

Impacts of the Financial Crisis: The U.S. Is Becoming an Impoverished Nation

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Everything the Federal Reserve and the U.S. Treasury Department are trying to do to stem the tide of the self-destructing U.S. financial system is a stopgap. They are locking the barn door after the horse—many horses—have already escaped, and they know it.

They also know the cause of the crisis is not subprime mortgage lending—that was just the trigger. Cries to re-regulate the failed financial industry are coming from Congress, the media, and investors around the world. But lax regulation is not the cause of the problem either.

For now, all the Federal Reserve can do is loan more “liquidity” into the system that must eventually be collateralized by Treasury debt—that is, debt incurred by taxpayers—to cover bad loans made previously with credit which the banking system created out of thin air.

The Federal Reserve and Treasury are trying to forestall and cover up the bankruptcy of the entire U.S. economy, which already is looming. But the injection of liquidity into the system only means more loans and more interest. With more foreclosures and bankruptcies, it also means that more assets pass into the bankers’ hands.

No doubt the decision makers hope to prevent a cataclysmic meltdown, at least until after the November presidential election. President George W. Bush is being deeply discredited, because it happened on his watch. Republican presidential candidate John McCain looks more out-of-touch and clueless with each passing day.

But even though all the attention has been focused on “Wall Street”; i.e., financial institutions such as Fannie Mae and Freddie Mac, along with Bear Stearns, Lehman Brothers, Merrill Lynch, Morgan Stanley, Washington Mutual, and AIG—with more to come—none of these would have gotten into so much trouble without the nation’s banks having acted to leverage speculative investments with money they themselves generated as electronic ledger entries.

And it’s the banks—or at least some of them—that may be the next to go.

You see, the catastrophe was accomplished with money lent on margin. Only a small fraction of funding by investment banks, mortgage companies, brokerages, equity funds, hedge funds, commodities futures speculators, etc., comes from actual investor capital. The rest—up to ninety-seven percent, in the case of commodities futures contracts—is credit self-created by the banks.

Where did the banks get this credit? The answer is that they simply cranked it out through their fractional reserve privileges derived from their government charters. In fact the only way money comes into existence in this day and age is through a loan from a bank which must be repaid with interest. The loan is secured by the borrower's collateral or promise to pay. But the cumulative interest load on the economy grows exponentially. As a part of the federal budget, for instance, interest on the national debt is around \$500 billion a year and growing.

Now, even more Treasury debt is needed to stopgap the bailouts, debt which will be added to the existing \$9 trillion national debt. Some are saying this is socialism, but it is not socialism at all. Socialism is government ownership of the means of production. Building roads and operating public schools is socialism—of a benign and necessary form.

This is where we come to the real problem. The debt-based monetary system, with a debt pyramid in the tens of trillions of dollars, has been made even more dysfunctional with our loss of societal purchasing power due to the outsourcing of jobs to cheaper labor markets. When the geniuses who run our country decided to do this, they condemned our whole society to a second-class existence. The wealth of our nation is now ratcheting down to that level, even though the financial shenanigans since the 1980s postponed the day of reckoning.

Today a lot of commentators want to wag their fingers and blame ordinary working people for living beyond their means. But people have to survive and take care of themselves and their families. If they have to borrow to live, then that is what they will do. Until the loans dry up, as is happening now. We are now seeing that the economic policies of the last generation have made us an increasingly impoverished nation.

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