It's Official: The Crash of the U.S. Economy has begun

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It's official. Mark your calendars. The crash of the U.S. economy has begun. It was announced the morning of Wednesday, June 13, 2007, by economic writers Steven Pearlstein and Robert Samuelson in the pages of the Washington Post, one of the foremost house organs of the U.S. monetary elite.

Pearlstein's column was titled, "The Takeover Boom, About to Go Bust" and concerned the extraordinary amount of debt vs. operating profits of companies currently subject to leveraged buyouts.

In language remarkably alarmist for the usually ultra-bland pages of the Post, Pearlstein wrote, "It is impossible to predict when the magic moment will be reached and everyone finally realizes that the prices being paid for these companies, and the debt taken on to support the acquisitions, are unsustainable. When that happens, it won't be pretty. Across the board, stock prices and company valuations will fall. Banks will announce painful write-offs, some hedge funds will close their doors, and private-equity funds will report disappointing returns. Some companies will be forced into bankruptcy or restructuring."

Further, "Falling stock prices will cause companies to reduce their hiring and capital spending while governments will be forced to raise taxes or reduce services, as revenue from capital gains taxes declines. And the combination of reduced wealth and higher interest rates will finally cause consumers to pull back on their debt-financed consumption. It happened after the junk-bond and savings-and-loan collapses of the late 1980s. It happened after the tech and telecom bust of the late '90s. And it will happen this time."

Samuelson's column, "The End of Cheap Credit," left the door slightly ajar in case the collapse is not quite so severe. He wrote of rising interest rates, "As the price of money increases, borrowing and the economy might weaken. The deep slump in housing could worsen. We could also discover that the long period of cheap credit has left a nasty residue."

Other writers with less prestigious platforms than the Post have been talking about an approaching financial bust for a couple of years. Among them has been economist Michael Hudson, author of an article on the housing bubble titled, "The New Road to Serfdom" in the May 2006 issue of Harper's. Hudson has been speaking in interviews of a "break in the chain" of debt payments leading to a "long, slow economic crash," with "asset deflation," "mass defaults on mortgages," and a "huge asset grab" by the rich who are able to protect their cash through money laundering and hedging with foreign currency bonds.

Among those poised to profit from the crash is the Carlyle Group, the equity fund that includes the Bush family and other high-profile investors with insider government connections. A January 2007 memorandum to company managers from founding partner William E. Conway, Jr., recently appeared which stated that, when the current “liquidity environment”—i.e., cheap credit—ends, “the buying opportunity will be a once in a lifetime chance.”

The fact that the crash is now being announced by the Post shows that it is a done deal. The Bilderbergers, or whomever it is that the Post reports to, have decided. It lets everyone know loud and clear that it’s time to batten down the hatches, run for cover, lay in two years of canned food, shield your assets, whatever.

Those left holding the bag will be the ordinary people whose assets are loaded with debt, such as tens of millions of mortgagees, millions of young people with student loans that can never be written off due to the “reformed” 2005 bankruptcy law, or vast numbers of workers with 401(k)s or other pension plans that are locked into the stock market.

In other words, it sounds eerily like 2000-2002 except maybe on a much larger scale. Then it was “only” the tenth worse bear market in history, but over a trillion dollars in wealth simply vanished. What makes today’s instance seem particularly unfair is that the preceding recovery that is now ending—the “jobless” one—was so anemic.

Neither Perlstein nor Samuelson gets to the bottom of the crisis, though they, like Conway of the Carlyle Group, point to the end of cheap credit. But interest rates are set by people who run central banks and financial institutions. They may be influenced by “the market,” but the market is controlled by people with money who want to maximize their profits.

Key to what is going on is that the Federal Reserve is refusing to follow the pattern set during the long reign of Fed Chairman Alan Greenspan in responding to shaky economic trends with lengthy infusions of credit as he did during the dot.com bubble of the 1990s and the housing bubble of 2001-2005.

This time around, Greenspan’s successor, Ben Bernanke, is sitting tight. With the economy teetering on the brink, the Fed is allowing rates to remain steady. The Fed claims their policy is due to the danger of rising “core inflation.” But this cannot be true. The biggest consumer item, houses and real estate, is tanking. Officially, unemployment is low, but mainly due to low-paying service jobs. Commodities have edged up, including food and gasoline, but that’s no reason to allow the entire national economy to be submerged.

So what is really happening? Actually, it’s simple. The difference today is that China and other large investors from abroad, including Middle Eastern oil magnates, are telling the U.S. that if interest rates come down, thereby devaluing their already-sliding dollar portfolios further, they will no longer support with their investments the bloated U.S. trade and fiscal deficits.

Of course we got ourselves into this quandary by shipping our manufacturing to China and other cheap-labor markets over the last generation. “Dollar hegemony” is backfiring. In fact China is using its American dollars to replace the International Monetary Fund as a lender to developing nations in Africa and elsewhere. As an additional insult, China now may be dictating a new generation of economic decline for the American people who are forced to buy their products at Wal-Mart by maxing out what is left of our available credit card debt.

About a year ago, a former Reagan Treasury official, now a well-known cable TV commentator, said that China had become "America's bank" and commented approvingly that "it's cheaper to print money than make cars anymore." Ha ha.

It is truly staggering that none of the "mainstream" political candidates from either party has attacked this subject on the campaign trail. All are heavily funded by the financier elite who will profit no matter how bad the U.S. economy suffers. Every candidate except Ron Paul and Dennis Kucinich treats the Federal Reserve like the fifth graven image on Mount Rushmore. And even the so-called progressives are silent. The weekend before the Perlstein/ Samuelson articles came out, there was a huge progressive conference in Washington, D.C., called "Taming the Corporate Giant." Not a single session was devoted to financial issues.

What is likely to happen? I'd suggest four possible scenarios:

1. Acceptance by the U.S. population of diminished prosperity and a declining role in the world. Grin and bear it. Live with your parents into your 40s instead of your 30s. Work two or three part-time jobs on the side, if you can find them. Die young if you lose your health care. Declare bankruptcy if you can, or just walk away from your debts until they bring back debtor's prison like they've done in Dubai. Meanwhile, China buys more and more U.S. properties, homes, and businesses, as economists close to the Federal Reserve have suggested. If you're an enterprising illegal immigrant, have fun continuing to jack up the underground economy, avoid business licenses and taxes, and rent out group houses to your friends.

2. Times of economic crisis produce international tension and politicians tend to go to war rather than face the economic music. The classic example is the worldwide depression of the 1930s leading to World War II. Conditions in the coming years could be as bad as they were then. We could have a really big war if the U.S. decides once and for all to haul off and let China, or whomever, have it in the chops. If they don't want our dollars or our debt any more, how about a few nukes?

3. Maybe we'll finally have a revolution either from the right or the center involving martial law, suspension of the Bill of Rights, etc., combined with some kind of military or forced-labor dictatorship. We're halfway there anyway. Forget about a revolution from the left. They wouldn't want to make anyone mad at them for being too radical.

4. Could there ever be a real try at reform, maybe even an attempt just to get back to the New Deal? Since the causes of the crisis are monetary, so would be the solutions. The first step would be for the Federal Reserve System to be abolished as a bank of issue and a transformation of the nation's credit system into a genuine public utility by the federal government. This way we could rebuild our manufacturing and public infrastructure and develop an income assurance policy that would benefit everyone.

The latter is the only sensible solution. There are monetary reformers who know how to do it if anyone gave them half a chance.

Richard C. Cook is the author of "Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age." A retired federal analyst, his career included work with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, and NASA, followed by twenty-one years with the U.S. Treasury Department. He is now a Washington, D.C.-based writer and consultant. His book "We Hold These Truths: The Hope of Monetary Reform," will be published later this year. His website is at www.richardccook.com.

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