costs. Unless the utter lack of progress toward fiscally conservative goals has unleashed even more egregious levels of deficit spending, repayment in dollars will be preferred. But the right to convert the face value of the note for gold at a fixed rate -- say, $1,000 per troy ounce -- conveys a trust-but-verify provision that marks the first solid step toward sound money.

As we strive to turn the U.S. economy around, let us not forget that money is a moral contract between government and citizens -- a key aspect of that "vital trust" between a people and their government to which Mr. Obama so powerfully subscribes. And which we must uphold.

Downloaded from *http://online.wsj.com/article/SB123742149749078635.html* on October 6, 2009.

UN calls for new reserve currency
Oct 6 07:17 AM US/Eastern

The United Nations called on Tuesday for a new global reserve currency to end dollar supremacy which has allowed the United States the "privilege" of building a huge trade deficit.

"Important progress in managing imbalances can be made by reducing the reserve currency country's 'privilege' to run external deficits in order to provide international liquidity," UN undersecretary-general for economic and social affairs, Sha Zukang, said.

Speaking at the annual meetings of the International Monetary Fundand World Bank in Istanbul, he said: "It is timely to emphasize that such a system also creates a more equitable method of sharing the seigniorage derived from providing global liquidity."

He said: "Greater use of a truly global reserve currency, such as the IMF's special drawing rights (SDRs), enables the seigniorage gained to be deployed for development purposes," he said.

The SDRs are the asset used in IMF transactions and are based on a basket of four currencies -- the dollar, euro, yen and pound -- which is calculated daily.

China had called in March for a new dominant world reserve currency instead of the dollar, in a system within the framework of the Washington-based IMF.

Downloaded from *http://www.breitbart.com/article.php?id=CNG.e272eaa74dccc30f21c6ff7638b0f37b.461&show_article=1* on October 6, 2009.

Will Social Security survive the recession?
Tax revenue plummets while retirees seek early benefits

Posted: October 05, 2009
1:02 pm Eastern

Will Social Security survive the recession?

Social Security is about to go into the red, paying out more in benefits than it takes in taxes during the next two years, the first time that has happened since the 1980s, *Jerome Corsi's Red Alert reports*.

Unemployment resulting in lower tax revenues and a spike in early retirement claims – two consequences of the continuing U.S. recession – are the culprits in this crunch, Corsi contends.

Applications for Social Security retirement benefits are 23 percent higher this year, while disability claims have increased by 20 percent.

Nearly 2.2 million people applied for Social Security retirement benefits from the start of the budget year in October through July, compared with 1.8 million in the same period last year, according to the Associated Press.

While Social Security is supposed to have $2.5 trillion in trust funds to cover such shortfalls, Congress has spent the Social Security trust fund reserve on other underfunded government programs, placing government IOUs in the trust fund to replace the otherwise absconded cash.

Forty-three million retirees and their dependents receive Social Security benefits, with an additional 9.5 million receiving Social Security disability benefits.

The average monthly Social Security check is currently paying around $1,100, while the average disability benefit is about $920 a month.

Social Security early retirement benefits can be paid out beginning at age 62.

The U.S. economic downturn has caused the loss of approximately 7 million jobs, reducing the payroll base on which Social Security taxes derive revenue, while putting pressure on those 62 or older who have lost jobs.

Social Security woes do not end there, Corsi wrote.

For 2009, Social Security beneficiaries received an unusually large 5.8 percent increase in benefits, primarily because of the 2008 spike in oil prices, according to the Wall Street Journal.

Typically, Social Security cost-of-living adjustments result in a 2 to 3 percent increase in benefits.

However, this year is expected to be different.

"No cost-of-living increase is expected in 2010 for the first time in 35 years," Corsi wrote, "largely because inflation has not increased during the economic downturn."

How bad is the Social Security revenue shortfall?

Rep. Jason Chaffetz, R-Utah, has written that when debts to various government trust funds are added to the anticipated 2010 budget deficit, the U.S. debt burden will reach nearly 100 percent of gross domestic product in 2010.

Moreover, Rep. Chaffetz estimates that when unfunded liabilities of more than $100 trillion from Social Security, Medicare and government employee pensions are included, national debt is several times larger than GDP.

"In 2010, nearly $200 billion will be spent on interest payments, almost half of which will be going overseas," Chaffetz wrote. "Interest payments are forecast to skyrocket to $829 billion by 2019."

Corsi noted that Congress focusing on Social Security reform is unlikely, especially with 2010 being a mid-term election year.

"If the national debate over Obamacare has demonstrated anything, it is that seniors remain a politically important lobby that react vocally when entitlement benefits are threatened," Corsi wrote. "Just ask George W. Bush who expended his political capital coming out of his 2004 re-election by trying and failing to put on the national agenda a Social Security reform that would allow some privatization of retirement benefits."

He said he does not expect the Social Security revenue shortfall to get nearly the mainstream media attention the issue warrants, especially when the Obama administration is determined to pursue universal health-insurance reform – a program that will increase federal revenue liabilities – and cap-and-trade carbon emissions control legislation – likely to act as a corporate tax that will force job losses and curtail tax revenues.

Instead, Corsi noted, the likely outcome of the Social Security budget crisis is that President Obama will seek to tax the "rich," this time by suggesting that Social Security taxes should be applied as payroll taxes to incomes higher than $250,000.

Downloaded from *http://www.wnd.com/index.php?fa=PAGE.view&pageId=112000* on October 6, 2009.

Second-hand retailers score during recession

Mon Oct 5, 2009 7:39am EDT

By *Ed Stoddard* and *Tim Gaynor*

DALLAS/PHOENIX (Reuters) - The recession has taken its toll on many large U.S. retailers but smaller ones catering to the second-hand market are flourishing as the cash-strapped seek the holy grail of the American consumer: a bargain.

In August the National Association of Resale & Thrift Shops (NARTS), which claims to be the world's largest resale trade association, said a survey of its membership about second quarter sales in 2009 compared to the same period in 2008 showed increasing turnover in the second-hand sector.

"Of the 263 stores that responded, 64.1 percent said sales increased -- with an average increase of approximately 31 percent -- 11.5 percent said sales were about the same and 24.4 percent had a decrease in sales," it said.

Dallas-based Half Price Books, a privately-held operation that mostly trades and sells used books and magazines, has seen its sales rise and has plans to open new stores.

It has opened four new stores so far this calendar year, with more due to open in the fall. It currently has 106 stores in 16 states.

"We are buying more books than ever before so people are selling ... It started last year with people coming in and selling books for gas money," said Kathy Doyle Thomas, executive vice president for marketing and real estate.

"I think people are okay with buying used ... it is also part of the growing culture of recycling," said Doyle Thomas.

Such success is rare amid a financial crisis that has thrown millions of Americans out of work and made many think twice before they shop, which is almost a national obsession.

Macy's Inc said in January that it was closing 11 stores that were performing badly in the recession and Dallas-based diamond and jewelry retailer Zale Corp has been closing stores -- just two of several examples.

Sales for Half Price Books' last fiscal year (July 1-June 30) showed an increase of six percent to around $200 million in same store sales and a rise of 10 percent for total sales including the new stores.

Kathy Gropper is a regular.

"Whenever I finish books I bring them back and get more. I do the same with clothes," she said after bringing in a box full of books and magazines to the retailer's main store in Dallas.

"For me it's a recycling thing. We also did it before the recession but we are even more careful now," said Gropper, who is a stay-at-home "home-schooling" mother.

The chain's origins were modest. It was started in 1972 by green activists in a converted laundromat in Dallas with 2,000 books from the founders' own libraries

SECOND-HAND CLOTHES ARE CHIC

Other smaller and privately-held second-hand retailers with humble beginnings are also enjoying success, at least in part because of the recession.

My Sister's Closet is a chain of 10 stores across the Phoenix metro area selling what they describe as "recycled designer apparel." It is run by founder Ann Siner and her sisters Jenny and Tess.

The business began in 1991, with a store in Phoenix, which offered good quality clothing for women, replacing the dark and dingy feel of most second stores with a brighter, more boutique-like feel.

"Typically you can find retail items brand new at 50, 60 or 70 percent off, so we had to take it a step further," said founder Siner, adding that quality and pricing are key.

"Our items are typically used, so we have to say 'We'll give you a really good deal if you come shopping with us.' Say you bought a blazer that retails for $100, in our store you are going to get it for between $9.95 and $19.95," she said.

Siner and her sisters have parlayed the success of the first store catering to women into a store for kids, called Small Change, and another selling consignment furniture, My Sister's Attic, and a store for men, called Well Suited.

In the current downturn, where many shops in Phoenix valley strip malls have shut their doors, Siner is opening her eleventh store, this one selling furniture.

"I'm almost embarrassed to say this, but we are growing phenomenally. We've always had good growth, but this year we're 20 percent up on last year," Siner said.

"We've always had good growth, but the down economy is, I think, telling people to bring their things in to sell when they normally might have given them away, or given them to the maid ... Also (people) are seeing used items are very good and can give great savings," she said.

One customer said shopping for work clothes such as slacks and shirts made perfect sense in the recession.

"I think everybody is realizing that spending big money now doesn't really make sense," said banker Robert Maggs, 37, as he shopped at Well Suited, the consignment store for men. "It's cheap and everything is good quality."

But does Siner think that business will still be good when the economy picks up?

"We think it will continue, just because people will have learned it's an easy way to make some money, and the savings are so appealing."

Downloaded from *http://www.reuters.com/article/domesticNews/idUSTRE59400220091005* on October 6, 2009.

No more $19 doughnuts; More businesses to fail

Mon Oct 5, 2009 12:47pm EDT

By *Chelsea Emery* - Analysis

NEW YORK (Reuters) - Bankruptcy professionals have a grim view on the U.S. corporate recovery, despite a recent rise in stocks and an uptick in business deals.

"I think it's going to be a sad holiday season," said Lynn Tilton, chief executive officer of Patriarch Partners, a private equity firm that specializes in distressed companies.

Consumers will be stingy with their spending, keeping malls and resorts empty, bankruptcy professionals said at the Reuters Restructuring Summit in New York this week. Even the wealthy will steer clear of the wild, brand-conscious spending that marked the last few years.

"No one is conspicuously consuming they way they did in 2006," said William Derrough, a managing director at investment bank Moelis & Co. "That excess spending creates little boutique hotels, it creates that restaurant that sells the $19 doughnut and the Kobe beef burger. Those things don't need to exist."

Higher unemployment and little bank lending will keep a lid on economic gains, likely forcing thousands more companies into default, bankruptcy or liquidation.

"I just don't see a rapid recovery," said Tilton.

EMPTY BERMUDA RESORT

U.S. unemployment has climbed to its highest rate since June 1983, to 9.8 percent, according to U.S. Labor Department data on Friday.

Bankruptcy pros who managed to eke out a small vacation between an avalanche of bankruptcies this year that included automaker General Motors GM.UL and American outdoor apparel chain Eddie Bauer Holdings Inc (EBHIQ.PK: *Quote*, *Profile*, *Research*, *Stock Buzz*) say resorts are deserted.

"I snuck away last week to Bermuda and the hotel was empty," said one restructuring expert. "Absolutely empty."

Miserly bank lending is exacerbating the problem. Until banks lend again to small-sized businesses or lend to companies with below-investment-grade ratings, unemployment will rise still more.

"At the risk of being cynical, which if you are in the restructuring business comes relatively easy, the banks are making money, but they aren't lending money," said Henry Miller, chairman and co-founder of investment bank Miller Buckfire.

In addition, there is some $117 billion in debt maturities due in 2011, according to a study by Bain Corporate Renewal Group. Think that figure is high? Debt maturities spike to $165 billion in 2014.

"It's hard to see how all of that can be refinanced," said Miller.

SECTORS

The outlook is dim for a slew of industries, according to the restructuring executives.

Media, real estate and private equity-sponsored companies are most in need of drastic restructuring, said James Sprayregen, a bankruptcy attorney for Kirkland & Ellis. Other busy areas for restructuring will include commercial real estate and smaller auto-parts makers, he said.

"We are still headed for an avalanche of deals over the next 12 to 18 months that will keep the restructuring world quite busy," said Robert McMahon, a managing director for GE Capital, Restructuring Finance.

Retail, too, will suffer.

"How well is retail going to fare this year?" said Thane Carlston, managing director at Moelis. "I could make a case that Christmas may not come."

Downloaded from http://www.reuters.com/article/ousivMolt/idUSTRE5943Z520091005?sp=true on October 6, 2009.

47% will pay no federal income tax

An increasing number of households end up owing nothing in major federal taxes, but the situation may not be sustainable over the long run.
By Jeanne Sahadi, CNNMoney.com senior writer
Last Updated: October 3, 2009: 2:58 PM ET
NEW YORK (CNNMoney.com) -- Most people think they pay too much to Uncle Sam, but for some people it simply is not true.

In 2009, roughly 47% of households, or 71 million, will not owe any federal income tax, according to estimates by the nonpartisan Tax Policy Center.

Some in that group will even get additional money from the government because they qualify for refundable tax breaks.

The ranks of those whose major federal tax burdens net out at zero -- or less -- is on the rise. The center's original 2009 estimate was 38%. That was before enactment in February of the $787 billion economic recovery package, which included a host of new or expanded tax breaks.

The issue doesn't get a lot of attention even as lawmakers debate how to pay for policy initiatives like health reform, whether to extend the Bush tax cuts and how to reduce the deficit.

The vast majority of households making up to $30,000 fall into the category, as do nearly half of all households making between $30,000 and $40,000.

As you move up the income scale the percentages drop.

Nearly 22% of those making between $50,000 and $75,000 end up with no federal income tax liability or negative liability as do 9% of households with incomes between $75,000 and $100,000.

Of course, income taxes don't tell the whole story. Workers are also subject to payroll taxes, which support Social Security and Medicare.

When considering federal income taxes in combination with payroll taxes, the percent of households with a net liability of zero or less is estimated to be 24% this year, according to the Tax Policy Center's estimates.

A key reason why there is a zero-liability group at all is because the U.S. tax system is progressive. Those who bring in more money pay more than those lower down the income scale to support government functions such as national defense and social safety nets like Medicaid for those in need. That progressivity can be dialed up or down.

"Some think it's too progressive. Some don't think it's progressive enough," said Roberton Williams, a senior fellow at the center.

President Obama falls into the latter camp. He has proposed increasing the income tax burden on families making more than $250,000 and individuals making more than $200,000, while offering new measures to reduce the tax bite for most Americans making less.

One of Obama's proposals is to extend the 2001 and 2003 Bush tax cuts for everyone except high-income tax filers, which was the group that derived the most benefit from those cuts.

As a result, under Obama's budget, he would keep the ranks of the non-payers higher than they would otherwise be.

Why the tax-free matter

The question of who pays and who doesn't is not a trivial matter. But Washington policymakers are not dealing with it in an explicit way.

And that's a problem, given the country's fiscal outlook.

If asked to vote up or down on whether they are comfortable with such a large group of voters contributing no federal income tax or payroll tax revenue, the majority may well decide it is appropriate given the means of the households involved. Or they may decide that it's not.

Either way, that decision should inform the debate about the many costly policies and deficit-reduction strategies that lawmakers will be grappling with for years to come.

"As the number [of nonpayers] becomes larger, we have to question whether we'll make good decisions about how to allocate resources," economist George Zodrow, a professor at Rice University. "Most people don't understand how skewed the tax distribution is."

Experts say that to pay for all the things on the country's growing tab, the money can't just come from a shrunken pool of taxpayers.

"Over the long run, you'll have to have a broader base," Zodrow said.

Downloaded from
http://money.cnn.com/2009/09/30/pf/taxes/who_pays_taxes/index.htm?cnn=yes on October 6, 2009.

Gold hits record high on 'plan' to ditch dollar

October 6, 2009
LONDON (AFP) – The price of gold struck an all-time high at 1,038.65 dollars an ounce here on Tuesday as the dollar fell on a reported plan by Gulf states to stop using the greenback for oil trading.
Gold reached the level in late afternoon trade on the London Bullion Market, beating the previous record high of 1,032.70 dollars an ounce struck in March, 2008.
"Gold prices hit an all-time high as the dollar weakens," said Barclays Capital precious metals analyst Suki Cooper.
"The dollar weakness appears to be related to ... (reported) secret talks about oil being priced in a basket of currencies including gold rather than the dollar, which has added to concerns about the future role of the dollar in international financial markets."
The dollar's future as the world's top currency was thrown into doubt on Tuesday as a report said Arab states had launched secret moves with China and Russia to stop using the greenback for oil trading.
Arab states have launched steps with China, Russia, Japan and France to stop using the dollar for oil trades, British daily The Independent reported on Tuesday, but the report was denied by Kuwait and Qatar and reportedly by other nations.
The United Nations meanwhile on Tuesday called for a new global reserve currency to end dollar supremacy, which has allowed the United States the "privilege" of building a huge trade deficit.
The Independent's Middle East correspondent Robert Fisk wrote in his paper: "In the most profound financial change in recent Middle East history, Gulf Arabs are planning -- along with China, Russia, Japan and France -- to end dollar dealings for oil."
They would instead switch "to a basket of currencies including the Japanese yen and Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council (GCC), including Saudi Arabia, Abu Dhabi, Kuwait and Qatar," added Fisk.
Gold, viewed as a safe-haven investment, has won back favour in recent months as the global economy struggles out of its worst slump in decades.
The run-up in gold has been largely driven by weakness in the dollar, which makes dollar-priced commodities cheaper for holders of stronger currencies, boosting demand.

Gold also wins support from fears about higher inflation because the metal is widely regarded by investors as a safe store of value.
Precious metals consultancy GFMS last month warned that the current upward trend in gold may not be sustainable should global stimulus packages fail to boost flagging demand in the battered world economy and inflation fall as a result.
The Group of 20 leaders of emerging and developed nations recently agreed at a summit in Pittsburgh not to roll back massive stimulus measures that helped contain a severe global recession.

Downloaded from *http://news.yahoo.com/s/afp/20091006/ts_afp/commoditiesgoldmetalsprice_20091006144514* on October 6, 2009.

Stiglitz: GDP Blinded Us to the Crisis

Nobel Prize-winning economist Joseph Stiglitz explains why our reliance on the GDP metric masked the economy's ill health before the credit crisis hit.

Marie Leone - CFO.com | US
September 29, 2009

One of the reasons the global financial crisis took the world by surprise may be that our measurement system failed. That is, market participants and government officials were not focused on the right set of statistical indicators, claims a report from a panel of top economists led by Nobel Prize winners Joseph Stiglitz and Amartya Sen.

One of the main culprits, according to the research, which was commissioned by President Nicolas Sarkozy of France, is that the classic and widely referenced gross domestic product metric is no longer a good measure of general well-being — and, in fact, has not been for some time.

Simply put, the GDP is a measure of economic performance that represents the value of all the goods and services in an economy based on prices being charged. But there has long been discussion of the metric's alleged deficiencies; namely, that it does not take into account factors such as disparity in the distribution of wealth, depletion of natural resources, underground economies, and the quality of goods and services.

Stiglitz, Sen, and their colleagues say that such deficiencies helped portray the U.S. economy, and to a larger extent the global economy, as being in better shape than it actually was before the credit crisis hit. "In a performance-oriented society, what you measure affects what you do. If you have the wrong measures, you can wind up doing the wrong thing," asserted Stiglitz at a seminar last Friday sponsored by law firm Labaton Sucharow.

A key problem, according to Stiglitz, was that faux profits were factored into GDP calculations. He noted that, for example, 41% of all corporate profits in 2007 were generated in the financial sector and tied to debt. In other words, the gains were "borrowed from the future," he said.

As a result, the massive subprime-related losses that financial institutions booked in 2008 wiped out not only the profits from 2007 but also those from the preceding five years. "They were not really profits, but we recorded them as fantastic years," asserted Stiglitz.

Further, during the bubble-based run-up to the economic crisis, prices of output or capital were much higher than they should have been — 30% or more higher in the case of real estate. So the value of all goods and services being used to calculate the GDP "overestimated output," he concluded.

The GDP also fell short as a measure of sustainable growth, because the U.S. consumption boom between 2003 and 2007 was based on debt, and borrowing to generate consumption is unsustainable, added Stiglitz.

Another fundamental measuring mistake relates to household income. Adjusted for inflation, median household income in 2008 fell to $50,303, which was 4% below its 2000 level and continued a downward trend that had been accelerating for some time. That's "a striking statistic," said Stiglitz, because the GDP per capita for the same period climbed from $33,700 in 2000 to $38,100 in 2008 (adjusted for inflation).

The counterintuitive trend is explained by the increasing financial inequality within American society, which allows the two measures to go in absolutely different directions. The implication, according to Stiglitz, is that most citizens' standard of living goes down while the GDP goes up.

Another problem with the metric is that in some sectors, such as health care, GDP calculations take into consideration input but ignore output. So as an economy becomes less efficient, input and the GDP increase because of higher spending, "but things you care about actually go down," including citizens' health, opined Stiglitz.

Health-care spending currently accounts for 16% of the U.S. GDP, and that percentage is rising steadily. Yet "health outcomes in the U.S. are not commensurate with spending," he said. That means other countries are spending less and getting better results — witness France, which spends 11% of its GDP on health care and is ahead of the United States in life expectancy and other health metrics.

Stiglitz also addressed the issue of sustainability with respect to climate change, in particular the "false prices" that the United States and other countries use when valuing natural resources. "Our price system is based on the assumption that one of the scarcest resources we have has a zero price, and we know that can't be right," he said.

That scarce asset is clean air. Stiglitz's reasoning is that the Earth has a limited amount of capacity in its atmosphere to absorb the CO_2 emissions that are spewed into the air by factories and cars, and are believed to be the main contributor to global warming.

He noted that many experts believe CO_2 emissions should be priced at around $80 to $100 per ton. When the United States eventually factors the cost of carbon into its economy in that way, it will affect everything that emanates from fossil-fired energy production. Until then, prices will remain distorted.

"Our accounting framework affects how you see the world, and our accounting framework is flawed," said Stiglitz, who as a member of the Council of Economic Advisors under President Clinton lobbied for the United States to use metrics incorporating the effects of natural-resource depletion. "I knew we were on to something important when Congress said that if we did this, our funding would be cut. The coal industry was very adamant that we not [put a price on carbon]."

After the Great Depression, the GDP was used to take the stock market's temperature. But over the years, it increasingly became a measure of how well society was doing, "and those are two very different things," noted Stiglitz. In fact, he also counsels market participants to avoid using the stock market as a measure of economic health, especially now in the midst of the downturn. "The stock market is a very bad measure of how the overall economy is doing," he explained.

For one thing, said Stiglitz, the stock market could be bolstered by falling wages. Consider the current situation: it is likely that the true U.S. unemployment rate is much higher than the official 9.7%, putting extra downward pressure on wages. Sinking wages can boost short-term profitability for individual companies but ultimately diminish aggregate demand, stifling a strong economic recovery.

Today's stock market prices also may appear high because the Fed is keeping interest rates low, realizing that the economy is not yet in a robust recovery. Low interest is a natural deterrent for investors looking for a decent return. "Would you rather get zero on your bank deposits or put your money in the stock market — even with the risk?" Stiglitz asked the crowd.

Downloaded from *http://www.cfo.com/article.cfm/14443847/c_14444022* on October 6, 2009.

U.S. Dollar fell 35 Percent Over 18 Years from 1984 to 2002 - The U.S. Dollar then Dropped Over 40 Percent from 2002 to 2007: How the Dollar is Being Systematically Devalued since the 1980s. 5 Reason why a Weak Dollar is bad for America.

The ***U.S. Treasury and Federal Reserve***have kept quite in recent months about any strong dollar policy. Last time Timothy Geithner was in China he was laughed at by students when he insinuated that the U.S. would get its economic house in order. The Chinese students realize just like most Americans do, that the U.S. and China are stuck at the hip for years to come. Yet what most Americans probably don't realize is their central bank is systematically trying to destroy the currency they hold. This isn't new. This has been going on for well over two decades. The ***U.S. Treasury and Federal Reserve*** are now on a full scale mission to cut the dollar value in half.

Now why would the ***U.S. Treasury and Federal Reserve*** want to do this to the ***average American***? I think some Americans actually think these bank bailout machines are actually looking out for their best interest. They are not. Why do you think we have over ***26 million unemployed and underemployed Americans*** even though we have committed trillions of dollars to bailouts? Last time I checked most of the big banks are still standing while millions of workers are not.

Let us first pull up a chart of the U.S. dollar:

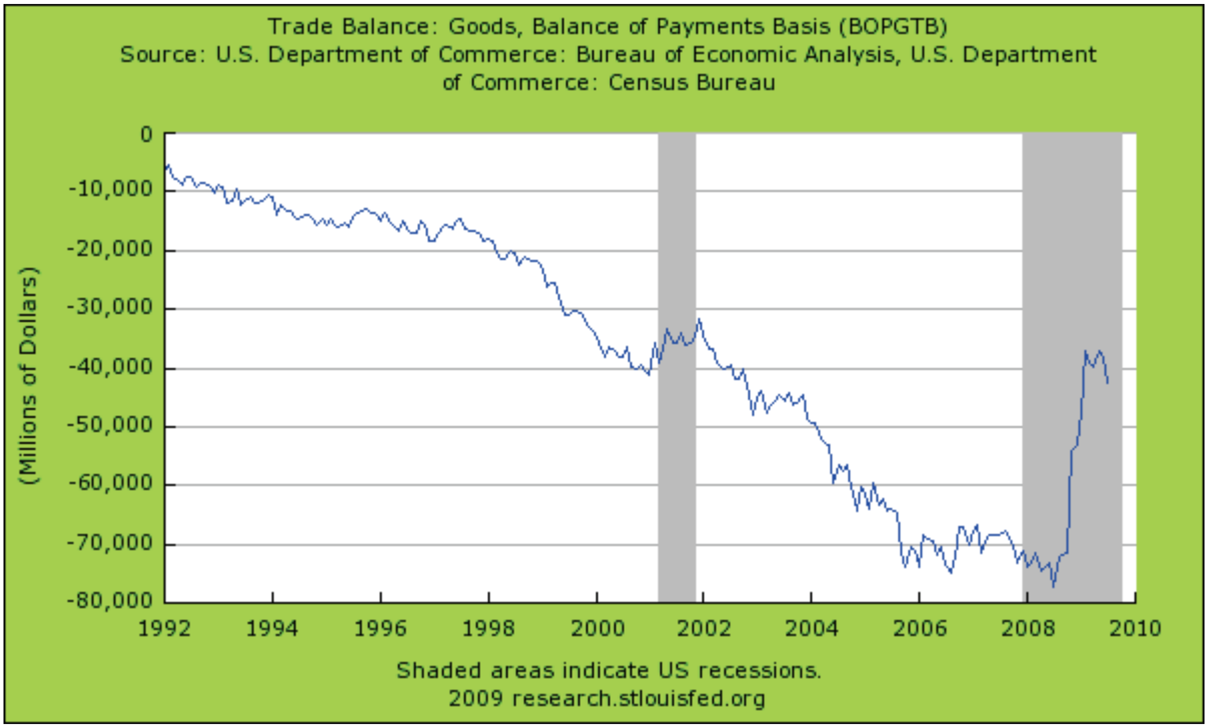
The U.S. dollar index hit a peak in 1985. If you may recall, the Federal Funds rate at the time was over 11 percent. Can you imagine that? Talk about popping the housing bubble. But over 18 years the dollar lost approximately 35 percent of its value. This occurred by a declining Fed funds rate and spending more than we produced. Little by little we exported our future away. What is more disturbing about the chart above is the quick destruction of the dollar in the last few years. From 2002 to the lows reached in 2008, in a little over 5 years we gave up over 40 percent of the U.S. dollar index value. So what took us 18 years only took us 5 years this time around.

The path is unmistakable. The ***U.S. dollar*** is being targeted. Why? It is the only way we can pay our way out of the current debt. Also, the global economy is completely dependent on the ***American consumer***. They need us to spend to keep going (ironically). This is where the myth of decoupling is shattered.

So why is this bad news for you?

1 - More Expensive Imports

First, even if we had a balance of trade a weaker U.S. dollar would help our exports but we have anything but a balance. If you haven't noticed we import so much more than we export that in the end, the already strained ***American consumer*** is going to be paying a whole lot more for items.



We are still negative. The only reason the chart is moving up is because Americans are spending a lot less. Americans are accustomed to buying cheap goods that come from low wage countries. There isn't much that can be done in terms of competition here unless people would be happy making $5 a day. So the argument that this is good for our exports is only a short term argument.

Since these things take time, what we are seeing right now is a draw down of inventory causing deflation. Yet what will happen after that and assuming the Fed gets its way by slamming the dollar? Expect to see the cost of goods shoot up. The U.S. dollar has been falling for 30 years so it is hard to see how we reverse this pattern.

2 - Global Garage Sale of U.S. Assets

Remember the ports being sold to foreigners? Didn't go so well did it. If the U.S. dollar is hit any further you can expect this to be a common occurrence. France experienced much of this after World War II when American companies started buying up French businesses. The French didn't much like that but American companies went out with a powerful U.S. dollar. The tables seemed to be turned. Now this is going to expose many questions and you can expect this to be a politically charged issue in years to come.

3 - Do you Enjoy Traveling Outside of U.S.?

Enjoy traveling outside the U.S.? Try going to Europe and seeing how far your dollar will go. Try going to Japan and see how strong the dollar is. Go to Britain and see how easy it is to get by with a few hundred dollars. It is somewhat nostalgic to watch *Mad Men* and have them go to Europe and seeing how life would be with a strong dollar. We have to watch it on TV because that isn't the case today.

Most Americans do not travel outside the U.S. so this might not be noticed but it is important to pay attention to this.

4 - A Weak Currency Hurts Global U.S. Leverage

We've already seen a weaker dollar hurt our standing in the world. Countries now openly talk about creating another reserve currency. Treasuries are still selling but only to our major trading partners. This won't go on forever. We've reached the zero bound. We are literally trading on the goodness of strangers. In the early 1980s the Fed was offering 10, 12, and even 15 percent on the funds rate so you were able to lock in Treasuries in the double digits. That was probably a once in a lifetime buy. Now, the Fed is at zero and really has no wiggle room. Politically, all it can do is appease our big buyers in China and Japan.

5 - Your Dollar Denominated Savings will Dwindle

The ***U.S. Treasury and Federal Reserve*** want to systematically cut the dollar by 50 percent or so in the next 5 to 10 years. But as we've seen in this crisis, in an irrational world things don't always go as planned. To think this process will run smoothly is naïve. Americans are already feeling the reality of a weaker dollar. Stagnant wages over a decade. Many***average Americans*** in dual income families are wondering why they are earning the same and working twice as hard. It is because the dollars they are getting paid in our worth less and less.

We really can't cut costs much more on goods that we import. So in the end purchasing power will be hurt. With the housing bubble bursting we see a quick adjustment bringing values back in line to local area incomes. Yet at the same time, higher unemployment and stagnant wages create this race to the bottom. Trying to play with a currency is not an easy task and the Fed has been trying to meddle with so many things for decades. The housing bubble was largely caused by the Fed cutting rates in the early part of this decade. It would appear the U.S. dollar has one way to go if it were up to our U.S. Treasury and Federal Reserve.

Downloaded from *http://www.mybudget360.com/us-dollar-fell-35-percent-over-18-years-from-1984-to-2002-the-us-dollar-then-dropped-over-40-percent-from-2002-to-2007-how-the-dollar-is-being-systematically-devalued-since-the-1980s-5-reaso/* on October 6, 2009.

RGE Monitor's Newsletter

Asian economies rebounded in Q2 2009 as aggressive monetary and fiscal stimuli cushioned domestic demand and quick inventory adjustment eased the downturn in industrial production. Capital inflows have buoyed the asset markets and net exports have contributed to GDP growth as imports have contracted faster than exports.

However, policy measures are inadequate to close the output gap emanating from sluggish private demand and sharp export contraction. All Asian economies will slow sharply in 2009 and grow below potential in 2010. RGE forecasts Asia to grow a mere 2.6 % in 2009 and 5.4% in 2010. Asia ex-Japan (AXJ) will grow 4.9% in 2009 and 6.6% in 2010. As the impact of policy measures fade in 2010, the pace of Asia's recovery will hinge on the recovery of global export demand and continued risk appetite. RGE projects that Japan will contract sharply in 2009 and grow below 1.0% in 2010. Fiscal stimulus will push China's growth to over 8.0% during 2009 and 2010. India will grow less than 6.0% in 2009 and below potential in 2010. The Asian Tigers (Singapore, Taiwan and Hong Kong), Thailand, Malaysia and New Zealand will contract in 2009 while the contraction in South Korea will be mild and Australia will barely grow. The Philippines, Indonesia, Vietnam,Pakistan and Sri Lanka will slow sharply in 2009.

Unlike 1997 or 2001, Asia cannot employ an export-led strategy to drive the economic recovery.

As consumers in the advanced economies deleverage over the next few years and foreign direct investment (FDI) recovers slowly, attaining the pre-crisis GDP growth rates in Asian countries will largely depend on the governments' ability to rebalance growth towards domestic demand and accelerate structural reforms. Government and private consumption and investment should be moved away from the export sectors. Reforms should increase government spending on safety nets and public services, move workers to the service sector, improve financial sector intermediation and diversify exports towards emerging markets. Since these reforms will take a few years, Asia's growth in the short-term will remain tied to the U.S. economy via trade and financial linkages.

Under RGE's baseline scenario, the U.S. economy will have a U-shaped recovery with anemic GDP growth and consumer deleveraging over the next few years. In that case, Asia, too, will have a U-shaped recovery. While Asia might have a stronger rebound compared to other regions, the strength of the recovery will vary across countries. Economies highly dependent on exports, such as Japan, the Asian Tigers and Malaysia, might witness a slower recovery and will take longer to go back to the pre-crisis growth rates. Countries with larger domestic demand, attractive asset markets, greater policy space and/or faster reforms, such as China, India, Indonesia, Vietnam and the Philippines, might witness a stronger recovery.

Export and Manufacturing Activity to Recover Sluggishly

Exports in most countries are rising on a month-on-month basis. Global inventory restocking and high base effects of 2008 will boost exports during H2 2009 and early 2010. Chinese commodity stockpiling and infrastructure spending, despite slowing from the recent highs, will benefit countries like Australia, Indonesia, Vietnam and India. Inventory restocking in China, the U.S. and EU will boost the exports of the Asian Tigers, plus Thailand and Malaysia. Exports of these countries might benefit somewhat if the Chinese fiscal stimulus boosts domestic consumption and import demand during 2010. A sustained improvement in Asian exports, however, will depend on the demand recovery in the U.S. and EU, and the revival of the global electronics cycle.

Fiscal stimulus, faster inventory adjustment and/or domestic demand recovery has revived manufacturing activity in China, *India* and Vietnam. Inventory restocking will boost industrial production in the export-dependent economies during H2 2009 and H1 2010, particularly in the technology sector. But the sustainability of manufacturing activity in these countries will depend on the strength of export recovery.

Domestic Demand Picking Up Slowly

Fiscal and monetary stimuli have improved mortgage conditions and retail and auto sales while the asset market rally has created some wealth. The job losses have slowed but weak hiring and wage pressures will lead to a slow recovery in consumption.

The export downturn, excess capacity and tight (albeit improving) credit conditions will keep investment sluggish until 2010, though government-led investment will pick up. Initial Public Offerings (IPOs) and M&A activity have picked up in many countries. But bank credit in emerging Asia (ex-China) is extremely sluggish, foreign bank lending is down sharply, and FDI is falling or slowing in many countries. Sluggish recovery in exports and global credit conditions will keep FDI inflows modest during 2010.

Policy Measures Will Remain Supportive

Inflation is picking up in many countries on a month-on-month basis. Most countries will exit deflation*China*, *India*, Indonesia and *Vietnam*, with the recovery in domestic demand, the closing of output gaps and low base effects of 2009.

Most central banks in the region will keep interest rates on hold through 2009 due to the fragile economic recovery and subdued core inflation. If continued capital inflows fuel asset bubbles and raise domestic liquidity, central banks will raise the bank reserve requirements, conduct open market operations and implement measures directly targeting the asset markets during H2 2009 and early 2010, before they start hiking interest rates. Countries witnessing faster economic recovery and/or vulnerable to asset bubbles and commodity prices, such as *South Korea*, China,*India*, Vietnam and *Indonesia*, will start raising rates in H1 2009. Countries experiencing a weaker recovery and larger output gaps, such as *Malaysia*, *Singapore*, *New Zealand* and *Taiwan*, will delay rate hikes until H2 2009.

Fiscal stimulus will be a major driver of growth in Asia, supporting consumer spending, slowing the pace of job losses and improving credit access for firms, especially the small and medium enterprises and exporters. But fiscal policy will be inadequate to close the output gap and will become a drag on growth in most countries over the course of 2010, especially if private demand is slow to recover. Fiscal concerns and inflation risk will constrain most governments from expanding the stimulus. High spending and waning tax and commodity revenues will erode the fiscal health of several countries, including *Japan*, *India*,*Vietnam*, *Thailand* and *Malaysia*, and cause the debt-to-GDP ratios to surge.

Sustainability of Asset Market Rally Depends on Risk Appetite

A quick economic rebound, capital inflows and better-than-expected corporate earnings have buoyed the Asian equity markets. Valuations have risen steadily though they remain below the peak levels of the boom years. The surge in markets like *India*, *China*, *Sri Lanka*, *Vietnam*and *Indonesia* has raised concerns that the rally might be getting ahead of fundamentals.

Asian currencies will continue to appreciate as global risk appetite buoys the asset markets, the trade balances are cushioned and the U.S. dollar remains weak. But central banks' aggressive intervention in the foreign exchange market will limit currency gains until exports recover. In

2010, countries like India, Indonesia, Singapore and South Korea might allow currency appreciation to control headline inflation.

The real estate sector, especially housing, has picked up since Q2 2009 in countries like *China*, Hong Kong, *Singapore*, *Vietnam* and South Korea due to attractive prices, favorable borrowing conditions under stimulus measures, and speculative activity fueled by capital inflows and liquidity. However, slow improvement in labor market conditions, any slowdown in risk appetite and government measures to curb speculation will negatively impact the real estate sector and prolong its recovery.

Email dated October 7, 2009.

Australian Monetary Policy: RBA Begins Rate Tightening

- The Reserve Bank of Australia (RBA), as expected, became the first major central bank to hike interest rates, raising the benchmark official cash rate (OCR) 25 basis points in October 2009 to 3.25%. The RBA has responded successfully to a credit crunch in Australia with liquidity provisions and rate cuts.

- The RBA explained, "Economic conditions in Australia have been stronger than expected and measures of confidence have recovered. Some spending has probably been brought forward by the various policy initiatives." CPI inflation has been slow to fall, however. Signs of economic rebound led the RBA to hold the OCR at a 49-year low of 3.0% throughout the summer before raising interest rates.

Eurozone Bank Loss Estimates

- In a recent piece, RGE's Salman Ahmed and Elisa Parisi-Capone revisit the issue of bank losses in the eurozone. Using the estimates provided by the ECB and the expected losses incurred abroad from foreign-registered eurozone banks, they estimate that the amount of stress in the eurozone and the U.S. banking system is comparable, although stemming from different sources. Whereas the U.S. banking system is mostly exposed to the domestic economy, a significant share of eurozone losses stems from abroad.

UK House Prices Rise Again: Can the Momentum Last?

- The most recent UK house price survey compiled by the Halifax Building Society shows a 1.6% rise in September 2009 with the Nationwide Survey also suggesting a 0.9% increase, the fourth consecutive monthly rise. Nationwide economists were quick to point to "exceptionally low interest rates" as the primary cause and warned that any future increase could hasten price rises.

Ganging Up on the Dollar? Could Oil Exporters Move Away from Dollar Pricing?

- Intermittently, oil exporters, especially Russia, Iran and Venezuela discuss moving away from pricing oil in U.S. dollars. OPEC members have tended to be divided on this issue. An October 2009 report, in the Independent, a British paper suggested that GCC countries had discussed moving away from dollar pricing with China and Russia. Although the report was denied by Saudi Arabia, the largest OPEC producer which has a very large stock of U.S. assets, it added to concerns that key creditors might move away from the U.S. dollar.

- A move away from dollar pricing could weaken the U.S. dollar if it reduced the use of the dollar in oil transactions and savings. However, moving to a different nominal anchor would not in itself mean less of these transactions, but it could be a precursor.

Swedish Krona Outlook: Analysts See Stronger SEK over Next Year

- An economy in recession, in addition to risk aversion, is weighing on the Swedish Krona (SEK), which hit record lows against the euro in December 2008. Meanwhile, concern over Swedish banks' exposure to the Baltics has also been weighing on the Swedish currency. As of late September 2009, the EUR/SEK was trading around 10.20. Signs of reduced risk appetite and falling equity markets may weigh on the currency in the short-term, but most analysts expect some strengthening over the next 12 months.

- "On a short horizon we see a risk of an upward correction for the Swedish krona. On a longer horizon SEK seems to be undervalued at current levels and is likely to strengthen further. We also expect Sweden to be one of the first countries to hike interest rates. This does also indicate a stronger SEK." (DnB NOR Markets)

GRE's Daily Top 5 Email on October 7, 2009.

Gold surges, hits new all-time high of $1,045

By SARA LEPRO (AP) – October 6, 2009

NEW YORK — Gold prices surged to a new high Tuesday as investors sought a safe harbor from a falling dollar and inflation.

Gold for December delivery rose to as high as $1,045 an ounce, surpassing a previous intraday high of $1,033.90 logged in March 2008, just days after Bear Stearns Cos. collapsed.

Gold also had a record high closing price, finishing the day at $1,039.70 an ounce, up $21.90, or 2.2 percent. Some analysts see gold rising to $1,100 in the coming days.

Gold's advance was stoked by a tumbling dollar, which hit a 14-month low against the Australian currency after Australia became the first major country to raise interest rates since the onset of the financial crisis.

The move signals that Australia believes its economy is strengthening enough to withstand a slight increase in borrowing costs, and made the Australian currency a higher-yielding and thus more attractive investment to fund managers versus the U.S. dollar.

The Federal Reserve has said it plans to keep U.S. interest rates at a record low of near zero for some time as one of several tools it's using to shore up the U.S. economy.

Adding to the dollar's woes Tuesday was a report in a British newspaper that Arab states, along with China, Russia, Japan and France, were in talks to move away from using the dollar for oil trading. Several countries denied that such talks were occurring, however there has been much discussion recently about the dollar's role as the world's reserve currency eventually fading.
"People are very nervous about the decline of the dollar," said William Rhind, head of sales and marketing at ETFS Marketing LLC, the U.S. arm of ETF Securities. Gold is used as a hedge against inflation, which can be triggered by a falling dollar.
The dollar has weakened considerably this year amid low interest rates and massive government spending designed to spur the economy, which in turn has been a boon to commodity prices. Commodities are priced in U.S. dollars, so a weak greenback makes them more attractive to foreign investors.
Most analysts say the dollar has further to fall, which should support higher commodity prices for the foreseeable future.
"I think the case for gold is pretty bulletproof right now," said Joe Foster, portfolio manager of the Van Eck International Investors Gold Fund. "Given that we're at new highs now, I think the next target the market will be looking at is $1,100."
Darin Newsom, a senior analyst at DTN in Omaha, Nebraska, cautions that gold might not be able to continue to climb at such a fervid pace.
"Who's going to say that looks like a value to me?" he asked. "You usually don't buy high ... but we'll see if it can continue to draw the money in."
Though it was the highest close for gold on record, the price is still a long way off from an inflation-adjusted peak of about $2,200 set in January 1980, when prices hit $850 an ounce, according to the World Gold Council, an industry trade group.
Other metals rallied along with gold on Tuesday. December silver spiked 76 cents, or 4.6 percent, to $17.2950 an ounce — its highest close in nearly a month. October platinum rose $23.50 to $1,318.10 an ounce.
Among industrial metals, December copper futures rose 5.75 cents, or 2.1 percent, to $2.7845 a pound.
The sharp rise in gold and other commodities drove shares of material companies higher, helping to lift the broader stock market. The Dow Jones industrials rose 132 points, bringing its two-day advance to 244 points. All the major stock indicators rose at least 1.4 percent.
Oil prices also benefited from the weak dollar. Light, sweet crude rose 47 cents to settle at $70.88 a barrel.
In other Nymex trading, heating oil rose 2.26 cents to $1.8142 a gallon and gasoline rose 1.88 cents to settle at $1.7727 a gallon.
Natural gas for November delivery lost 10.7 cents to settle at $4.88 per 1,000 cubic feet.
Grain prices surged on the Chicago Board of Trade. December corn futures soared nearly 5 percent, gaining 16.75 cents to $3.5825 a bushel.
December wheat futures jumped 17.5 cents, or 4 percent, to $4.6025 a bushel, and November soybeans rose 25 cents, or 2.8 percent, to $9.10 a bushel.
Among soft commodities, cocoa prices retreated after hitting a new contract high on Monday. The December contract lost $29 to $3,211 a ton. Sugar prices also fell, while cotton and coffee prices rose.

U.S. Apartment Vacancies Hit 23-Year High of 7.8% (Update1)

Oct. 6 (Bloomberg) -- U.S. ***apartment vacancies*** rose to 7.8 percent in the third quarter, the highest since 1986, as rising unemployment reduced rental demand, Reis Inc. said.

Actual rents paid by tenants, known as effective rents, declined 2.7 percent from a year earlier, the New York-based property research firm said in a report today. Asking rents, or what landlords sought, fell 1.8 percent from a year earlier.

Job losses and falling wages are shrinking the pool of potential tenants. The U.S. unemployment rate rose to 9.8 percent in September, the highest since 1983, the Labor Department said Oct. 2.

Vacancies "continued to rise despite what has traditionally been a strong leasing period for apartment properties," ***Victor Calanog***, director of research at Reis, said in a statement. "Given the inherent seasonality of rental and lease-up patterns we expect fourth-quarter figures to be even weaker, implying that we may break historic vacancy levels by year-end 2009."

The apartment vacancy rate was 7.7 percent in the second quarter and 6.2 percent in 2008's third quarter, Reis said. Compared with the second quarter, asking rents fell 0.5 percent and effective rents fell 0.3 percent.

New York's Rate Falls

New York's vacancy rate fell to 2.9 percent in the third quarter from 3 percent in the second, as the end of summer brought an influx of tenants signing leases, Reis said. Effective rents dropped 0.9 percent from the prior quarter and were down 6.8 percent from a year earlier.

"With New York being relatively more dependent on the still-embattled financial services sector, it may take a few more quarters before we see rents bottoming out" there, Calanog said. "We are on track for 2009 to register as the worst year in rent drops on record, far exceeding the historic 3.8 percent decline recorded in 2002."

Manhattan apartment rents fell as much as 8.9 percent in the third quarter from a year earlier, broker Citi-Habitats Inc. said yesterday in a report. Average rents declined for all apartment sizes as landlords offered concessions to tenants, the company said.

New Haven, Connecticut, replaced New York as the city with the lowest vacancy rate, at 2.5 percent, partly due to the start of the academic year, said Reis. Yale University is located in New Haven.

The ***Bloomberg REIT Apartment Index*** fell 17 percent including dividends during the past year, compared with a gain of 1 percent for the Standard & Poor's 500 Index. The apartment REIT index has 13 members, including ***Equity Residential*** and ***AvalonBay Communities Inc.***

China Has Already Walked Away from Derivatives Contracts

You've probably heard that China has threatened to walk away from certain commodity derivatives contracts.

As Reuters reported in August:

A report that Chinese state-owned companies will be allowed to walk away from loss-making commodity derivative trades provoked anger and dismay among investment bankers on Monday as they feared it may set a damaging precedent.

The State-owned Assets Supervision and Administration Commission, the regulator and nominal shareholder for state-owned enterprises (SOEs), told six foreign banks that SOEs reserved the right to default on contracts, Caijing magazine quoted an unnamed industry source as saying in an article published on Saturday.

But as Janet Tavakoli noted in January, Chinese banks *already* walked away from derivatives contracts last year:

In early November [2008], Chinese banks (top tier banks like Bank of China and Industrial and Commercial Bank of China) refused to fork over billions in collateral on dollar/yen FX trades which were out of the money after the yen's October appreciation. The headlines should have read (but didn't): "Chinese Banks say: STUFF IT." The Chinese banks won a game of drag race "chicken" with foreign banks. Most credit support annex agreements would say that closing out these trades would be an event of default, and then the cross default on all the trades would kick in with the same counterparty. But the credit of the Chinese banks was better than many of their counterparties, and they renegotiated contracts with the Chinese banks.

Today, Tavakoli wrote a fantastic and hard-hitting post for Zero Hedge:

In November 2008, Chinese banks said they would no longer play by our rules. Top tier banks (Bank of China and Industrial and Commercial Bank of China) reneged on derivatives contracts. They failed to come up with billions in collateral on dollar/yen FX trades, which were out of the money after the yen's October appreciation. This should have been headline news in every financial newspaper, but it wasn't.

Chinese banks defaulted. They may have been partially motivated by U.S. malfeasance in the capital markets that caused losses in Asia. The U.S. squandered its credibility and our cover-ups have done nothing to restore it.

Most credit support annex agreements would say that closing out these trades would be an event of default, and then the cross default on all the trades would kick in with the same counterparty. But the credit of the Chinese banks was better than many of their counterparties. Everyone was forced to renegotiate contracts with the Chinese banks.

From the perspective of the derivatives markets, this is earth shattering. What would have happened if AIG had done the same thing? (Hey, Goldman, UBS, and others…you want your collateral? Well…Stuff It!)

At the end of August 2009, China signaled that state owned oil consumers: Air China, COSCO, and China Eastern could default on money-losing commodities derivatives contracts.

If we had been paying attention, the U.S. should have done everything in its power to correct our mistakes, clean up the mess in our financial system—instead of sweeping it under the carpet—and turned our efforts to maintaining the credibility of the capital markets and the credibility of the dollar.

Is China Shielded From Derivatives?

WEDNESDAY, OCTOBER 15, 2008

Conventional wisdom is that China is shielded from the derivatives hurricane battering the rest of the world. For example, an *article* in the Financial Times says (partly tongue-in-cheek):

Asia . . . shunned the easy profits promised by the peddlers of toxic derivative products and fancy collateralised debt obligations. Its banks eked out a respectable living through the sensible business of lending money, its manufacturers through the old-fashioned practice of making things.

Is this true?

Well, China has in fact allowed *currency derivatives*, *gold futures*, and other types of plain vanilla derivatives trades.

And China apparently has had problems with a unique type of derivative called an "accumulator", betting against an inverted Euro curve. Indeed, when the Euro curve inverted, people demanded that the Chinese banks pay out on the derivatives, and they have simply *refused* to do so. See *this* and *this*.

Chinese banks have also purchased credit default swaps in Lehman and other American companies. As China Stakes *reported* on September 20th:

"China's banking authorities have been rocked by Wall Street's financial crisis and are worried about the risks facing Chinese banks and financial institutions. Analysts repeat that the crisis has perhaps only begun and may worsen.

***

According to Caijing Magazine, Chinese-funded banks hold assets worth dozens of billions of dollars related to Lehman . . . . These assets include direct-held bonds, loans to Lehman, and bond-related derivatives with Lehman . . . ."

So China is clearly not totally insulated from foreign derivatives.

However, China *did* largely avoid the repackaged mortgage derivatives known as CDOs.

Moreover, China passed derivatives regulations in 2004 which aim to *"specify qualifications, standardize trading behaviour, contain trading risk and ensure financial safety"*. It is not clear whether or not such regulations were effective (or even enforced). But given that the U.S. has not regulated derivatives *at all*, this is better than nothing.

So the bottom line is that China *does* have some derivatives exposure, but probably*less* than Western countries. As one blogger puts it "*state owned Chinese Banks . . . have far less exposure to derivatives*" than Western banks.

Downloaded from *http://www.washingtonsblog.com/2008/10/is-china-shielded-from-derivatives.html* on October 7, 2009.

Pelosi says new tax is 'on the table'
By Michael O'Brien - 10/06/09 10:59 AM ET
A new value-added tax (VAT) is "on the table" to help the U.S. address its fiscal liabilities, House Speaker Nancy Pelosi (D-Calif.) said Monday night.

Pelosi, appearing on PBS's "The Charlie Rose Show" asserted that "it's fair to look at" the VAT as part of an overhaul of the nation's tax code.

"I would say, Put everything on the table and subject it to the scrutiny that it deserves," Pelosi told Rose when asked if the VAT has any appeal to her.

The VAT is a tax on manufacturers at each stage of production on the amount of value an additional producer adds to a product.

Pelosi argued that the VAT would level the playing field between U.S. and foreign manufacturers, the latter of which do not have pension and healthcare costs included in the price of their goods because their governments provide those services, financed by similar taxes.

"They get a tax off of that and they use that money to pay the healthcare for their own workers," Pelosi said, using the example of auto manufacturers. "So their cars coming into our country don't have a healthcare component cost.

"Somewhere along the way, a value-added tax plays into this. Of course, we want to take down the healthcare cost, that's one part of it," the Speaker added. "But in the scheme of things, I think it's fair look at a value- added tax as well."

Pelosi said that any new taxes would come after the Congress finishes the healthcare debate consuming most lawmakers' time, and that it may come as part of a larger overhaul to the tax code.

The Speaker also emphasized that any reworking of the tax code would not result in an increase in taxes on middle-class Americans.

Downloaded from [http://thehill.com/blogs/blog-briefing-room/news/61783-pelosi-says-new-tax-is-on-the-table on October 7](http://thehill.com/blogs/blog-briefing-room/news/61783-pelosi-says-new-tax-is-on-the-table), 2009.

Overview: doubts cast on strength of US recovery
By Dave Shellock
Published: September 30 2009 19:24 | Last updated: September 30 2009 23:05
A strong quarter for global stock markets ended on a volatile note on Wednesday as fresh doubts emerged about the strength of the US economic recovery.

An unexpectedly bleak survey of manufacturing activity in the Chicago region weighed against news that the US economy had shrunk by less than expected in the second quarter.

Furthermore, worse than forecast jobs figures from ADP Employer Services heightened worries about Friday's non-farm payrolls report. The uncertain mood in the markets came even as the latest refinancing operation by the European Central Bank offered further signs of normalisation in the financial system.

Lena Komileva, head of G7 market economics at Tullett Prebon, said there were growing signs of fatigue among investors at current valuation levels.

"Market fears about the bandwagon rally coming to an abrupt end have increased in recent days, as the US corporate earnings season and the NFPs will put equity valuations to the test," she said.

The data left US and European ***equities*** struggling.

In New York, the S&P 500 fluctuated between positive and negative territory, but ended the day down 0.33 per cent.

It posted a quarterly gain of nearly 15 per cent – building on the 15 per cent rally seen in the April-to-June period.

The Dow Jones Industrial Average ended down on the day, but gained about 15 per cent in the quarter, the largest rise since the fourth quarter of 1998.

It was a similar story for European stocks, where the FTSE Eurofirst 300 shed 0.5 per cent.

But it was up more than 17 per cent over the three-month period – its best gain since the end of 1999. Most Asian markets had a similarly strong quarter, with the FTSE Asia-Pacific ex-Japan index rising 21 per cent.

Japanese stocks severely underperformed, with the Nikkei 225 rising just 1.8 per cent. The benchmark edged up 0.3 per cent on Wednesday.

The key event for European markets on Wednesday came from the ECB's long-term refinancing operation. Demand was €75bn ($110bn), much less than had been expected and well below the €442bn seen at the previous auction. The number of banks bidding for funds dropped sharply.

"Overall the results suggest that the situation in the money markets is much closer to normality than had been assumed," said Divyang Shah, strategist at IFR Markets.

Jesper Fischer-Nielsen, senior analyst at Danske Bank, said the relatively low amount requested at the auction reflected the fall in market rates to very low levels.

"The low demand paves the way for the ECB to commence down the exit path along the lines highlighted in recent speeches," he said. "The first formal step may well be to add a spread at the December 12-month tender, possibly 25 basis points."

Euro ***interbank rates*** moved higher across most maturities, with overnight Libor jumping 17.5bp to 0.45 per cent. Three-month sterling also edged higher, although the equivalent dollar rate eased.

The low take-up of funds offered support to the euro on the ***currency markets*** as investors turned more optimistic about the health of the European banking sector. The single currency pushed back above $1.46 as the dollar suffered a broad-based sell-off.

Short-dated German ***government bonds*** tumbled after the refinancing, with the two-year Schatz yield touching 1.33 per cent before easing back to 1.28 per cent, up 2bp on the day.

By contrast, the 10-year yield fell to a five-month low of 3.20 per cent after the release of the weak US data. It later pulled back to stand flat on the day at 3.22 per cent.

The yield on the 10-year Treasury was up 1bp to 3.30 per cent late in the day in New York.

The softer tone of the dollar gave a broad lift to ***commodities*** prices, while ***oil was lifted by the latest US inventories*** data.

US ***crude*** rose $3.90 to $70.61 after news of an unexpected drop in petrol supplies last week.

Base metals moved higher amid quarter-end position adjustments, while ***gold*** regained the $1,000 a troy ounce mark, largely due to dollar weakness.

Downloaded from *http://www.ft.com/cms/s/0/1b62c0a2-adeb-11de-87e7-00144feabdc0.html?ftcamp=rss&nclick_check=1* on October 7, 2009.

Trade Wars Guarantee An End To The Party

On one side of the formula we have the continued need for speed in monetary creation by whatever means, capably characterized by Doug Noland in his weekly commentary explaining

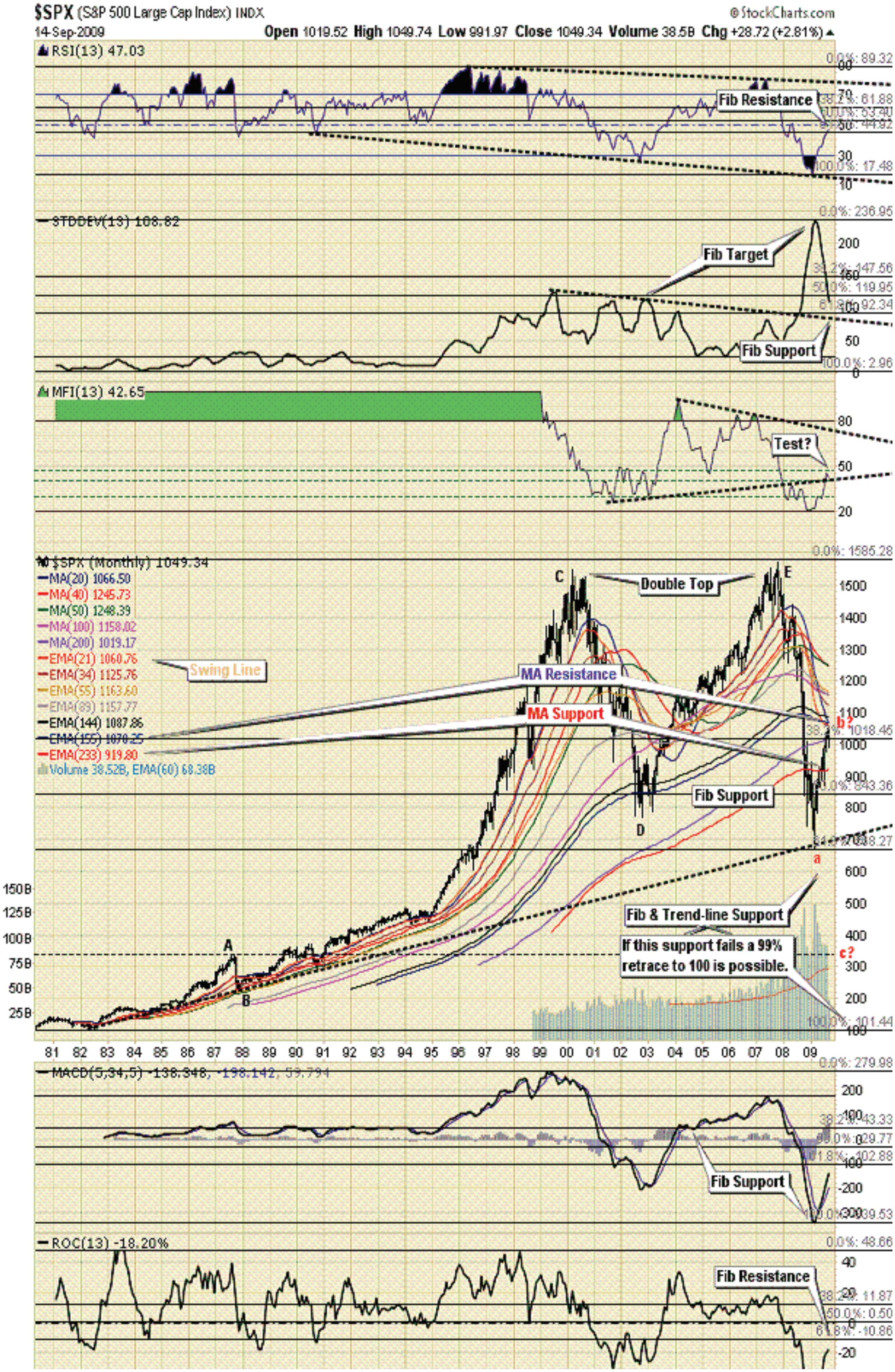
that while it will all end badly, government largesse will likely get out of control before its all over. The point he is getting at here is that because of all it's meddling, the government (and us) is locked in an inflation death grip it necessarily needs to keep building on or face implosion. So in essence, Doug is alluding to the risk of hyperinflation, or the closest we will ever come to it on a macro-scale. And he is perfectly correct in this accounting of our dire circumstances, and the eventual disastrous effects of all this government intervention to keep the bailout finance bubble growing. One day this thing is going to pop, like all bubbles do, and it will be game over for the global economy, US Dollar ($) hegemony, runaway socialism, and unchecked fiat currency regimes.
And as per our discussion last week, enter Robert Prechter and his thinking that in spite the need for speed discussed above, the bureaucracy will fail in its attempts to keep inflating with abandon because the consumer is about to cave in, scuttling any such attempts, predicated on the concept the larger Elliott and Kondratiev wave patterns are suggestive deflation should grip the macro sooner than later. And this sentiment is also being touted as a timely matter by Harry Dent right now as well, adding considerable weight to this call, because he sees the two big D's coming into play – those being deleveraging and demographics. So the question then arises, which camp is right – the deflation or inflation camp? Let's take a look at this question to see if we cannot arrive at an appropriate answer within the increasingly complicated tapestry of our economies.

For me, it's all about deleveraging, where demographic trends will work to exacerbate the credit contraction trend into the future. Based on this belief, you might have guessed that I sit in the deflation camp as far as this being the primary condition of the larger economy, however one would need to be living in a vacuum not to notice the largesse (inflation) the bureaucracy has and continues to let loose, so you see there are dual paradigms that exist at the same time, with the latter designed to counter the former. In the end however, which for our purposes is fast approaching in a cyclical sense if the deflationists are correct, one paradigm will consume the other and become the obvious winner, with inflation's reign under the Keynesian influence most likely to finally succumb to gravity. We know this to be true because sectors that are not benefiting from monetization practices are seeing price weakness already, and the rest will follow when foreigners finally cut our drunken bureaucracy off of cheap credit.

Even without this things don't look good in the credit markets, where we have anothermortgage debt implosion scheduled for next year already, one where unless accelerated monetization and low interest rates are maintained, the bureaucracy will be unable to keepreal estate loans from joining all other sources of credit contraction, locking in a deflationary spiral the likes of which has never been witnessed in human history previously in either scale or scope. And who knows, the larger sequence could be starting right now formally with an apparent trade war between the US and China brewing. Is this why China is bringing its gold reserves back home for safekeeping, along with implementing a partial gold standard to protect its economy? If you need to think long about the answer to that question you are not doing enough reading, where this issue should be taken very seriously by all because no matter where you live or what you do.

Escalating trade wars would likely end globalization as we know it much as the Smoot Hawley Tariff Act of 1930 did the same over the next decade on a smaller scale. You had a spend happy democrat in the White House back then, and we have another one today consistently making history again, where igniting a trade war to guarantee a decade of Depression was all that was missing from the silhouette. And now, that piece of the puzzle has fallen into place too, all in good timing to trigger Chinese reprisals across a variety of markets they influence, with debt and precious metals topping the list undoubtedly. All they need to do is cut back further on US debt purchases and push gold comfortably over the $1,000 mark to send a message to Washington that they 'must be high', not that the drug addicts (they are hooked on printing money and feel invincible) in the bureaucracy would notice.

Be that as it may, if something like this were to occur in coming weeks concurrent to theseasonal inversion in stocks topping out in extreme timing territory (October / November), we would have the fundamentals to match the larger degree cycle turns (think Elliott andKondratiev waves) in place, painting a scary picture for equities in 2010. You will remember this is Prechter's call, that next year would go down in the record books in the deflationary event department based on the Grand Supercycle wave structure in stock markets around the world. And based on the way things are developing this fall to set the trends in motion, it appears the dominos are all falling right on schedule. Even the September quadruple witching in the futures markets is helping the cause in this regard in that put / call ratios are high enough to aid price managers in continuing the low volume squeeze in stocks, with the trend about to be tested apparently. (See Figure 1)



$SPX (S&P 500 Large Cap Index) INDX
©StockCharts.com
14-Sep-2009
Open 1019.52 High 1049.74 Low 991.97 Close 1049.34 Volume 38.5B Chg +28.72 (+2.81%)
RSI(13) 47.03
Fib Resistance
STDDEV(13) 108.82
Fib Target
Fib Support
MFI(13) 42.65
Test?
$SPX (Monthly) 1049.34
MA(20) 1066.50
MA(40) 1245.73
MA(50) 1248.39
MA(100) 1158.02
MA(200) 1019.17
EMA(21) 1060.76
EMA(34) 1125.76
EMA(55) 1163.60
EMA(89) 1157.77
EMA(144) 1087.86
EMA(155) 1070.25
EMA(233) 919.80
Volume 38.52B, EMA(60) 68.38B
Swing Line
Double Top
MA Resistance
MA Support
Fib Support
Fib & Trend-line Support
If this support fails a 99% retrace to 100 is possible.
MACD(5,34,5) -138.348, -198.142, 59.794
Fib Support
ROC(13) -18.20%
Fib Resistance

There is no more significant test of the trend than the155-exponential moving average (EMA) on the monthly, the ultimate 'trend definer' in being the optimum Fibonacci derivative that has proven reliable in measuring profound directional changes. And as you can see above, the S&P 500 (SPX) is set to test the trend at 1070, where a break above this key resistance level would put stocks back into hyper-bubble mode. (I will discuss this further below as well.) In knowing how the psychology of markets work however, one would know such an outcome is not likely on an extended basis because once broken, bubbles of this scale do not return normally, which has been the experience throughout the ages. (i.e. think the South Sea Bubble, etc.) The Nikki is a good modern day example of this, and is likely leading US / global stocks in this regard, where it will probably never see the 1989 highs ever again.

The world's stock markets are simply more complicated these days, but not less profound in the sense bubbles associated with the last Grand Supercycle top in equities was also global in scale, albeit participation levels within the general population have never reached such extremes before. Even the peasants of third world countries have gotten involved in the present day mania, suggestive the hangover will be long lasting and profound even if reorganizations of new fiat currency based economies were possible, which of course is likely not the case. Once confidence and cooperation are lost on this scale it does not come back for generations, not without some new earth-breaking technology to formulate new economies anchored in geometric efficiency gains. (i.e. think the wheel, steam power, the microchip, etc.)

So, the next time the SPX falls through the 233-month EMA, as denoted above, you will know a high probability exists a Grand Supercycle Degree event in stocks could be unfolding, suggestive stocks could plunge to unimaginable levels to most. And you will see this same sentiment as it pertains to the SPX seen above denoted below with respect to the Dow, along with a target crash zone we should all hope holds. Because if the Dow cannot hold the 3,000 to 4,000-crash zone, then we could witness a 90% plus retrace, potentially involving a complete breakdown in modern day society. To hold this support zone with gold able to rally into the same numeric (a Dow / Gold Ratio of unity) would be a sign that new currency regimes involving partial gold backing would likely be formulated and define exchange in trade for a period of time. Again however, this does not mean the global stock markets will ever return to previous highs. (See Figure 2)

$INDU (Dow Jones Industrial Average) INDX
©StockCharts.com
14-Sep-2009 12:44pm
Open 9492.32 High 9649.85 Low 9252.93 Last 9588.49 Volume 6.3B Chg +92.21 (+0.97%)
RSI(13) 46.04
< 50 = Bearish
Fib Resistance
MFI(13) 42.55 (31 Aug)
Test?
STDDEV(13) 936.03
Fib Support
$INDU (Monthly) 9588.49
MA(50) 11195.79
MA(40) 11281.83
MA(100) 10441.94
MA(200) 8760.28
MA(20) 9904.25
EMA(21) 9796.47
EMA(34) 10302.35
EMA(55) 10541.26
EMA(89) 10363.04
EMA(144) 9607.20
EMA(155) 9432.40
EMA(233) 8028.45
Swing Line
Key Resistance
Time Line Top?
Test?
A close back below the 233 EMA would be a sell signal.
Fib Support
Crash Zone
c?
b?
Volume 6.29B, EMA(60) 16.34B
Stocks rising on declining volume.
MACD(5,34,5) -1168.442, -1639.822, 471.379
Fib Resistance

Paul Volcker: You Call This An Economic Recovery?
SEPTEMBER 30, 2009, 10:30 AM ET

It's the last day of the third quarter, and the stock market has had a great run. Blue-chip stocks are on pace for the best quarterly performance since 1998. Investors seem to think strong corporations can still generate profits, while unemployment remains high.

Along comes former Federal Reserve Chief Paul Volcker to throw a wet blanket on the stock market's cheery camp fire. Speaking this week in a two-part interview on "Charlie Rose, " Volcker takes a much more dour view on the economy than many advisers in the Obama Administration.

Here's Volcker on the current economic "recovery":

"I think it's questionable of how rapidly the economy will expand after this recession, because there are a lot of basic adjustments that have to be made…. We can't just pump up consumption and pump up housing again. Might pad us for a year or two, but it's imbalance that got us in trouble in the first place. We've got to work toward producing more goods, selling more goods abroad, being more competitive abroad, maintaining a decent rate of savings, bringing budgetary–federal budgetary situation back into something that's sustainable, and all those things, plus the financial market is wounded. There's no doubt about that, and it won't recover from those wounds, deep wounds for a while." (When pressed, Volcker wouldn't put an exact time frame on the recovery, but said it would take "several' years.)"

And here is Volcker on what he sees as the next shoe to drop on the banking system.

"The single threat in the credit area right now is commercial mortgages…commercial real estate's in trouble… I think in terms of taking the loss and recognizing loss has only just begun."

And finally, Volcker weighs in on the threat of inflation, a subject on which he is well versed. As Fed chief in the early 1980s, Volcker earned his spurs, fighting to limit inflation despite pressure to lower interest rates to pump up the economy.

"You ought to be potentially worried about inflation…the administration is perfectly conscious of the fact that they've got a problem….they say, our hands are tied, we can't do anything now, unemployment is close to 10%, the economy is weak, there isn't any apparent inflation problem at the moment, prices are nice and stable. But we've got that budget deficit….We've got to be careful about this. But it's a problem for at least a year out, two years out, three years out."

Jobless rates rise in all U.S. cities in August

Wed Sep 30, 2009 4:20pm EDT

WASHINGTON (Reuters) - Unemployment rates rose in all cities across the United States in August from a year earlier, with 16 recording jobless rates of 15 percent or higher, according to the Labor Department.

At the same time, only 11 metropolitan areas said they had gained jobs in August, while 356 had lost positions.

For the eighth consecutive month, all 372 cities that the department surveys had year-on-year increases in jobless rates. The largest rise was in Detroit, where the rate rose by 7.9 percentage points, followed by its Michigan neighbor Muskegon, where it increased 7 percentage points.

Detroit also has the highest unemployment rate in the country at 17 percent.

But Los Angeles lost the most jobs in August from a year earlier, followed by Chicago and Detroit.

Looking at the data, the Associated General Contractors of America found that construction employment had dropped in 324 metropolitan areas over the year. Reno, Nevada, lost 35 percent of its construction workforce, it said, showing that the housing bust that has rattled most of the West still continues to damage construction employment.

"The problems facing the construction industry aren't just devastating construction workers, they are crippling our broader economy," said Stephen Sandherr, the association's chief executive officer in a statement.

The federal stimulus plan in February was intended to address the staggering construction job loss the country has experienced since home sales dropped and home building came to a near standstill.

But the contractors' group said the package had not done enough and the country needs a new plan that will reverse its projections that construction payrolls continue to shrink through next year.

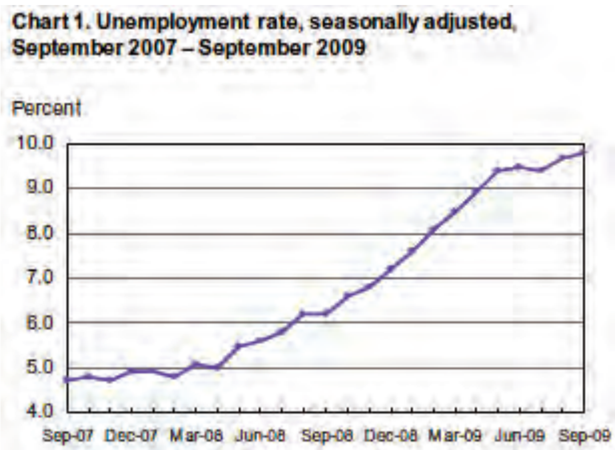
The U.S. nonfarm employment report on Friday should shed light on how much the stimulus helped put construction workers back to work, especially in the road repaving and infrastructure projects that dominated the $787 billion plan.

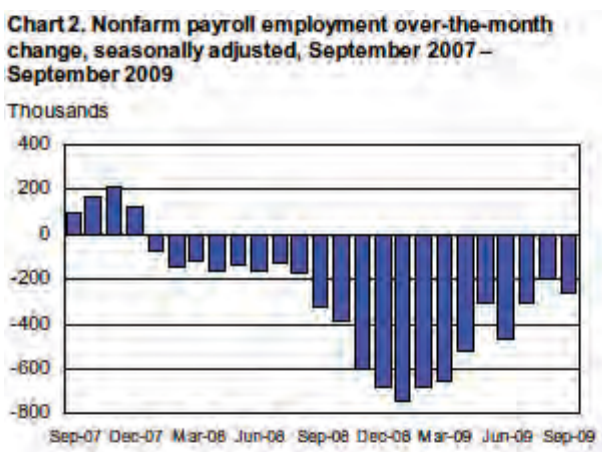
But the contractors said the city data for August shows that 13 areas saw a total increase in construction of 2,800 people over the course of the year, during half of which the stimulus was in effect. During the same time period, Sandherr said, the industry lost 1 million jobs.

September Unemployment: Ouch!

October 2, 2009

Headlines: 263,000 "jobs lost" and unemployment rate up to 9.8%.





That's not good - there goes the "second derivative" argument.

Weekly earnings are also down by $1.54, which is bad news too.

But the Household Data is VASTLY worse than reported. Here are the month-over-month changes, and they're in the realm of frightening. (all numbers in thousands)

Civilian Labor Force: 154,879 to 153,617 this month.

Employed: 140,074 down to **139,079** this month.

That's a loss of 995,000 jobs, not 263,000, and the labor force contracted by 1,262,000 people!

The participation rate was absolutely decimated, down 0.6% this last month alone. The people "not in the labor force" rose by a staggering 1,516,000 in the last month.

The government doesn't count people as "unemployed" who have given up and exited the labor force, but as I have repeatedly noted, whether the government counts them or not the corner store owner sure as hell does!

The fact of the matter is that nearly 1 million fewer people were working in September as compared to August; there has been absolutely no improvement in that trend whatsoever.

Downloaded from *http://seekingalpha.com/article/164529-september-unemployment-ouch* on October 7, 2009.

Fed's Alvarez Says Audits Could Lead to Higher Rates (Update1)

Sept. 25 (Bloomberg) -- Federal Reserve General Counsel ***Scott Alvarez*** said audits of monetary policy by the U.S. Congress could lead to higher interest rates and reduced confidence in central bank policy.

Congressional audits of monetary policy could "cause the markets and the public to lose confidence in the independence of the judgments of the Federal Reserve," Alvarez told the House Financial Services Committee today in response to a question from Representative ***Dennis Moore***, a Kansas Democrat. Alvarez said in his prepared remarks the audits would probably "chill" the central bank's discussions on interest rates.

Fed Chairman ***Ben S. Bernanke*** and his colleagues are trying to persuade lawmakers not to pass legislation sponsored by Representative ***Ron Paul*** of Texas that would repeal the central bank's immunity to audits of monetary policy. Fed officials used emergency powers to protect creditors of Bear Stearns Cos. and American International Group Inc. during the financial crisis, prompting congressional scrutiny.

"We don't want to give the rest of the world or, more important, domestic investors the impression that we are somehow in a formal way injecting Congress into the setting of monetary policy," said Representative ***Barney Frank***, a Massachusetts Democrat and chairman of the committee. "That could have a very destabilizing effect."

Frank added that "a lot needs to be done" on Fed transparency and said that Congress can accomplish that without interfering with the independence of monetary policy decisions.

Remove Exemptions

Paul's legislation would remove Fed exemptions from audits in four areas: transactions with foreign central banks; deliberations on monetary policy matters, including discount- window operations; transactions made under the direction of the Federal Open Market Committee; and communications and discussions between the Board, the reserve banks and staff.

Frank said he supports a delay in making some Fed information public, such as the securities it buys and sells, so it doesn't have a "direct market effect." Alvarez told Frank that the Fed is "giving serious consideration" to that idea and would be "happy to work with you on it."

In an interview after the hearing, Paul said the audit powers in the bill may be altered to delay by three to six months releasing information on FOMC actions. The legislation is likely to be included in a broader Democratic package of financial-regulation changes in the House, he said.

'Gentleman's Agreement'

"It's a gentleman's agreement" with Frank, Paul said, adding that Frank fulfilled an earlier agreement to hold a hearing. "That doesn't mean it will happen in the Senate," even as prospects in the upper chamber are improving, Paul said.

In the hearing, Paul told Alvarez that the Fed had "failed" to stabilize interest rates, prices and employment, according to its mandate. "What we need is more oversight and more transparency rather than more authority to the ***Federal Reserve***," Paul said.

Alvarez said GAO audits of discount-window lending could reduce the effectiveness of "these facilities in promoting financial stability, maximum employment, and price stability." The legislation could also "disrupt" the Fed's relationships with foreign central banks, he said.

"Monetary policy independence prevents governments from succumbing to the temptation to use the central bank to fund budget deficits," Alvarez said in his prepared testimony. "Financial markets likely would see the grant of audit authority to the GAO with respect to monetary policy as undermining the Federal Reserve's independence."

The legislation has 295 sponsors in the House, including every Republican member, Rachel Mills, a spokeswoman for Paul, said in an e-mail yesterday.

The Fed is facing other challenges by Congress, including a proposal to strip the central bank of its rule-writing power on some consumer financial products.

Downloaded from *http://www.bloomberg.com/apps/news?pid=20601087&sid=adDANopNzewM* on October 7, 2009.

Fed Offers 2 Cents on the "Audit the Fed" Dollar

With momentum swinging mightily towards Ron Paul's Audit the Fed bill, the Fed is acting to stem the tide.

Please consider **Fed Weighs Naming Borrowers**

The Federal Reserve, under pressure from Congress to be more transparent, is "giving serious consideration" to releasing the names of firms that receive loans from the central bank, a top Fed official said Friday.

At a House hearing, Fed General Counsel Scott Alvarez struck a conciliatory tone when a top lawmaker indicated that he wanted more information revealed about the Fed's loans.

Asked if the Fed would work with Congress on establishing provisions for disclosure, Mr. Alvarez said, "We'd be happy to work with you on it."

The hearing addressed the implications of a bill from Rep. Ron Paul (R., Texas) that would open more of the central bank's operations to audits by the Government Accountability Office, the investigative arm of Congress.

The Fed's monetary-policy operations -- such as interest-rate decisions and loans to banks through its discount window -- are blocked by law from GAO review. The GAO audits most other central-bank operations, such as bank supervision and consumer regulation.

Top Fed officials strongly oppose repealing the GAO exclusions. They say audits directed by lawmakers would undermine markets' belief in the Fed's independence and raise concerns that monetary policy could be influenced by political considerations. "These concerns likely would increase inflation fears and market interest rates and, ultimately, damage economic stability and job creation," Mr. Alvarez said.

Still, several lawmakers pushed back against the Fed's suggestion that GAO reviews of monetary policy would hinder the Fed's effectiveness. "How many audits does the GAO perform?" Mr. Paul asked. "In any agencies of government, in the State Department, in the [Defense Department], nobody's ever charged the GAO for altering policy."

Testimony on HR 1207

Inquiring minds are reading **Thomas E. Woods, Jr. Testimony in Support of HR 1207**, The Federal Reserve Transparency Act of 2009 before the House Financial Services Committee, September 25, 2009.

I am speaking this morning in support of HR 1207, the Federal Reserve Transparency Act. As the Committee knows, this bill would require a full audit of the Federal Reserve by the Government Accountability Office (GAO).

On November 10, 2008, Bloomberg News ran the following headline: “Fed Defies Transparency Aim in Refusal to Disclose.” The story pointed out that the Fed was refusing to identify the recipients of trillions of dollars in emergency loans or the dubious assets the central bank was accepting as collateral. When the initial $700 billion congressional bailout was being debated last

September, Fed chairman Ben Bernanke and then-Secretary of the Treasury Hank Paulson couldn't emphasize their commitment to transparency strongly enough. But "two months later, as the Fed [lent] far more than that in separate rescue programs that didn't require approval by Congress, Americans [had] no idea where their money [was] going or what securities the banks [were] pledging in return."

There is no good reason for Americans not to know the recipients of the Fed's emergency lending facilities. There is no good reason for them to be kept in the dark about the Fed's arrangements with foreign central banks. These things affect the quality of the money that our system obliges the American public to accept.

Perhaps the most frequent of the claims is that a genuine audit would jeopardize the alleged independence of the Fed. Congress could come to influence or even dictate monetary policy.

This is a red herring. The bill is not designed to empower politicians to increase the money supply, choose interest-rate targets, or adopt any of the rest of the Fed's central planning apparatus, all of which is better left to the free market than to the Fed or Congress. It seeks nothing more than to open the Fed's books to public scrutiny. Congress has a moral and legal obligation to oversee institutions it brings into existence. The convoluted scenarios by which merely opening the books will lead to an inflationary catastrophe at the hands of Congress are difficult to take seriously.

Moreover, try to imagine a Fed chairman doggedly seeking to maintain the value of the dollar even if it meant refusing to monetize a massive deficit to fight a war or "stimulate" a depressed economy. It is not possible.

If there is any truth to the idea of Fed independence, it lay in precisely this: the Fed may reward favored friends and constituencies with trillions of dollars in various kinds of assistance, while keeping the public completely in the dark. If that is the independence we're talking about, no self-respecting American would hesitate for a moment to challenge it.

Opponents of HR 1207 have sometimes tried to claim that the Fed is already adequately audited. If this were true, why is the Fed in panic mode over this bill? It is the broad areas these audits exclude that the American public is increasingly interested in investigating, and these are the gaps that HR 1207 seeks to fill.

My point is simply this: if our monetary system were really as strong, robust, and beyond criticism as its cheerleaders claim, why does it need to rely so heavily on public ignorance? How can it be a sound banking system that depends on keeping the public in the dark about the condition of its financial institutions?

Let me also make clear that supporters of this legislation are strongly opposed to a watered-down version of the bill – which, incidentally, would only increase public suspicion that someone is hiding something.

If the Federal Reserve Transparency Act passes and the audit takes place, the American people will have achieved a great victory. If the legislation fails, more and more Americans will begin to wonder what the Fed could be so anxious to keep hidden, and the pressure for transparency will simply intensify.A recent poll finds 75 percent of Americans already in favor of auditing the Fed. The writing is on the wall.

At the same time, as we hear this objection repeated time and again, we might wonder just how independent the Fed really is, what with its chairman up for reappointment by the president every four years. Have these critics never heard of the political business cycle? Fed chairmen have been known to ingratiate themselves into the president's favor close to election time by means of loose monetary policy and the false (and temporary) prosperity it brings about. Let us not insult Americans' intelligence by pretending this phenomenon does not exist.

The Fed enjoys a government-granted monopoly on the creation of legal-tender money. It is not an unreasonable imposition for Americans to demand to know about the activities of such an institution. It is common sense.

The Fed's willingness to talk suggests they finally realize momentum is strong enough that something will change. Nonetheless all the Fed is offering is talk, perhaps hoping that talk will make the problem go away.

It won't. Talk is cheap. We don't need idle chatter, we need passage of HR 1207, which calls for a complete audit of the Federal Reserve and removes many significant barriers towards transparency of our monetary system.

Downloaded from *http://globaleconomicanalysis.blogspot.com/2009/09/fed-offers-2-cents-on-audit-fed-dollar.html* on October 7, 2009.

Unemployment Confronts Obama Rhetoric With Chronic Joblessness

Sept. 28 (Bloomberg) -- Full employment ain't what it used to be.

Economists since the mid-1990s have reckoned that full employment was equivalent to about a 5 percent unemployment rate, taking into account the time required to switch jobs. Now Nobel Prize winner ***Edmund Phelps*** and Pacific Investment Management Co. Chief Executive Officer ***Mohamed El-Erian*** say the fallout from the deepest recession in more than five decades is driving the so-called natural rate higher, perhaps to 7 percent.

"We are in the midst of a large and protracted increase in both actual unemployment and its natural rate," said El-Erian, 51, whose Newport, California-based company manages the world's largest bond fund. Even with the economy growing, "it will take at least a couple of years" for joblessness to fall to 7 percent from ***9.7 percent*** now.

That may keep the federal budget deficit near a record $1.6 trillion into next year and might prevent the Federal Reserve from raising interest rates in 2010, said ***Bruce Kasman***, chief economist at New York-based ***JPMorgan Chase & Co.,*** the second- largest U.S. bank. Elevated unemployment will also "dampen the recovery in consumption and economic growth," El-Erian said.

President ***Barack Obama*** has highlighted job creation as the ultimate measure of the economy's health, telling CNN television on Sept. 20 that it is "the single most important thing we can do." By this measure, the U.S. is still coming up short, he added. That may hurt Obama's Democratic Party in the November 2010 Congressional elections.

Rising Unemployment

Government data to be released Oct. 2 will probably show that ***unemployment***rose to a 26-year high of 9.8 percent in September as companies pared payrolls by 180,000, according to the median forecast of economists surveyed by Bloomberg News.

Obama, 48, has also pledged a sharp reduction in the ***budget deficit*** -- a task that would be made more difficult if unemployment stays high, boosting government spending on people who are out of work and reducing ***tax revenue***. The administration's mid-term review forecasts a decline in the deficit to $917 billion in 2019 as unemployment drops to 5.2 percent.

A rise in the natural rate -- the level below which joblessness can't fall without sparking inflation -- would also create a dilemma for Federal Reserve Chairman***Ben S. Bernanke*** and his central-bank colleagues.

High unemployment argues for a loose monetary policy now; former Fed governor ***Lyle Gramley*** sees the central bank holding the federal-funds rate -- the rate banks charge each other for overnight loans -- near zero until early 2011. Later, there's a risk Bernanke will ignite inflation if he tries to push the jobless rate down to the 5 percent equilibrium level that's prevailed in the past.

'Profound' Implications

"The implications over the next five to 10 years for fiscal and monetary policy are very, very profound" if the rate has risen, said ***Neal Soss***, chief economist in New York for Credit Suisse Holdings USA Inc., a subsidiary of Zurich-based***Credit Suisse Group AG***, Switzerland's second-biggest wealth manager. In that case, the best investment in the medium term might be to buy Treasury Inflation Protected Securities, said Soss, a former Fed official.

TIPS of all maturities are headed for their fifth straight monthly gain as investors hedge against the potential for inflation, even as it has yet to materialize. The securities have gained 7.49 percent this year compared with a 2.65 percent decline for conventional U.S. government debt, according to the Merrill Lynch U.S. Treasury Inflation-Linked Master Index.

Permanent Destruction

Kasman ties an increase in the full-employment rate to the permanent destruction of hundreds of thousands of jobs in industries from housing to finance.

Since the nadir of the last ***recession*** in November 2001, the U.S. has lost 839,000 jobs in the private sector, based on data from the Bureau of Labor Statistics -- the first time that's happened over the course of a business cycle since 1980-82. Manufacturing and construction were particularly hard hit.

Permanent layoffs -- for workers who don't expect to ever regain the same job -- hit a record 53.9 percent of the unemployed in August, according to the bureau. Some 33.3 percent of the jobless had been out of work for ***27 weeks or longer*** last month, down from a record 33.8 percent in July. And at 59.2 percent, the share of Americans who are employed is at its lowest level in 25 years.

"The labor market is showing signs of very considerable stress," said Gramley, 82, a senior economic adviser for New York-based ***Soleil Securities***.

Job-Growth Engines

Every state, the ***District of Columbia*** and ***Puerto Rico*** have seen unemployment rise during the recession. What's more, the states that have been job-growth engines in the past -- including ***California***, ***Florida*** and***Nevada*** -- have been among the hardest hit as real-estate values plunged, said ***Lawrence Katz***, a professor at Harvard University in Cambridge, Massachusetts.

The 30 percent decline in ***house prices*** during the last three years also makes it hard for some Americans to seek work in another city or state, he said. About 26 percent of U.S. homes with a mortgage were worth less than the amount owed, according to a recent report by analysts ***Karen Weaver*** and***Ying Shen*** in New York at Frankfurt-based ***Deutsche Bank AG***, Germany's biggest lender. Ultimately, as many as 48 percent of mortgages may be "underwater" as house prices fall further, they forecast.

Katz identifies labor mobility as a key factor in reducing the natural rate of unemployment. ***Mobility*** fell last year to its lowest level since records began in 1948, according to the Census Bureau. The so-called national mover rate declined to 11.9 percent of the population in 2008 from 13.2 percent in 2007 as 35.2 million Americans one year or older changed residence.

Deep Recession

Mobility is likely to fall further this year in response to the deep recession, said***Peter Francese***, demographic-trends analyst for New York-based Ogilvy & Mather, which is owned by ***WPP Plc*** of London, the world's largest advertising company.

“It will plummet so close to zero you’ll be surprised,” said Francese, who founded American Demographics magazine. That will likely depress consumer spending, which historically accounts for about 70 percent of gross domestic product.

“People who move spend a bundle, on draperies, furniture, rugs,” he said.

A shift in the Beveridge curve is also signaling an increase in the natural, or non-accelerating inflation, rate of unemployment to between 6 percent and 7 percent, said JPMorgan Chase’s Kasman.

Worker Skills

Unlike the more popular Phillips curve, which compares unemployment to inflation, the Beveridge curve looks at job openings in relation to employment. A high level of both vacancies and unemployment suggests that workers lack the skills to fill the jobs available and that the natural rate, or NAIRU, is higher.

The curve, developed by the late British economist William Beveridge, is more accurate at presaging changes in full employment than its Phillips counterpart, according to research by ***Brookings Institution*** Senior Fellow ***William Dickens*** that was presented at a Federal Reserve Bank of Boston conference last year.

Many economists, including Gramley, don’t believe the natural rate has risen. Fed policy makers seem to be in that camp. They put the longer-run unemployment rate -- a proxy for the NAIRU -- at 4.8 percent to 5 percent, according to the minutes of their June 23-24 meeting.

That may be too optimistic, said Phelps, 76, a professor at ***Columbia University*** in New York who won the Nobel Prize for Economics in 2006 for his theories on the interplay between inflation expectations and employment.

“There’s a bit of whistling past the graveyard here,” he said.

Downloaded from *http://www.bloomberg.com/apps/news?pid=20601109&sid=aDx_Srx0Sv8Q* on October 7, 2009.

Unprecedented U.S. corp. defaults seen for '09

Tue Sep 29, 2009 11:43am EDT

NEW YORK (Reuters) - U.S. corporate debt default rates are expected to hit "unprecedented" levels in 2009, even though the economy may be past the halfway mark of the U.S. recession, according to a forecast unveiled on Monday at the Reuters Restructuring Summit.

"There is a lot of pain left -- we are only just half way through the 600 or so defaults in this cycle," said Phil Kleweno, a partner at Bain's corporate renewal group.

The forecast for the 2009 corporate default rate has risen to 12 percent to 14 percent, from a May forecast of 11 percent to 13 percent, according to Bain's corporate default outlook. That suggests a total of about 180 to 210 companies could default on their debt this year.

"Our ongoing gross domestic product models are calling for a softer and longer climb out" of the economic decline than previously thought, said Kleweno.

Defaults will rise to 500 to 600 in the period between 2008 and 2011, up fivefold from the previous four-year period.

About 50 percent of defaults to-date have occurred in media, entertainment, automotive, chemicals and packaging industries. Going forward, there will be little relief for these sectors, he said.

"Consumer facing companies will continue to be at a higher risk of default," said Kleweno.

DEBT EXCHANGES

More defaults will come from debt exchanges -- meaning a company agreed with its bondholders to exchange old debt for new debt and equity -- rather than from corporate bankruptcies, according to the study.

Distressed debt exchanges have occurred 40 percent more often than bankruptcies so far this year.

"People are being proactive," said Kleweno. But he added that these amendments are only buying time. Rather than fixing the balance sheet, the amendments and lender negotiations tend to kick the can down the road and defer the problem, he said.

Though Bain expects the U.S. economy to bottom by the end of this year, corporate default pressures will remain as many companies continue to struggle to meet interest payments on heavy debt loads.

Bain expects the default rate in 2010 to be around 9 to 11 percent of debt issuing companies, or about 140 to 160 defaults.

WAVE OF MATURITIES

A spike of maturities beginning next year will cause the next wave of financial distress, according to the Bain study.

Debt maturities are expected to rise 50 percent in 2010, from the year before, to $62 billion, then almost double again the following year, to $117 billion.

"As debt matures over the next couple of years, speculative grade refinancing will prove difficult," according to the Bain study.

U.S. firms oppose rules to curb short selling

Tue Sep 29, 2009 9:25am EDT

NEW YORK (Reuters) - Goldman Sachs Group Inc (*GS.N*) and Vanguard Group Inc are among U.S. companies opposed to rules proposed by U.S. regulators to limit short selling, according to letters filed by the companies.

The U.S. Securities and Exchange Commission had asked for comments on a proposal to reinstate the "uptick" rule, under which investors can short a stock only after it had moved higher.

In a short sale, an investor sells borrowed stock in anticipation of a price decline that will allow him to repurchase the shares at a lower price.

Some lawmakers and financial industry executives say short selling has worsened the financial crisis and driven down share prices.

Goldman and Vanguard were among several companies and exchange operators opposing new restrictions on short sales.

"The available empirical data suggest that short selling may benefit the market by exposing financial misconduct and aligning market prices with fundamental analysis," Paul Russo, Goldman's head of U.S. equity trading, wrote in a comment latter to the SEC.

Other investors, including T.Rowe Price, submitted letters expressing support for the new rules.

"We believe appropriate short selling serves a valid purpose and can enhance liquidity and price discovery," T.Rowe Price said in a letter signed by Michael Gitlin, head of global trading. "However, short selling has also been utilized as a device to manipulate stock prices in an abusive manner and has negatively impacted investor confidence."

Downloaded from *http://www.reuters.com/article/ousivMolt/idUSTRE58S2UB20090929* on October 7, 2009.

Welcome to the New Normal

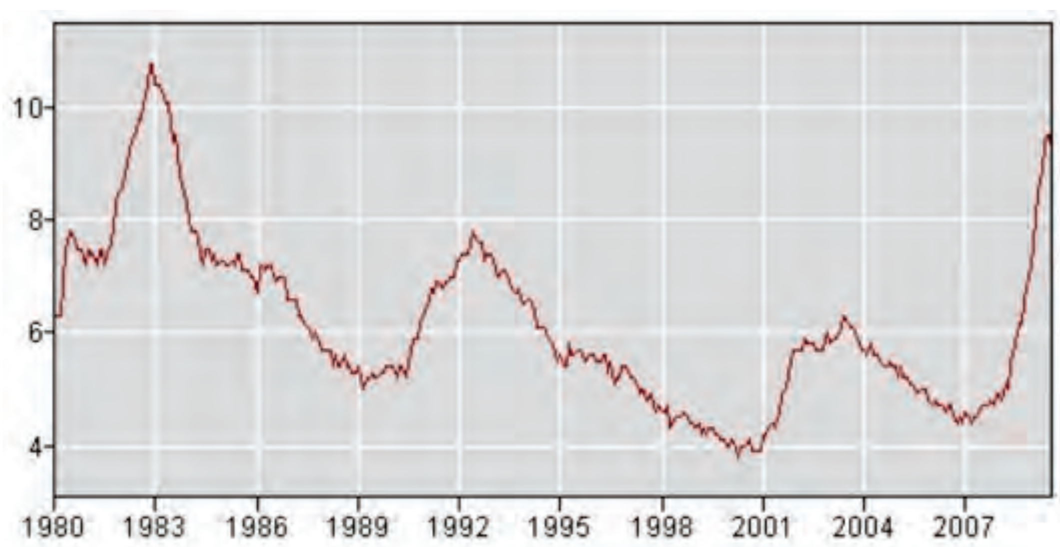
By Barry Ritholtz - September 26th, 2009, 2:53PM

Unemployment is high and rising. But if the recession is over, won't employment start to rise? The quick answer is no. We look deeper into the Statistical Recovery and find yet more reasons to be concerned about near-term deflation. This week we consider all things unemployment and ponder the need to create at least 15 million jobs in the next five years to return to a full-employment economy – and the implications for both the US and world economies if we don't. Economic is often about what we can clearly see, and yet it is understanding what we can't see that gives us true insight. We start with a collection of facts that we can see and then begin a thought exercise to find the implications.

What We See

First, the unemployment rate is now officially at 9.7%. We are approaching the official high we last saw at the end of the double-dip1982 recession. In the chart below, notice that unemployment rose throughout 1980 and then began to decline, before rising rapidly as the economy entered the second recession within two years. Also notice the rapid drop in unemployment following that
recession, as opposed to the recessions of 1991-92 and 2001-02, which have been characterized as jobless recoveries. Unemployment was as low as 3.8% in 2000 and saw a cycle low of 4.4% in early 2007.

(For the record, all this data is available on the Bureau of Labor Statistics website. There is a treasure trove of data. They are quite open about what they do and how they do it. When I call to ask a question, they are quite helpful. How people interpret the data is not their fault.)



This headline unemployment number (9.7%) is what we see when we read the paper. What we typically don't see is the real number of unemployed. For instance, if you have not actively looked for a job in the last four weeks, even if you would like one, you are not counted as unemployed. You are called a "marginally attached" or "discouraged" worker. Often there are very good reasons for this. You could be sick, dealing with a family emergency, going back to school, or not have transportation.

Right now, about one-third of marginally attached workers actively want jobs but have not bothered to look because they believe there are no jobs in their area, at least not for them. If you add that extra 758,000 to the unemployment data, you get what is called U-4 unemployment, which today is 10.2%. If you count all marginally attached workers the unemployment number is 11% (U-5 unemployment).

And if you add those who are employed part-time for economic reasons (i.e., they can't get full-time jobs) the unemployment number rises to 16.8%. (That is called U-6 unemployment.)

Now, stay with me for the next two tables taken directly from the BLS website. The first is the total number of people in the US civilian work force. Notice how each year the number of potential workers rises. In fact, the number of workers has risen by about 15 million over the last ten years. This is from population growth and from immigration. Also notice that the normal rise did not happen last year. That is because the number of discouraged workers has risen rapidly and, as noted above, they are not counted. We will revisit this point later. But for now, there are 154,577,000 people in the available work force.

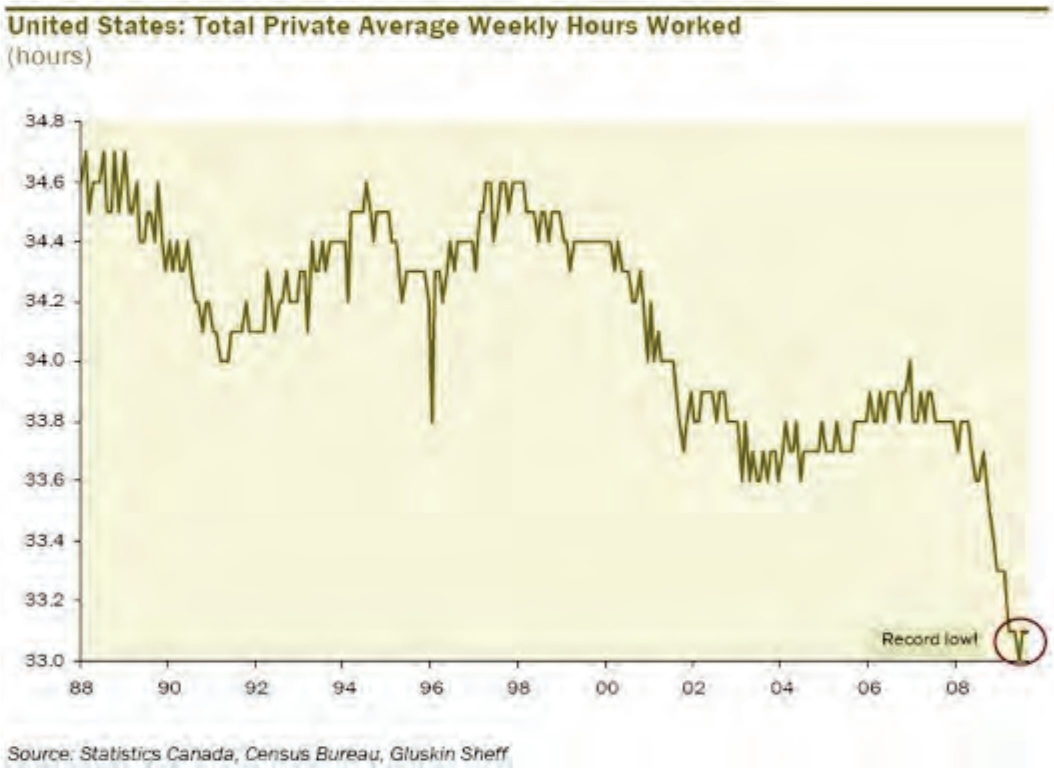
Series Id: LNS11000000
Seasonal Adjusted
Series title: (Seas) Civilian Labor Force Level
Labor force status: Civilian labor force
Type of data: Number in thousands
Age: 16 years and over

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1999	139003	138967	138730	138959	139107	139329	139439	139430	139622	139771	140025	140177	
2000	142267(1)	142456	142434	142751	142388	142591	142278	142514	142518	142622	142962	143248	
2001	143800	143701	143924	143569	143318	143357	143654	143284	143989	144086	144240	144305	
2002	143883	144653	144481	144725	144938	144808	144803	145009	145552	145314	145041	145066	
2003	145937(1)	146100	146022	146474	146500	147056	146485	146445	146530	146716	147000	146729	
2004	146842(1)	146709	146944	146850	147065	147460	147692	147564	147415	147793	148162	148059	
2005	148005(1)	148349	148366	148926	149273	149262	149445	149794	149977	150007	150095	150002	
2006	150148(1)	150600	150793	150906	151120	151398	151414	151762	151680	152027	152425	152677	
2007	153012(1)	152879	153004	152522	152759	153085	153101	152855	153424	153162	153877	153836	
2008	153873(1)	153498	153843	153932	154510	154400	154506	154823	154621	154878	154620	154447	
2009	153716(1)	154214	154048	154731	155081	154926	154504	154577					

1 : Data affected by changes in population controls.

Next we look at the tables for the actual level of employment. Here we note that we are down almost 8 million jobs sincd the onset of this recession, and that there are almost 15 million people unemployed.

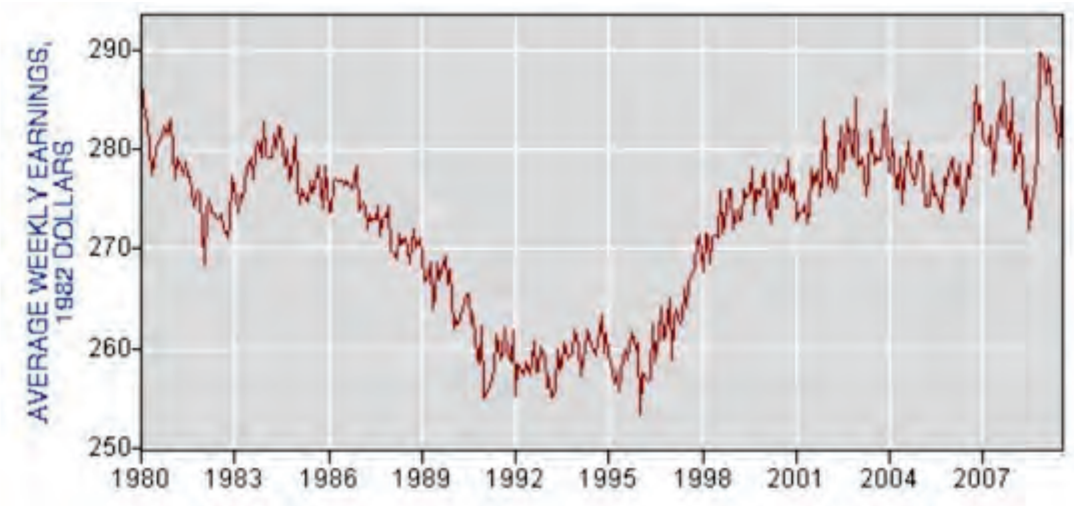
Going back to the part-time workers, there are roughly 9 million people who are working part-time because of business conditions, or those are the only jobs they could find. The average work week is at an all-time low of 33 hours. The chart below is from my friend David Rosenberg.



David wrote in a special report today:

"What does all this mean? It means that when the economy does begin to recover, when we finally get to the other side of the mountain, companies are going to raise their labour input first by lifting the workweek from its record low. Just to get back to the pre-recession level of 33.8 hours would be equivalent to hiring three million workers. And, the record number of people working part-time against their will are going to be pushed back into full-time, which will be great news for them, but not so great news for the 125,000 – 150,000 new entrants into the labour market every month.
They won't have it so easy because employers are going to tap their existing under-utilized resources first since that is common sense. Also keep in mind that there are at least four million jobs in retail, financial, construction and manufacturing jobs lost this cycle that are likely not coming back. In fact, the number of unemployed who were let go for permanent reasons as opposed to temporary layoff rose by more than five million this cycle. This compares to the 1.2 million increase in the 2001 tech-led recession and in the 1990-91 housing-led recession (when Ross Perot talked about the sucking sound of jobs into Mexico)."

Then there is the matter of average weekly earnings. If you adjust for inflation, workers are making roughly what they did in 1980. The chart is straight from the BLS website.



And What We Don't See

Those are the facts. Now it's time to look at what we don't see, and what you don't read or hear from the mainstream media.

We saw above that we are adding about 1.5 million workers to the workplace every year. That means over the next five years we are going to need 7.5 million jobs just to maintain that growth, or about 125,000 a month. That is on the low side of what economists normally estimate, which is around 150,000 per month. If we used the 150,000 estimate, it would mean we need 9 million jobs.

There are at least 1 million (and probably more like 2 million) discouraged workers who would take jobs if the economy got better. You can derive that number by going back to early 2007 and seeing the level of discouraged workers. That means, by the end of 2014 we are going to have 163 million people in the work force (see table above).

Today we have 139.6 million jobs, and that number is likely to slip at least another half million (last month the economy lost 216,000 jobs, with a very suspicious birth-death ratio accounting for a lot of job creation). So let's call it 139 million current jobs.

Let's assume that we would like to get back to a 5% unemployment rate. That would not be stellar, but it would certainly be better than where we are today. Five percent unemployment in late
2014 will mean 8.1 million unemployed. To get to 5% unemployment we will have to create 14 million jobs in the five years from 2010-2014. (163 million in labor pool minus 8 million unemployed is 155 million jobs. We now have 139 million jobs, so the difference is roughly 15 million.) Plus the equivalent of 3 million jobs that Rosenberg estimates, just to get back to an average work week. And maybe the extra 1.5 million a year I mentioned above.

But let's ignore those latter jobs and round it off to 15 million. Let's hope that by the beginning of next year we stop losing jobs. That means that to get back to 5% unemployment within five years we need to see, on average, the creation of 250,000 jobs per month. As an AVERAGE!!!!!

Look at the table below. It is the number of jobs added or lost for the last ten years. Do you see a year that averaged 250,000? No.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1999	121	410	106	376	213	266	291	192	202	408	294	294	
2000	249	121	472	286	225	-46	163	3	122	-11	231	138	
2001	-16	61	-30	-281	-44	-128	-125	-160	-244	-325	-292	-178	
2002	-132	-147	-24	-85	-7	45	-97	-16	-55	126	8	-156	
2003	83	-158	-212	-49	-6	-2	25	-42	103	203	18	124	
2004	150	43	338	250	310	81	47	121	160	351	64	132	
2005	182	221	121	312	212	259	322	190	87	98	380	160	
2006	294	274	282	151	24	70	186	149	147	82	261	219	
2007	180	36	184	35	156	54	-65	-28	100	165	215	120	
2008	-72	-144	-122	-160	-137	-161	-128	-175	-321	-380	-597	-681	
2009	-741	-681	-652	-519	-303	-463	-276(P)	-216(P)					
P : preliminary													

If you take the best year, which was 2006, you get an average monthly growth of 232,000. If you average the ten years from 1999, you get average monthly job growth of 50,000. If you take the average job growth from 1989 until now, you get an average of 91,000 a month. If you take the best ten years I could find, which would be 1991-2000, the average is still only 150,000. That is a long way from 250,000.

Want to get back to 4%? Add another 25,000 jobs a month to 2006.

Let's jump forward to next September. We will need at least 1.5 million jobs to take into account growth in the population. Plus another half million jobs that we are likely to lose before we start to grow again. What is the likelihood of average job growth of 160,000 a month? Anyone want to take the "overs" bet?

Go back to 2003, the year after the end of the last recession. A few hundred thousand jobs were created. Why so slow? Because employers gave more time to those who were already employed and to part-time workers. Because of the near-certain loss of jobs for the next few months and the slow recovery, it is a very real possibility that unemployment will still be well over 10% a year from now.

Even with robust growth of 200,000 jobs a month thereafter for the next two years, unemployment will still be close to or over 9%. That would only be an additional 1.8 million jobs (making the most optimistic assumptions) over the new jobs needed for population growth.

A Double-Dip Recession?

And that is before this administration makes the economically suicidal move to raise the top tax rate by 10%. The popular image is that those who pay the highest tax rate are Wall Street execs, bankers, and corporate moguls. The reality is that 75% of them are small business owners, and they are responsible for the large majority of new jobs that are going to be needed, not to mention a large part of consumer spending. If you tax them more you are going to get fewer jobs (as they will have less to invest) and less consumer spending.

A tax increase of the size being contemplated, with unemployment at today's level, will guarantee a double-dip recession, which of course means that unemployment will rise, not fall. Go back and look at that chart on unemployment. Notice the very steep rise in the second recession of the early '80s. That is what we could be facing.

Without getting too political, think about elections in 2010 with unemployment levels still rising. And fast-forward to 2012, with deficits (optimistically) projected to be almost $1 trillion and rising. With a tax increase giving us another recession? Will the bond market provide another $4 trillion? My question is, from where?

There has never been a period of serious inflation in the US without wage inflation. But real incomes are falling, and there is little reason to believe we will see wage pressures within the next few years. The opposite is likely to be the case.

Today's *Wall Street Journal* tells us that 5 million people have been unemployed for over 6 months. And the longer you are unemployed, the harder it is to get a job. That means you have to settle for a job with less income than you had before.

The only group to see a rise in employment? Those over the age of 55, as they have to take a job, any job, so they can save for retirement.

The Statistical Recovery

The economy is in the process of bottoming. The year-over-year comparisons are getting easier. We will find that new level of spending and economic activity and grow from there. But it is going to be awhile before we get back to full employment. While the numbers may say recovery, it is not going to feel like one.

Let’s review quickly what I have
written about the last four weeks. We have enormous excess capacity – capacity
utilization is about 68%. Banks are cutting back on their loans, and consumers
and businesses are borrowing less. Housing is likely to be in a funk for at
least two years. We are deleveraging, which is causing the velocity of money to
slow.

All of this is very deflationary.
Will the Fed print enough money to reflate the economy? You better hope so.
Will we have to deal with it later? Of course. We have no good choices. We are
in for a long five years, at the least. Yes, there will be opportunities, and
new industries will be created. But it won’t happen overnight.

Welcome to the New Normal.

Downloaded from *http://www.ritholtz.com/blog/2009/09/welcome-to-the-new-normal/* on October 7, 2009.

Financial Armageddon in Sweden?
By *Rocky Vega*
10/06/09 Stockholm, Sweden – Personally having a Swedish bank account with SEB, and having recently visited the Latvian capital of Riga, this piece from Naked Capitalism hits home…literally.
According to the article, worsening financial conditions in Latvia could lead to an economic crisis and collapse similar to Iceland’s recent devaluation and potentially a major default.

The blowback would hit Sweden especially hard because its major banks have lent substantial funds to the Baltic nation. Latvian loans from Swedbank have totaled roughly 61 billion kroner, 40 billion kroner from SEB, and about 30 billion kroner from Nordea.

In addition, many Latvian businesses and individuals hold euro-denominated loans from the Swedish banks. In the event of devaluation those loans would become significantly more difficult for Latvians to pay back and could drastically increase the banks’ already high loan losses to date.

Latvia is currently facing a GDP that is on track to shrink by roughly 18 percent this year. More specifics are available from Naked Capitalism regarding the impact on Sweden of the troubled Baltic economies.

Downloaded from *http://dailyreckoning.com/financial-armageddon-in-sweden/* on October 7, 2009.

On the Losing Side of a Credit Battle
By *Bill Bonner*

10/06/09 London, England

"Many lost jobs in US will never come back…" says *The Wall Street Journal*.

Need we explain why? Because they're not lost, waiting to be rediscovered. They're not missing in action, to be repatriated after the fighting stops. Instead, they're dead. Gone forever.

There have been 7.2 million jobs lost since recession began. Many of these jobs were Bubble Age jobs. Millions of people, for example, earned their money in 'housing.' They were putting up houses in the sand states…or building granite countertops…or selling, flipping, financing the houses. Those jobs are gone forever. Never again in our lifetimes are we likely to see such an explosion in the housing industry. Sure, people will still build houses…and do all the other work involved in the traditional housing industry. But it will be only a fraction of the industry it was in the 2002-2007 period.
There were also all the jobs involved in selling things to people who didn't need them and couldn't afford them. Labor was needed at every step of the way – manufacturing (perhaps in China), shipping, stocking, retailing, fixing, and financing the stuff.

And don't forget all that mall space…and all the trucks…and all the other things that supported the over-consumption of the Bubble Age.

And now the Bubble Age is over. It will not come back, no matter how much cash and credit the feds pump into the system. (Not that they can't make things worse…in a BIGGER bubble…but that is not yet in sight.)
In *The Wall Street Journal* yesterday was an item about Las Vegas. The casinos are folding up their expansion plans, says the *WSJ*.

But the big news yesterday was that the service industries are growing again…at least that's what the latest figures show. This news so delighted investors that they bid up Dow stocks 112 points. Oil rose above $70. Gold posted a $13 gain.

Don't get too excited about that rise in the service sector. Everything bounces…even dead jobs. Dead jobs bounce; they still don't get up. After months of decline, it may be true that the service industries have had a rebound, but don't expect them to begin recovering the stamina and strength of the bubble years. A few more people may have gotten jobs serving drinks in Detroit's bars last month, but it is not likely to turn into a durable recovery of the job market,
In the 1990s, the US economy added 2.15 million new jobs every year. It needed to add at least 1.5 million or so just to remain at full employment – that is, with about 5% of the workforce unemployed at any time.

To put that number in perspective, this year the economy as LOST 2.5 million jobs, just in the last six months. Those jobs aren't coming back. As we keep saying, this is a depression. It is a major correction, in which the economy needs to find new jobs…because it can't continue to do what it has been doing.

New jobs are typically created by new businesses – small businesses that are growing. Big businesses already have all the market share they're going to get. They also typically have all the employees they need. Then, when hard times come, they discover that they don't need all that they have, so they cut back.
Job cuts from large businesses is what you expect in a recession. But this time it is different. This time, big businesses have let people go by the million. But small business has not been hiring them either. So not only is unemployment growing…the trend shows no signs of coming to an end.

Economists are reconciled to high unemployment levels for a long time. The head of the IMF says unemployment might peak out in 8 to 12 months. Even if that were true, it will be a very long time before the job market recovers. Just do the math.

We'll keep it simple. The economy needs, say, 1.5 million new jobs per year. Instead, over the last two years, it lost 7.5 million. Now, it has to stop losing jobs…let's just say that happens a year from now. By then, the total of jobs lost may be near 10 million. Plus, there are the new jobs it needed – but never got – over that 3 year period. That's another 4.5 million. So, the total will be about 14.5 million jobs down. Then, let us say, because we are in a generous and optimistic mood, that the economy then begins creating jobs again…at the rate it did during the '90s. What ho! **After five years, that still leaves the economy more than 10 million jobs short, doesn't it?**
In order to get back to full employment, the economy has to surprise us on the upside. It has not merely to return to the growth levels of the '90s…it has to surpass them. It needs to grow so fast it creates 3 million jobs per year. And even then, it would take nearly 10 years to get back to full employment.

Pretty grim, huh?

Well, don't worry about it. It won't be like that. It will be worse. Keep reading…

"Uh…Bill…what do you mean, 'worse'?"

Glad you asked.

In the typical post-war recession, jobs are lost…then they are recovered when the economy gets on its feet again. But this happened in the credit expansion of the '45-'07 period. Each recession was just a pause, when the economy was catching its breath. Then, it was off again…in the same direction – up the mountain of credit.

This time, it's not a typical post-war recession. It's something different. Now, we've reached the peak. We're coming down the other side…wheee! Look out below!
Now we don't need all those people building houses, stocking the shelves and selling things. We don't need such a big financial industry either. Now, people want to get rid of credit, not get more.

And the businesses that were goosed up in the credit bubble are now deflating fast. They're not just taking a break. They're lining up the jobs and shooting them in the back of the head. Those jobs are gone. (See below…)

In a 'normal' recession, jobs reappear because the economy continues in the same direction. In a depression, it changes course. Debts are paid off. Spending goes down, more or less permanently. The economy actually contracts…until consumer debt is once again down at an acceptable level…or a new model for growth can be found.
The Wall Street Journal mentions a statistician who was making $100,000 a year. He too is a victim of depression. His job has been outsourced to India. Businesses, with less revenue coming in the door, must cut costs in whatever way they can. Labor is the single biggest item on most firms' ledgers. They will reduce it however they can. And once the change is made, there is little chance that the job will come back.

It is a little like a battle. In an attack, troops often get separated. They are 'lost' – for a while. Then, the winning side is able to recover its missing troops as it advances. But the losing side gives up its troops forever. They are stuck behind enemy lines and cannot rejoin their units.

We are now on the losing side of a credit battle. Having gained so much ground, and so many jobs, in the advance, the United States is now giving them up.
"I expect over the next several months, mainstream pundits and forecasters will start worrying about tepid hiring, even as the pace of job losses slows," *Strategic Short Report's*Dan Amoss chimes in. "As we 'lap' the 2009 corporate cost cutting by early 2010, and top lines fail to rebound, earnings estimates will have to come back down. I'm amazed at how many sell-side analysts are modeling V-shaped recoveries in 2010 earnings. Most stock prices are disconnected from reality."

And here is a story we foretold years ago. **Private equity was mostly a fraud, we said.**Sharp operators bought companies for more than they were worth, loaded them with debt, collected huge fees, and then sold them back to the public or to other private equity firms. Come the revolution, we mused, these deals would go bad.
Well, the revolution has come. The deals have gone bad. *The New York Times* reports:

"Simmons [the mattress company] says it will soon file for bankruptcy protection, as part of an agreement by its current owners to sell the company – the seventh time it has been sold in a little more than two decades – **all after being owned for short periods by a parade of different investment groups, known as private equity firms, which try to buy undervalued companies, mostly with borrowed money.**
"For many of the company's investors, the sale will be a disaster. Its bondholders alone stand to lose more than $575 million. The company's downfall has also devastated employees like Noble Rogers, who worked for 22 years at Simmons, most of that time at a factory outside Atlanta. He is one of 1,000 employees – more than one-quarter of the work force – laid off last year.

"But Thomas H. Lee Partners of Boston has not only escaped unscathed, it has made a profit. The investment firm, which bought Simmons in 2003, has pocketed around $77 million in profit, even as the company's fortunes have declined. THL collected hundreds of millions of dollars from the company in the form of special dividends. It also paid itself millions more in fees, first for buying the company, then for helping run it. Last year, the firm even gave itself a small raise.

"Wall Street investment banks also cashed in. They collected millions for helping to arrange the takeovers and for selling the bonds that made those deals possible. All told, the various private equity owners have made around $750 million in profits from Simmons over the years."

Downloaded from *http://dailyreckoning.com/on-the-losing-side-of-a-credit-battle/* on October 7, 2009.

Reasons To Remain Wary About Housing
Joshua Zumbrun, 09.29.09, 11:00 AM EDT

After signs of life this summer, here are eight factors to watch that could extend the bust.

WASHINGTON -- Over the summer, glimmers of improvement in housing proved to be one of the economy's bright spots. Home prices briefly ticked up after falling nonstop for three years. Even forecasters who were too optimistic about jobs were too pessimistic about housing.

Data from the summer is still coming in. In June, home prices were off 15.4% from the year before, according to the Case-Shiller index. On Tuesday, the latest update from the index showed the drop easing to 13.3%. On a month-to-month basis, prices were up 1.2%. But as summer turns to fall, here are eight reasons to remain worried about housing.

The Expiring Housing Tax Credit

An $8,000 tax credit for first-time home buyers has been helping sales all year. A lot of people would have bought homes anyway, so it's impossible to know how many sales were caused by the credit, but there's no doubt that at least some were. It expires on Dec. 1. Congress is debating whether or not to extend the credit--realtors and homebuyers love it--but economists generally argue that it is very expensive for very limited gains.

End of Federal Reserve Support

During the panic, the Federal Reserve started quietly propping up the mortgage market. In the past year, the Fed has purchased $840 billion of mortgage-backed securities. (See*"Ending the $1.45 Trillion Shopping Spree."*) This behind-the-scenes program has driven down mortgage rates, making it cheaper for people to buy homes. It's impossible to know exactly how big an effect this program has had, but it's certain that mortgages would be more expensive without it. At its meeting last week, the Fed announced it would wind down this program by March 2010, which may mean mortgage rates will rise. (See *"Stopping the Presses."*)

Tightening Mortgage Standards

One problem during the boom was that just about anybody with a signature could get a mortgage for hundreds of thousands of dollars. Those days are long gone, and banks and regulators alike are raising their standards. That's an important correction from the dangerous boom years, but as standards get tighter, it's harder for people to get loans and fewer loans mean fewer sales. On Oct. 1, a new raft of Federal Reserve requirements go into effect that will raise standards for mortgages.

Prices Are Still High

Although home prices have plummeted from their stratospheric levels of 2005 and 2006, they are still well above their historical norms. The Case-Shiller Home Price Indices, for example, shows that home prices in 20 major cities are still 41% above the level of January 2000 (at the peak in July 2006 they were 106% above that level). A report from the Census Bureau this month shows that incomes have not grown this decade. How are Americans supposed to afford 41% more house with no increase in income? While home prices may not revert all the way back to their long-term average, by at least this measure, prices are still very high.

Damaged Psychology

After getting burned so badly in housing this last decade, people's psychology takes a long time to change. Buying a house is a bigger, more emotional decision than buying stocks. Robert Shiller, the Yale economist who co-created the Case-Shiller index, argues that people's "animal spirits" must be considered. Shiller *points out* that after a smaller boom and bust in 1990-91, home prices did not start rising again for six years.

End Of Summer

Sales always rise in the summer and fall in the winter (who spends the holidays house hunting?) and prices usually rise and fall a bit too. All the major measurements of home prices adjust for this seasonal effect. But after three years of plunging, nobody knows if the old seasonal adjustment is still adequate. If the adjustment is too small, home price measures could show a surprising dip.

Flood Of Foreclosures

The Mortgage Bankers Association projects that foreclosures will continue to rise into 2010, as borrowers who are barely hanging on get washed out. That means the flood of foreclosed properties will get worse before it gets better, driving down prices and making it more difficult for people who want to sell their homes for other reasons. Foreclosures could becomes especially bad for holders of adjustable-rate mortgages. The most dangerous of these were "option ARMs," which essentially let the borrower pick the amount they paid each month, and anything unpaid was added to the balance of the loan. Eventually these loans "recast," meaning they are no longer allowed to balloon, which can cause monthly payments to soar. A report by the ratings agency Fitch said that of a pool of $189 billion option ARMs it studied, 88% have not yet recast. In other words, most of these borrowers still have big payment jumps coming that could drive them into foreclosure.

Shadow Inventory

The market has been terrible for three years. Many Americans who might like to move have simply been waiting things out. Banks have put so many homes into foreclosure that they are backlogged in actually releasing the homes onto the market. And homebuilders are still bleeding money as they sit on vast tracts of undeveloped land that they'd like to slap homes on as soon as they find some buyers. Every time things start to look good, this shadow inventory starts to come back on the market, keeping prices low.

Reasons To Not Be Entirely Pessimistic

As confidence in the economy returns, renters who have sat out of the market out for years could start house hunting. If the economy continues to improve, people will have growing confidence in their job security. If stock markets continue to rise, a wealth effect may spur more buyers to jump in the market. And the adult population is growing--all those twentysomethings will have to move out of their parents' basement eventually.

Downloaded from *http://www.forbes.com/2009/09/28/housing-prices-mortgages-business-washington-housing.html* on October 7, 2009.

The Event
by Eric Andrews | September 21, 2009
Print

Since at least 2000, there has been a heated debate over the ****BIGGEST FINANCIAL ISSUE OF ALL TIME****: "will there be Inflation or Deflation?"

And so far the answer has been "Yes". Since 2000 we have had both Inflation and Deflation, each measurably so. Never deterred, the argument has now shifted to: "Which way will it ULTIMATELY go, in the final analysis?"

The key arguments include those listed below:

Inflation:

- Increase in the money supply
- Monetary velocity increases with loss of faith, at home or by foreigners
- Government can change rules at any time
- Inflation first, then economic

Deflation:

- Decrease in supply of money ***and credit***
- Monetary velocity decreases with credit freeze
- Government cannot stop it
- Deflation first, then Inflation as

Depression

- On fiat standard, there is no longer any 'natural' result
- Government can print enough to overcome people's lack of credit in our system
- Top powers want asset inflation, or at least for prices not to fall
- Inflation is the default setting for fiat systems.
- Government can always destroy their currency if they want to badly enough
- In government-decreed money, government can always borrow or create cash.
- Buy gold as money is debased
- Inflation is not rising prices

response

- Natural result of credit expanding beyond ability to service
- Government can, but won't print enough to destroy themselves and the banks
- Top Powers may want assets to rise but will defend the core of power-bonds and the home currency
- There is no mechanism to inject money outside of the now-broken credit system
- In a debt-based money, there is always a net short of cash, since money=debt, but with the requirement of interest creating the imbalance.
- Buy gold as stocks and bonds default
- Deflation is not falling prices.

...And so on, day after day, board after board. As one writer quipped, “When I read one side, it seems conclusive and irrefutable...until I read the other side, which is just as convincing.”

Which to choose? Why not both? It is true that on the Inflationist side, that the money supply has increased, that government can change the rules at any time, that they have the power to destroy their currency at will, and will do everything it can to keep asset prices high. The Deflationists are correct that by debt-GDP, ability to service debt, etc, money—which includes credit—is mathematically unmanageable and is **already** contracting at a pace overwhelming the additional money supply, and this contraction is showing itself in falling GDP, stocks, bonds, and housing prices.

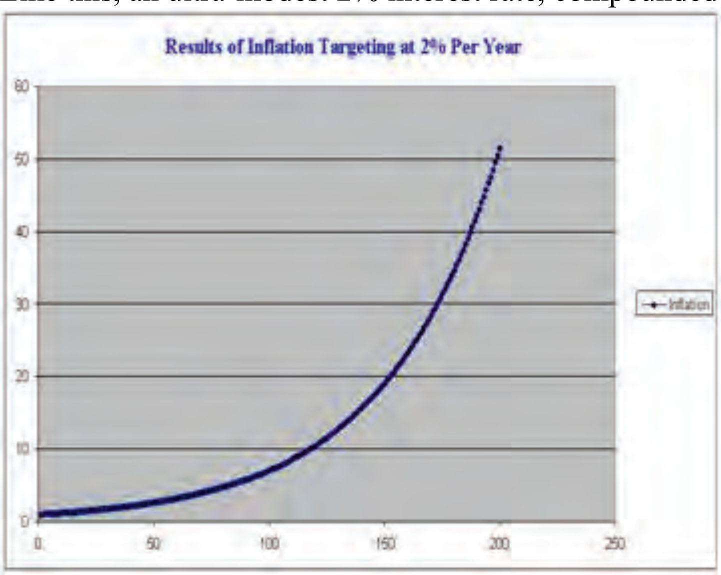
Since both are correct on their individual points, it follows that both must happen. But how?

For one, it's clear to me that we're **already** in Deflation. Even the Inflationists can't dodge the issue that the supply of money includes some form of credit. Under our peculiar system, Money isn't separate from credit, Money **equals** credit. In the words of Robert H. Hemphill, Credit Manager of Federal Reserve Bank:

"*We are completely dependent on the commercial Banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the Banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless position is almost incredible, but there it is.*"

He is correct that this happens when you abandon an objective, commodity-backed money, but neglects to mention the most important point. Because all of our debt-based fiat money is**borrowed** into existence, the money does not exist before the loan in a savings account somewhere, and therefore the loan is backed with the promise inherent in each individual loan, a 1=1 equation. However, the important part and the very **reason** for the loan is that it requires**interest**. So the full equation is $1=$1 + 5% or whatever the rate is. This **always** creates a synthetic dollar short position, by definition. If every loan were repaid, every dollar would disappear, strange but true; but what's more, the last dollar would disappear long, long before the last loan was repaid—the interest would still be outstanding! Only the principle is what is borrowed, not the interest. For the interest to be paid, ever-increasing quantities of money must be created, via extending ever-increasing volumes of loans. For where would we get the interest to re-pay existing debts? It would have to be borrowed into existence! And how would we do that? With yet-more interest. This does not happen on a commodity standard such as gold, which can extinguish debts with finality, not more debt. But we are not on such a system. Our debt-based fiat system must increase at an increasing rate forever within the context of a finite planet.

Like this, an ultra-modest 2% interest rate, compounded:



(Courtesy Mish Shedlock, http://globaleconomicanalysis.blogspot.com)

It cannot continue forever in a finite system, therefore it must collapse. And once any bubble trend collapses, it has never been reflated before all the previous unfounded credit has been wiped out, and the system comes to represent reality again.

This is an important pillar of the Deflationist argument. Our money is **not** "printed", and it is a terrible mistake to say that it is. Even monetizing Treasury debt—the classic example—is not monetizing the debt in the same way that Weimar Germany printed notes on one side with spiraling zeros. Our "monetizing" is **borrowing** money from and owed to the Private Fed and her member banks, which not only must be repaid with interest eventually, but there is an ongoing interest charge due each month. And at this point, that interest is neither a minor accounting entry, but 1/3 of the Federal budget. If they cantruly print actual paper currency to pay the national debt, the fact is that right now they are not, and have no existing mechanism for doing so. Even our paper currency, printed by the Engraving Department by the US Treasury, only represents money borrowed and owed with interest.

Nevertheless, this is clearly absurd as our good Fed Manager declares: how is it possible that a nation could **not** be able to destroy their own currency if they wish to do so? How is it possible that they could **not** inflate it to a hundred, a thousand, a million should they wish to do so? The answer as both Inflationists and Deflationists will tell you is that they can. Even if they have no mechanism to do so now, Congress **could** extend their violation of the Constitution that only gold and silver are money, seize the Engraving Department or the Private Banks, and either print paper currency or transfer electronic cash to each individual bank account. They can and many nations have done so.

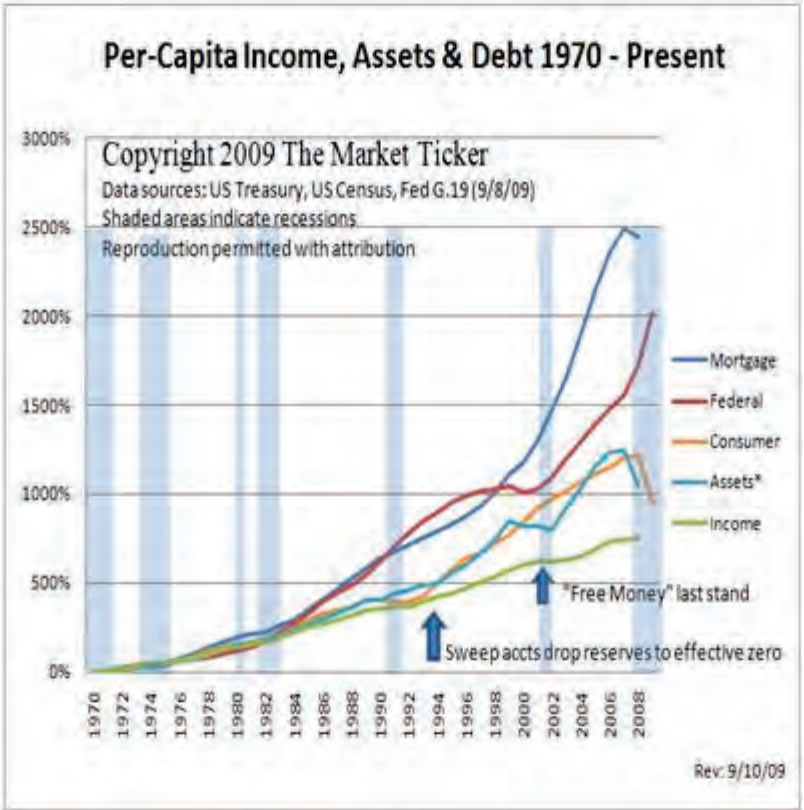
This is the key issue between the two camps. Not that what is happening is not happening. The "money" supply is increasing, no argument. The credit supply is decreasing, no argument. The contraction in credit (deleveraging) has reflected itself in a reduction of asset values to as much as -40%, just as a change in the money and credit supply should cause it to. The question for both camps wishing to be **ultimately** right, is "what now?"

Inflationists believe the government will step in and actively devalue the dollar, both to increase the nominal (not real) value of assets, and to avoid delivering on their promises such as Social Security and Medicare. Deflationists believe the government and banks will not destroy their power base--the bond market and the currency--to do so, and will instead simply force defaults by everyone else and be the last man standing by simply hesitating.

And they have a point. If the government and banks are going to create money from thin air to avoid a meltdown, a Deflationary spiral, what are they waiting for? Shouldn't they have done this in January of '08 when there were warnings but **before** anything bad happened? Or in March of '08 when Bear Sterns fell? Or in September '08 when Lehman fell? Or any time from May of '08 to February '09 while the Dow fell 6,000 points, housing prices plunged, mortgage bonds, ABS, and municipal bonds collapsed, and world markets followed with a 50%-90% loss? Even now, GDP is arguably negative, 100 US banks have gone under, sinking the FDIC, the Case-Shiller 10-city price index has fallen 31%, the Dow remains 40% below its all-time high, and in excess of $50 Trillion had been lost worldwide? If they were going to inflate wouldn't they do it now? Now in these past nine months?

Which brings me to my point. While it's true that a country can always destroy its currency and cause inflation should it wish to do so, **our** country is **not**doing so. Or not yet. We are in deflation, as represented by this chart:
(Courtesy Karl Denninger, *http://market-*

ticker.denninger.net/)



Deflation is a contraction in the supply of money and credit, and as we said, credit=money. Both asset values and consumer credit are falling, and in the nature of bubbles, perhaps irreversibly. Asset values on the books of banks and corporations are falling hard as well, even if they are hidden by illegal accounting games, as seen by the recent disclosure that AAA-rated Mortgage bonds are worth 22 cents on the dollar, exactly what they were when the crisis began. ...And that's **good**, as AA-rated bonds are worth 4c, with everything further down the tranches effectively worth zero. Banks taken over are showing a +30% further loss compared to what they were publicly admitting.

Note above that although the Federal borrowing has risen sharply in an attempt to maintain the overall level of debt (by shifting if from failed private entities to the public taxpayer) the government, large as it is, is still far smaller than the entire economy. To offset the contraction of all other parties, it would have to triple or more its present levels, without the dollar and bond market collapsing, and that would only offset today's losses and delay the issue, not cure it, as shown in Japan's continuing 20-year recession.

Actually, that's nothing in terms of trouble. Unfunded liabilities—and this is Federal alone, in Social Security, Medicare, debt, interest, and wars—is nearing $100 Trillion, or $1 million per non-poverty household. Add to that the roughly $45 Trillion presently owed Private sector debt, as well as the Corporate, State, and Local debt, and you get as much as $2 million owed per non-poverty household. I don't know about you, but I don't have that kind of money lying around my house...and if I don't have it, I can't pay it.

So if they're not going to inflate now, given the state we're already in, then when?

When? When they have to. When something happens, and not before. This is the key to my argument, a view held by both Bob Prechter of Elliot Wave and Eric Janzen of iTulip. The government, the Fed, the banks, they've had all summer to inflate, and during a positive, receptive environment. If there was ever a time to actively prevent Deflation, it was this past summer. Something around $23 **trillion** was offered in **one** program alone (TARP), so there is clearly no issue of money or expense, while previously unimaginable power was seized by the Federal Reserve and Federal Government, to force mergers, bailouts, nationalize, and upturn bondholders in violation of 200+ years of legal precedent, so what's stopping them is clearly no issue of law.

The issue, as seen by the "Audit the Fed" initiative, and the deep backlash to the bailouts, nationalization, and bonus scandals, is political. To inflate on the scale required to have any impact on the credit contraction would require the Government and banks to ***actively, openly, and publicly*** devalue the dollar say 50%, 80%, 99% overnight, in a Mexican or Argentine fashion. Their own actions have shown that despite a year's reprieve, they are not willing to do so preemptively, on their own.

Yet there are only two ways to purge un-payable debt levels: you can default, or you can inflate. A default will take out thousands of households, corporations, all non-bailed out banks, and most State and Local Governments. Inflation will cause the same thing, the same Depression and damage—there's no free lunch--but it will hide its true cause of Government and Wall Street excesses, and save those two groups at the expense of savers and foreign creditors, as well as sharply increasing life-giving revenue by taxing inflationary "gains" at home.

This is far too tempting for any government. Yet they have not.

This tells us the only thing we need to know as investors: the timing.

The Banks, Government, and the Fed, have shown they are NOT going to inflate—yet. They will stand back, piddle in the margins and hope, analyze, and hesitate until the Deflationary collapse happens for them. And it's happening now as we can see that consumers can NOT take on more debt even if they wanted to; they are slowly falling behind on servicing the debt they already have. The natural weight—if unaltered by a truly massive intervention—is Deflationary contraction. Contraction in employment, in sales, in GDP, in shipping, in debt issuance, in the payments, income streams and loan self-heals that we already see. This steady contraction will at some point suddenly be reflected in asset prices, as the delusional psychology breaks and the Dow falls to 5,000, 4,000, 3,000 or somewhere. Don't say it can't happen because of intervention. There **was** intervention all the way down from 12,000 to 6,000 and it couldn't stop it. Their intervention may be larger now, but so are the problems, beyond any possible containment.

After such a massive collapse and repudiation of manipulation, the Banks, Fed, and Government**could**, just like now, inflate on the truly massive, Biblical levels required, and thereby default on the debt using inflation instead of bankruptcy; they would finally have an excuse large enough to hide behind. ...But at that point the damage is also already done. Once the

Dow has **already**fallen to 5,000 or below, and the next truly epic number of bankruptcies have **already** occurred, what would be the point of inflating? But they could at that time, truly inflate or hyperinflate at last. But then, they could now.

There is one other scenario: that the government will still actively and intentionally inflate, and will in fact plan or **cause** the event they will use as an excuse for their actions. For our purposes, however, this is the same thing—we will first look for the destructive EVENT, one which will drop the market and seize the banking and credit system, and then **afterwards**, see if they take real action to inflate.

This goes back to Prechter's timing; that Deflation will happen FIRST, before the government can or will react. And they're proving that with a whole year's insubstantial actions. But this is also Janzen's "Ka-Poom" argument, that Deflation will happen first, for a few real months as in Argentina in 2001, but that any modern government on a strictly symbol-based currency, will**always** inflate rather than allow Deflation to take its full course. In his scenario, the latent inflation finally takes the upper hand in a total loss of confidence, causing near-immediate hyperinflation. But on this one thing, both sides agree, both the King Deflationist, and the key Inflationists—inflation occurs during a boom as credit is expanding, then credit pops and contracts, it is repudiated, and then...ULTIMATELY...? Inflation or Deflation?

Which will it be? Despite arguments to the contrary, we can't know. Although no symbol-based modern currency has ever chosen Deflation, the world has never yet been on a global fiat standard during the downturn of the 70-year Kondratiev cycle. So we can't guess. Functionally it**can** go either way. To save themselves, banks and creditors could choose to foot-drag until the whole Deflation is over. Or to "save the people", Governments could seize the real power of the printing press and thereby create a mechanism for true inflation that does not presently exist. Personally, I believe a third thing will happen instead: that accounts are so imbalanced and are such a mockery of reality that the present system will disintegrate to be rebuilt piece-by-piece, and the dollar will vanish in its present form, perhaps reformed in one or three world currencies, perhaps with a dollar backed by gold at a far lower rate.

Although that's my opinion, we can't know for a fact who will get the upper hand in that eventual struggle. I cannot tell you which side will ULTIMATELY be right, in the very long-term, for each will be right in their own time. Life is a story that doesn't have a neat endpoint, but goes on and on.

But by their own actions we now know one important thing: they are **not** inflating, even with such desperate realities as face us today, and there is no reason to think they will until something happens. How do we know? They've already told us with actions louder than words.

Wait for The Event. Position yourself for it. It will be Deflationary, for by public standards if it were Inflationary to assets, that would be called a "good" thing, not a crisis. Then, **after** the Deflationary economic or geopolitical event, **then** we will see.

But first things first. Wait for The Event.

Downloaded from *http://www.financialsense.com/fsu/editorials/2009/0921.html* on October 7, 2009.

Gold And The Watched Pot Theory

The G-7 meeting has concluded and the only *accomplishment* was yapping about the need for a strong dollar. Please consider **G-7 Finance Chiefs Campaign for 'Strong Dollar'**.

Finance chiefs headed for Group of Seven talks in Istanbul pushing for a "strong dollar" amid concern its slide will impede their recoveries from the worst global recession since World War II.

"Everyone needs a strong dollar," French Finance Minister Christine Lagarde told reporters in Gothenburg, Sweden, today as she met European Union counterparts. "We'll have a chance to discuss this in the coming days."

Her comments came four days after similar remarks from European Central Bank President Jean-Claude Trichet. Treasury Secretary Timothy Geithner yesterday also pledged support for a "strong" currency.

"Market-moving announcements could be forthcoming," said Geoffrey Yu, a foreign-exchange strategist at UBS AG in London. "We expect to hear renewed commitments to the U.S. strong dollar policy and the European delegation may be tempted to communicate their worries on further rises in the euro."

Canadian Finance Minister Jim Flaherty yesterday pushed China to let its yuan appreciate "more quickly" after keeping it little changed against the dollar for more than a year

G7 Wimps Out, Avoids Formal Dollar Criticism

Those hoping to see a firm stand by the G-7 regarding currencies may be hoping for another 20 years.

As expected, the **G-7 Avoids Dollar Criticism, Warns Against Currency Volatility**.

Group of Seven finance chiefs stopped short of singling out the weaker dollar for criticism and stuck to their mantra that "disorderly" swings in currencies threaten economic growth.

"Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability," G-7 ministers and central bankers said in a statement after talks today in Istanbul. Officials welcomed China's "continued commitment" to a more flexible currency, which they said would promote balanced global growth. The statement repeated language used at the last G-7 in April.

"Following the escalated rhetoric, investors may have been braced for some escalation in language," said Sophia Drossos, co-head for global foreign exchange strategy at Morgan Stanley in New York. "Since we didn't get it, I look for the trend of dollar weakness to reassert itself."

G-7 Meritorious Statements

The German Deputy Finance Minister Joerg Asmussen said G-7 "Statements will be published on merit." Please consider the following*meritorious* statements.

- There is no room for complacency since the prospects for growth remain fragile and labor market conditions are not yet improving.
- We will keep in place our support measures until recovery is assured.
- We reaffirm our shared interest in a strong and stable international financial system.
- Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability.
- We will continue to promote the fundamental norms of propriety, integrity and transparency, as agreed in the Lecce Framework and the Core Values of the Charter for Sustainable Economic Activity.

Is there any merit to throwing a party just to say that? If the G-7 cannot agree on anything meaningful, how the hell is the G-20 ever going to agree on anything?

For more on the complete uselessness of these summits, please see **G-20 Summit - We've Seen This Movie Before** with an analysis of select entries from the historical record of a League of Nations 1930-1931 Chronology.

Export Dependency Madness

Canadian Finance Minister Jim Flaherty effectively summarized the global G-7 sentiment when he pushed China to let its yuan appreciate "more quickly".

Every country wants to grow by ramping up exports in a world of decreasing consumer demand. To achieve that end, every country wants its currency to be weaker against every other currency. Of course that is logically impossible.

Besides, the US consumer is tapped out. European consumers are tapped out as well. And tapped out or not, the Japanese consumer just does not want to buy.

Demographics are a huge problem in Japan and ironically paying 0% on deposits does not do much for supporting consumption.

Can China Alone Support Global Growth?

Forget about it.

I discussed China at length in **[How Will China Handle The Yuan?]** Here are a few very small snips.

In spite of record worldwide stimulus, a global recession is everywhere you look except perhaps in China. The reason is simple. When the Chinese government "suggests" banks should lend, banks lend. This is how command economies "work", using the word "work" loosely. Yes, the US has massive problems, but let's have an honest assessment of problems elsewhere.

Bottom line, China is busy ramping up production for consumers that don't exist: Not here, not in the EU, and not in China (not yet). This love affair with China, a country that will not float its currency or offer freedom of speech, and hides bank solvency issues even more so than the US, is way overdone.

A 4-Minute Tour of the China Property Bubble

What is China doing with all its printing? Please take a ***A 4-Minute Tour of the China Property Bubble*** to find out.

World's Largest Shopping Mall Sits Vacant

The world's largest shopping mall, **South China Mall** in Guangzhou, China, is almost entirely empty. Click on the link to see a fascinating video.

Spend Money Until There Is A Recovery

While politely pointing fingers at China and the US for political purposes, all such language was removed from the official statement. The only thing we can be sure the G-7 will do is keep spending money until there is a recovery.

The US, China, Japan, and UK are all in on that act. However, major cracks have appeared in the dam. Switzerland has intervened in the Forex markets with Japan and the ECB waiting in the wings. Canada is clearly unhappy about both the US dollar and the Renminbi.

Indeed no one seems happy about anything, yet the G-7 managed to put together this meritorious and flowery conclusion:

"*We will continue to promote the fundamental norms of propriety, integrity and transparency, as agreed in the Lecce Framework and the Core Values of the Charter for Sustainable Economic Activity.*"

Click here for the complete **Complete G-7 Statement**.

Message From Japan

Just days after welcoming a stronger Yen, the Japanese Finance Minister reversed course as noted by Bloomberg in **Yen Effective Exchange Rate for September Rises to 6-Month High**.

Japan's currency rose to a six-month high on a trade-weighted basis last month amid speculation the Federal Reserve will keep interest rates low and the government led by Yukio Hatoyama won't intervene to stem the yen's gain.

Japanese Finance Minister Hirohisa Fujii said this week the government may act to stabilize the foreign-exchange market and denied that he supported a stronger yen.

The remarks signal Fujii, 77, is trying to dispel investors' perceptions that he favors appreciation of the yen and would be unlikely to step into the currency market to stem its gains. After the DPJ came into power for the first time on Sept. 16, Fujii said the idea of a weaker yen helping the nation's exports is "absurd."

I place credence on the more recent statements, noting that Toyota could be one reason for the flip-flop.

Toyota Grasps For Salvation From Strong Yen

Auto sales have collapsed and Toyota is blaming a strong Yen as one of the reasons. Please consider **Toyota Says Company Is 'Grasping for Salvation'**.

Toyota Motor Corp., the world's biggest automaker, is "grasping for salvation" as it predicts a second straight annual loss, President Akio Toyoda said. The automaker is one step away from "capitulation to irrelevance or death," Toyoda said, citing a study of how companies fail.

The company has gone through the phases of "hubris born of success," "undisciplined pursuit of more" and "denial of risk and peril," according to Toyoda, who cited Jim Collins, the author of "How the Mighty Fail."

The yen's 7.4 percent gain against the dollar in the third quarter also eroded earnings from exports. “The yen is at a very severe level, and just increasing sales won’t make Toyota profitable,” Toyoda said today.

Japanese Moratorium on Principal and Interest

This week the Japanese Finance Minister proposed to **Postpone Collection of Principal and Interest on Consumer and Business Loans**.

“We’re going to get financial institutions to provide these firms with more loans,” said Kamei. “Banks won’t have to treat debt on which they provide a moratorium as bad.”

The moratorium, postponing repayment of principal and interest, will be extended to individuals as well as firms Kamei said. It will aim at giving relief to companies with about 100 million yen ($1.1 million) or less in capital.

“As long as I’m financial services minister, I’m not going to leave small companies in the lurch unable to get loans,” Kamei said. “If a bank takes that approach, I’ll hit them with a business improvement order.”

Switzerland Intervenes In Forex Markets

Inquiring minds are reading **Swiss Franc Drops on Speculation SNB Sold Currency to Curb Gain**.

The Swiss franc fell the most in three months against the euro amid speculation the central bank sold the currency to curb its advance. Swiss National Bank Governing Board member Thomas Jordan said last week policy makers will act “with full force” to avoid an appreciation of the franc against the euro.

“Price action and market talk suggests the SNB has intervened today to sell the Swiss franc,” Marc Chandler, New- York based global head of currency strategy at Brown Brothers Harriman & Co., wrote in an e-mail today. “It appears it may be buying dollars and euros. Swiss banks have been rumored to be the featured agents, which fits into the intervention story.”

By holding back the Swiss franc, policy makers are trying to prevent deflation from worsening the steepest recession since 1992 and restore investor confidence. SNB Chairman Jean-Pierre Roth said on June 18 that the nation’s central bankers “fear deflation” and “if we want to fight against deflation we have to stop a further appreciation of the franc.”

All In Favor Of A Weaker Dollar Raise Your Hand

Europe does not want a stronger Euro, Japan does not want a stronger Yen, and Switzerland has surely proven it does not want a stronger Swiss Franc.

Given that China has pegged the Renminbi to the dollar, it is clear China does not want a stronger RMB either. If it did, it would simply change the peg.

I see no hands in support of a weaker dollar.

Dollar Devaluation Countdown

In spite of the above, within a month or two the US$ is supposedly going to be devalued. Please see **Countdown To Dollar Implosion Madness** for details.

The theory behind the countdown is the "*Recent China/US financial Summit meeting in Washington which was requested by China, was not significantly pre-planned*".

Is a dollar devaluation was the only thing that could possibly have been on China's mind? What about trade issues, pollution, the recession, or the then upcoming G-7 and G-20 meetings? My vote is for the latter.

2009 US Dollar Devaluation References

Out of curiosity, I did a search for "2009 US Dollar Devaluation"

I found 1,490,000 references.

Here is a good one from 11/5/2008: **MASSIVE US dollar devaluation coming very soon**

They're going to pull the plug on the dollar now -- full out -- and devalue it to 1/10 of its current value... This is not a joke.

Here is a good one from 12/12/2008: **Dollar Devaluation To Fix The Great Recession**

During Depression I, I would say it was Frank Roosevelt's 40 percent devaluation of the dollar against gold which finally stopped the deflation. After Wild Ben 'Maggot Brain' Bernanke has cut his policy rate to zero, dollar devaluation is the only policy option left to ease our collective pain.

The source of that reference was a Forbes article with the same name**Dollar Devaluation To Fix The Great Recession**.

A quick dollar devaluation would work wonders for submerged borrowers. Don't kid yourself: It could happen.

Many of the articles think the dollar devaluation is coming against gold, but others think there is going to be some by force currency devaluation.

On August 14, 2009 the Trader's Journal discusses such a thing in **Will Current Expectations of a Dollar Devaluation Cause Gold To Breakout?**

Some sage gold watchers are expecting a major dollar devaluation before the end of the year! Some say it could happen any day now. ... If the globe's major reserve currency is devalued, no one will escape the impact on their daily lives.

For example, if the dollar is devalued against the euro by 30%, an Airbus will be that much more expensive than its Boeing equivalent. An import from China (the yuan is pegged to the dollar) will also drop in foreign currency prices by 30%, but remain the same in the U.S. dollar.

Devaluation By Decree Impossible

The US dollar floats. There is no way the dollar can be devalued by decree without pegging it to something. For example, the US cannot just come out and say "We are devaluing the dollar vs. the Euro by 30%" without pegging the dollar to the Euro and then defending that target.

Moreover, as noted above, all the G-7 countries except the US want a stronger dollar, not a weaker one. Even if a devaluation by decree was possible, the G-7 clearly would not be happy about it.

Message Of Gold

The reason for the strength in gold is not US inflation. As I have pointed out many times, gold fell from 850 to 250 over the course of 20 years, with inflation every step of the way. Thus, the inflation story just does not fit.

However, it should be clear that a major financial crisis is in store following a long period of competitive currency devaluation and massive debt and derivatives expansion by nearly every major country on the planet.

The G-7 agreed to do nothing to fix this mess, nor did the previous G-20 meeting. Countries are going to do what they are going to do: follow misguided Keynesian logic that suggests one can spend one's way to prosperity even though the problem is excessive spending across the board.

Might the US dollar blow up? Yes it might. But so could the RMB if China floated it, and so could the British pound. No one seems to see the crisis brewing in Japan with a huge demographic problem, a shrinking population, falling exports, and no way to pay back its national debt.

There is seldom a mention of the problems in European banks who foolishly lent money to the Baltic States in Euros or Swiss Francs and now those Baltic country currencies have collapsed and the loans cannot be paid back. European banks also lent to Latin America and those loans are also suspect. Arguably, European banks are in worse shape than US banks, but no one talks about it, at least in the US.

Spain has unemployment approaching 20% yet must suffer through the same interest rate policy as Germany. Seldom does one hear about this either.

Certainly the UK is a complete basket case with its banks on government life support. Iceland has already blown up, who is next?

Most are not aware of the problems in China, Japan, or Europe. However, the problems in the US are universally well understood. Indeed all eyes are on the dollar and everyone is talking about deficits, monetary printing, and especially unfunded liabilities even though the latter is tomorrow's problem, not today's.

Watched Pot Theory Revisited

A watched pot may boil, but it's not likely to explode, especially when everyone watching the pot expects an explosion any second.

Indeed, it would be fitting if the **Ridiculous Hype Over Secret Oil Meetings**, helped form a bottom on the US dollar.

Yet, it's easy to see that a financial crisis is brewing.

Somewhere, something is going to blow sky high, but from where I sit, it's as likely to be in the Yen, the Swiss Franc, the British Pound, or something no one is watching at all as opposed to the US dollar specifically.

Downloaded from *http://globaleconomicanalysis.blogspot.com/* on October 7, 2009.

DEPRESSION SPECIAL REPORT

Number 52

August 1, 2009

Current Economic Downturn Is Worst Since Great Depression

Recession Started a Year Earlier Than Official Reckoning

Business Contraction Triggered Systemic Solvency Crisis
Not the Other Way Around

Still Heavily Gimmicked, Post-Revision GDP Shows More Realistic Numbers

Economic Crisis Is Far from Over

OVERVIEW

U.S. Economy Is in a Multiple-Dip Depression. The grand benchmark revision of the national income accounts on July 31, 2009 confirmed that the U.S. economy is in its worst economic contraction since the first downleg of the Great Depression, which was a double-dip depression. The current economic downturn increasingly will be referred to as a depression, and it is far from over. There will be intermittent blips of new activity, such as the current cash-for-clunkers automobile giveaway program that appears to be generating a one-time spike in auto sales. Yet, this downturn will continue to deteriorate, proving to be extremely protracted, extremely deep and particularly nonresponsive to traditional stimuli.

As discussed in recent writings, the economy suffers from underlying structural problems tied to consumer income, where households cannot keep up with inflation and no longer can rely on excessive debt expansion for meeting short-falls in maintaining living standards. The structural issues are not being addressed meaningfully and cannot be addressed without a significant shift in government economic and trade policies, which under the best of circumstances still would drag out economic woes for many years.

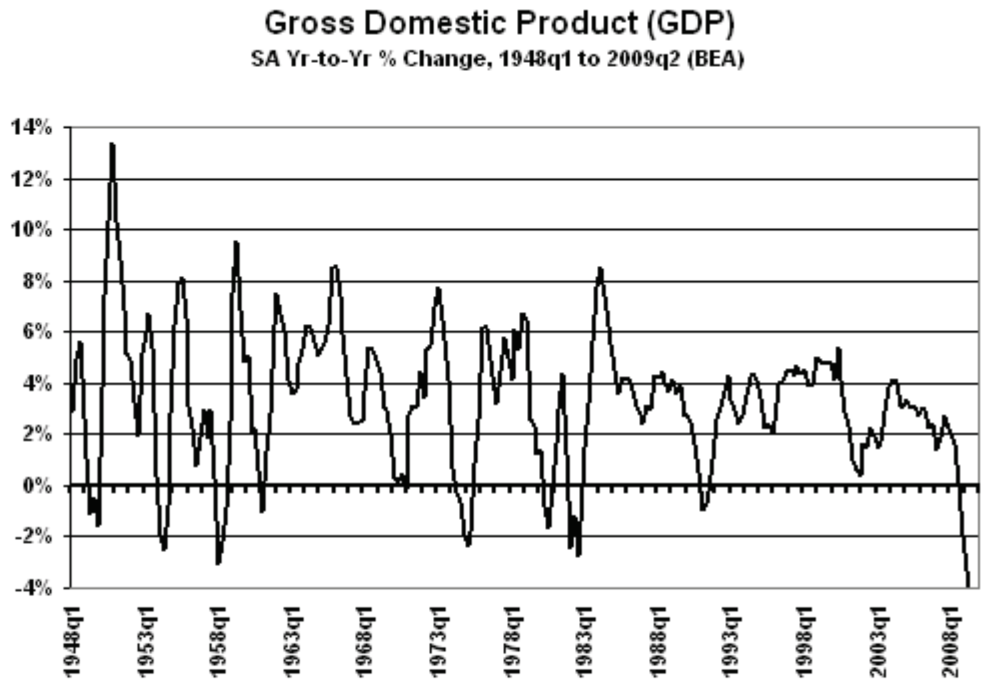
The current depression likely will show multiple dips in business activity, as was seen during the Great Depression and in the double-dip recession of the early-1980s. I shall argue that the current downturn started at least a year earlier than the December 2007 onset proclaimed by the National Bureau of Economic Research (NBER), official arbiter of U.S. recessions. The current depression is the second dip in a multiple-dip downturn that started back in 1999, and it preceded and in fact was the proximal trigger for the systemic solvency crisis that rose to public view in August 2007. The ensuing systemic problems did not cause the slowdown in business activity, but they exacerbated it significantly.

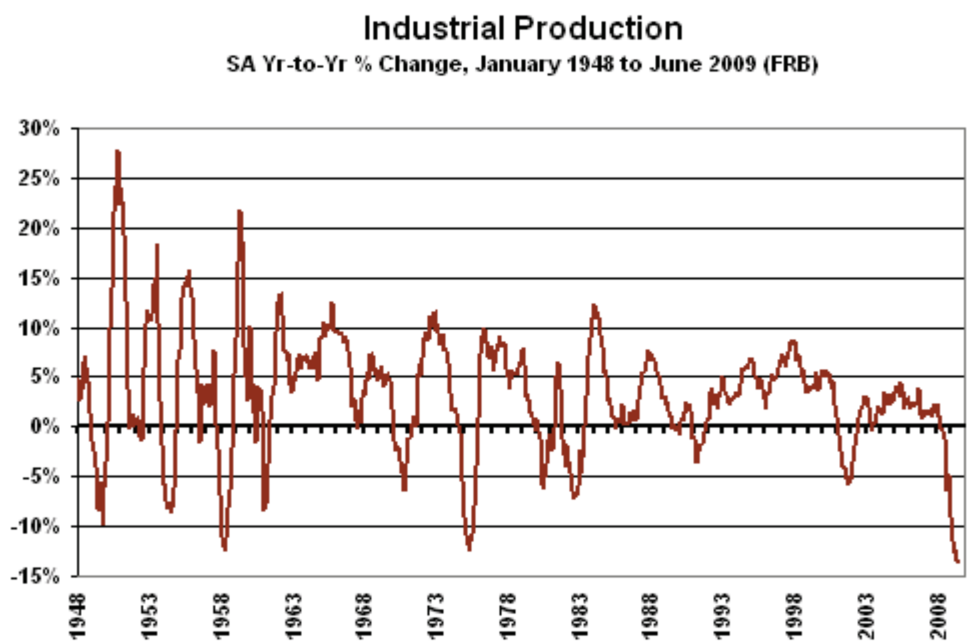
While the current circumstance should become recognized as a "depression," worse lies ahead as the U.S. government's long-range insolvency and current efforts at debasing the U.S. dollar trigger a hyperinflation in the next five years. Risks for the onset of a hyperinflation in the United States are particularly high during the next year. As will be discussed in the soon-to-be-updated*Hyperinflation Special Report* (see the existing April 2008 version for basic background), the United States would be particularly hard hit by such a circumstance. Unlike Zimbabwe, which has been able to maintain some level of functioning commerce during its hyperinflation, due to the backstop of an active black market in U.S. dollars, the United States has no such backstop. Accordingly, a U.S. hyperinflation likely would force cessation of regular commerce, triggering a great depression of a magnitude never before seen in the United States.

So as to simplify the language in this *Special Report*, here are definitions of key terms used:
- *"Real"* means growth or dollar amounts have been adjusted for inflation.
- *"Nominal"* means growth or dollar amounts have not been adjusted for inflation. For example, this is the way a business normally records its revenues.
- *"Quarterly growth,"* unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power.
- *"Annual growth"* refers to the year-to-year change versus the same period the year before.
- *"Depression"* is a recession where peak-to-trough decline in real economic activity exceeds 10%.
- *"Great depression"* is a depression where peak-to-trough decline in real economic activity exceeds 25%.

Economic Downturn Preceded the Systemic Solvency Crisis. The graphs that follow show the revised year-to-year real in change gross domestic product (GDP) from the inception of the quarterly GDP series (1947 for level, 1948 for year-to-year change) to date, along with plots for the same period (1948-to-date) of annual change in industrial production, nonfarm payrolls, housing starts and retail sales.

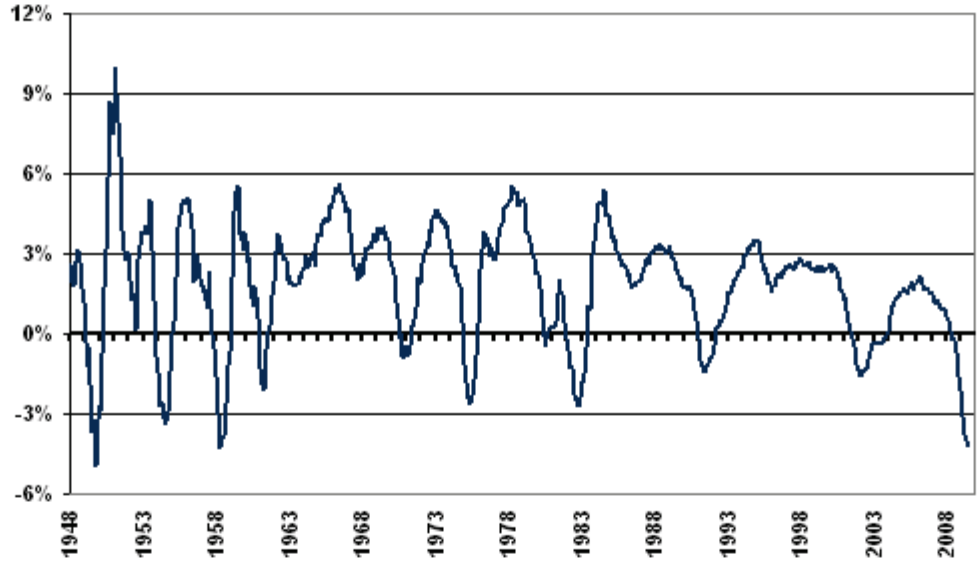
Year-to-year change in the various series hit cycle highs and began to weaken in late-2005 for housing and durable goods orders (longer-term leading indicators), early-2006 for nonfarm payrolls (coincident indicator), late-2006 for retail sales (shorter-term indicator) and industrial production (coincident indicator), patterns more consistent with a late-2006 instead of the official late-2007 recession onset.


Gross Domestic Product (GDP)
SA Yr-to-Yr % Change, 1948q1 to 2009q2 (BEA)
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
1948q1
1953q1
1958q1
1963q1
1968q1
1973q1
1978q1
1983q1
1988q1
1993q1
1998q1
2003q1
2008q1


Industrial Production
SA Yr-to-Yr % Change, January 1948 to June 2009 (FRB)
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
1948
1953
1958
1963
1968
1973
1978
1983
1988
1993
1998
2003
2008

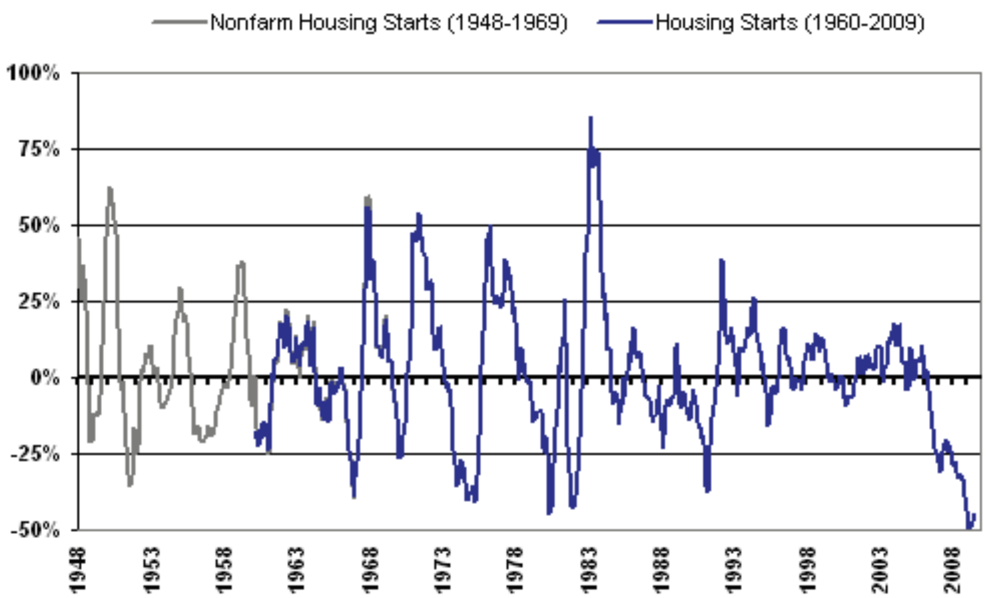
Nonfarm Payroll Employment

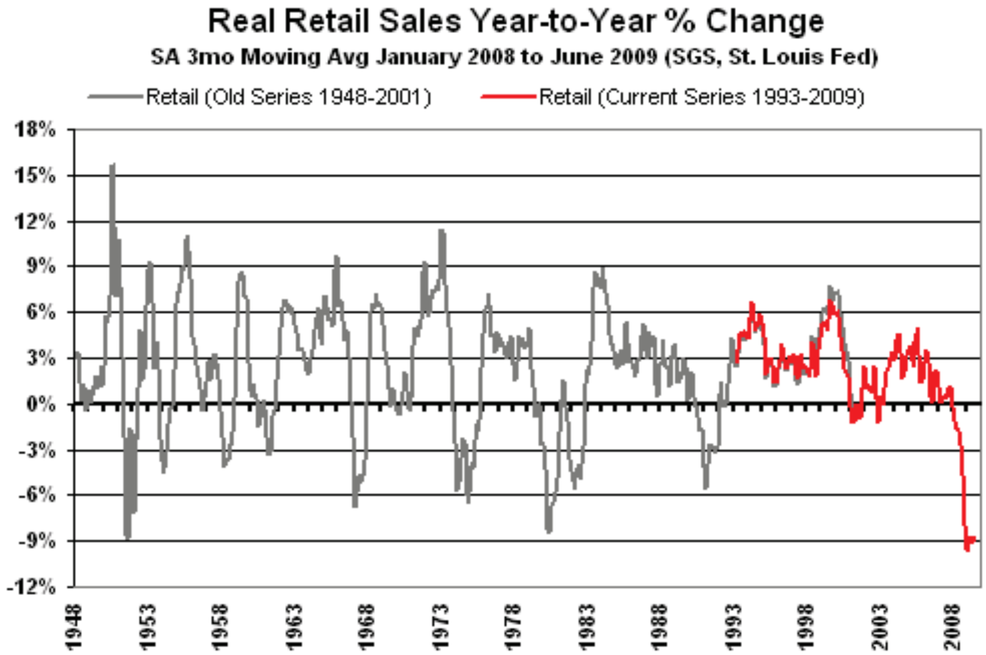
NSA Yr-to-Yr % Change, January 1948 to June 2009 (BLS)



Housing Starts Year-to-Year % Change

SA 3-Mo Moving Avg, January 1948 to June 2009 (SGS, St. Louis Fed)





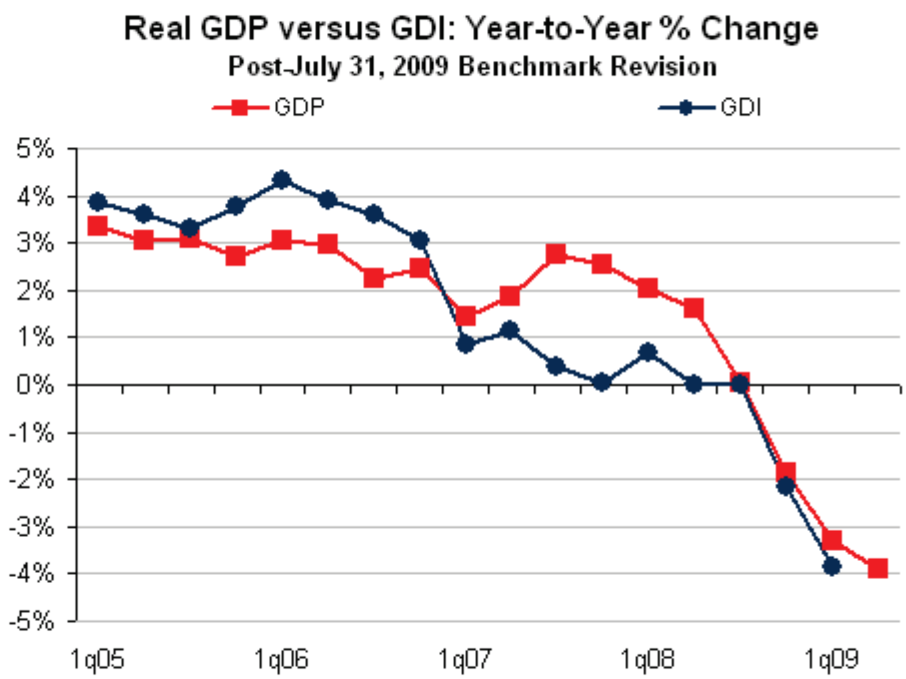
Gross Domestic Income Also Suggests an Earlier Recession Timing. National income accounting is akin to double-entry bookkeeping. An entry on the consumption side is reflected in gross domestic product (GDP) reporting. That is offset on the income side, reflected in gross domestic income (GDI) reporting. The GDP and GDI are theoretical equivalents, but such rarely is the case, as the two elements are estimated and surveyed separately from each other. Any differences in the reporting of GDP and GDI are offset by the addition or subtraction of a "statistical discrepancy" account on the GDI side.

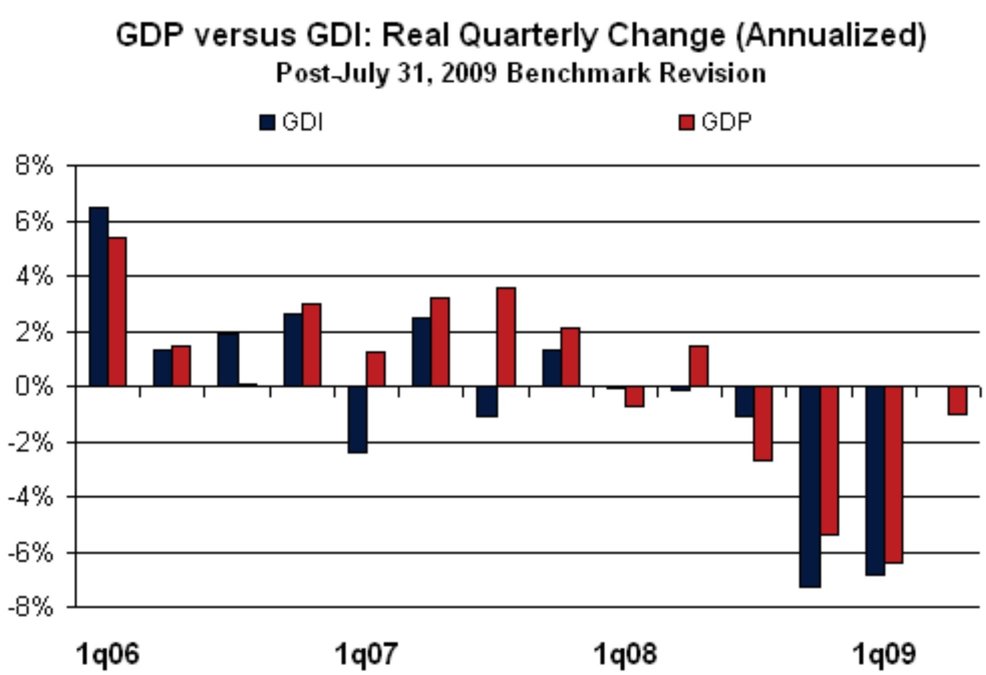
The Bureau of Economic Analysis (BEA) contends that the GDP is the more accurate measure, but I would argue that the GDI, net of the discrepancy, is more accurate. The BEA concentrates its efforts on the GDP as the headline number, and whatever political machinations take place (including targeting results for consensus economic forecasts) are worked on the GDP. The GDI then is brought into line with adjustments to the statistical discrepancy.

In theory, particularly with the "improved" income measurement methodologies introduced, the statistical discrepancy should tend to disappear after a grand benchmark revision. Instead, for the last five years the "statistical discrepancy" averaged $106 billion, irrespective of sign, after the benchmark, up from $100 billion before the revisions. For second-quarter 2009, the discrepancy narrowed in revision to minus $152 billion from the prior minus $158 million.

As shown in the following graphs, annual real growth in the GDI peaked in first-quarter 2006, while the peak in GDP was in third-quarter 2007. The second-quarter 2009 GDI will not be reported until next month, given the unreliability of "advance" GDP reporting, but on a quarterly basis, the revised GDI contracted in seven out of the last nine quarters, including two quarters in

2007; the GDP contracted in four out of the last five (and nine) quarters, not including the just-released second-quarter GDP.





Revised GDP Shows Sharpest Annual Decline in History of the Quarterly GDP Series. As discussed in the *Flash Update* of July 31st, the benchmark revision was pretty much as expected, showing a much deeper and longer recession in place than previously had been reported. Despite ongoing gimmicks and misreporting, the GDP now more closely tracks the timing of the recession's official December 2007 onset, as previously proclaimed by the NBER.

As shown in the accompanying graphs, recent real annual growth rates now show a steeper pattern of slowing/contracting growth: 3q07 (near-term peak) was up 2.7% (previously up 2.8%); 4q07 was up 2.5% (previously up 2.3%);1q08 was up 2.0% (previously up 2.5%); 2q08 was up 1.6% (previously up 2.1%); 3q08 was up 0.0% (previously up 0.8%); 4q08 was down 1.9% (previously down 0.9%); 1q09 was down 3.3% (previously down 2.5%); 2q09 was down 3.9% in its "advance" estimate.

Five of the last six quarters now are reported in real quarterly contraction. The revised official real GDP quarterly growth rates (and prior estimates of growth) are: 1q08 was down 0.7% (previously up 0.9%); 2q08 was up 1.5% (previously up 2.8%); 3q08 was down 2.7% (previously down 0.5%); 4q08 was down 5.4% (previously down 6.3%); 1q09 was down 6.4% (previously down 5.5%); 2q09 was down 1.0% in its "advance" estimate.

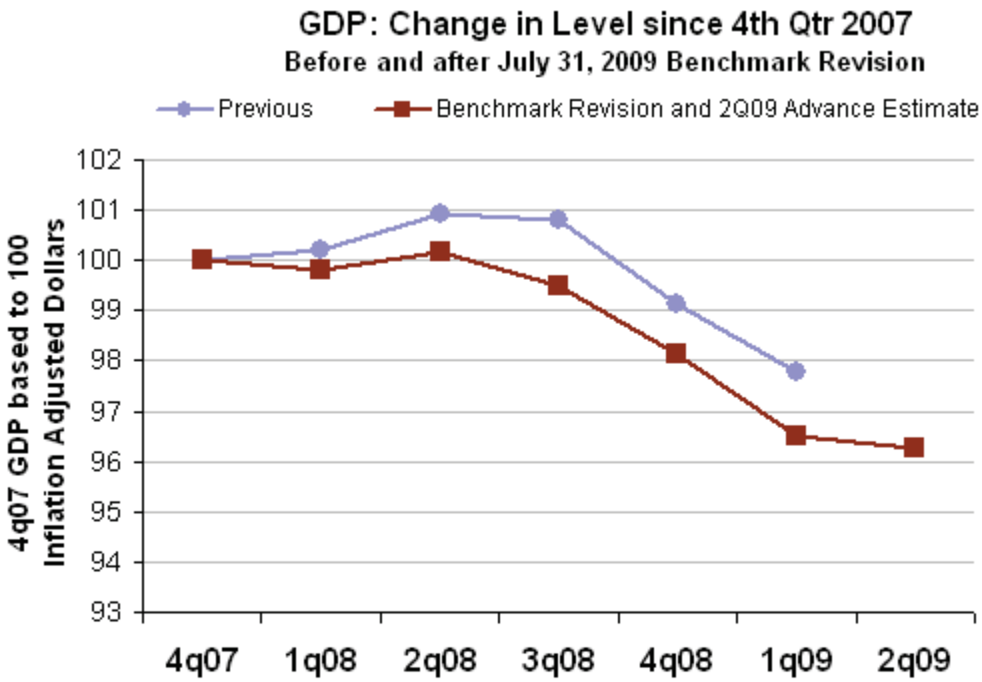
As noted in the *SGS Newsletter No. 51*, July 2009 marked the 19th month of economic contraction, the longest downturn (based on NBER timing) since the first downleg of the Great Depression. The new string of quarterly GDP contractions, as well as annual declines of 3.3% and 3.9%, respectively, in first- and second-quarters 2009, are the worst showings in the history of the quarterly GDP series, which goes back to 1947/1948. There was a steeper annual real contraction in GDP (annual average series for 1946) reflecting the shutdown of war-time production following World War II, but such is not considered a normal business cycle, and it did not last as long as the current economic downturn has, already.

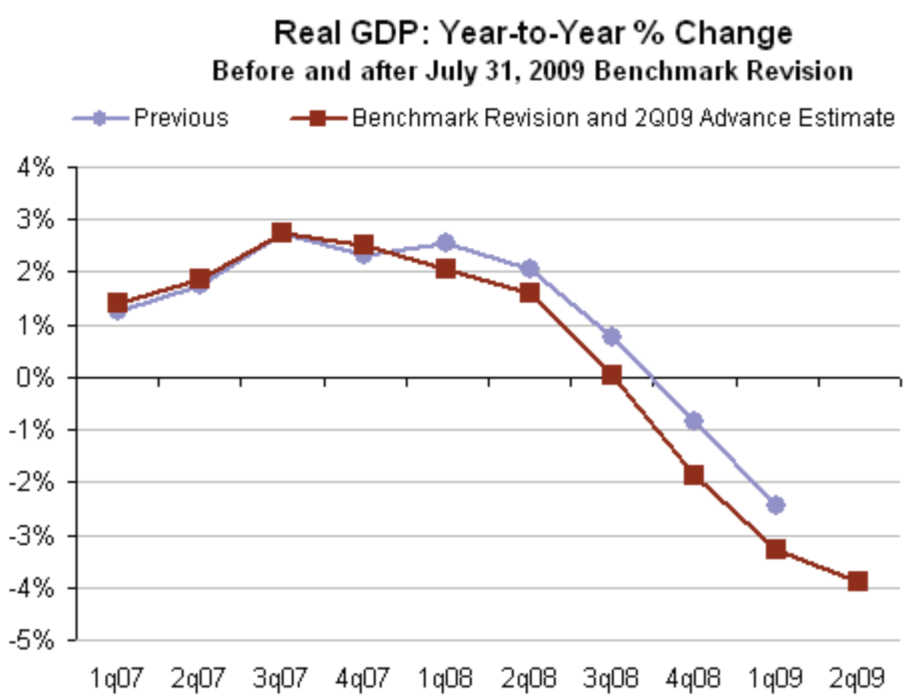
As discussed earlier, the better economic indicators still show the recession to be deepening. The second-quarter GDP "improvement" was only in terms of relative quarter-to-quarter growth. The quarterly real contraction was reported at 1.02% (down 5.94% net of revision) +/- 3% (95% confidence interval) versus a revised 6.43% (previously 5.49%) contraction in the first quarter.

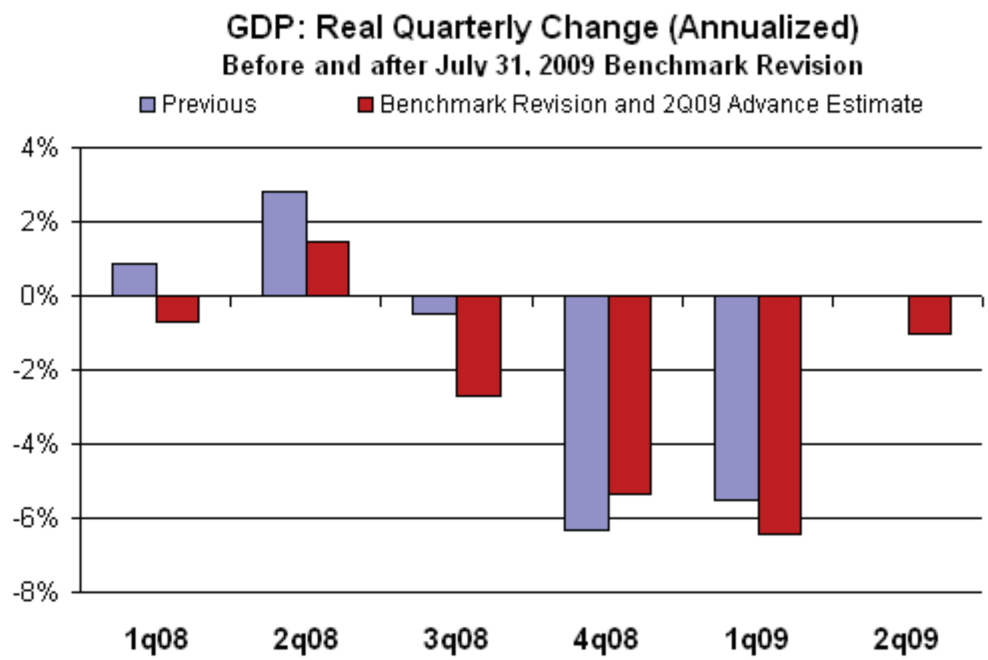
The reported smaller contraction likely was viewed as necessary for political and financial-market hype. Keep in mind that this "advance" estimate is roughly 90% guesstimate (only two of three months of trade data are available, for example), and it is the most heavily politicized of the major economic series.

The relatively narrower quarterly contraction in the second quarter reflected the impact of greater weakness being thrown back into the first quarter, in revision, and the use of artificially reduced inflation. The implicit price deflator for the second quarter was 0.2% versus a revised 1.9% (was 2.8%) in the first quarter.

The following graphs show the results of the benchmark revisions on the level of real GDP as well as in terms of annual and quarterly real growth rates.


GDP: Change in Level since 4th Qtr 2007
Before and after July 31, 2009 Benchmark Revision
Previous
Benchmark Revision and 2Q09 Advance Estimate
4q07 GDP based to 100
Inflation Adjusted Dollars
102
101
100
99
98
97
96
95
94
93
4q07
1q08
2q08
3q08
4q08
1q09
2q09


Real GDP: Year-to-Year % Change
Before and after July 31, 2009 Benchmark Revision
Previous
Benchmark Revision and 2Q09 Advance Estimate
4%
3%
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
1q07
2q07
3q07
4q07
1q08
2q08
3q08
4q08
1q09
2q09

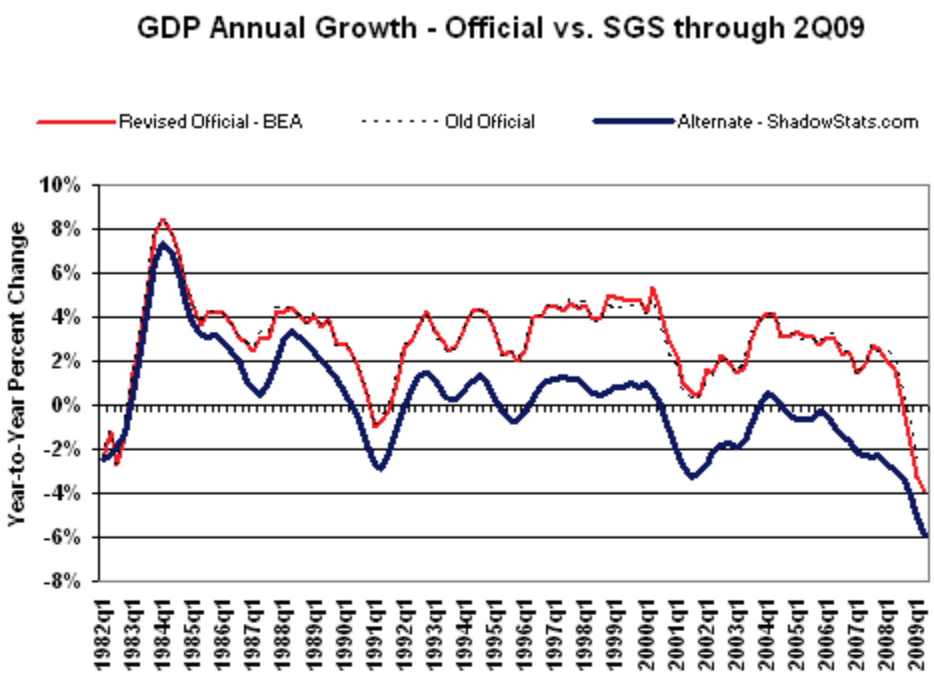


In other revisions, historical nominal and real GDP levels saw negligible revisions from 1929 through 1991, other than the base year for inflation was changed to 2005 from 2000 for the entire series. Starting in 1992, the nominal level of annual GDP was upped at an accelerating pace, starting at 0.1% in 1992 and peaking at 2.0% in 2007, easing back to 1.2% in 2008. This pattern likely incorporated a smoothing of revisions due to a once-in-five-year input-output survey, but a new round of Pollyanna Creep — happy biases being created with new reporting methodologies and restated for past history — may be in the works. Such will be addressed further in an updated version of the GDP Primer Series on www.shadowstats.com.

The SGS Alternative Measure of GDP Suggests 5.9% Annual Contraction. The SGS-Alternate GDP is an estimate of what the GDP would look like net of changes in reporting methodologies since the early-1980s. These changes generally have added upside reporting biases to GDP growth, biases that have moved GDP reporting up and away from common experience. (The methodology for the SGS-Alternate GDP series was discussed in the August 2006 SGS).

The alternative second-quarter 2009 GDP growth reflects the "advance" estimate, with many of the methodological gimmicks of recent decades removed. The alternative second-quarter inflation-adjusted annual growth rate (year-to-year, as opposed to the popularly-touted annualized quarter-to-quarter rate) for GDP was a decline of roughly 5.9% versus the official year-to-year contraction of 3.9%. The accompanying graph reflects both the previous and benchmark revisions series.

The official, annualized real quarter-to-quarter change for the second-quarter was estimated at a 1.0% contraction. While the quarterly growth number is popularly followed, its significant inaccuracies are expanded to the fourth-power in reporting. The alternative measure safely would have shown an annualized quarterly contraction in the second quarter in excess of five-percent.



The Alternative numbers tend to show deeper and more protracted recessions than have been reported formally or reflected in related official reporting. For example, the 2001 recession — now virtually eliminated in official GDP reporting — likely started in 1999 and continued through 2003. The SGS patterns shown are broadly consistent with the payroll employment and industrial production series, which are major indicators used by the National Bureau of Economic Research in determining the official timing of U.S. business cycles.

Historical data on the official (previous and benchmark) and SGS-Alternate GDP series have been updated and are available for download on the Alternate Data page of www.shadowstats.com.

Downloaded from http://www.shadowstats.com/article/depression-special-report on October 7, 2009.

Greenware

"Breaking Wind"-gate for fun and profit

by Robert L. Pritchett

Source: *http://cohoctonwindwatch.ning.com/photo/1977882:Photo:125?context=latest*

When I mentioned in a board meeting last year (2009), that Spain was being destroyed because of "Green Jobs", I was told I was full of hot air. Meet reality today, folks! *http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf* 53-page PDF from March 2009. For each "Green" job, 2.2 other jobs, or for each 4 created, 9 other jobs were lost in Spain. Not very equitable, is it?

> "Don Quixote did not tilt at internal combustion engines or nuclear reactors." zhombre *http://pajamasmedia.com/blog/breaking-anti-lobbyist-obama-administration-recruited-left-wing-lobbyists-to-sell-bogus-green-jobs/?singlepage=true*

I am no longer on that board, because I lost my job with Pure Energy Systems, due to what I was told were "economic conditions". Ironic? I admit I perhaps was causing those conditions by bringing unvarnished truth to the table regarding alternative energy solutions.

When I was installing TV satellite systems this past Fall and Winter, I got to talk to technicians who serviced wind turbines and saw these systems sprinkled throughout northeastern Oregon. As I flew over Washington state, I was impressed by how many of these units dotted the land in my region.   I drove by a laydown yard (Lamb-Weston) in Pasco, WA, where many wind turbine units and propellers were being readied for shipment. The build-out continues to be going on, due to government subsidies, grants, handouts and sweet deals.

I also met with the people who work seasonally to escort the trucks that deliver these systems throughout the country. They do not work during the winter months. (Their last jobs were in Texas. They live southwest of Ephrata, WA and nowhere near any wind turbines.)

Meanwhile, the infrastructure is not in place to use the power being generated by these systems and many have to be stopped from producing in a region that is overabundant in electrical production capacity (hydro and nuclear, as well as coal). In 2008, water had to be let over the dams on the Columbia River because there was too much capacity and not enough infrastructure in place to carry that electrical energy to other places on the power gird. Yes, the Northwest was creating too much power.
http://www.oregonlive.com/breakingnews/2008/06/northwest_power_managers_strug.html

I have also seen broken, unused "home use" wind turbines on private property in our region (Franklin County) as well. (Those who have them are embarrassed to reveal to the world where these units are located.) The turbines never produced as much as was promised and were also abandoned in place. The time and energy expended to keep them running was not worth the effort to maintain them.

So why are "we" still adding wind turbines in this region? Politics and payoffs, tax breaks and subsidies. I still meet ranchers who would like to use their land for these wind turbines, because they see the fat monthly cheques their neighbors are getting for leasing land and they would like to participate.

From my perspective, it costs more to maintain a wind turbine than the power it produces over its lifetime. If it were not for subsidies (read taxpayer-provided funds), these inefficient energy producers would never have been built in the first place. I traveled through wheat country dotted with old farm wind mills that had rusted in place years ago. They were designed to pump up water from below ground in the otherwise Great American Desert here in the Northwest. They were well built and had multiple vanes, unlike the ones in production today that only have 3 vanes. Every farm had one. I know these newer systems can be more efficient using berms at the base of each tower to cause updrafts *http://www.ecogeek.org/wind-power/2719*, but the turbines should also be made more efficient, if more vanes were added to each tower.

I think the best designs are those that look like balls *Energy Ball* - *http://www.home-energy.com/int/windpower.htm*

Instead of adding more wind vanes, we now see that maybe there could be a 10% increase in productivity of the nearly 80,000 worldwide wind turbines if LIDAR *http://www.wired.com/wiredscience/2010/03/lidar-wind/* is used to anticipate windspeed and direction by *Catch the Wind* *http://www.catchthewindinc.com/products/vindicator*. That costs how much?

There is SODAR *http://en.wikipedia.org/wiki/SODAR* for using sound for wind distance by *Second Wind* *http://www.secondwind.com/index.html*, but the least expensive wind profiler so far, has been the old tried and true method of using high-flying anemometers *http://en.wikipedia.org/wiki/Anemometer* from companies like *WindPole* *http://www.windpoleventures.com/index.php*.

Wind Farms
Thousands of Windmills
http://www.youtube.com/watch?v=Gu3EyzOYpGY

It's not easy being green
http://www.youtube.com/watch?v=aU9MHNL9AQk

If wind farms were so successful, then why are the early adopters that used them from years ago going bankrupt? The existing wind farms are being abandoned in place, because it costs too much to maintain them. Perhaps they expect them all to self-destruct?

I'm pretty sure these questions will not be addressed at the 2010 Windpower Expo in May - *http://2010.windpowerexpo.org/*

Gone in 20 seconds
http://www.youtube.com/watch?v=c3FZtmlHwcA

Just collapsed
http://www.youtube.com/watch?v=ZbMO7ufATBc

Or struck by lightning
http://www.youtube.com/watch?v=eyAmoyXQilw

http://vids.myspace.com/index.cfm?fuseaction=vids.individual&VideoID=26750465

Or Burn
http://www.youtube.com/watch?v=HKkTUY2slYQ

http://www.youtube.com/watch?v=oke5PzwpBiE

http://www.youtube.com/watch?v=4N4HQv-UyUo http://www.youtube.com/watch?v=cH-2m4A_6NQ

http://www.youtube.com/watch?v=rkGXoE3RFZ8&NR=1

http://www.youtube.com/watch?v=MOfHxINzGeo

Or broken blades
http://www.youtube.com/watch?v=ragRSNKE7Sc

Or shear blades
http://www.youtube.com/watch?v=CG_LBSqKSZs

And other accidents
http://www.youtube.com/watch?v=ppLh5pGX3qQ

A local wind turbine distributor in my region, gave up and moved to Arizona two years ago, because local city laws and ordinances prohibit wind turbine installations in town. Meanwhile, the foothills around us are being populated with white towers and 3-winged propellers and are encroaching ever-closer to populated areas (Benton County).

I created this "Cautions" page in 2009 – http://peswiki.com/index.php/Directory:Wind:Cautions

Source: http://www.windtoons.com/images/Pied-Piper-of-Wind-Power-large.gif

Even after a community college in the Dalles, OR began a certification program for wind tower techs http://www.windustry.org/where-can-i-find-a-school-or-training-program-specific-to-renewable-energy and job postings were placed for experienced wind turbine techs, the wind projects are *not* hiring, except to replace those who have died on the job from falls. http://www.caithnesswindfarms.co.uk/page4.htm

One tower tech I talked to had relocated here from Michigan. He claimed the towers were being well-maintained with one-time installation and once a year visits to about 40 towers on one farm in Oregon.

He also said each tower was producing megawatts enough for a return on investment of between 2 and 4 years. Do you remember seeing the *Dirty Jobs* episode on wind turbine maintenance?

While installing a TV satellite system in November 2009 at one location in Wind Turbine country, the power was off for most of the day due to a generator at a dam site (Bonneville Power) that had gone down, causing a valley-wide power outage. The guy could have benefited from a solar power system ;^) Apparently, the wind turbines had not been tapped into the grid to take up the slack.

Defunct Earth Love Korean Induction Wind Generator
Source: http://www.peswiki.com/index.php/Directory:Shinyeon_Energy_Research_Center

Wind turbine graveyard in the Mojave Desert http://webecoist.com/2009/05/04/10-abandoned-renewable-energy-plants/

Yes, the Wind Turbine industry is big, but it is temporary. If you don't believe me, look at the photos of abandoned windfarms, collapsed towers and destruction to property by Concerned Citizens About Industrial Wind Turbine Projects – *http://cohoctonwindwatch.ning.com/photo*

Glenn R. Shleede wrote "False Renewable Energy Job & Economic Benefits Claims", back in October 2008. What he wrote then is even more true now;

> "More than 75% of capital costs are for imported materials. Most jobs are short-term and the funds go to the homes of the workers who live elsewhere. Much of the leased land is owned by absentee landowners, so the realized funds end up elsewhere and not into the local economy. There is no "multiplier effect". Wind power is intermittent, volatile and unreliable and mostly occurs at night. There are high transmission costs due to remote location of the wind turbines to grid."
> *http://batr.net/cohoctonwindwatch/2008/10/false-renewable-energy-job-economic.html*

Glenn Schleede updated his information in *"The True Cost Of Electricity From Wind Is Always Underestimated And Its Value Is Always Overestimated"*(February 2010) *http://scienceandpublicpolicy.org/images/stories/papers/reprint/High_Cost_and_Low_Value_of_Electricity_from_Wind.pdf* (22-page PDF). He notes most projects are tax havens for foreign investors. It is a "must-read"!

Michael R. Fox, Ph. D. wrote in October 2008, an article in the *Hawaii Reporter* that Wind Energy is unreliable and heavily subsidized and has had the same problems that existed 40 years earlier. Wind Turbine owners have not shown that they pay any taxes. *http://www.hawaiireporter.com/story.aspx?1e623879-2faf-47a2-8cc7-3cd02b3bd770*

Back to Spain, each Wind industry job cost the country 1 million euros, compared to 571,138 euros for other green jobs in 2000. Each green megawatt destroyed 5.28 jobs elsewhere in the economy. 8.99 by photovoltaics, **4.27 by wind energy** and 5.05 by mini-hydro. The total cost of energy generated by renewables from 2002 to 2008 was approximately $10 billion USD with subsidies being $36 billion USD with an increased cost to the consumer of 31%.

Is expensive and inefficient alternative energy worth the cost? Ask Spain or Denmark. They are broke as a nation and we (US) were asked by the POTUS to follow their example as of January 2009. *http://www.cepos.dk/fileadmin/user_upload/Arkiv/PDF/Wind_energy_-_the_case_of_Denmark.pdf* (September 2009) 39-page PDF.

Denmark has the world's highest tax burden they call appropriately, "deadweight loss". And Wind Power deadweight loss per year is anywhere from $21- $120 million USD with government subsidies of $300 million USD per year. Note that Denmark has a population of 50 times less than the US or 5.5 million. (Maybe they could just give each person $6 million USD per year instead?)

Back to Oregon, one of the most "progressive" states in the Union, voted on providing 50% on all renewable energy installation projects at the state level as a rebate to all residences. That state also has one of the highest unemployment rates, since they pretty much deep-sixed the lumber industry. Now the usually liberal folks who live there don't want more wind turbines messing up their environment. You have to be there to appreciate the irony.
http://www.oregonlive.com/environment/index.ssf/2010/03/fighting_wind_farms_in_oregon.html

For information on economics, space requirements, noise, cost vs. benefits, see *http://www.wind-watch.org/faq-all.php*

How many wind turbines have been abandoned in place? Would you believe 14,000 in California alone? They originally cost close to $2.4 billion USD. Now they are a monument to man's stupidity and avarice via the Environmental Defense Fund. Think Enron. Just remember that Wind Power has been the instrument to literally bankrupt Europe. Thousands who bit the alternative energy bullet are now unemployed there.

> "Waxman-Markey seems dead, and Europe's southern periphery is bankrupt. But the wind-subsidy proposals being floated in Congress suggest that American political leaders have yet to **understand that "green power" means generating electricity by burning dollars**." *Wind Energy's Ghosts* (February 2010) by Andrew Walden
> *http://www.americanthinker.com/2010/02/wind_energys_ghosts_1.html*
>
> "The Deseret build-out of wind turbines resulted in 59 new, permanent, green jobs. But these came at the loss of 160 mining jobs and 100 power plant jobs, or more than four traditional jobs lost for every green job gained. In addition, the Bonanza unit equivalent wind farm will, according to JEDI Wind, come with a price tag of nearly $1.9 billion. The Hunter unit equivalent wind farm has an installed cost of over $0.4 billion.
>
> Combined, these two projects would add $2.3 billion of new debt to Deseret, without adding one additional kilowatt hour of energy output above Deseret's current plant capacity. This staggering debt would increase Deseret's net utility plant book value by a factor of more than ten."
>
> "There is nothing wrong with investing in wind, solar, geothermal, and other so-called alternative energies. The notion of responsible subsidies to promote further development of these alternatives is supportable—but we should pursue development in an economically sustainable and measured manner.
>
> What is objectionable are deceptive and misleading gimmicks—including promising a "green jobs bonanza," which effectively ignores the net loss in jobs that will occur if we move too precipitously toward more expensive and less stable technologies.
>
> Common sense dictates that the balance we strike must be a wise one, not one-sided and not based on inaccurate, incomplete analyses. There is no justification for panic, overstatement, and hyperbole in this policy decision.

> Let's fairly and honestly face the truth: promoting a cleaner environment does and will require trade-offs between net costs and benefits. We owe it to ourselves and the generations to follow to recognize and weigh all the costs of each of the options available to us and then responsibly pursue a path that fairly represents the trade-offs between costs and benefits." Kimball Rasmussen, September 2009.
> *http://scienceandpublicpolicy.org/images/stories/papers/other/rational_job.pdf*

As to be expected, there is more to the story regarding Wind Power being used as a tool to destroy our economy. Whodah Thot? *http://theblogprof.blogspot.com/2010/03/green-jobs-astroturf-foia-reveals-obama.html*

The consumer pays a high premium for "green" energy that is passed on to the greedy off-shore wind farm owners who pay no taxes. Utility customers pay the price for these boondoggles by having to support "spinning reserves" and extra management to keep electrical use steady as input from renewables is added and removed that add wear and tear to reliable steady sources. The costs for producing power from wind have been increasing and not decreasing over time.

Why didn't the Military Industrial Complex figure this out earlier? Wind Farms Can Disrupt Military Radar - *http://news.yahoo.com/s/ap/20100318/ap_on_bi_ge/us_wind_farms_radar* Or are they providing more mythinformation?

Oh, the Humanity! (Fowl Language)

How many have died in Wind Power accidents? A lot more than have died in nuclear accidents. Answer: Too many.
http://www.inquisitr.com/18588/wind-power-causes-more-deaths-than-nuclear-power/

And we are referring to humans, not animals, though the bird (up to 60,000 per year in the US only, many thousands more per year elsewhere *http://climaterealists.com/index.php?id=3836*) and bat populations (exploding lungs from pressure drops) have suffered greatly. Essentially, Safety is not "Job One" in the Wind Power industry for windsmiths. Paul Gipe wrote about those who died on the job sites in "Wind Power: Renewable Energy for Home, Farm and Business". *http://www.wind-works.org/articles/ASummaryofFatalAccidentsinWindEnergy.html* He updated his information from 1975 to 2009 *http://www.wind-works.org/articles/BreathLife.html*. He originally published statistics in his book, "Wind Energy Comes of Age". These were complied from reports of mostly falls, executions, tower collapses, construction projects, shaft snags and ice throws. There have been more reported deaths since then.

Question: Are eagles and owls worth saving? (Blade strikes)
Fatal Attraction: Birds and Wind Turbines - *http://www.youtube.com/watch?v=RtgBWNKwBkE*

Conclusion

What can you do? Get educated. Help stop the madness.

The answer, my friend is blowin' in the wind…
http://www.youtube.com/watch?v=69w9rZ4Gw64

Digging Deeper

Abandoned Renewable Energy Plants
http://webecoist.com/2009/05/04/10-abandoned-renewable-energy-plants/

Abandoned Wind Farms
http://obama-oversight.blogspot.com/2010/02/abandoned-wind-farms.html

American Windmills: for pumping water
http://www.windmills.net/

A Rational Look at Green Jobs by Kimball Rasmussen (September 2009)
http://scienceandpublicpolicy.org/images/stories/papers/other/rational_job.pdf 7-page PDF

Bird Massacre continues
http://www.iberica2000.org/Es/Articulo.asp?Id=3717

Blowing Wind Up Your Skirt
http://canadafreepress.com/index.php/article/20744

Caithness Windfarm Information Forum
http://www.caithnesswindfarms.co.uk

Deaths per TWH for all energy sources
http://nextbigfuture.com/2008/03/deaths-per-twh-for-all-energy-sources.html

Ecological Vandalism (Bird Kills)
http://www.iberica2000.org/Es/Articulo.asp?Id=4242

European Platform Against Windfarms
http://www.epaw.org/

Lightning and overvoltage protection: Wind Turbines
http://www05.abb.com/global/scot/scot209.nsf/veritydisplay/48cf34079cd1d31cc125733a004ebf39/$File/2CTC432002B0201.pdf (8-page PDF)

Nuclear Power is Cheap, Wind Energy Is Expensive
http://www.energytribune.com/articles.cfm?aid=3621

Selected Publications on Wind Issues
http://www.nrel.gov/wind/pubs_issues.html

Science and Public Policy Institute
http://scienceandpublicpolicy.org/

Self-Guided Tour to the Wind Farms of the Tehachapi Pass
http://www.wind-works.org/articles/TehachapiTourGuide.html

The Society for Wind Vigilance
http://www.windvigilance.com/page002.aspx presents articles on stress, noise, visual, physiological and mental health issues.

When Lightning strikes Wind Turbines
http://machinedesign.com/article/when-lightning-strikes-wind-turbines-1011

Wind Energy: Facts and Fiction A half truth is a whole lie by J.A Halkema
http://www.wind-watch.org/documents/wp-content/uploads/halkema-windenergyfactfiction.pdf
51-page PDF (2006)

Wind Farms: The Death of Britain (July, 2009)
http://blogs.telegraph.co.uk/news/jamesdelingpole/100003510/wind-farms-the-death-of-britain/

Wind Power Facts by John Droz Jr. (Environmental Activist)
http://windpowerfacts.info/

WindToons
http://www.windtoons.com/

Wind
http://www.peswiki.com/index.php/Directory:Tree#Wind

Wind Controversy
http://www.peswiki.com/index.php/Directory:Wind_Farms#Controversy

Wind Power Jobs

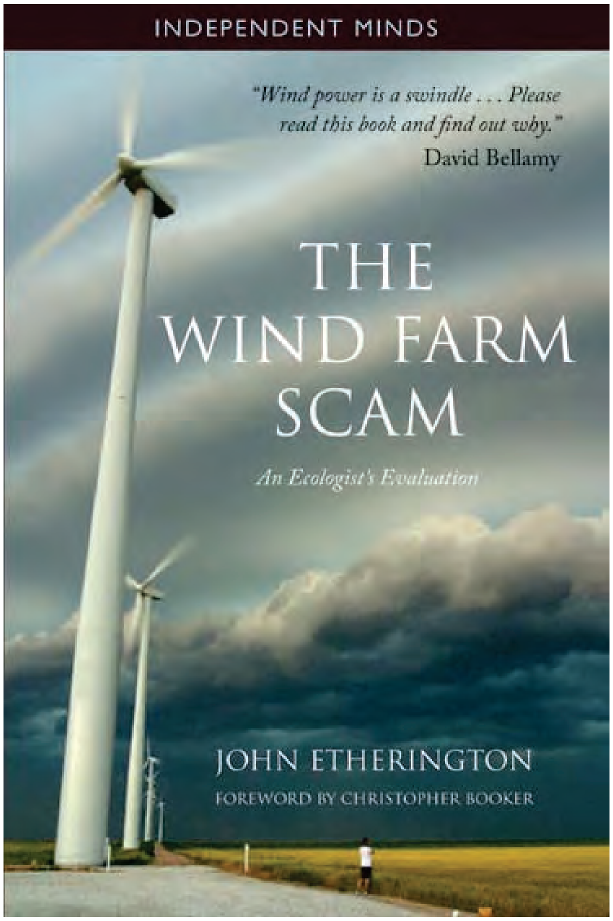
Careers in Wind (American Wind Energy Association)
http://www.jobtarget.com/c/search_results.cfm?site_id=770

Jobs in Wind Power
http://jobsinwindpower.jobamatic.com/a/jobs/find-jobs

North American Windpower Wind Jobs
http://www.nawindpower.com/windjobs.php

The Hype is Real (Wind power industry hiring in huge numbers)
http://www.grist.org/article/remake-a-living-the-jobs-my-friend-are-blowin-in-the-wind/

Books



The Wind Farm Scam by Dr. John Etherington
http://www.stacey-international.co.uk/v1/site/product_rpt.asp?Catid=297

Wind Turbine Syndrome by Dr. Nina Pierpont
http://www.kselected.com/?page_id=4768

Other Books
http://www.wind-works.org/books/wind_power_view.html

Videos

Barotrauma – Bat Deaths from Wind Turbines
http://vodpod.com/watch/2305131-barotrauma-bat-deaths-from-wind-turbines

Concerned Citizens About Industrial Wind Turbine Projects
http://cohoctonwindwatch.ning.com/video

National Wind Watch
http://www.wind-watch.org/videos.php

Windpower

North American Windpower
http://www.nawindpower.com/page.php?24
Renew Grid
http://www.nawindpower.com/page.php?22

Wind (a site I rebuilt and managed for a time)
http://www.peswiki.com/index.php/Directory:Wind

Creative Wind Power Designs
http://webecoist.com/2008/11/16/wind-turbine-power-generators/

Global Warning & Nuclear Proliferation: An April Fool's Thoughts

By Harry {doc} Babad ©2010

Whether its global warming, perhaps man made or just Gaea getting mad at us, the weather's been lousy, ice caps are melting (some faster than others), sea levels are going up (slowly) and our over populated coasts are being threatened. With high global unemployment and an ongoing (mostly in the 'rich" world' recession {unemployment counts}) the international geo-political climate is terrible. Add to that the projected expenses of bureaucratic and political full employment promised under the aegis of climate change, we're in trouble. …And then there was Climate Gate and bad calls on the Himalayan glacier. . Finally a few days ago I learned that the US & Russia has signed a new arms reduction treaty. I saw the light

> *This is what flashed into my mind, doubtless a gift from some olden God of the Ancients or an avenging Yahweh.*

Flashback: A few months ago, listening to Science Friday on NPR I heard the head of the Union of Atomic Scientists discuss nuclear disarmament. During the dialog with the host Ira Flato, I learned a bit more about weapons caused nuclear cooling. The discussion identified that a limited war fought with fewer than 50 Hiroshima sized bombs would have an unprecedented radical effect on global climate. This is not Carl Sagan's (1982) nuclear winter, but analysis from more recent studies on small nuclear wars. {I did skim <Googled> the references. They seemed solid and based on peer open reviewed science.}

So I humbly propose a cure for climate changes that helps lower our proliferation risks. Minutely lowers America, Russia and China's nuclear arsenal *and* solves the climate change problem. Do the arithmetic on how many kilotons yield (a surface explosion) it would require to lower global climate by 0.5-2 degrees. Have each country bomb it's own deserts with a fraction of that explosive power. Measure for a year and retune the results to reflect reality. Or better yet have the UN Committee on climate change [IPCC] take lead and send the pundits and politicos back to school.

That will give us lots more time to do risk analysis and sway folks with radio-phobia. Were likely to get bigger does from lifesaving medial therapy that a one to two time flash and dust cloud in the desert.

Advantages:

It's cheap, we own the bombs and bombers are likely less than relatively fat two-bites to the x 10 $^{-6}$ dollars to rent for such a mission.

It lowers, just a tad, and the number of weapons in the world's nuclear arsenals, allowing a minor resetting of the doomsday clock.

It avoids both governments picking technology favorites, and shoveling good money after bad to balance unverifiable sustainability credits as a slush fund for third world nations and other scams that plague the Kyoto process. ...And there's the as yet unidentified bureaucracy needed to 'monitor' whatever the Copenhagen 'dreamers' can con out of governments and NGOs.

And a small touch of Nuclear Winter likely avoids making decisions about *climate change* for the next decade or two. No one will, for a while, ask whether the science is perfect or if it's all a conspiracy.

Possible unintended consequences, sure. But what, if anything, that man or women does can avoid unintended consequences? *I'd rather go out at once in a bang than with a drag on whimper.* Perhaps a bit of radiation hormesis might even make the world a healthier place?

So think about it this the coming first day of April. Crunch the proposed numbers and make up your mind if a bit of cooling off might help.

Harry, aka doc_Babad
Iconoclast and junior JOAT
Author, Consultant and MacEXpert

PS:

As I often remark in my Greening Columns, I really do object to government picking winners unless legislators can be help personally liable for their stupids… you know their retirement and health insurance plans, bank accounts, and other assets. Make it the constitutional law that after five years we test the benefits and the liability of legislative action, and charge these folks with the losses, if they bought off dumb moves for power of office. If they caused good, then give them a bonus, 0.1-1% of the common good, shared by all who voted for the legislation.

So I think it's time to make the Climate Change issue go a way at least until we grow up a little. Change the reward system, and get on with our lives. Notice, as a scientist, I did not even ask to have anyone elected to office either pass math and reading tests, or a general science concepts course, like that which form the basis for Scandinavian, and other G-20 nations education system.

Meanwhile lets figure out how to survive drought and floods, rising sea levels and the flooding of our coastal cities. The of course, likely before 2050, we're likely to get another major earthquake, or a war about potable water or the Northwest Passage. Not enough, how about continuing large fish extinctions in the name of sushi or shark-fin soup, or losing the great lakes fisheries to imported Asian carp.

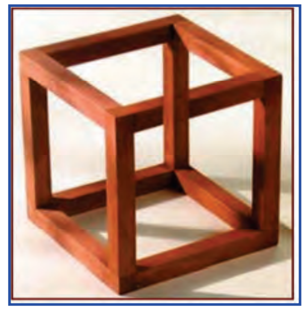
Okay, I'm an oldish man who's seen us survive things more hellish than the afterlife's versions of *hell*. However, it seems to take more effort each time the wheel spins. Will Gaea by any other name give us, *HOMO SAP*IENS many more chances? After all, according to some, it started, if not with Adam and Eve, how about Pandora.

And a happy first of April to you all.

H

…and now back to tabulating my 2009 income taxes… only a few hundred more receipts to enter into my databases before the results are CPA worthy.

The Greening Continues… The most eclectic of what I read.



macCompanion April 2010
By Harry Babad © 2009

<u>*Sources & Credits:*</u>
Most of these items, were located in the newsletter *NewsBridge* of 'articles of interest' to the libraries users. It is electronically published by the Pacific Northwest National Laboratories, in Richland WA. I then followed the provided link to the source of the information and edited the content (abstracted) for our readers. *My adlibs, and add-ons are provided in italics.*

Much of what I will share comes from the various weekly science and environmental newsletters to which I subscribe. Their selections are obviously, and intentionally biased by my views. The resulting column contains a mini-summary with links to articles I found interesting. I also get technology feeds from the New York Times, Business Week, Discover Magazine, the Health Physics Society, the American Chemical Society, Science (AAAS Magazine} and the American Nuclear Society.

> *<u>With A Chip on My Shoulder</u> — I avoid greening sites that equate a demonstration of a concept (e.g., lab test) to having an industrially viable commercial solution; no government subsidies don't make things commercial — all governments have the proven habit of bowing to either lobbyists or homo populous <the loudest voice> and have, International, been shown to pick losers. Supporting R&D, and funding large scale demos – wonderful; subsidizing industry — no way. The fifth or sixth law of technology… if you don't check the whole life cycle of a new process or energy solution; you're going to fail — 100% bomb out.*

And now the greening news…

- -

Ethanol-powered vehicles generate more ozone than gas-powered ones – *The law of unintended consequences strikes again…*

Ethanol, often promoted as a clean-burning, renewable fuel that could help wean the nation from oil, would likely worsen health problems caused by ozone, compared with gasoline, especially in winter, according to a new study led by Stanford researchers.
Ozone production from both gasoline and E85, a blend of gasoline and ethanol that is 85 percent ethanol, is greater in warm sunny weather than during the cold weather and short days of winter, because heat and sunlight contribute to ozone formation. But E85 produces different byproducts of combustion than gasoline and generates substantially more aldehydes, which are precursors to ozone.

"What we found is that at the warmer temperatures, with E85, there is a slight increase in ozone compared to what gasoline would produce," said Diana Ginnebaugh, a doctoral candidate in civil and environmental engineering, who worked on the study. She will present the results of the study on Tuesday, Dec. 15, at the American Geophysical Union meeting in San Francisco. "But even a slight increase is a concern, especially in a place like Los Angeles, because you already have episodes of high ozone that you have to be concerned about, so you don't want any increase."

But it was at colder temperatures, below freezing, that it appeared the health impacts of E85 would be felt most strongly.

"We found a pretty substantial increase in ozone production from E85 at cold temperatures, relative to gasoline when emissions and atmospheric chemistry alone were considered," Ginnebaugh said. Although ozone is generally lower under cold-temperature winter conditions, "If you switched to E85, suddenly you could have a place like Denver exceeding ozone health-effects limits and then they would have a health concern that they don't have now."
The problem with cold weather emissions arises because the catalytic converters used on vehicles have to warm up before they reach full efficiency. So until they get warm, a larger proportion of pollutants escapes from the tailpipe into the air.

There are other pollutants that would increase in the atmosphere from burning E85 instead of gasoline, some of which are irritants to eyes, throats and lungs, and can also damage crops, but the aldehydes are the biggest contributors to ozone production, as well as being carcinogenic. Ginnebaugh worked with Mark Z. Jacobson, professor of civil and environmental engineering, using vehicle emissions data from some earlier studies and applying it to the Los Angeles area to model the likely output of pollutants from vehicles.

Because E85 is only now beginning to be used in mass-produced vehicles, the researchers projected for the year 2020, when more "flex fuel" vehicles, which can run on E85, will likely be in use. They estimated that vehicle emissions would be about 60 percent less than today, because automotive technology will likely continue to become cleaner over time. They investigated two scenarios, one that had all the vehicles running on E85 and another in which the vehicles all ran on gasoline.

Running a widely used, complex model involving over 13,000 chemical reactions, they did repeated simulations at different ambient temperatures for the two scenarios, each time simulating a 48-hour period. They used the average ozone concentrations during each of those periods for comparison. They found that at warm temperatures, from freezing up to 41 degrees Celsius (give F conversion), in bright sunlight, E85 raised the concentration of ozone in the air by up to 7 parts per billion more than produced by gasoline. At cold temperatures, from freezing down to minus 37 degrees Celsius, they found E85 raised ozone concentrations by up to 39 parts per billion more than gasoline.

"What we are saying with these results is that you see an increase," Ginnebaugh said. "We are not saying that this is the exact magnitude you are going to get in a given urban area, because it is really going to vary from city to city depending on a lot of other factors such as the amount of natural vegetation, traffic levels, and local weather patterns." Ginnebaugh said the results of the study represent a preliminary analysis of the impact of E85. More data from studies of the emissions of flex fuel vehicles at various temperatures would help refine the estimates, she said.

AAAS. EurekAlert!, Louis Bergeron, Stanford University 14-Dec-2009
http://www.eurekalert.org/pub_releases/2009-12/su-evg121409.php

- -

Researcher Studying Ways to Handle Huge Quantities Of Biomass — *TANSTAAFL There ain't no free lunch, its about life cycle costs*

University Park, PA. — As scientists scramble to develop ways to generate enormous amounts of energy from cleaner-burning, renewable fuels to replace coal and oil, promising agricultural crops such as switch grass have made headlines. But selecting the plants from which to make energy is just part of the challenge. Systems to handle huge volumes of biomass to feed power generators also must be devised.

Jude Liu, assistant professor of agricultural and biological engineering in Penn State's College of Agricultural Sciences, is one of the researchers working on the logistics of handling massive quantities of biomass. He recently received a $100,000 grant from the Sun Grant Initiative to support his work.

Grant Focus — The Sun Grant Initiative, authorized by Congress in the 2002 Farm Bill, is a national network of land-grant universities and federally funded laboratories working together to establish a bio-based economy. Primarily funded through the U.S. Department of Transportation, with substantial funding support from the Department of Energy and the Department of Agriculture, the initiative enables research and innovation involving bio-energy and biofuels production.

Establishing systems for handling the amount of biomass needed to feed energy-generation stations is a gigantic undertaking, Liu points out. "Some estimates indicate a commercial-scale cellulosic ethanol bio-refinery designed for 24-hours-a-day, seven-days-a-week, year-round production would require a minimum of 1,000 tons of feedstock material per day," he said.

"This equates to approximately 1,800 large rectangular bales of switch grass every day (assuming one bale is 1,120 pounds.) One can imagine the number of trucks required and costs of handling these bales."

The question on Liu's mind, and on the minds of other like-minded agricultural scientists, is how to handle all of that material and how to reduce those costs.

And it is difficult to exaggerate the importance of their research because the federal Department of Energy has set a goal for the U.S. to use biomass to supply 5 percent of the nation's power, 20 percent of its transportation fuels and 25 percent of its chemicals by 2030.

"By then, 1 billion dry tons of lignocellulosic feedstocks will be needed annually to achieve this goal," said Liu. "This goal presents significant challenges for logistics and necessary machinery development to harvest and handle the anticipated billion tons of biomass feedstocks. Not only do farmers have to grow the crops for energy and prepare them for shipping, but society must figure out how to handle, transport and store all of that biomass."

To address these concerns, Liu's research focuses on bale-handling and bale-densification technologies. "Long-term goals are to develop efficient logistics systems and required mechanical devices for handling biomass feedstocks in a safe, low-cost and efficient manner," he explained. "We are designing some mechanical devices to compress and transport bales. These devices will save storage space, utilize load capacity of transport trucks, and speed up the loading and unloading processes."

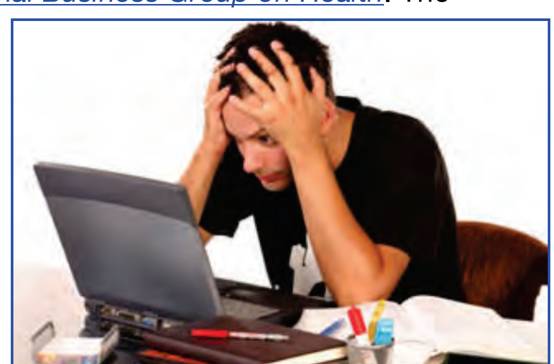
Because the amount of feedstocks required for industrial production of energy will be gargantuan, the resulting costs of feedstock will be extremely high — and the quality of biomass will have a significant impact on the overall economics of a bio-refinery, Liu noted. "In addition, given public concerns and owners' expectations, biomass feedstock must be harvested, collected and handled in a sustainable manner," he said. Read about the work ahead… "We have a lot of work ahead of us if we are to make this bio-energy concept a reality."

Farm & Dairy Monday, December 14, 2009
http://www.farmanddairy.com/news/researcher-studying-ways-to-handle-huge-quantities-of-biomass/13727.html

- -

"High Anxiety" as Workplace Stress Soars

More employees are putting in longer work hours, have lousy so-called "work life balance" and have amassed a bundle of fear about losing their jobs. It's created a stressed-out workforce. That's the work life landscape in a nutshell, according to a number of recent reports, including a joint survey by *Watson Wyatt Worldwide* and the *National Business Group on Health*. The anxious tone in the workplace is courtesy the recession. Stay tuned through the end of this post, for some relief.



The 2009/2010 Staying@Work report found that despite the recession, while many companies have not slashed employee health and productivity programs, they have not dealt specifically with those aforementioned stress factors. Here's a snapshot of employers who were surveyed.

See: http://www.watsonwyatt.com/news/press.asp?ID=22767

- 78% of employers said excessive work hours was a leading stress monger, but just 21% say they are addressing it.
- 68% of employers cited lack of work/life balance as stress producer, but only 38% say they are taking action to combat it.
- 67% of employers said employees' fear of job loss lead to an uptick in stress, but only 41% of employers say they are taking steps to deal with that concern.

Not only are stressed workers less productive, they are also likely to incur higher health costs for themselves and their employer," said Helen Darling, president of the National Business Group on Health. "Companies most effective at mitigating the impact of stress are moving in the right direction — helping employees become more efficient while working to lower benefit costs and strengthen balance sheets." For a Closer Psychological Look, click the link.

Seattle Examiner, December 13, 2009.
http://www.examiner.com/x-1112-Work-Life-Examiner~y2009m12d13-High-Anxiety-as-workplace-stress-soars

- -

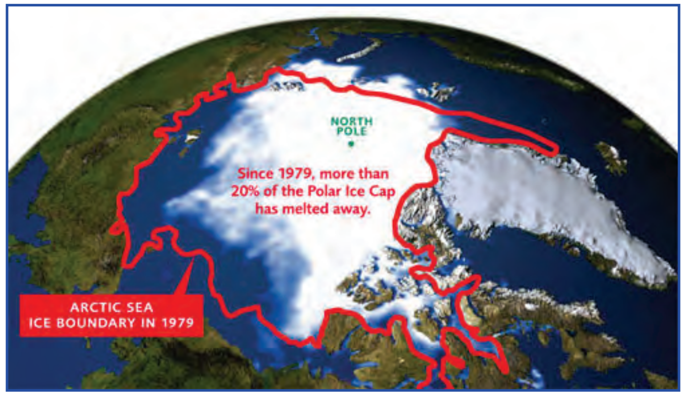
Polar Ice May Vanish In 5 Years says Al Gore

> Doc Sez: *Regardless of the date, countries are already staking their claims to parts of this area for its oil/gas potential, extending their 'nation' water boundaries' to control off the previously inaccessible offshore resources. So now we have the potential not only for wars about water resources, global warming caused migration, but other resources as well. Alas more to burden our poor deficit loaded grandkids!*

COPENHAGEN — New computer modeling suggests the Arctic Ocean may be nearly ice-free in the summertime as early as 2014, Al Gore said Monday at the U.N. climate conference. This new projection, following several years of dramatic retreat by polar sea ice, suggests that the ice cap may nearly vanish in the summer much sooner than the year 2030, as was forecast by a U.S. government agency eight months ago.

One U.S. government scientist Monday questioned the new prediction as too severe, but other researchers previously have projected a quicker end than 2030 to the Arctic summer ice cap. "It is hard to capture the astonishment that the experts in the science of ice felt when they saw this," said former U.S. Vice President Gore, who joined Scandinavian officials and scientists to brief journalists and delegates. It was Gore's first appearance at the two-week conference. The group presented two new reports updating fast-moving developments in Antarctica, the autonomous Danish territory of Greenland, and the rest of the Arctic.

"The time for collective and immediate action on climate change is now," said Denmark's foreign minister, Per Stig Moeller.



Doc wonders if this finding has been internationally peer reviewed or whether it's really faster than expected. Check out the bad science/ related to quality assurance associated with the Himalayan glacier melting reporting/referencing errors. Crying wolf has never been a good idea, even in Aesop's time. See: http://www.sciencedaily.com/releases/2008/03/080317154235.htm *and the retraction at* http://www.timesonline.co.uk/tol/news/environment/article6991177.ece.

But delegates from 192 nations were bogged down in disputes over key issues. This further dimmed hopes for immediate action to cut more deeply into global emissions of greenhouse gases. Gore and Danish ice scientist Dorthe Dahl Jensen clicked through two slide shows for a standing-room-only crowd of hundreds in a side event at the Bella Center conference site. One report, on the Greenland ice sheet, was issued by the Arctic Monitoring and Assessment Program. It an expert group formed by eight Arctic governments, including the United States. The other on the status of ice melt worldwide, commissioned by Gore and Norway's government, was compiled by the Norwegian Polar Institute.

Average global temperatures have increased 0.74 degrees C (1.3 degrees F) in the past century, but the mercury has risen at least twice as quickly in the Arctic. Scientists say the makeup of the frozen north polar sea has shifted significantly in recent years as much of the thick multiyear ice has given way to thin seasonal ice. In the summer of 2007, the Arctic ice cap dwindled to a record-low minimum extent of 4.3 million square kilometers (1.7 million square miles) in September. The melting in 2008 and 2009 was not as extensive, but still ranked as the second- and third-greatest decreases on record.

Last April, the U.S. National Oceanic and Atmospheric Administration predicted that Arctic summers could be almost ice-free within 30 years, not at the 21st century's end as earlier predicted. Gore cited new scientific work at the U.S. Naval Postgraduate School, whose Arctic ice research is important for planning polar voyages by Navy submarines. The computer modeling there stresses the "volumetric," looking not just at the surface extent of ice but its thickness as well.

"Some of the models suggest that there is a 75 percent chance that the entire north polar ice cap during some of the summer months will be completely ice-free within the next five to seven years," Gore said. His office later said he meant nearly ice-free, because ice would be expected to survive in island channels and other locations.

Asked for comment, one U.S. government scientist questioned what he called this "aggressive" projection. "It's possible but not likely," said Mark Serreze of the U.S. National Snow and Ice Data Center in Boulder, Colorado. "We're sticking with 2030."

Charles J. Hanley | Huffington Post, December 14, 2009
http://www.huffingtonpost.com/2009/12/14/gore-polar-ice-may-vanish_n_391632.html?view=print

- -

Natural Gas Could be the Cavalry in the Global Warming Fight

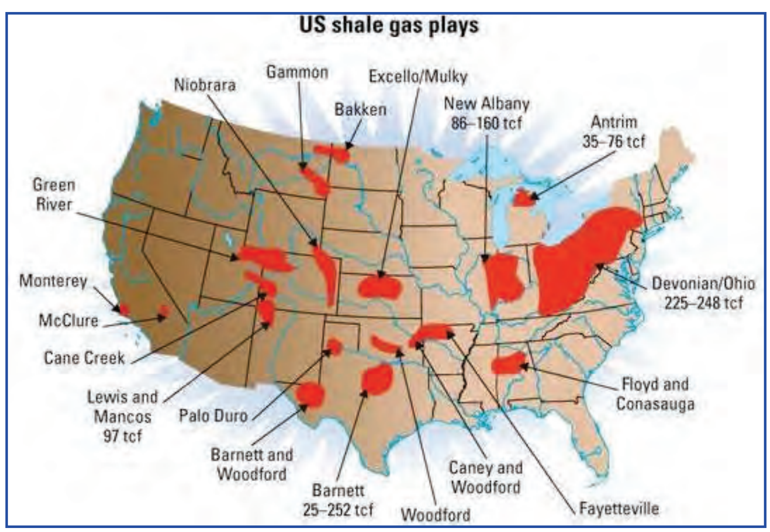
An unlikely source of energy has emerged to meet international demands that the United States do more to fight global warming: It's cleaner than coal, cheaper than oil and a 90-year supply is under our feet. It's natural gas.

Yes, it’s natural gas, the same fossil fuel that was in such short supply a decade ago that it was deemed unreliable. It’s now being uncovered at such a rapid pace that its price is near a seven-year low. Long used to heat half the nation’s homes, it’s becoming the fuel of choice when building new power plants. Someday, it may win wider acceptance as a replacement for gasoline in our cars and trucks.

Natural gas’ abundance and low price come as governments around the world debate how to curtail carbon dioxide and other pollution that contributes to global warming. The likely outcome is a tax on companies that spew excessive greenhouse gases. Utilities and other companies see natural gas as a way to lower emissions — and their costs. Yet politicians aren’t stumping for it.

In June, President Barack Obama lumped natural gas with oil and coal as energy sources the nation must move away from. He touts alternative sources — solar, wind and biofuels derived from corn and other plants. In Congress, the energy debate has focused on finding cleaner coal and saving thousands of mining jobs from West Virginia to Wyoming.

Utilities in the U.S. aren’t waiting for Washington to jump on the gas bandwagon. Looming climate legislation has altered the calculus that they use to determine the cheapest way to deliver power. Coal may still be cheaper, but natural gas emits half as much carbon when burned to generate the same amount electricity. Today, about 27 percent of the nation’s carbon dioxide emissions come from coal-fired power plants, which generate 44 percent of the electricity used in the U.S. Just under 25 percent of power comes from burning natural gas, more than double its share a decade ago but still with room to grow.

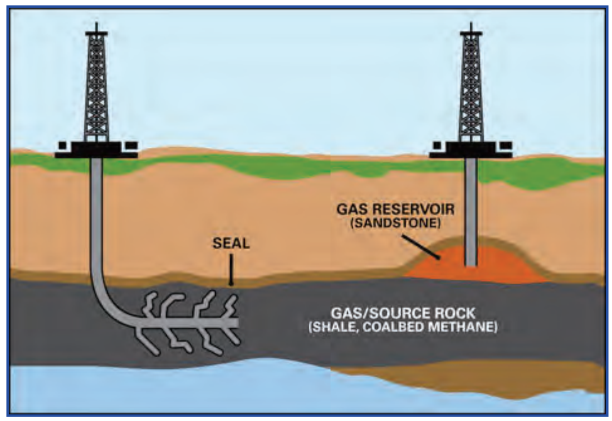


But the fuel has to be plentiful and its price stable — and that has not always been the case with natural gas. In the 1990s, factories that wanted to burn gas instead of coal had to install equipment that did both because the gas supply was uncertain and wild price swings were common. In some states, because of feared shortages, homebuilders were told new gas hookups were banned. It's a different story today. Energy experts believe that the huge volume of supply now will ease price swings and supply worries.

Gas now trades on futures markets for about $5.50 per 1,000 cubic feet. While that's up from a recent low of $2.41 in September as the recession reduced demand and storage caverns filled to overflowing, it's less than half what it was in the summer of 2008 when oil prices surged close to $150 a barrel. To read more click the link below.

Bottom Line: The question now is how does this change the energy discussion in the U.S. and by how much?" says Daniel Yergin, a Pulitzer Prize winning author and chairman of IHS CERA, an energy consultancy. "This is domestic energy ... it's low carbon, it's low cost and it's abundant. When you add it up, it's revolutionary."

It's not cheep, not easy, but does provide an American alternative to energy supplies. Energy independence. {Doc.} Already the scientifically under-educated fear mongers among the environmental movement are claiming that fracture methods to access gas resources will cause major damage to water supplies. Alas, so far I've found no Peer-Reviewed evidence to support that.



By Mark Williams, AP Energy Writer
Timesfreepress.com Chattanooga Times Free Press, 21 Dec 2009
http://www.timesfreepress.com/news/2009/dec/21/natural-gas-could-be-cavalry-global-warming-fight/?breakingnews

- -

12 Plug-in Electric Vehicle {EV} **Myths**

Doc sez — it's amazing what most people are willing to believe, and reporters pass on. A simple bit of googling with debunk such nonsense. Of course we can ask, "Who will gain <Economics 101> when the public believes these unsubstantiated untruths?"

Plug In America, a nonprofit group advocating the adoption of electric vehicles, issued a list of common misconceptions or "myths" about all-electric and plug-in hybrid electric cars. "Media and others continue to misunderstand and mischaracterize this new technology," the group said in a release.

The Myths:

1. EVs don't have enough range. You'll be stranded when you run out of electricity.
2. EVs are good for short city trips only.
3. EVs just replace the tailpipe with a {*power plant*} smokestack.
4. The charging infrastructure must be built before people will adopt EVs.
5. The grid will crash if millions of plug-ins charge at once.
6. Battery chemicals are bad for the environment and can't be recycled.
7. EVs take too long to charge.
8. Plug-ins are too expensive for market penetration.
9. Batteries will cost $15,000 to replace after only a few years.
10. There isn't enough lithium in the world to make all the new batteries
11. Lithium batteries are dangerous and can explode.
12. Most of us will still be driving gas cars through 2050.

For the details click on the link below and read on.

SustainableBusiness.com Site, 12/28/2009
http://www.sustainablebusiness.com/index.cfm/go/news.display/id/19470

\- -

Cellulosic-Ethanol Mandate Faces Snags

Cellulosic-ethanol production, a cornerstone of the U.S. government's plan to curb greenhouse-gas emissions, is earmarked to overtake corn ethanol over the next decade. But the industry's expected takeoff could be delayed by a year.

Several potholes make the path difficult, including regulatory delays, but the biggest hurdle is that dozens of commercial-scale and pilot facility projects haven't been able to secure enough financing to begin construction. The recession and tight credit markets have made it difficult to draw investors while the Department of Energy, which has committed $1.3 billion for bio-refinery projects, has been slow to dispense money. It is a chicken-and-egg problem: Both are waiting for each other to move first.

"The red tape and difficulty of putting it together is standing in the way of all the projects," said

Frank Maisano, an energy specialist at Washington-based law firm Bracewell & Giuliani LLP.

The difficulties of cellulosic ethanol—a fuel made out of switch grass and other plant fibers—underscore how challenging the thicket of legislation applied in recent years has made it to move forward on reducing the U.S.'s carbon footprint. Click the link to read why!

By Naureen S. Malik. Wall Street Journal, December 28, 2009 [Restricted Site]
See instead: http://www.donatdawn.com/content/?p=9068

- -

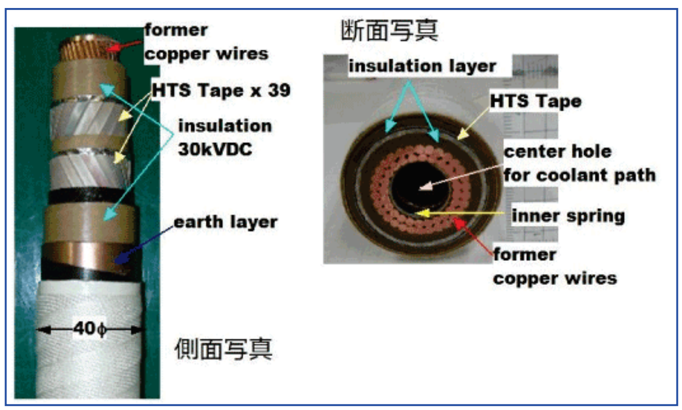
No More Power Lines?

Buried super-cooled electrical cables may replace towering transmission lines and carry solar and wind energy efficiently over long distances, *if the price and the regulatory scheme can be made right*. *We are daily getting closer to room temperature laboratory based super semi-conductors. Liquid Nitrogen is easy, dry-ice temperature solution studies are under way.*

Abundant solar and wind power lies across America's vast plains and deserts, but getting that distant renewable energy to cities without wrecking vistas and raising lawsuits over transmission lines is a sizable hurdle for green-leaning utility companies. Thousands of miles of towering electrical lines will be needed before big alternative-energy projects can take hold. Yet such power lines portend years of legal snarls over the not-in-my-backyard problem.

Into this fray comes Phil Harris and his pioneering plan to use underground superconducting cables that will be both hidden from view and more efficient than traditional lines. Mr. Harris wants to build a virtually invisible network that would create a national renewable-energy hub located in the Southwest.

Today, the nation's power grid is in three disconnected pieces – Eastern, Western, and Texas. Harris's project, called Tres Amigas, would use superconducting cable to provide the first large-scale commercial trading link between those big grids – opening up new markets for renewable wind and solar power in the American East and West.



These superconducting cables contain special materials chilled to super-low temperatures, allowing electricity to flow efficiently, with no resistance. The only lost energy goes toward refrigerating the cables. While Harris's "hub" would run in a loop, it would demonstrate the potential for superconducting power lines that could travel long distances and eliminate the 7 percent of electricity wasted by ugly, above-ground transmission lines.

In papers filed in early December with the Federal Energy Regulatory Commission, Tres Amigas outlined its plans for a $600 million, 15- to 20-mile triangular-shaped hub near Clovis, N.M., constructed using superconducting cable.   Read on by clicking the link.

By *Mark Clayton*, Staff Writer for The Christian Science Monitor / December 31, 2009
http://www.csmonitor.com/Innovation/Energy/2009/1231/No-more-power-lines

- -

More next month.

Harry aka doc_Babad

Hardware

RF Field Strength Meter: Power density detector

Reviewed by Robert L Pritchett

AlphaLab, Inc.
3005 South 300
West Salt Lake City, Utah 84115 USA
(801) 487-9492
1-800-658-7030
http://www.trifield.com/rf_meter.htm
$320 USD

Strengths: Reads radio/microwave power density from 1/1000 to 2000 microwatts/cm2. The frequency range is 500 kHz to 3 GHz.

Weaknesses: None.

Introduction

> "This is an extremely sensitive meter which can accurately measure RF background even in rural areas far from any transmitters. The meter reads true power density directly on the display. Unlike other low-cost field strength meters, this meter's frequency response does not depend on the characteristics of an external antenna; the internal detection system yields a flat response over a very wide range of frequencies.
>
> Accuracy in the FM, TV and cell tower frequency range (30 MHz – 2.4 GHz) is +/-25%. Sensitivity is low by 50% (-3 dB) at the frequency limits .5 MHz and 3 GHz. (Sensitivity is 25% at 5 GHz. That is, you must multiply the reading by 4 when measuring microwaves at that high a frequency. At 10 GHz, sensitivity is about 10%.)
>
> A High-Pass selector switch allows you to measure either the full bandwidth ("Wide" = 0.5 MHz – 3 GHz) or to apply a high-pass filter ("Narrow" = 6 dB/ octive rolloff with a knee at 100 MHz) that effectively allows only 100 MHz to 3 GHz through.

In practice, this high-pass selector function can be used to estimate one additional parameter: the average frequency of the RF (if it is in the range 10 MHz – 500 MHz).

The RF Field Strength Meter is directional and it detects only the component of the electric field which has the same polarization as the long axis of the meter. That is, if only a vertically-polarized RF wave is present, but you turn the meter in the horizontal direction, it will essentially read zero. If you subsequently rotate the meter to vertical, it will then read the full power density of the RF wave. Most RF radiation has only vertical electric field, so the full strength can be read by holding the meter vertically. (At the end of this page is more information on how to read radio waves with other polarizations).

The meter has a 4 ½ digit display which reads in three ranges: .001 to 19.999, .01 to 199.99, and .1 to 1999.9 microwatts/cm2. For comparison, a low power 100 milliwatt dipole transmitter (typical 49 MHz cordless phone) produces about .010 microwatts/cm2 at a distance of 50 feet. This is 10x the minimum sensitivity of the meter. A FAST/SLOW update switch is normally set in the FAST position so you can quickly measure changes in the RF level. However, if the field strength is fluctuating rapidly, this switch can be set to the SLOW position, which averages the reading over several seconds.

The "zero" level will shift slightly with temperature. This shift is no more than +/- .010 microwatts/cm2 over the meter's operating temperature range of 30° F to 110° F (-1 to 43° C). Two controls on the right side of the meter correct for this: a button, when pressed, turns off the pre-amplifier, so it is the equivalent of zero field. Then an offset control is rotated until the meter reads zero in the most sensitive "19.999" setting. After one minute or more of warm-up, this should be adjusted. Once adjusted, this need not be readjusted unless the temperature changes by more than 5° F. (Then a shift of about .001microwatt /cm2 will occur).

The RF Field Strength Meter comes with a standard 9-volt battery. A low-battery indicator shows on the display when approximately 10 minutes of battery life remain. Electric current consumption from the battery is about 15 ma, with low battery indication at about 7.6 volts.

When measuring an RF signal of unknown frequency, you may notice that the reading is different when the Bandwidth switch is set to "Wide" vs. "Narrow". If so, you can estimate the average frequency (averaged over the power density) of the RF spectrum. If it's just a wave of a single frequency, you can estimate the frequency of that wave.
This estimate is done by measuring the power density with the Bandwidth switch set at "Wide", and then measuring the power density with the switch set to "Narrow". If these numbers are the same, the average frequency is above 500 MHz. If the "Narrow" number is less than 1% of the "Wide" number, then the average frequency is below 10 MHz. If the "Narrow" number is between about 1% and 96% of the "Wide" number, you can estimate average frequency from the ratio of the two numbers. (A written table is in the instructions).

Although most commercial RF transmitters radiate with a vertical antenna and thus a vertical electric field (so you can hold the meter vertically to measure the full power density), some RF radiation also has some horizontal component, due to reflections or transmitters that have antennas not pointed vertical. If you know where the transmitter is, you will only have to perform two readings to find the transmitter's total power density at your position. These correspond to "Z" (vertical) and "X" (horizontal, but perpendicular to the direction of the transmitter). In theory, if you point the meter's long axis toward the antenna (the "Y" direction), you will not detect any radiation from that antenna. This seems counterintuitive. (In fact, there may be some diagonal reflectors near you that produce a small "Y" component coming from the transmitter, but this is not usually significant).

In practice, if the back face of the meter is facing the RF source, and the meter is read first in the vertical orientation and then it is read after being rotated 90° to the horizontal position (with the back face still facing the RF source), the sum of those two numbers will be the true power density from that transmitter. (This addition is a "sum of squares". That is, because power density is proportional to the square of the electric field, then the direct sum of these two numbers, and not the square root of the direct sum, will be the correct magnitude of the power density.) Most RF field sources are principally vertically polarized, in which case only the vertical reading needs to be done. To measure the full power density at a certain point in space, regardless of the sources' locations, measure the vertical first (meter pointed upward). This will usually be the majority of the RF power density. Then make two measurements 90° apart, with the meter's long axis pointed in the horizontal direction. For example, after the vertical measurement, measure holding the meter in a north-south orientation and then in an east-west orientation. The sum of these three numbers is the total power density at that point in space, regardless of the position of the transmitter or transmitters. An accuracy problem arises however, because your body can block RF radiation, so if an unseen transmitter is located on the opposite side of your body from the meter, the reading will be falsely low. If you hold the meter higher than your head, this problem disappears. The presence of your hand and arm will have some effect on the field strength at the meter, so the most accurate reading is taken by setting the meter on a non-metallic surface or using, for example, a plastic holder.

This meter measures the power density of radio waves from .5 MHz to 3000 MHz (3 GHz). Accuracy in the cell tower range (800 – 1700 MHz) is +/-20% of the reading. At the frequency limits .5 MHz and 3000 MHz, it reads 3 dB low (-50%). There are 3 ranges that span from .001 to 2000 microwatts/cm2. The bandwidth switch allows a highpass function (with a 6 dB per octave rolloff below 100 MHz) so that only the high frequencies such as cell towers are allowed through. This switch can also be set to "Wide" bandwidth, allowing all frequencies down to .5MHz, including AM radio. For rapidly fluctuating signals, the "update" switch can be set to "slow" to smooth out the readings. Normally this is set on "Fast" however, so you can see changes rapidly.

Controls on the side allow you to neutralize the offset, which is temperature dependent and is usually a few nanowatts (.001 microwatts) per cm3.

This meter uses a standard 9-volt battery (included) and has a low battery indicator on the display. Battery life is typically 3 hours of measurement time.

Warranty is one year.

For general operation, turn the left knob to 19.999. Then make sure "Bandwidth" is on "Narrow" and "Update" is on "Fast". If the digital display is changing too rapidly to read it easily, switch "Update" to "Slow". If you only want to measure high frequencies such as cell towers and microwave ovens, switch "Bandwidth" to "Narrow". To see all RF frequencies, switch to "Wide". Make sure your hand is not blocking the top third of the meter. The sensor is in the top of the meter and the meter should be held vertically upward (it measures the vertical electric field component of the RF wave and converts that number to a power density on the display). Because your body (and other objects) reflect radio waves, there is some ambiguity in the readings. This is especially true at the higher frequencies. You'll notice that if you first measure and then reduce the distance from your body to the meter by one inch, the reading may change. Also as you move the meter, the reading may repeatedly go higher-lower-higher every inch or so. You should take an average in this case.

Generally, the RF waves have most of their power in the vertical electric field, but some is in the horizontal. To get a true measurement of the total RF power density propagating toward you hold the meter vertical (with the battery-lid-side facing the object you're testing) and read that number. Then turn the meter horizontal (either 90□ left or right of vertical, with the back still facing the object you're testing) and add that number to the vertical reading. This gives the sum of vertical and horizontal power density. If the meter is in very high or very low ambient temperature, the display may add or subtract a small offset (equivalent to a "tare weight") of a few times .001 microwatt/cm^2 to the displayed measurement. You can check to see if there is an offset by moving the meter to an area with low RF (less than 0.200). If you are in a low-RF area (less than 0.010), cover the top of the meter and most of the back with your hands to minimize the RF that reaches the meter. Otherwise, at higher RF levels, cover the meter entirely with metal foil (aluminum) except for the display. Turn settings to 19.999, "Narrow" and "Fast". If the display does not read 0.000 or 0.001, remove enough of the foil to remove the battery door and turn the small exposed control inside until the display reads zero. (There is no need to remove the battery from its position for this operation). If LOW BATTERY shows on the display, you have about 15 minutes of battery life left. Slide the back lid off (in a direction away from the 2 screws) and replace the 9 volt battery. For comparison, maximum allowable exposure for any public area is 600 microwatts/cm2 for an analog cell tower (at about 890 MHz). Typical city background (over a mile from any major transmitter) is around 0.100 microwatts/cm2. Typical background in the country is about 0.010 microwatts/cm2.

[The rest of these instructions goes into more detail about using the meter to estimate the average frequency of an RF signal, and also the directionality of RF measurements.]

When measuring an RF signal of unknown frequency, you may notice that the reading is different when the Bandwidth switch is set to "Wide" vs. "Narrow". If so, you can estimate the average frequency (averaged over the power density) of the RF spectrum. If it's just a wave of a single frequency, you can estimate the frequency of that wave. This estimate is done by measuring the power density with the Bandwidth switch set at "Wide", and then measuring the power density with the switch set to "Narrow". If these numbers are the same, the average frequency is above 1 GHz. If the "Narrow" number is less than 1% of the "Wide" number, then the average frequency is below 10 MHz. If the "Narrow" number is between about 1% and 99% of the "Wide" number, you can estimate average frequency from the ratio of the two numbers.

To calculate the average frequency, take the ratio of the "Wide" reading to the "Narrow" reading. This number will be 1.00 or greater.

If this ratio is:	Then the average frequency is:
1.01	1 GHz
1.05	450 MHz
1.1	315 MHz
1.2	220 MHz
1.5	141 MHz
2	100 MHz
3	71 MHz
5	50 MHz
10	33 MHz
20	23 MHz
50	14 MHz
100	10 MHz

The formula is: F = 100 MHz / R-1

Although most commercial RF transmitters radiate with a vertical antenna and thus a vertical electric field (so you can hold the meter vertically to measure the full power density), some RF radiation also has some horizontal component, due to reflections or transmitters that have antennas not pointed vertical. If you know where the transmitter is, you will only have to perform two readings to find the transmitter's total power density at your position. These correspond to "Z" (vertical) and "X" (horizontal, but perpendicular to the direction of the transmitter). In theory, if you point the meter's long axis toward the antenna (the "Y" direction), you will not detect any radiation from that antenna. This seems counterintuitive. (In fact, there may be some diagonal reflectors near you that produce a small "Y" component coming from the transmitter, but this is not usually significant).

In practice, if the back face of the meter is facing the RF source, and the meter is read first in the vertical orientation and then it is read after being rotated 90° to the horizontal position (with the back face still facing the RF source), the sum of those two numbers will be the true power density from that transmitter. (This addition is a "sum of squares". That is, because power density is proportional to the square of the electric field, then the direct sum of these two numbers, and not the square root of the direct sum, will be the correct magnitude of the power density.) Most RF field sources are principally vertically polarized, in which case only the vertical reading needs to be done. To measure the full power density at a certain point in space, regardless of the sources' locations, measure the vertical first (meter pointed upward). This will usually be the majority of the RF power density. Then make two measurements 90° apart, with the meter's long axis pointed in the horizontal direction. For example, after the vertical measurement, measure holding the meter in a north-south orientation and then in an east-west orientation. The sum of these three numbers is the total power density at that point in space, regardless of the position of the transmitter or transmitters. An accuracy problem arises however, because your body can block RF radiation, so if an unseen transmitter is located on the opposite side of your body from the meter, the reading will be falsely low. If you hold the meter higher than your head, this problem disappears. The presence of your hand and arm will have some effect on the field strength at the meter, so the most accurate reading is taken by setting the meter on a non-metallic surface or using, for example, a plastic holder.

What I Learned

Not too far from my location, there is a microwave tower with lots of new antennas on it. When I drive by it on the Bypass Highway, the meter bounces up around 6.0. By my house, it is down below .01. That tower is located and was installed shortly after new housing development was established under it. Another microwave tower is on top of the "penthouse" on top of the 7-story Federal Building. I did not pick up any readings on the 7th floor. Nor did I pick up any readings from a Wi-Fi unit located in a telco room near my office.

There is another microwave tower located above a daycare center and I have experienced interference (killed conversations) when driving by it on the highway when using my iPhone.

I have to wonder why we allow these towers to be co-located in otherwise occupied space by humans. Using this meter has given me an awareness of just how strong the emissions can be from these towers. I'm glad that I do not live near them and I also appreciate that the bars on my iPhone are not up to full strength (3G) where I spend most of my time.

When I have a conversation on the iPhone, the meter goes wild.

I am more aware of what is going on around me from sources unseen, but felt. Microwave radiation prematurely ages living tissues.

Amy Worthington wrote. *"The Radiation Poisoning of America"*, back in 2007. Have we learned anything since?

> "At the base of cell towers there is an equipment "hut" where installers assemble the radios, amplifiers and filters which generate man-made microwave frequencies and route them up to transmitter antennas through huge cables. Mounted on sector supports aptly named alpha, beta and gamma, the antennas send and receive these carcinogenic radio waves and their pulsed data packets at the speed of light."
>
> "…Dr. Curry found that one of the towers was irradiating homes at over 65 microwatts per square centimeter.20 This power density is well within federal exposure standards, which allow any neighborhood to be zapped with at least 580 microwatts per square centimeter, or higher, depending on the frequencies. If the families were sick at 65 microwatts/cm2 what would they be at 580? Considering that the Soviets used furtive Cold War microwave bombardment to make US embassy personal radiation-sick at an average exposure level of only .01 microwatts/cm2, America's clear and present danger is obvious…"

http://www.rense.com/general78/rad.htm

I used to complain about not having enough coverage for my iPhone -
http://www.maccompanion.com/macc/archives/December2009/Columns/LetterfromtheCEO.htm
No more.

Will WiMAX be the next "death ray"?

Conclusion

Read my article from last month; *"Electromagnetic Interference and Radiation Emissions: Cell phones, Apple Computers and Tinfoil Hats"*
http://www.maccompanion.com/macc/archives/March2010/Columns/EMIRFI.htm

If you would like to arm yourself with facts regarding microwave emissions, a good meter is a good place to start. Why not use this one?

See our other review of the Trifield 100XE meter made by AlphaLab from last month.
http://www.maccompanion.com/macc/archives/March2010/Hardware/TriField%20Meter.htm

Software

Memoblock 4.9.5: A fine note taking utility

Reviewed by Harry {doc} Babad © 2010

Blocksoft
http://www.blocksoft.net/memoblock.html
For a demo of this product: http://www.macupdate.com/info.php/id/8519/memoblock

System Requirements: Mac OS X PPC/Intel OS 10.2 to 10.5; Intel/PPC. Works with Snow Leopard.
Release Date: 25 May 2009 Download Size — 4.4 MB Hard Drive Space.
Price: Donorware

macC Star Ratings

Audience: Any and all note collection list users
Strengths: Simple, intuitive, easy to use.
Weaknesses: Lacks some feature I need in note collecting software.

Copyright Notice: Product and company names and logos in this review may be registered trademarks of their respective companies.

Sidebar #1: Reviews were carried out on my iMac 2.8 GHz Intel Core 2 Duo with 2 GB 667 MHz DDR2 SDRAM running Snow Leopard, Mac OS X version 10.6.2

Sidebar #2: **Disclaimer**: When reviewing software I will often use the developer's product, functions and features descriptions. Because of this unless I'm quoting directly from *another source*, I do no cutter up the review with quotation makes. All other comments are strictly my own and based on testing. Why need I rewrite the developer's narratives, if they are clearly written?

Introduction

Over many years both the availability of mac-friendly information gathering tools and I have grown together to feed an increasingly active *information junkie* additions. My needs range from simple todo list, to a large well integrated storage warehouse for bits and pieces of information, to a set of impressively detailed data sets for keeping track of my Sci-Fi, CD Music, DVD and recipe— music books collection. Why integrate my, DVD and recipe collection into one document, don't ask… It's a Doc thing associated with my second largest book collection genres.

The tools, at least for this quarter are Task Paper 2.2.2 - a ToDo list, DEVONthink Pro Office 2.0.2 - a flexible and full features flat file database application for all sorts of data I often need, and the proverbial FileMaker Pro 10. <Look them up on MacUpdate site>. Two of these products, FileMaker Pro and DEVONthink Pro are long time favorites for which I have never found suitable alternatives. That of course is not, obviously, impacted by potential problems of data migration to any new software. These are great products that are well tuned to my needs.

I've also chippied with Bento, additionally drawn to the product by its large and increasing collection of free and easy to customize templates, something that is not as available for FileMaker Pro.

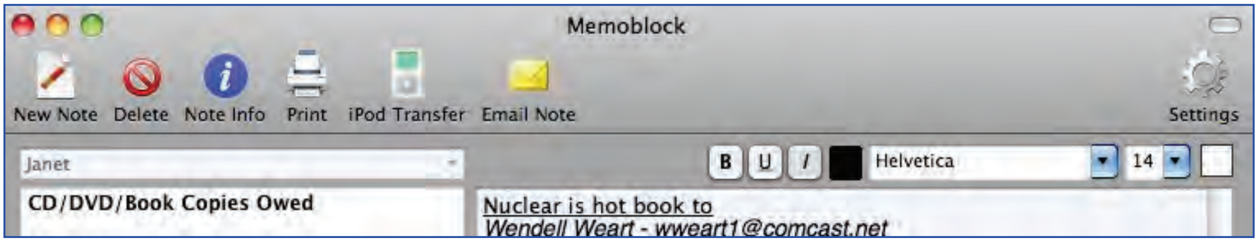
Alas, with respect to ToDo list software, I keep feeling the need to further explore this genre of products. Over the years I've replaced todo list products at least once if not more times a year. Not because they are broken, but only that with frequent use, almost daily, their 'idiot' or is that idiosyncrasies become a nuisance. So I've decided to take a quick peek, this month at Memoblock 4.9.5. I know it was not designed to serve as a ToDo list, but I thought I'd give it a trial anyway.

> Just in case you wanted to ask, but are too shy, I group all my collected file information collection software together. The category includes: Information managers, check list tools, ToDo lists, Freeform notepads, Personal information managers [PIMs] and PDA associated tools.

Next month I'll look at a long abandoned tool, the latest version of Apimac's Mac NotePad 8.0.x, which I last reviewed in Jan 2007. It too may be worthy of reconsideration. However, even as I play, I keep asking myself whether it might just b smarter to create a second DEVONtechnologies DEVONthink database configured and to be used only as a ToDo list. After all, I'd need no learning curve.

Getting Started and Using the Software

Publishers Description — "Memoblock is a useful notepad utility for OS X. Store as many styled text notes as you require, transfer notes to certain iPods, save as vNotes for mobile phones and more. Alarm reminders can be set for individual notes, and notes can be categorized as you wish."



This is a well-developed Macintosh application. Drag it to your applications folder. Start using it. Alternatively, decide which preference settings you prefer. Check out any readme files. You're good to go.

I chose to copy, reformat and do a minimal bit of editing on representative items now stored in my TaskPaper [TP] data. As a result, I was able to more or less completely check out its features. I skipped the alarm test, and had no need to either upload notes to an iPod or save a note(s) to a vCard.

That product, *TaskPaper*, organizes around setting up projects, which contain tasks about which you can assign helpful notes containing details for that task. It takes a junior project management approach to collecting ToDos, something that both works and eventually irritated me by its lack of flexibility with respect to txt formatting and adding to the tiered contents of my longish lists.

I like the fact that unlike Apple's finder, Memoblock had 10, not just seven labels that I could assign as tags or a note. These focused on the various activities in my life including the item in the table below.

Waste [WM] Management related consulting	Collecting recipes,	Professional Society Support
Helping organize the International WM Symposia	Three Rives Folklife and Tumbleweed Festival	macCompanion and MC•MUG
Writing/updating my Textbooks and writing technical articles	Collection Music CDs and creating samplers	Collecting Movies… Oh well 12 would have better Memoblock allows that.

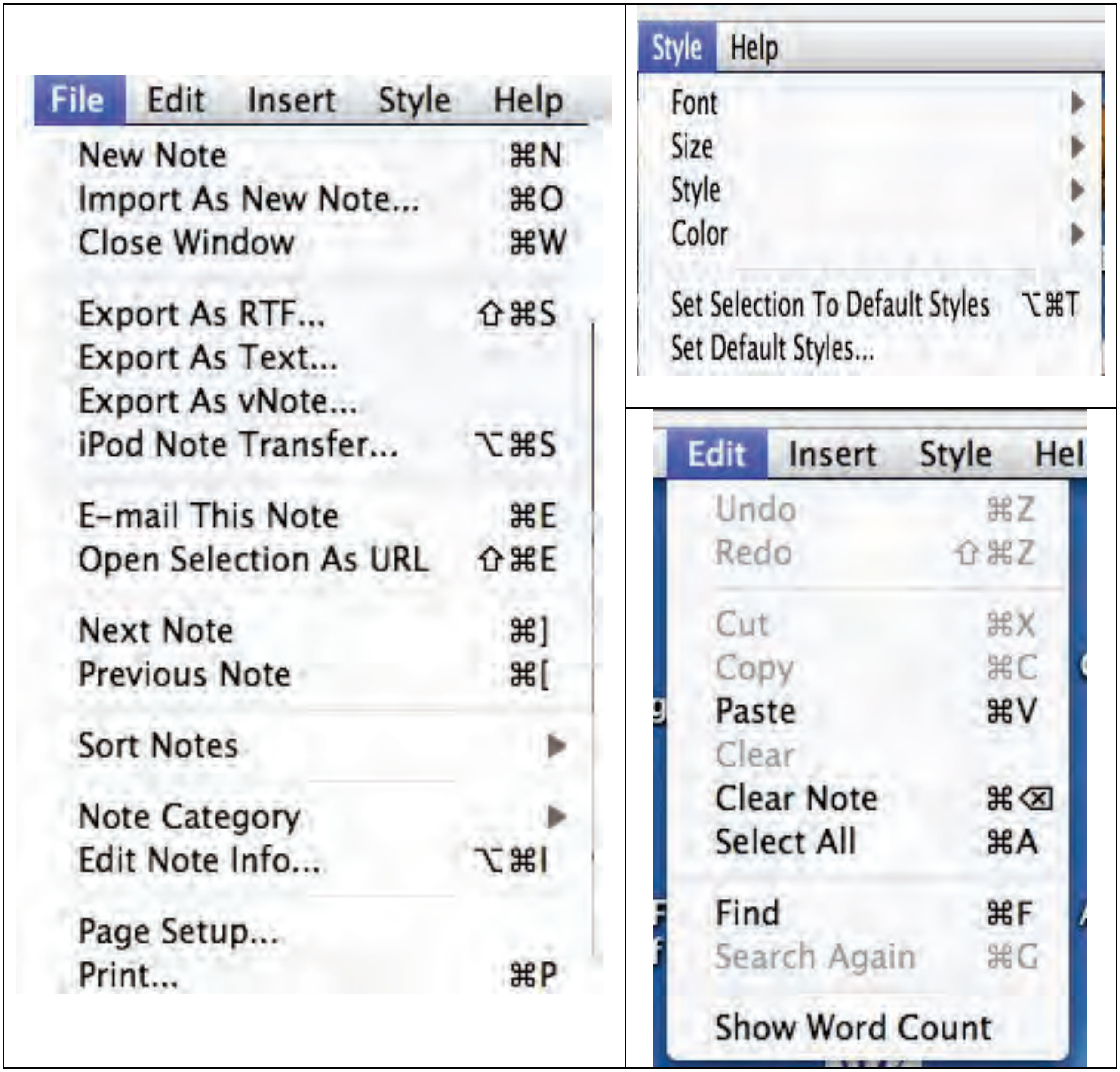
However, I would have preferred the ability to separately label item priority, and category. This despite the fact that the software allows me to add date and time stamps to notes

I also welcomed the ability to use styled text.

Memoblock Rich but Easy to Access Features Include:

- Create unlimited number of notes, which automatically save them selves when closed. As a slightly paranoid individual, I would have saved often since saving thing s easier then recreating them should the software bleep. Alas I was unable to do so, save or save-as are not part of *File Menu* options.
- It has a convenient 'Note Info' box for storing note headers.
- You can insert text from other files.

- Notes can also be exported as text files, something I did not pursue since I usually just either add material to a notes collection, or paste details from a PDF or other documents from which I want a snippet of data.
- Memoblock supports text some styles, colors and sizes.
- Text can also be imported via the clipboard, but at times styling was not preserved. I did not follow up on defining conditions this it occurred, but only in passing, noticed it.
-

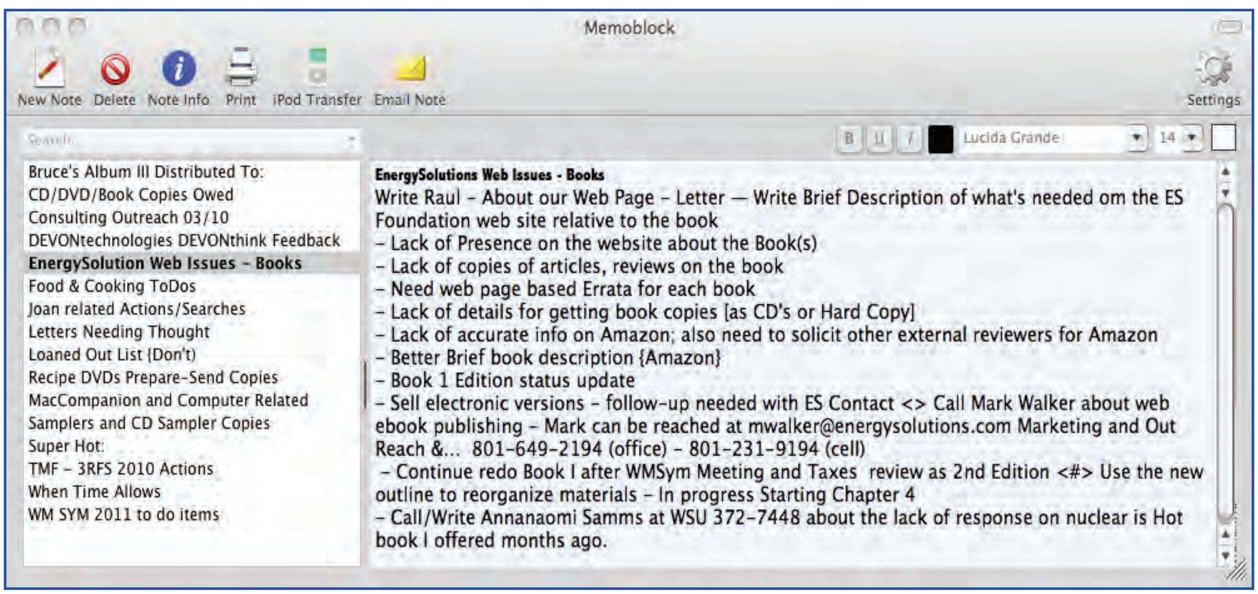


Discomforts

Adding a few more of the style features of TextEdit would really enhance the ease of visual highlighting ability for this otherwise fine product.

1. Doesn't totally support copy/paste with clipboard styles style as part of an individual note.
2. At time the *undo* function did not work {Command-Z.)
3. No ability spell check, but Spell Catcher 10.3.4 did the job for me since I'm an error prone two-finger typist. It was more awkward then using Apple's dictionary, but it worked.
4. Doesn't seem use the system colour palettes and I can't add color to the software's toolbar.
5. Can't activate web links or email addresses but an Open Selection as a URL [File Menu] seem to work if formatted correctly.
   • http://www.mcCompanion.com didn't work (error message)
   • www.macCompanion.com and macCompanion.com did the job.
   However, this is clumsier than just creating a permanent link
6. I'd like to be able to create lists in my notes (numbered or bulleted). It more easily allows me the ability to see related details.

Nonetheless, after I tested the product, I found I had transferred the entire contents of my TaskPaper todo list, added a few more notes— all in an hour. So this one is a keeper!



Conclusions and Recommendation

As noted earlier, Memoblock is an easy to use, intuitive notepad utility for storing all of your little pieces of text into editable notes. It has more features and a more pleasant interface than the classics Macintosh OS systems notepad but fewer than TextEdit. The later has other features that should not be a part of Memoblock. There's more, a useful 'Note Info' box for storing note titles and exported, and styled text is supported. It allows you to store as many styled text notes as you require, and notes can be categorized using a self-defined labels feature as you wish. It's freeware/donationware so take it out for a trial. If you adopt it for ToDos or simple note taking purposes, send the developer a donation. Writing software is a hard way to feed your-self. I have adopted it and am comfortable, despite added features I'd like, to give it 4.0 macCs.

Doc.

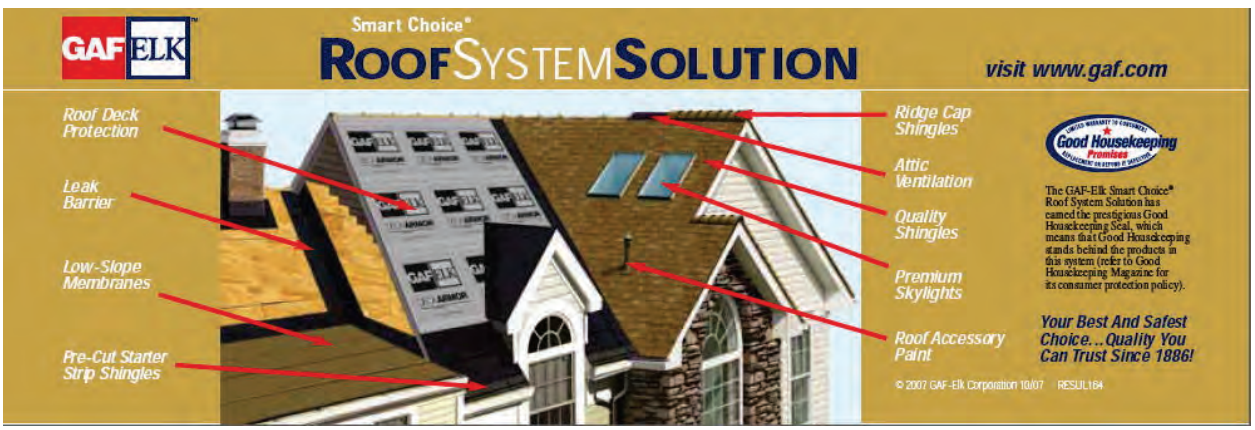
Advertisers Index

Serving the Puget Sound Area for Home Improvement.

http://www.abetterhandyman.net/aboutus.html

GAF ELK
FACTORY CERTIFIED
Master Elite
WEATHER STOPPER ROOFING CONTRACTOR

Consumer
Protection
Excellence



Serving the Puget Sound Area for all roofing needs.

http://www.centuryroofing.biz

Strengthen Your
NATURAL IMMUNITY

OXYSILVER™ pioneers a new class of mineral waters providing the most powerful immune system support in healthcare history. Used daily by people who need it, or periodically whenever necessary to regain or sustain health, it can be relied upon more assuredly than any product ever developed.

Silver hydrosols, in general, are superior powerful broad spectrum anti-microbials. They have been scientifically proven safe, effective, and life-saving in hospitals and health clinics when used sparingly according to health and environmentally-conscious recommendations. These powerful health guards provide a wide range of practical applications as alternatives to humanly toxic and environmental destructive chemical disinfectants, poisonous antibiotics, and risky vaccinations.

A New Class of
NUTRITIONAL SUPPLEMENTS

OXYSILVER™ is produced through unique energetic processes using laser light, sound, and silver to electro-magnetically activate the hydrosol to deliver a 528Hz frequency of natural harmony to your body. This important harmonic is amplified by tiny, electrically-conductive, nano-sized silver particles bonded to oxygen in this water containing pure lava-heated steam harvested on the Big Island of Hawaii. 528Hz hydrosonics is fundamental to health, wellness, and all creation.

So **OXYSILVER™** delivers nature's central defense against dis-ease hydrosonically and harmonically. This amazing new mineral water transmits vibrations to your body water from molecules made of silver covalently bonded to a multitude of oxygen atoms. This unprecendented molecule produces scientifically proven benefits without any known risks using the small amounts recommended to produce huge health and environmental advantages.

Can you Imagine
a world free of infectious diseases, viral cancers, and AIDS?

Some people can't imagine this, including the major corporations producing risky expensive antibiotics and intoxicating vaccines (i.e., OxySilver's competition).But you can help save lives, and our environment, by using and distributing this new technology.

OxySilver's covalently bonded silver-oxygen mineral water concentrate is entirely unique. It should not be mistaken as a colloidal silver. Not even the finest silver hydrosols that, likewise, boast tiny nano-sized silver particles needed to improve health and provide protective benefits are like **OxySilver**. Indeed, **OxySilver** heralds a new generation of water-based solutions built on the excellent performance of silver colloids and nano-particle size hydrosols. Our covalently-bonded silver-oxygen molecules are a breakthrough so small they gently penetrate cell membranes complimenting nature's ongoing immunological nurturance and sustenance of human cells at the expense of pathogens.

Buy Now!

OXYSILVER is not available in stores. Take advantage of this exclusive online offer!

BUY NOW!

➤ Click Here

Testimonials

OXYSILVER is changing lives! Click here to read actual testimonials from our satisfied customers.

➤ Learn More

Technology

Advanced technology originally developed for NASA.

NASA

➤ Learn More

Boost Natural Immunity without Vaccine Toxicity

http://www.oxysilver.com

Advertising Information

Contact Robert Pritchett, our Ad and Marketing Director, for working through the process of advertising with us.

rpritchett@maccompanion.com

We are the Macintosh® Professional Network (MPN), Limited Liability Corporation (LLC). MPN, LLC continues to evolve, ever since its creation in 1996 as a way to reach out to those who use computers for a living in an effort to make their lives easier and their work both enjoyable and profitable.

We also provide monthly book, hardware and software reviews at *macCompanion*. We offer ways and means for folks to get comfortable using the Macintosh™ created by the Apple® Corporation in the multibillion-dollar computer industry. We know that bad software doesn't live long in the Mac™ environment. On the other hand, good computer equipment and software becomes great, as the word spreads, and we are very good at helping to spread it. Our suggestions over the years have also helped improve many successful products in use today. Through kind and gentle efforts, we have been able to help many people move to better tools-of-the-trade so they can be more productive in their work.

Besides our website and consulting efforts, we also create *macCompanion* as a freely available PDF-based monthly. It averages about 100 pages per month. July 2006 was the 4th-year anniversary of this labor of love. The *macCompanion* staff is an all-volunteer team of writers and reviewers from many parts of the globe, and they also have a great wealth of knowledge and experience in their backgrounds. That base of talent also continues to keep growing as the Macintosh Professional Network expands.

Advertising with macCompanion

We have some advertising options you may choose from, and multiple months receive a 20% discount for both website and PDF-based ads. All advertising must be paid in advance. We accept credit card payments via PayPal, checks, money orders, by regular mail and cash in US currency by hand, if you meet us face-to-face.

Site Ad Rate

We offer website ads for a fixed-budget price of only $100 per month on our site. Following the KISS principle, we accept banner ads in only one size at this time - 468x60 pixels (per the Interactive Advertising Bureau standards for a Full Banner Ad Interactive Marketing Unit.) The ad will be rotated through with other ads, and there is no limit to how many you want to include.

The billing cycle begins based on the first day the ad placed on the site and is renewable on a monthly basis. This can begin immediately or at any time.

Affiliations

We do affiliations, and work with those who have made arrangements with online affiliate systems, or we deal directly with you if you have created code, and have a contract we can sign. Check out the Bazaar on our website at *http://www.maccompanion.com/bazaar/bazaarindex.html*

Sponsorships

We also accept sponsorships. Please let us know if you would like to sponsor *macCompanion*!

If you are as excited about our *macCompanion* readership as we are, please download the contractual terms and conditions documentation that are online in PDF format, or we can send them to you as an attachment. We'd enjoy having an ongoing working relationship with you too.

Well that's it for this issue. Please come back again next month!
The *macCompanion* Staff