Sovereign Debt and the Economic Crisis: When Countries are Bankrupt…

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Sovereign debt hangs like an albatross around the necks of too many countries. There are 17 medium-size to large countries that are close to, or are bankrupt. Many are being kept solvent by using two sets of books and by marking to model. As you know we expect these bankruptcies to take place by the end of 2011. That will be accomplished at meetings such as we saw in the 1970s at the Smithsonian, the Plaza Accord of 1985 and the Louvre Accord of 1987. There will be a realignment of currencies.

America, like many other nations is mired in an inflationary depression, and even if the economy were to return to where tax revenues accelerated, we would still have a deficit of 6% to 8% of GDP. In order to have real recovery we need a public debt to GDP ratio of 3%. The problem is government refuses to cut deficit spending. Such policies curtail investment and lasting productivity growth. An economy cannot long endure a government that represents 24% of GDP. In the late 1960s we had government spending at 20% of GDP. There was a run on our gold dollar backing and on 8/15/71 gold backing had to be abandoned. Thus, you can see how difficult today's problems are. In fact during the depression it was only 10%. As you can see what we have today is a monstrous situation. Government is destroying our country and worse yet our debt can never possibly be repaid. A federal deficit of 10% of GDP cannot long be tolerated. Quantitative easing is supposed to end this month. If it is not foreigners will probably totally stop buying dollar denominated assets. That means more Fed secret buying, more monetization and more inflation to accompany the M3 increase of 29.5% in money and credit. Those actions surely will put pressure on America's AAA credit rating. America has joined the ranks of nearly bankrupt or bankrupt nations. America's finances are a giant fraud and over the next two years it will be plain for all to see.

The three best plays investment wise is to be long gold and silver related assets and to be short the general stock market, as well as bonds. Over the past two years the treasury and the Fed have spent $12.7 trillion and are liable for $23.7 trillion, so says our inspector general. Things are not getting better they are getting worse. What does government do after the stimulus and quantitative easy ends? If they do more of the same the problem will just worsen. They have no permanent solution. They are like a ship without a rudder in a stormy sea and the rocks are not far away.

Challenger says planned layoffs fell in February to the lowest level since 2006, some 42,090.

Private employers shed 20,000 in February off from 60,000 in January.

Credit card charge offs rose 112 bps to 11.37%. 60-day plus delinquencies fell for the second straight month, down 3 bps to 4.16%, as the 30-day fell 6 bps to 5.38%.

Ron Paul was on Fox with Stewart Varney where he stated a currency crisis is coming. When pressed by Varney as to what he is investing in, Paul told Varney gold. “I’ve been buying gold since 1971 at $35.00 to protect my family.”

Initial claims for state unemployment benefits dropped 29,000 to a seasonally adjusted 469,000. The economy lost 8.4 million jobs since 12/07. The 4-week moving average fell 3,500 to 470,750.

Fourth quarter non-farm productivity was up 6.9% and unit labor costs fell 5.9%.

The commercial paper market fell by $20.4 billion to $1.134 trillion.

January pending home sales fell 7.6% to 90.4 from 97.8 in December. Year-on-year it was up 12.3%.

January factory orders rose 1.7%. December’s were up 1.5%. Orders have risen for the past ten months. Transportation equipment orders rose 15%, the biggest increase since 7/09, as commercial aircraft orders soared 118.6%.

Otherwise new orders rose 0.1%; inventories rose 0.2% after falling 0.2% in December.

The monster employment Index rose 10 points m-o-m in February to 124 and y-o-y from 122.

Citigroup is suing Morgan Stanley for $245 million, alleging Morgan failed to make good on credit default swaps held by Citi. A judge will decide the outcome.

The Senate on Tuesday passed a $10 billion measure to maintain unemployment benefits for the long-term jobless and provide stopgap funding for highway programs after a holdout Republican dropped stalling tactics that had generated a Washington firestorm.

Kentucky Republican Jim Bunning had been holding up action for days but conceded after pressure intensified with Monday’s cutoff of road funding and extended unemployment benefits and health insurance subsidies for the jobless.

Bunning wanted to force Democrats to find ways to finance the bill so that it wouldn’t add to the deficit, but his move sparked a political tempest that subjected Republicans to withering media coverage and cost the party politically. Bunning’s support among Republicans was dwindling, while Democrats used to being on the defensive over health care and the deficit seemed to relish the battle.

The bill passed by a 78-19 vote. It passed the House last week and President Barack Obama is likely sign the bill into law quickly so that 2,000 furloughed Transportation Department workers can go back to work on Wednesday.

Doctors faced the prospect of a 21 percent cut in Medicare payments, and federal flood insurance programs had lapsed with Monday’s expiration of an earlier stopgap bill that passed late last year.

Tuesday’s action will provide a month-long extension of the expired programs to give Congress time to pass a yearlong — and far more costly — fix that’s also pending.

Without the legislation, about 200,000 jobless people would have lost federal benefits this week alone, according to the liberal-leaning National Employment Law Project. Jobless people normally get 26 weeks of unemployment benefits and 20 more weeks in states with higher unemployment rates. The legislation extends several additional layers of benefits added since 2008 because of the stubborn recession.

The ISM non-manufacturing purchasing manager’s index indicates that the US service sector had a better-than-forecast February rising to 53.0 from 50.5 in January. The market had only expected a more moderate improvement to reach 51.0.

The US lost 20,000 jobs in February versus January’s destruction of 60,000 jobs, which was revised down from the 22,000 jobs eliminated originally reported, according to the ADP employment report.February’s decline is the lowest since the the US economy began shedding jobs at a historic rate in February 2008. The report also indicated that the US could turn the corner in March and see job growth for the first time in two years.

U.S mortgage rates retreated below 5 percent last week, propping demand for home loans after purchase applications sank to a nearly 13-year low the prior week, Mortgage Bankers Association data showed on Wednesday.

February’s volatile swings in housing demand comes on the heels of a steep January sales slump, blamed mainly on unusually harsh winter weather.

The industry group’s market index, which measures requests for loans to buy homes and refinance, rose by a seasonally adjusted 14.6 percent in the week ended Feb. 26 to the highest level since mid-December.

Purchase applications increased 9 percent while refinancing requests jumped 17.2 percent last week as average 30-year mortgage rates fell 0.08 percentage point to 4.95 percent.

“Mortgage applications rebounded last week, particularly refis, as rates dropped back below 5 percent,” Michael Fratantoni, vice president of research and economics at MBA, said in a statement. “Purchase activity remains subdued, with application volumes remaining within the narrow range seen in the last few months.”

Gov. Jan Brewer wants Arizonans to volunteer to provide some of the social services being reduced by the state’s budget crisis.

Brewer on Tuesday announced creation of a task force to coordinate efforts by religious groups and other nonprofits to serve the elderly and other people needing assistance.

Brewer’s office says volunteer activities where organizations could help include foster parenting, supervising child visitations, providing transportation and helping with care for the elderly and children from low-income families.

Arizona has cut social services to help reduce big budget shortfalls.

Brewer says she hopes the state “can reach out and get a lot of volunteers” and that their efforts “will change peoples’ lives.”

House Financial Services Committee Chairman Barney Frank asked Federal Reserve Chairman Ben S. Bernanke to investigate allegations of Fed involvement in the Watergate scandal and Iraqi weapons purchases in the 1970s and 1980s.

Representative Ron Paul asked questions about "inappropriate political interference" and "hidden transfers of resources" during a Feb. 24 hearing with Bernanke, and the allegations "must be fully investigated," Frank said in a letter today to Bernanke and obtained by Bloomberg News.

Frank, 69, said the Fed must address the charges because "continued concern about political interference" with the Fed and "allegations about a lack of transparency." Bernanke and other Fed officials are trying to fend off a measure offered by Paul, which passed the House in December, that would open the Fed to audits of interest-rate decisions.

"These specific allegations you've made I think are absolutely bizarre, and I have absolutely no knowledge of anything remotely like what you just described," Bernanke told Paul, a Texas Republican who wrote the 2009 book "End the Fed," during last week's hearing.

Bernanke, 56, joined the Fed in 2002 as a governor and was appointed chairman in 2006. The Senate confirmed him for a second four-year term in January by a 70-30 vote.

"The Federal Reserve's ability to manage monetary policy in an effective manner depends, in large part, on its reputation for independence and integrity," Frank, a Massachusetts Democrat, said in the letter. "A complete investigation of these charges is necessary to maintain both."

California lost far more jobs last year than the state initially reported, according to a new report that provides an early glimpse into statewide employment trends.

"The economy was a lot worse than everybody thought," said Howard Roth, chief economist with the state's Department of Finance. "The job market is weaker than we figured."

According to an estimate from the state Employment Development Department, California employers shed 871,000 jobs in 2009. If that estimate holds up when final revisions are released this month,

California's job losses would be far more grim than first believed. The agency reported as recently as Jan. 22 that California employers chopped 579,000 jobs from payrolls in 2009. That would translate into 292,000 more lost jobs.

Why are job losses so much worse than first thought? The EDD's monthly estimates depend in part on the number of employers it believes exist in California at a given time. But the recession has erased numerous companies. "Businesses went away and no longer existed that we originally thought were there," said Dennis Meyers, an economist with the state finance department… [Their guesses were bogus.]

The American Thinker: Secretary Geithner's Got Some Explaining to Do The problem Geithner knew he had to confront, however, was that the FED was not authorized to take ownership in AIG or any other financial institution. The law authorized the FED only to loan money and take collateral. While the FED might end up with ownership after a default and foreclosure on the collateral, the Federal Reserve Act does not authorize the NY Fed to structure the debt deal with an equity piece.

So what did Geithner do? He took equity, but he used a fictitious “Trust” to accomplish that which he could not do legally. The AIG Credit Facility Trust has three so-called independent, non-governmental trustees owning the 77.9% of the legal interests of AIG, and the Trust agreement assigns the U.S.

Treasury the beneficial interests in the 77.9%. The highly-touted “independence” of the trustees is quite obviously critical to save the Trust from the claim that it is merely a ruse for FED ownership and control.

But there is only one problem with this Trust structure: It is invalid and illegal for two important reasons, not the least of which is that its independence is nonexistent.

Specifically, the Trust Agreement includes a hardly-noticed section 1.03, which gives the FED absolute authority over the Trust’s existence and its terms, effectively granting the FED control over the actions of the trustees. By any legal definition, this is not a valid independent trust. This means, at the very least, that the FED is the real owner of the legal interests in 77.9% of AIG’s equity, and this is, as Geithner himself testified before the Senate Banking Committee in April 2008, not legal.

A report warns that the country is now immersed in a “doomsday cycle” wherein banks use borrowed money to take massive risks in an attempt to pay big dividends to shareholders and big bonuses to management – and when the risks go wrong, the banks receive taxpayer bailouts from the government.

“Risk-taking at banks,” the report cautions, “will soon be larger than ever.”

The Institute’s chief economist, Nobel Prize-winner Joseph Stiglitz, called the report “an important point of departure for a debate on where we are on the road to regulatory reform.”

The report blasts some of Washington’s key players. Writes Johnson, “Our government leaders have shown little capacity to fix the flaws in our market system.” Two other panelists, Simon Johnson, a professor at MIT, and Peter Boone of the Centre for Economic Performance, voiced similar criticisms.

Federal Reserve chairman Ben Bernanke and Treasury Secretary Tim Geithner “oversaw policy as the bubble was inflating,” write Johnson and Boone, and “these same men are now designing our ‘rescue.'”

An average 345 companies filed per day in February – 6,557 businesses that filed for relief from creditors in February, according to Automated Access to Court Electronic Records (AACER), a database of U.S. bankruptcy statistics.

First, the category of “personal consumption expenditures” includes pretty much all of the $2.5 trillion healthcare spending, including the roughly half which comes via government. When Medicare writes a check for your mom’s knee replacement, that gets counted as consumer spending in the GDP stats.

At a time when we are wrangling over health care reform, it’s misleading to say that “consumer spending is 70% of GDP”, when what we really mean is that “consumer spending plus government health care spending is 70% of GDP."

According to a 2008 book, "Deception and Abuse at the Fed," by University of Texas Professor Robert D. Auerbach, then-Fed Chairman Arthur Burns tried to block lawmakers' probes into the source of $6,300 found on the burglars of the Democratic National Committee's offices in Washington's Watergate complex in 1972. Burns, who served as Fed chief from 1970 to 1978, died in 1987.

Auerbach worked for Henry Gonzalez, a former chairman of the House committee who died in 2000 and investigated the sale of U.S. arms to Iraq in the 1980s, before the Gulf War. Gonzalez said the Fed and other agencies initially tried to block his probe, according to a 1992 New York Times article.

Fed bank examiners in Atlanta failed to note $5.5 billion being funneled to Iraq from a local branch of an Italian bank, Auerbach, a critic of the central bank and former congressional economist, said in his book.

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Police in Delaware say a man angry about his sewer bill was arrested after he suggested someone should crash a plane into a county government center.

New Castle County police say 45-year-old Darren Spayd of Newark got upset Tuesday after being assessed a late fee.

Police say he started cursing at county workers and threw the change he had received back at one. Police say several employees overheard him suggesting someone should fly a plane into the building.

A Texas man angry with the Internal Revenue Service recently flew a plane into an office building in Austin, killing himself and one IRS employee.

Spayd was charged with disorderly conduct and terroristic threatening. He was released on $2,500 bail and ordered to have no contact with the government center. No phone number was listed for him.

The U.S. unemployment rate held at 9.7 percent and payrolls fell less than forecast, indicating the labor market strengthened even as East Coast snowstorms forced some employers to temporarily close.

Payrolls dropped 36,000 last month after a revised 26,000 decrease in January, figures from the Labor Department in Washington showed today. Manufacturers added workers for a second straight month, the first back-to-back gain since 2006, while construction companies fired workers.

The unemployment rate held at 9.7 percent in February as employers shed fewer jobs than expected, evidence that the job market may be slowly healing.

A Subscriber sent the following: CNBC was commenting on the job figures and the government said if somebody works 1 hour in 14 days that is considered being employed. It’s a joke. Ok just wanted to share this with you.

Couples now fight about the financial burden.

Thanks to plummeting property values, divorcing couples now find themselves fighting for the right not to keep the house.

The crippled real estate market has turned once-valuable assets into huge financial burdens. Homes bought at or near the peak of the housing market in 2005-2006 have lost tens of thousands of dollars in value in just a few years, forcing many discordant couples to keep a painful reminder of a failed relationship.

“Instead of fighting over the house, we’re fighting over who gets stuck with it,” said Steve Halbert, 57, an Arlington homeowner going through a divorce.

Halbert and his wife bought their house in 2006, shortly before their marriage and the housing market took a turn for the worse.

“We thought we’d be walking away with hundreds of thousands of dollars in equity. But there is no equity,” he said.

As a four-time divorce — and a real estate appraiser — Halbert said he’s accustomed to heated legal battles over property ownership.

But unlike his first three trips to divorce court, Halbert said he’s hoping to lose possession of his house this time around.

Divorce lawyers across Washington say Halbert’s situation is common, thanks to the tumble in the housing market.

“Anybody who practices in this area has seen the same thing,” said divorce lawyer Hughie Hunt, who represents clients in Maryland and the District.

Lawyer Michelle Thomas said the drop in home values and the resulting financial strife have translated to more contentious divorce negotiations for her clients in D.C. and Virginia.

“Homes had always been an asset, until the last two years or so,” Thomas said. “You had a situation where there was $100,000 or $200,000 of equity in a house to be divided, and that’s not the case anymore.”

Now, the opposite is true.

“I had some folks that bought a home and then ended up splitting up, and the home hasn’t been worth enough to sell. They ended up renting it for a loss,” said Chris Upham, a Coldwell Bank real estate agent who works throughout the region. “That’s something I’ve seen a lot lately.”

Jessie Peterson and her husband, Jeff Holmberg, who are separating, bought their Northeast Baltimore home in 2007, and then watched helplessly as it lost 10 percent of its value.

Peterson said arguments about the house made an already-difficult situation a lot tougher.

“You’re at each other’s throats. You’re dealing with this huge burden of this house with absolutely no solutions,” Peterson, 30, said of the arguments she and Holmberg had about what to do with their house. “It’s hard to maintain any kind of peace when you’re in that situation.”

Peterson said she and her husband hadn’t built up any equity in their home, so refinancing wasn’t an option. Filing for foreclosure would have damaged the couple’s credit, so they had to work out another solution.

Holmberg agreed to take possession of the house and the mortgage. But, at least for now, Peterson’s name will stay on the deed, an arrangement that leaves her feeling “terribly uncomfortable,” though happy to move on.

Likewise, Halbert said the financial mess involving his house made a bad situation much worse.

“It became the biggest thorn between us,” he said, chuckling at the irony of his situation. “We’ve ended up fighting a lot over this.”

After stalling briefly, the Democrats’ jobs agenda regained momentum on Thursday as the House passed one measure designed to boost employment and the Senate pressed forward on a more ambitious bill that is expected to come to a vote next week.

The House voted 217 to 201 to approve a $15 billion measure that would give tax breaks to companies for hiring new employees. Six Republicans joined the vast majority of Democrats in supporting the bill, which also includes a one-year reauthorization of the law governing federal highway funding, as well as an expansion of the Build America Bonds program and a provision allowing companies to write off equipment purchases.

More than 30 Democrats voted against the measure. Liberals complained that it is too small and too focused on tax cuts rather than on spending.

Fannie Mae and Freddie Mac may force lenders including Bank of America Corp., JPMorgan Chase & Co., Wells Fargo & Co. and Citigroup Inc. to buy back $21 billion of home loans this year as part of a crackdown on faulty mortgages.

That’s the estimate of Oppenheimer & Co. analyst Chris Kotowski, who says U.S. banks could suffer losses of $7 billion this year when those loans are returned and get marked down to their true value. Fannie Mae and Freddie Mac, both controlled by the U.S. government, stuck the four biggest U.S. banks with losses of about $5 billion on buybacks in 2009, according to company filings made in the past two weeks.

The surge shows lenders are still paying the price for lax standards three years after mortgage markets collapsed under record defaults. Fannie Mae and Freddie Mac are looking for more faulty loans to return after suffering $202 billion of losses since 2007, and banks may have to go along, since the two U.S.- owned firms now buy at least 70 percent of new mortgages.

“If you want to originate mortgages and keep that pipeline running, you have to deal with the push-backs,” said Paul Miller, an analyst at FBR Capital Markets in Arlington, Virginia, and former examiner for the Federal Reserve. “It doesn’t matter how much you hate Fannie and Freddie.”

Freddie Mac forced lenders to buy back $4.1 billion of mortgages last year, almost triple the amount in 2008, according to a [Feb. 26 filing](). As of Dec. 31, Freddie Mac had another $4 billion outstanding loan-purchase demands that lenders had not met, according to the filing. Fannie Mae didn't disclose the amount of its loan-repurchase demands. Both firms were seized by the government in 2008 to stave off their collapse.

February Average Hourly Earnings up 0.1% M-o-M and 1.9% Y-o-Y.

US average weekly hours 33.1 in February vs. 33.3 in January.

The Federal Reserve received the most loan requests in six months from investors for the final round of its program that unlocked the market for asset-backed securities.

About $4.1 billion in lending was sought, including $1.8 billion for financing of student-loan securities, the New York Fed said yesterday on its Web site. In total, about $7.1 billion of sales this week were of securities that included eligible classes, according to data compiled by Bloomberg.

CIT Group, SLM Corp., Ford Motor Co. and Chrysler Financial Corp. were among borrowers selling TALF-eligible debt, including securities backed by student loans without government guarantees, lending to car dealerships and equipment leases. The program, begun a year ago with asset-backed bond sales frozen, is no longer needed for much of the market, said Bryan Whalen, a managing director at money manager TCW Group Inc.

"A year ago, 9 out of 10 issuers couldn't come to market in the credit-card or auto space without TALF; today, 9 out of 10 can," Whalen said yesterday in an interview at Bloomberg News headquarters in New York. "It's just the outlier, the remote weird asset class that needs TALF to get done."

U.S. consumers increased their debt in January for the first time in a year, the Federal Reserve reported Friday. Total seasonally adjusted consumer debt rose $4.96 billion, or at a 2.4% annual rate, in January to $2.46 trillion. Economists surveyed by MarketWatch expected consumer credit to decline by $6 billion in January. This is the first increase since January 2009 and the biggest since July 2008. After the financial crisis deepened in the fall of 2008, the economy fell into recession and consumers stopped spending and worked down their debt levels. On a year-on-year basis, consumer credit is down 4.2%. The increase in January was led by non-revolving debt, such as auto loans, personal loans and student loans, which rose $6.62 billion or 5%. Credit-card debt fell $1.67 billion, or 2.4%, to $864.4 billion. This is the record 16h straight monthly drop in credit card debt.

Pending Homes Sales tanked 7.6% m/m in January. +1% was expected.

As we warned several years ago and re-warned recently, US businesses are cannibalizing future sales in order to survive today. But this ensures future calamity.

The US government rescued or tried to rescue some industries over the past year. But their stimulus schemes and incentives once again cannibalized future sales. So the housing and auto industries once again face a possible sated-demand problem.

The Fed's balance contracted $5.982B due to the Fed's unexpected SELLING of $5.732B of MBS. The Fed did monetize $957.926m of agencies. http://www.federalreserve.gov/releases/h41/Current/

February non-farm payrolls (36K)Some notable trends in the numbers:

*Average hours worked fell one tenth to 33.8 hours, which may have been impacted by the 1M people that the BLS said missed some work due to weather (vs 290K on average in February).•Manufacturing payrolls rose 1K, the second straight increase.

•Construction payrolls continued to fall, falling 64K after a 77K decline in January, though weather may well have been a factor.

•Service payrolls rose 42K, led once again by temp help, which rose 48K. The temp category has been the strongest in recent months, averaging a 57K monthly gain over the past five months of increases.

•In the notoriously volatile household survey, the labor force rose 342K and employment rose 308K, leaving the unemployment rate unchanged at 9.7%. [Temporary jobs rose 48,000 in February.]

Idaho tax revenue is $41M behind estimates.

North Carolina tax collections down $35M as consumers cut spending.

Florida's budget gap could be as high as $3.2 billion.

Stiglitz, Nobel Prize-Winning Economist, Says Federal Reserve System 'Corrupt'

http://www.huffingtonpost.com/2010/03/03/stiglitz-nobel-prize-winn_n_484943.html

Today, the International Monetary Policy and Trade Subcommittee approved H.R. 4573, the Debt Relief for Earthquake Recovery in Haiti Act, introduced by Rep. Maxine Waters (D-CA). The bill would require the Secretary of the Treasury to instruct the U.S. Executive Directors at the International Monetary Fund (IMF), the World Bank, the Inter-American Development Bank (IDB), and other multilateral development institutions to use the voice, vote, and influence of the United States to do the following:

1-cancel immediately and completely all debts owed by Haiti to these institutions;

2-suspend Haiti's debt service payments to the institutions until such time as the debts are canceled completely; and

3-provide additional assistance to Haiti in the form of grants so that Haiti does not accumulate additional debts.

The United States has called on the IMF to cancel Haiti's debt to the IMF using the institution's own internal resources, and H.R. 4573 directs the Secretary of the Treasury to instruct the IMF's US executive director to advocate the use of some of the realized windfall profits from the sale of IMF gold, which was authorized by Congress last year, to provide debt stock relief, debt service relief and grants for Haiti. The measure also calls upon the Administration to use all appropriate diplomatic influence to secure complete cancellation of any remaining bilateral, multilateral and private creditor debt owed by Haiti.

If you think this proposal has merit, please pass it along to all of your email friends.

This is a great plan. Pass it around and see if it develops legs.

There is power in the internet.

Here is a proposal to promote a "Congressional Reform Act of 2010." It would contain eight provisions, all of which should be strongly endorsed by the constituents of the members of both houses.

Many of you will say, "this is impossible." Remember, congress has the lowest approval of any entity in government and now is the time for Americans to join together to reform congress – the entity that supposedly represents us.

We need a senator to introduce this bill in the US senate and a representative to introduce a similar bill in the US house. Please contact your senators and congressmen.

If all else fails, something like this needs to be added to the ballot for the next election.

After what's been going on for the past few years, surely the American public will vote for these changes.