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Death of the American Empire

America is self-destructing & bringing the rest of the world down with it

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> I believe that banking institutions are more dangerous to our liberties than standing armies. (Thomas Jefferson, US President; 1743 – 1826)

America is dying. It is self-destructing and bringing the rest of the world down with it.

Often referred to as a sub-prime mortgage collapse, this obfuscates the real reason. By associating tangible useless failed mortgages, at least something 'real' can be blamed for the carnage. The problem is, this is myth. The magnitude of this fiscal collapse happened because it was all based on hot air.

The banking industry renamed insurance betting guarantees as 'credit default swaps' and risky gambling wagers were called 'derivatives'. Financial managers and banking executives were selling the ultimate con to the entire world, akin to the snake-oil salesmen from the 18th century but this time in suits and ties. And by October 2008 it was a quadrillion-dollar (that's $1,000 trillion) industry that few could understand.

Propped up by false hope, America is now falling like a house of cards.

It all began in the early part of the 20th century. In 1907 J.P. Morgan, a private New York banker, published a rumour that a competing unnamed large bank was about to fail. It was a false charge but customers nonetheless raced to their banks to withdraw their money, in case it was their bank. As they pulled out their funds the banks lost their cash deposits and were forced to call in their loans. People now therefore had to pay back their mortgages to fill the banks with income, going bankrupt in the process. The 1907 panic resulted in a crash that prompted the creation of the Federal Reserve, a private banking cartel with the veneer of an independent government organisation. Effectively, it was a coup by elite bankers in order to control the industry.

When signed into law in 1913, the Federal Reserve would loan and supply the nation's money, but with interest. The more money it was able to print, the more 'income' for itself it generated. By its very nature the Federal Reserve would forever keep producing debt to stay alive. It was able to print America's monetary supply at will, regulating its value. To control valuation however, inflation had to be kept in check.

The Federal Reserve then doubled America's money supply within five years, and in 1920 it called in a mass percentage of loans. Over five thousand banks collapsed overnight. One year later the Federal Reserve again increased the money supply by 62%, but in 1929 it again called the loans back in, en masse. This time, the crash of 1929 caused over sixteen thousand banks to fail and an 89% plunge on the stock market. The private and wellprotected banks within the Federal Reserve system were able to snap up the failed banks at pennies on the dollar.

The nation fell into the Great Depression and in April 1933 President Roosevelt issued an executive order that confiscated all gold bullion from the public. Those who refused to turn in their gold would be imprisoned for ten years, and by the end of the year the gold standard was abolished. What had been redeemable for gold became paper 'legal tender', and gold could no longer be exchanged for cash as it had once been.

Later, in 1971, President Nixon removed the dollar from the gold standard altogether, therefore no longer trading at the internationally fixed price of $35. The US dollar was now worth whatever the US decided it was worth because it was 'as good as gold'. It had no standard of measure, and became the universal currency. Treasury bills (short-term notes) and bonds (long-term notes) replaced gold as value, promissory notes of the US government and paid for by the taxpayer. Additionally, because gold was exempt from currency reporting requirements it could not be traced, unlike the fiduciary (i.e. that based upon trust) monetary systems of the West. That was not in America's best interest.

After the Great Depression private banks remained afraid to make home loans, so Roosevelt created Fannie Mae. A state supported mortgage bank, it provided federal funding to finance home mortgages for affordable housing. In 1968 President Johnson privatised Fannie Mae, and in 1970, Freddie Mac was created to compete with Fannie Mae. Both of them bought mortgages from banks and other lenders, and sold them onto new investors.

The post World War II boom had created an America flush with cash and assets. As a military industrial complex, war exponentially profited the US and, unlike any empire in history, it shot to superpower status. But it failed to remember that, historically, whenever empires rose they fell in direct proportion.

Americans could afford all the modern conveniences, exporting its manufactured goods all over the world. After the Vietnam War, the US went into an economic decline. But people were loath to give up their elevated standard of living despite the loss of jobs, and production was increasingly sent overseas. A sense of delusion and entitlement kept Americans on the treadmill of consumer consumption.

In 1987 the US stock market plunged by 22% in one day because of high-risk futures trading, called derivatives, and in 1989 the Savings & Loan crisis resulted in President George H.W. Bush using $142 billion in taxpayer funds to rescue half of the S&L's. To do so, Freddie Mac was given the task of giving sub-prime (below prime-rate) mortgages to low-income families. In 2000, the "irrational exuberance" of the dot-com bubble burst, and 50% of high-tech firms went bankrupt wiping $5 trillion from their over-inflated market values.

After this crisis, Federal Reserve Chairman Alan Greenspan kept interest rates so low they were less than the rate of inflation. Anyone saving his or her income actually lost money, and the savings rate soon fell into negative territory.

During the 1990s, advertisers went into overdrive, marketing an ever more luxurious lifestyle, all made available with cheap easy credit. Second mortgages became commonplace, and home equity loans were used to pay credit card bills. The more Americans bought, the more they fell into debt. But as long as they had a house their false sense of security remained: their home was their equity, it would always go up in value, and they could always remortgage at lower rates if needed. The financial industry also believed that housing prices would forever climb, but should they ever fall the central bank would cut interest rates so that prices would jump back up. It was, everyone believed, a win-win situation.

Greenspan’s rock-bottom interest rates let anyone afford a home. Minimum wage service workers with aspirations to buy a half million-dollar house were able to secure 100% loans, the mortgage lenders fully aware that they would not be able to keep up the payments.

So many people received these sub-prime loans that the investment houses and lenders came up with a new scheme: bundle these virtually worthless home loans and sell them as solid US investments to unsuspecting countries who would not know the difference. American lives of excess and consumer spending never suffered, and were being propped up by foreign nations none the wiser.

It has always been the case that a bank would lend out more than it actually had, because interest payments generated its income. The more the bank loaned, the more interest it collected even with no money in the vault. It was a lucrative industry of giving away money it never had in the first place. Mortgage banks and investment houses even borrowed money on international money markets to fund these 100% plus sub-prime mortgages, and began lending more than ten times their underlying assets.

After 9/11, George Bush told the nation to spend, and during a time of war, that’s what the nation did. It borrowed at unprecedented levels so as to not only pay for its war on terror in the Middle East (calculated to cost $4 trillion) but also pay for tax cuts at the very time it should have increased taxes. Bush removed the reserve requirements in Fannie Mae and Freddie Mac, from 10% to 2.5%. They were free to not only lend even more at bargain basement interest rates, they only needed a fraction of reserves. Soon banks lent thirty times asset value. It was, as one economist put it, an ‘orgy of excess’.

It was flagrant overspending during a time of war. At no time in history has a nation gone into conflict without sacrifice, cutbacks, tax increases, and economic conservation.

And there was a growing chance that, just like in 1929, investors would rush to claim their money all at once.

To guarantee, therefore, these high risk mortgages, the same financial houses that sold them then created ‘insurance policies’ against the sub-prime investments they were selling, marketed as Credit Default Swaps (CDS). But the government must regulate insurance policies, so by calling them CDS they remained totally unregulated. Financial institutions were ‘hedging their bets’ and selling premiums to protect the junk assets. In other words, the asset that should go up in value could also have a side-bet, just in case, that it might go down. By October 2008, CDS were trading at $62 trillion, more than the stock markets of the whole world combined.

These bets had absolutely no value whatsoever and were not investments. They were just financial instruments called derivatives – high stakes gambling, ‘nothing from nothing’ – or as Warren Buffet referred to them, ‘Weapons of Financial Mass Destruction’. The derivatives trade was ‘worth’ more than one quadrillion dollars, or larger than the economy of the entire world. (In September 2008 the global Gross Domestic Product was $60 trillion).

Challenged as being illegal in the 1990s, Greenspan legalised the derivatives practise. Soon hedge funds became an entire industry, betting on the derivatives market and gambling as much as they wanted. It was easy because it was money they did not have in the first place. The industry had all the appearances of banks, but the hedge funds, equity funds, and derivatives brokers had no access to government loans in the event of a default. If the owners defaulted, the hedge funds had no money to pay 'from nothing'. Those who had hedged on an asset going up or down would not be able to collect on the winnings or losses.

The market had become the largest industry in the world, and all the financial giants were cashing in: Bear Stearns, Lehman Brothers, Citigroup, and AIG. But homeowners, long maxed out on their credit, were now beginning to default on their mortgages. Not only were they paying for their house but also all the debt amassed over the years for car, credit card and student loans, medical payments and home equity loans. They had borrowed to pay for groceries and skyrocketing health insurance premiums to keep up with their bigger houses and cars; they refinanced the debt they had for lower rates that soon ballooned. The average American owed 25% of their annual income to credit card debts alone.

In 2008, housing prices began to slide precipitously downwards and mortgages were suddenly losing value. Manufacturing orders were down 4.5% by September, inventories began to pile up, unemployment was soaring and average house foreclosures had increased by 121% and up to 200% in California.

The financial giants had to stop trading these mortgage-backed securities, as now their losses would have to be visibly accounted for. Investors began withdrawing their funds. Bear Stearns, heavily specialised in home loan portfolios, was the first to go in March.

Just as they had done in the 20th century, JP Morgan swooped in and picked up Bear Stearns for a pittance. One year prior Bear Stearns shares traded at $159 but JP Morgan was able to buy in and take over at $2 a share. In September, Washington Mutual collapsed, the largest bank failure in history. JP Morgan again came in and paid $1.9 billion for assets valued at $176 billion. It was a fire sale.

Relatively quietly over the summer Freddie Mac and Fannie Mae, the publicly traded companies responsible for 80% of the home mortgage loans, lost almost 90% of their value for the year. Together they were responsible for half the outstanding loan amounts but were now in debt $80 to every $1 in capital reserves.

To guarantee they would stay alive, the Federal Reserve stepped in and took over Freddie Mac and Fannie Mae. On September 7th 2008 they were put into "conservatorship": known as nationalisation to the rest of the world, but Americans have difficulty with the idea of any government run industry that required taxpayer increases.

What the government was really doing was handing out an unlimited line of credit. Done by the Federal Reserve and not US Treasury, it was able to bypass Congressional approval. The Treasury Department then auctioned off Treasury bills to raise money for the Federal Reserve's own use, but nonetheless the taxpayer would be funding the rescue. The bankers had bled tens of billions from the system by hedging and derivative gambling, and triggered the portfolio inter-bank lending freeze, which then seized up and crashed.

The takeover was presented as a government funded bailout of an arbitrary $700 billion, which does nothing to solve the problem. No economists were asked to present their views to Congress, and the loan only perpetuates the myth that the banking system is not really dead.

In reality, the damage will not be $700 billion but closer to $5 trillion, the value of Freddie Mac and Fannie Mae's mortgages. It was nothing less than a bailout of the quadrillion dollar derivatives industry which otherwise faced payouts of over a trillion dollars on CDS mortgage-backed securities they had sold. It was necessary, said Treasury Secretary Henry Paulson, to save the country from a "housing correction". But, he added, the $700 billion taxpayer funded takeover would not prevent other banks from collapsing, in turn causing a stock market crash.

In other words Paulson was blackmailing Congress in order to lead a coup by the banking elite under the false guise of necessary legislation to stop the dyke from flooding. It merely shifted wealth from one class to another, as it had done almost a century prior. No sooner were the words were out of Paulson's mouth before other financial institutions began imploding, and with them the disintegration of the global financial system – much modelled after the lauded system of American banking.

In September the Federal Reserve, its line of credit assured, then bought the world largest insurance company, AIG, for $85 billion for an 80% stake. AIG was the largest seller of CDS, but now that it was in the position of having to pay out, from collateral it did not have, it was teetering on the edge of bankruptcy.

In October the entire country of Iceland went bankrupt, having bought American worthless sub-prime mortgages as investments. European banks began exploding, all wanting to cash in concurrently on their inflated US stocks to pay off the low interest rate debts before rates climbed higher. The year before the signs had been evident, when the largest US mortgage lender Countrywide fell. Soon after, the largest lender in the UK, Northern Rock, went under – London long having copied Wall Street creative financing. Japan and Korea's auto manufacturing nosedived by 37%, global economies contracting. Pakistan is on the edge of collapse too, with real reserves at $3 billion – enough to only buy a month's supply of food and oil and attempting to stall payments to Saudi Arabia for the 100,000 barrels of oil per day it provides to the country. Under President Musharraf, who left office in the nick of time, Pakistan's currency lost 25% of its value, its inflation running at 25%.

Meanwhile energy costs had soared, with oil reaching a peak of almost $150 per barrel in the summer. The costs were immediately passed on to the already spent homeowner, in rising heating and fuel, transport and manufacturing costs. Yet 30% of the cost of a barrel of oil was based upon Wall Street speculators, climbing to 60% as a speculative fear factor during the summer months. As soon as the financial crisis hit, suddenly oil prices slid down, slicing oil costs to $61 from a high of $147 in June and proving that the 60% speculation factor was far more accurate. This sudden decline also revealed OPEC's lack of control over spiralling prices during the past few years, almost squarely laid on the shoulders of Saudi Arabia alone. When OPEC, in September, sought to maintain higher prices by cutting production, it was Saudi Arabia who voted against such a move at the expense of its own revenue.

Europe then decided that no more would it be ruined by the excess of America. 'Olde Europe' may have had enough of being dictated to by the US, who refused to compromise on loans lent to their own broken nations after WWII. On October the 13th, the once divided EU nations unilaterally agreed to an emergency rescue plan totaling $2.3 trillion. It was more than three times greater than the US package for a catastrophe America alone had created.

By mid October, the Dow, NASDAQ and S&P 500 had erased all the gains they made over the previous decade. Greenspan's pyramid scheme of easy money from nothing resulted in a massive overextension of credit, inflated housing prices, and incredible stock valuations, achieved because investors would never withdraw their money all at once. But now it was crashing at break-neck speed and no solution in sight. President Bush said that people ought not to worry at all because "America is the most attractive destination for investors around the globe."

Those who will hurt the most are the very men and women who grew the country after WWII, and saved their pensions for retirement due now. They had built the country during the war production years, making its weapons and arms for global conflict. During the Cold War the USSR was the ever-present enemy and thus the military industrial complex continued to grow. Only when there is a war does America profit.

Russia will not tolerate a new cold war build-up of ballistic missiles. And the Middle East has seen its historical ally turn into its worst nightmare, be it militarily or economically. No longer will these nations continue to support the dollar as the world's currency. The world's economy is no longer America's to control and the US is now indebted to the rest of the world. No more will the US be able to demand its largest Middle Eastern oil supplier open up its banking books so as to be transparent and free from corruption and terrorist connections lest there be consequences – the biggest act of criminal corruption in history has just been perpetrated by the United States.

It was the best con game in town: get paid well for selling vast amounts of risk, fail, and then have governments fix the problem at the expense of the taxpayers who never saw a penny of shared wealth to begin with.

There is no easy solution to this crisis, its effects multiplying like an infectious disease.

Ironically, least affected by the crisis are Islamic banks.

They have largely been immune to the collapse because Islamic banking prohibits the acquisition of wealth via gambling (or alcohol, tobacco, pornography, or stocks in armaments companies), and forbids the buying and selling of a debt as well as usury. Additionally, Shari'ah banking laws forbid investing in any company with debts that exceed thirty percent.

"Islamic banking institutions have not failed per se as they deal in tangible assets and assume the risk" said Dr. Mohammed Ramady, Professor of Economics at King Fahd University of Petroleum & Minerals. "Although the Islamic banking sector is also part of the global economy, the impact of direct exposure to sub-prime asset investments has been low" he continued. "The liquidity slowdown has especially affected Dubai, with its heavy international borrowing. The most negative effect has been a loss of confidence in the regional stock markets." Instead, said Dr. Ramady, oil surplus Arab nations are "reconsidering overseas investments in financial assets" and speeding up their own domestic projects.

Eight years ago, in May 2000, Saudi Islamic banker His Highness Dr. Nayef bin Fawaaz ibn

Sha'alan publicly gave a series of economic lectures in Gulf states. At the time his research showed that Arab investments in the US, to the tune of $1.5 trillion, were effectively being held hostage and he recommended they be pulled out and reinvested in the tangibles of the Arab and Islamic markets. "Not in stocks however because the stock market could be manipulated remotely, as we have seen in the last couple of years in the Arab market where trillions of dollars evaporated" he said.

He warned then that it was a certainty that the US economic system was on the verge of collapse because of its cumulative debts, ever-increasing deficit and the interest on that debt. "When the debts and deficits come due, they just issue new Treasury bonds to cover the old bonds due, with their interest and the new deficit too." The cycle cannot be stopped or the debt cancelled because the US would no longer be able to borrow. The consequence of relieving this cycle would be a total collapse of their economic system as opposed to the partial, albeit massive, crash of 2008.

"Islamic banking", said Dr. Al-Sha'alan, "always protects the individuals' wealth while putting a cap on selfishness and greed. It has the best of capitalism – filtering out its negatives – and the best of socialism – filtering out its negatives too." Both systems inevitably had to fail. Additionally, Europe and Japan did not need to be held accountable and indebted to America anymore for protection against the Soviets.

> "The essential difference between the Islamic economic system and the capitalist system", he continued "is that in Islam wealth belongs to God – the individual being only its manager. It is a means, not a goal. In capitalism, it is the reverse: money belongs to the individual, and is a goal in and of itself. In America especially, money is worshipped like God."

In sum, the crash of the entire global economic system is a result of America's fiscal arrogance based upon one set of rules for itself and another for the rest of the world. Its increased creative financing deluded its people into a false sense of security, and now looks like the failure of capitalism altogether.

The whole exercise in democracy by force against Arab Muslim nations has almost bankrupted the US. The Cold War is over and the US has nothing to offer: no exports, no production, few natural resources, and no service sector economy.

The very markets that resisted US economic policies the most, having curbed foreign direct investments into America, are those who will fare best and come out ahead.

But not before having paid a very high price.

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