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Economic Duplicity: Recession and Record Profits

The Real Estate Bubble is Not Over

By Rev. Richard Skaff
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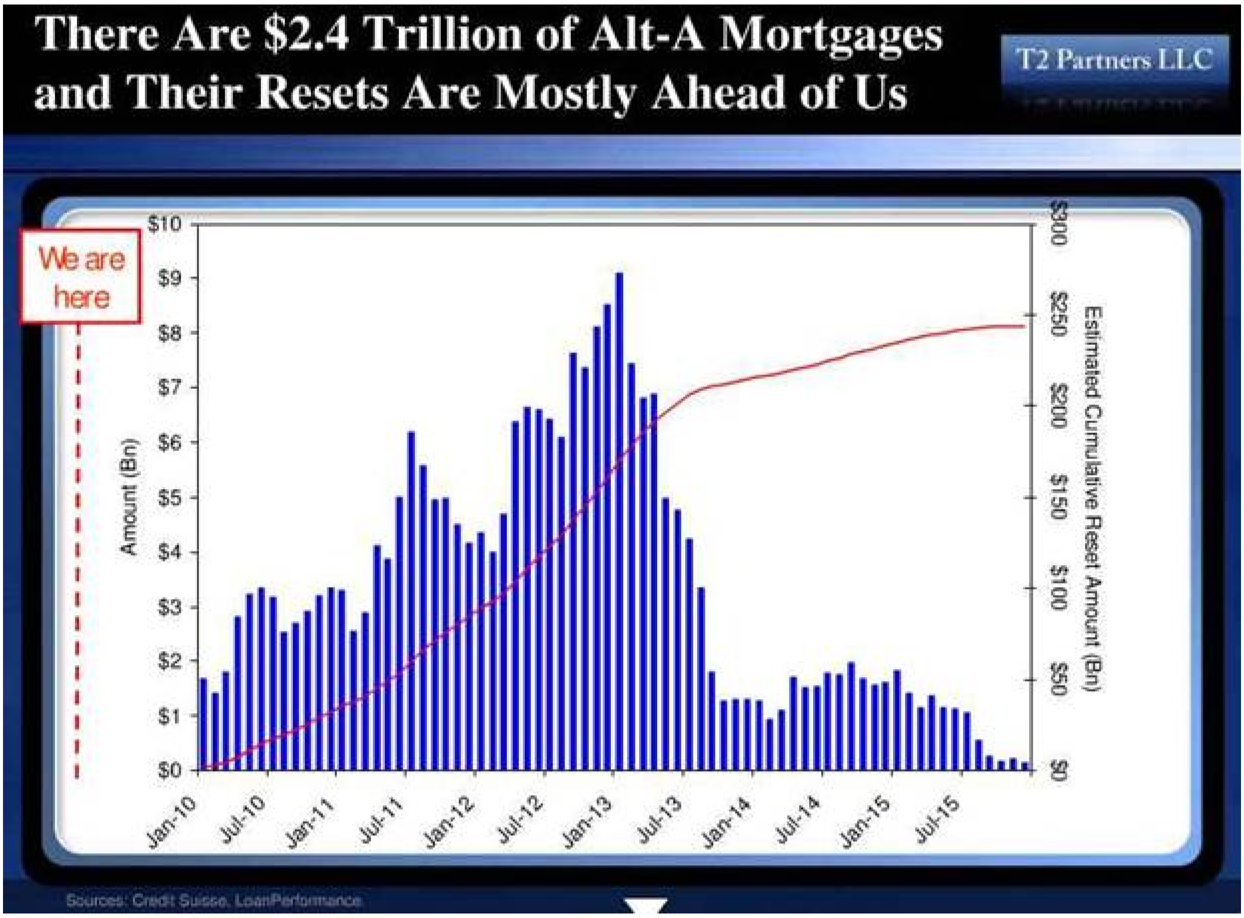
In December 14, 2008, in his interview on the CBS sixty minutes show, Whitney Tilson an investment fund manager predicted that the subprime collapse was only half way of the total real estate bubble, and that the second half will begin take place around 2010 and will continue until about the year 2013. Tilson also discussed the two fancy Wall Street terms for bad mortgages namely Alt-A (Alternative-A paper) and option arms mortgages. These loans lured borrowers with teaser rates that will begin to reset this year.



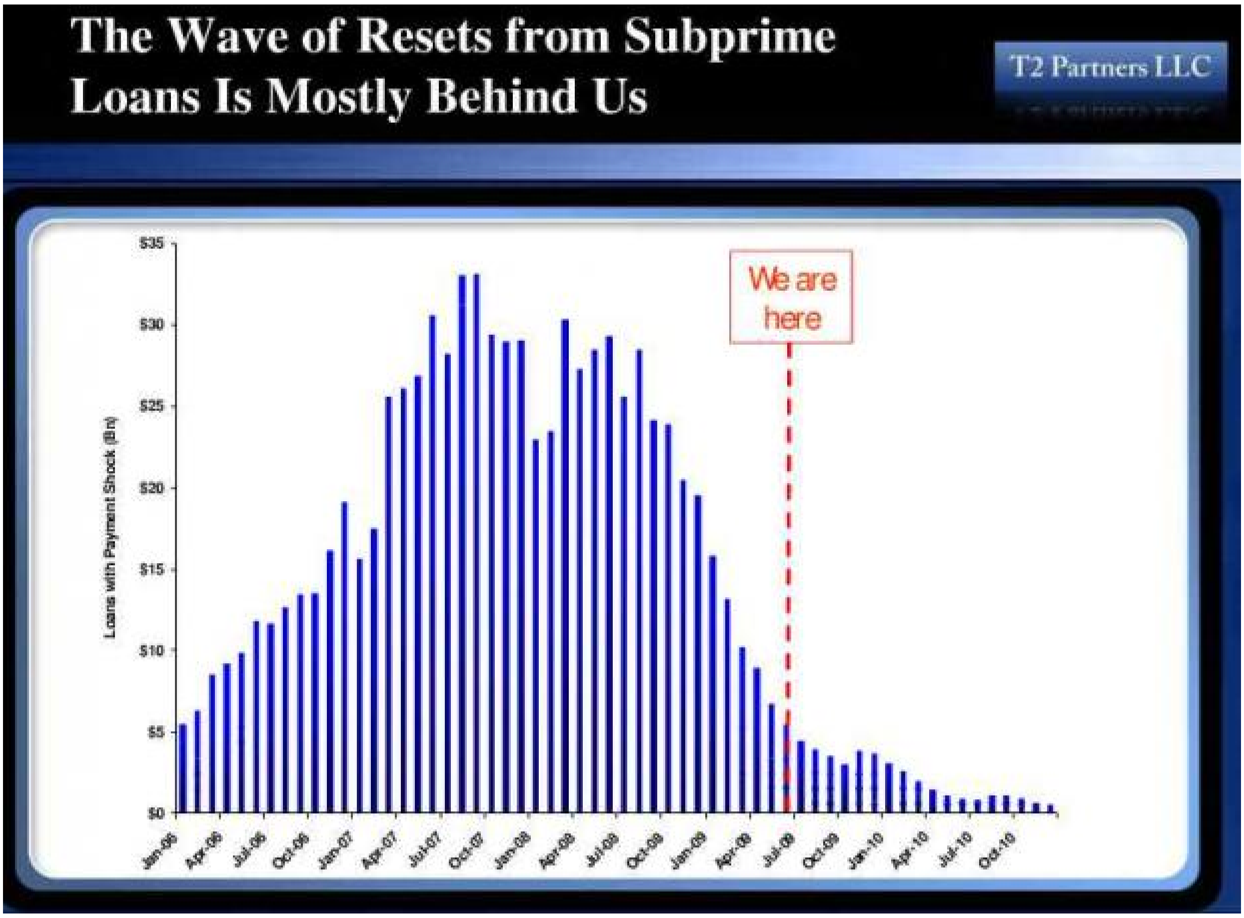
Tilson has also predicted that seventy percent of these loans will eventually default, based on existing evidence of pre-reset default rates [1].

A mortgage reset is when the homeowner who bought a house with a low “teaser rate” and planned to refinance as soon as the house price went up suddenly gets a new payment that is usually far higher. Often, homeowners can’t afford these resets.

The first wave of resets, as we recall was subprime. As this chart from Whitney Tilson shows, that's basically done with: [2].

However, Alt-A is actually a much larger category of [mortgages](), and the big Alt-A reset boom is just around the corner as Tilson's second chart reveals.

Karen Weaver of Deutsche Bank observes that Alt-A mortgages are already mostly underwater. The combination of resets plus severely underwater status will likely exacerbate defaults and foreclosures. [2].



Ironically, Federal Reserve Chairman Ben Bernanke said on Tuesday September 15, 2009 that the worst recession since the 1930s is probably over, although he cautioned that pain especially for the nearly 15 million unemployed Americans will persist. [3].

So while unemployment keeps rising, consumer spending is slumping, inflation is creeping up (food, gasoline, and other commodities), the commercial real estate is plunging into the abyss, the dollar is weakening, and the other half of the housing bubble is exploding, Bernanke remains hopeful!

Could it be that Mr. Bernanke is anticipating the occurrence of a contrived international incident that will trigger an invasion of Iran ? A new war is always good for a military based economy! Or maybe Bernanke's optimism on the economy is strictly founded on the performance of the global corporations and their profit margins?

Many of these transnational organizations have benefited from the recession. They have gobbled up bankrupted entities for pennies and made record profits, while others have consolidated and merged with weakened organizations to produce the largest monopolies in history. The end result was price fixing, and a total control of the US and the global markets.

Let’s take a moment to analyze this situation by discussing one of these global corporations like “Chevron of California,” to shed the light on a duplicitous economy ruled by a corrupt plutocracy.

Chevron’s 2008 Annual Report to its shareholders is a glossy celebration heralding the company’s most profitable year in its history. Its $24 billion in profits catapulted it past General Electric to become the second most profitable corporation in the United States . Its 2007 revenues were larger than the gross domestic product (GDP) of 150 nations. [4].

Global exchange has recently issued a scathing report about chevron’s upward movement into the global ranks, and the cost for that rank and the way it was achieved.

Brief history of Chevron

In 1876, Star Oil Works struck oil in southern California. The Pacific Coast Oil Company acquired the company a few years later, followed by John D. Rockefeller’s Standard Oil Company in 1900—naming it the Standard Oil Company of California (SoCal) in 1906. In 1911 the U.S. Supreme Court ordered the break-up of Standard Oil; SoCal was the third largest post-breakup company. In 1985 SoCal bought Gulf Oil—the largest merger in U.S. history at that time—and changed its name to “Chevron.” In 2001 Chevron bought Texaco (which had purchased the giant Getty Oil in 1984). Briefly called “Chevron-Texaco,” it went back to “Chevron” in 2005, the same year it purchased the Union Oil Company of California (Unocal).

Chevron makes its money in two primary ways: (1) producing oil and natural gas and (2) refining and then selling those resources as products—primarily gasoline. Chevron has increasingly focused on raising the profitability of the latter sector, with great success. Chevron is dominant presence in the refining sector allowed it to offset the drop in oil prices with a corresponding 10-fold increase in its refinery profits in the last quarter of 2008.

Chevron’s World Headquarters is located in San Ramon, California, USA. The company’s CEO is David O’Reilly, the 15th highest paid U.S. CEO with nearly $50 million in total 2008 compensation, and over $120 million over the last 5 years. (Forbes) Corporate Website www.chevron.com

Chevron’s profits were $23.9 billion in 2008, the highest in company history, and a 28% increase from 2007. Profits have increased every year since 2002, increasing 2100% from 2002 to 2008. Chevron’s oil Reserves and production stands at 7.5 billion (just behind Exxon’s 11 billion and BP’s 10 billion) reserves. The company produces nearly 3 million barrels of oil per day. Together, Chevron, Exxon-Mobil, BP, Conoco-Phillips, Shell, and Marathon produce more oil than Saudi Arabia —about13% of the world’s total oil supply for 2006.

Chevron operates in 120 countries. Explores for, produces, refines, transports, and markets oil, natural gas, and gasoline. Major operations also include chemical, coal mining, and power generation companies. In addition, Chevron became the 2nd largest U.S. oil company, 3rd largest U.S. Corporation, 4th largest global oil company, and the 6th largest global corporation (by revenue). [4].

Many argue, however, that Chevron’s success is derived from methods that harm consumers, including unethical and illegal activities. Such concerns received considerable support when on April 3, 2009 the U.S. 9th Circuit Court of Appeals revived a class action lawsuit against Chevron. The suit accuses Chevron and other refiners of conspiring to fix gasoline prices in California . Like most suits against Chevron, the case has spent years in court. Originally filed in 1998, the plaintiffs, a group of wholesale gasoline buyers, contend that the companies intentionally limited the supply of gasoline to raise prices and keep them high. A federal judge dismissed the case in 2002, but, upon appeal, the Court reversed the ruling. [4].

Price Control

Chevron reports that in 2008, it operated five U.S. oil refineries and, between its Chevron and Texaco brands, owned and leased 9,685 U.S. gas stations.

In California, Chevron helps maintain the state's oil oligopoly, with just four refiners owning nearly 80% of the market and six refiners, including Chevron, owning 85% of the retail outlets, selling 90% of the gasoline in the state. [6]. This is the primary reason why Californians regularly suffer the nation's highest gasoline prices.

A wave of mega-mergers over the last 25 years has led to thousands of independent oil refineries and gas stations across the U.S. being swallowed or crushed by Big Oil. Chevron, Exxon-Mobil, Conoco-Phillips, BP, Shell, and Valero control almost

60% of the U.S. refining market—nearly twice as much as the six largest companies controlled just 12 years ago. [5]. These same companies, with the exception of Valero, control more than 60% of the nation's gas stations, compared with 27% in 1991. [7].

There has not been a single new refinery built in the U.S. in more than a generation. In 1981 there were 324 refineries, owned by 189 different companies. Today there are 150, owned by just 50 companies. [8]. The companies have, in turn, closed gas stations and ceased to build new ones. While the number of cars on the road has more than doubled over the last 25 years, the number of gas stations has declined by one-third, bringing about the near disappearance of the small, independently owned gas station. In 2008 alone, over 2,500 gas stations closed, leading National Petroleum News to conclude, "This is in line with the continued but increased consolidation in the industry in the past year." [9]. Through consolidation, the companies have sought and achieved far greater control over how much oil gets refined into gasoline, how much gasoline is available at the pump, and how much the gasoline costs. This control is often believed to take the form of outright illegal manipulation. But proving manipulation is difficult and lawsuits that survive to trial are rare because they are notoriously difficult to win. Due to successful industry lobbying, information on refinery and gas station operations is rarely a matter of public record and is difficult to acquire.

A bill by California State Senator Joe Dunn to merely give the California Public Utility Commission the authority to monitor oil refinery production to ensure fair market competition got nowhere because, according to Dunn "The gasoline industry has an enormous voice… Too many [other legislators] were too concerned about what this industry might do in the campaign this fall." [10].

Oil companies' unparalleled financial and personnel resources allow them to crush challengers with drawn out, expensive, and complicated proceedings. When plaintiffs' victories do occur, they are often settlements with sealed proceedings that leave no public record of corporate-wrongdoing, and force future cases to begin from scratch. Chevron likes to go further, kicking losing opponents when they are down by launching countersuits to recoup legal fees that mean nothing to its bottom line but can mean bankruptcy for those who dare to challenge the company. Moreover, the federal agency charged with overseeing collusion in the industry, the Federal Trade Commission, is overrun with lawyers who take brief stints at the agency in between jobs working for or on behalf of the very companies they are supposed to regulate. [11].

In 2006 Senator Arlen Specter called for "an examination of what oil and gas industry consolidations have done to prices... We have allowed too many companies to merge together and reduce competition." Senator Dianne Feinstein concurred:

"What you have today is an oligopoly in the oil and gas industry, and I think it's disastrous for the American people. [12].

The best politician oil could buy

Chevron is among the all-time largest corporate contributors to U.S. federal elections, giving more than $10.5 million since 1990-75% of which went to Republican candidates [13].

Chevron's campaign giving reflects its areas of operations and key congressional committees. All but four of its 20 all time top recipients are Republicans, including Don Young of Alaska, Trent Lott, Tom DeLay, Kay Bailey Hutchison, and Phil Gramm of Texas , Craig Thomas of Wyoming , and Bill Thomas of California . Among the four Democrats is oil-rich Louisiana 's senator, Mary Landrieu.

But California is the site of Chevron's world headquarters as well as of half its domestic production and two of its six refineries, making it the primary focus of Chevron's campaign giving. Thus, among Chevron's top 20 list of all-time-highest recipients are senior Senator Dianne Feinstein and Representative Ellen Tauscher of California , both Democrats. Until very recently, Chevron's number one all-time recipient was Republican congressman Richard Pombo, who represented San Ramon, the location of Chevron's world headquarters, for 14 years. As Chairman of the House Resources Committee, Pombo did more than just about any other politician to support the interests of Chevron and Big Oil, earning him the number one spot on the League of Conservation Voters' "Dirty Dozen" Members of Congress list for 2006, the same year that public outrage voted him out of office.

Until 2008, 2000 was the oil and gas industry's most expensive election year ever recorded. On the eve of its Texaco merger, Chevron gave more than any other oil company to federal campaigns, with George W. Bush being its favorite candidate. Chevron and its employees contributed six times more money to George W. Bush's candidacy than to Al Gore's.

Chevron also gave to the Bush-Cheney 2001 Presidential Inaugural Committee, including a $100,000 donation by CEO David O'Reilly.

For its investment, the company received not only an oil government but also one of its own in the President's inner circle. Condoleezza Rice, first appointed Bush's National Security Advisor and then Secretary of State, served on Chevron's board of directors from 1991 to 2001 and chaired its Public Policy Committee. A Chevron supertanker was named in her honor, the SS Condoleezza Rice.

The oil and gas industry's 2008 federal election spending topped all its previous records, reaching nearly $35 million, 77% of which went to Republicans. Chevron was the third largest oil and gas company contributor that year, giving 75% of its money to Republicans. 2008 was also the most expensive presidential election for the oil and gas industry, with the industry as a whole giving nearly three times more to John McCain than to Barack Obama: $2.3 million vs. $800,000. [4].

Chevron's executives gave heavily to McCain and the Republican National Committee (RNC), with individual donations in the tens of thousands of dollars. CEO David O'Reilly, for example, gave $4,600 to John McCain (the personal limit) and another $53,000 to the RNC. [13]. However, Chevron's rank and file employees, with contributions in the hundreds of dollars, helped put Obama in the White House, causing Obama to become Chevron's all-time highest campaign recipient, just barely inching out John McCain ($75,525 vs. $74,413). Richard Pombo is now the third all-time highest recipient, followed by George W. Bush.

Chevron's executives still have something to celebrate. For, just as George W. Bush appointed a Chevron board member to be his National Security Advisor, so, too, did Obama, with the appointment of General James Jones.

Conclusion

So where do we go from here? What is the truth about the state of our economy? Do we have two parallel economies one for the rich and the other for the poor? Is the middle class being impoverished on purpose? Should we become optimistic about our economy based on Chevron's record profits, and our corporate government's sham forecasts? Is the recession truly over, as Bernanke the agent of the global corporation-banking cartel has proclaimed? Look at the facts and draw your own conclusion.

Notes

1. You tube, "A second wave of mortgage default is about to come." CBS-Sixty minutes, December 14, 2008.

2. Businessinsider.com, August 27, 2009. Coming Soon: The Alt-A Mortgage Reset Bomb.

3. Associated press, September 15, 2009. Bernanke says recession 'very likely over'

4. Global Exchange.org, 08-2009. The True cost of Chevron: An alternative annual report.

5. Bob Burtman, "Running on empty," Miami New Times, November 9, 2000.

6. Federal trade Commission, Bureau of economics, "The Petroleum Industry, Mergers, structural change, and Antitrust Enforcement," August 2004.

7. Richard Blumenthal, Connecticut attorney general, Testimony before the Antitrust Task Force of the house committee on the judiciary, May 16, 2007.

8. U.S. Department of Energy, energy Information Administration, Refinery tables.

9. NPS MarketFacts 2008, Highlights, weblink in online report.

10. Tom Chorneau, "Big Oil Lobbyists Stall Bills in Legislature that Industry Opposes," The San Francisco Chronicle, July 14, 2006.

11. Antonia Juhasz, The Tyranny of Oil, pp. 240-252.

12. Senator Arlen Specter, “Bipartisan Legislation Seeking to Foster Competition and Reduce Oil and Gas Prices Receives Committee Approval,” press release, April 27, 2006.

13. CampaignMoney.com, weblink in online report.