Systemic Failure: Capitalism "Lays An Egg"

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After the 1929 October 24, 28 and 29 market crash, the weekly entertainment industry magazine Variety (on October 30) published its most famous ever headline: "Wall Street Lays an Egg." In October 2008, history repeated, and since the October 2007 peak, equity prices plunged over 50% after the Dow and S & P (in February) posted their second worst ever monthly percentage declines – topped only in 1933 during the depths of the Great Depression. So far, the current market drop matches its 1929 – 1932 pace, and like then, shows no signs of abating.


STAGE BROADWAY SCREEN

VARIETY

PRICE 25¢.

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WALL ST. LAYS AN EGG

Going Dumb Is Deadly to Hostess In Her Serious Dance Hall Profesh

A hostess at Roseland has her problems. The paid steppers consider their work a definite profession calling for specialized technique and high-power" salesmanship.

"You see, you gotta sell your personality," said one. "Each one of we girls has our own clientele to cater to. It's just like selling dresses in a store—you have to know what to sell each particular customer.

"Some want to dance, some want to kid, some want to get soupy, and others are just 'misunderstood husbands'."

Girls applying for hostess jobs at Roseland must be 21 or older. They must work five nights a week. They

Hunk on Winchell

When the Walter Winchells moved into 204 West 55th street, late last week, June, that's Mrs. Winchell, selected a special room as Walter's exclusive sleep den for his late hour nights. She shushed the Winchell kidlets when her husband dove in at his usual eight o'clock the first morning.

At noon, Walter's midnight, his sound proof room was penetrated by so many high C's he awoke with but four

DROP IN STOCKS ROPES SHOWMEN

Many Weep and Call Off Christmas Orders—Legit Shows Hit

MERGERS HALTED

The most dramatic event in the financial history of America is the collapse of the New York Stock Market. The stage was Wall Street, but the onlookers covered the country. Estimates are that

Kidding Kissers in Talkers Burns Up Fans of Screen's Best Lovers

Talker Crashes Olympus

Paris, Oct. 29.

Fox "Follies" and the Fox Movietone newsreel are running this week in Athens, Greece, the first sound pictures heard in the birthplace of world culture, and in all Greece, for that matter.

Several weeks ago, Variety's Cairo correspondent cabled that a cinema had been wired in Alexandria, Cleopatra's

Boys who used to whistle and girls who used to giggle when love scenes were flashed on the screen are in action again. A couple of years ago they began to take the love stuff seriously and desisted, but the talkers are reviving the ha ha for film osculators.

Heavy loving lovers of silent picture days accustomed to charming audiences into spasms of silent ecstasy when kissing the leading lady are getting the bird instead of the heartbeat. The sound accompaniment is making it tough.

Such a picture romancer as John Gilbert is getting laughs in place

With world economies collapsing, stocks are still overvalued by every metric – dividends, price to book, sales, free cash flow, or earnings based on GAAP (Generally Accepted Accounting Principals) or "reported" earnings, not "operating" ones, easily manipulated to exclude "write-offs." By the mid-late 1990s, companies switched to the latter method to hide over-valuations. The practice still continues to let expensive stocks masquerade as cheap ones and make the market overall look attractive to the unwary.

After the 1929 crash, newspapers reflected the mood like the Chicago Tribune headlining: "Roaring Twenties grind to a halt and a new era of hard times begins." Variety reported that "Broadway T(ook) the Slap" and New York "nite clubs, speaks & dives (echoed) market cataclysm." Its Cairo correspondent cabled that a "cinema had finally been wired in Alexandria, Egypt, Cleopatra's hometown," so the paper quipped: "Only Sodom and Gomorrah remain(ed) to be heard from."

The comment resonates today on a global scale when never have such best and brightest teams done so much for so few, so little for so many, and so greatly harmed world economies in the process – for eight years under George Bush, now continuing under Obama with no end to it in sight. The result – a likely Great Depression II that will match or surpass the worst of the first one. What Michel Chossudovsky calls "The Great Depression of the 21st Century: Collapse of the Real Economy (affecting) all sectors" globally because solutions are contributing to "further collapse," too many "experts" remain in denial, and bad policies follow failed ones.

On February 28, Warren Buffett told shareholders that 2008 was Berkshire Hathaway's worst year, and he's "certain that the economy will be in shambles throughout 2009 – and, for that matter, probably well beyond…." As for government responses so far, his comment reflected gloom: "Economic medicine previously meted out by the cupful has recently been dispensed by the barrel. These once-unthinkable dosages will almost certainly bring on unwelcome aftereffects."

Perhaps this is what he has in mind: Given current conditions and the pace of continued decline, America and world economies face a possible synchronized global collapse, yet few come out publicly and say it.

Marx did in foreseeing much of what's happening today:

— the inevitable monopoly control of production, commerce, and finance;

— a reserve army of exploited low-paid labor;

— a class struggle between "haves" and "have-nots;"

— capitalism's internal contradictions: exploiting and alienating the many for the few;

— its crisis-prone nature: unstable, "anarchic," ungovernable, self-destructive with booms creating bubbles creating busts, then depressions; and ultimately

— its inevitable decay and demise because a system so corrupted can't endure; a socialist revolution (he believed) will replace it based on greater freedom, inclusion, and equality.

During the depths of the Great Depression, Franklin Roosevelt delivered his March 4, 1933 inaugural address and said what applies to today:

"This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country today….Values have shrunken to fantastic levels….our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side….the savings of many years of thousands of families are gone."

"More important, a host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment."

"Primarily this is because the rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers indicted in the court of public opinion, rejected by the hearts and minds of men....Faced by failure of credit they have proposed only the lending of more money (and exhortations) to follow their false leadership. They have no vision, and when there is (none) the people perish."

"The money changers have fled from their high seats in the temple of our civilization. We may now restore (it. Doing it will involve) the extent to which we apply social values more noble than mere monetary profit....there must be an end to a conduct in banking and in business which too often (results in) callous and selfish wrongdoing. (We need) action and now....to put people to work....(by redistributing land to those) best fitted (to use it (and) by preventing the tragedy of....foreclosure of our small homes and our farms."

We need in place "safeguards against a return of the evils of the old order; there must be strict supervision of all banking and credits and investments; there must be an end to speculation with other people's money, and there must be provision for an adequate but sound currency....For the trust reposed in me, I will return the courage and the devotion that befit the time. I can do no less."

Roosevelt later saw poverty's spreading scourge, "millions of families trying to live on incomes so meager that the pall of family disaster (hung) over them day by day....one-third of the nation ill-housed, ill-clad, and ill-nourished." The same specter haunts millions today, but there's no Rooseveltian leadership to address it.

On February 21, Reuters reported that George Soros said the world financial system has effectively disintegrated, and there's no prospect of near-term crisis resolution. He called the turbulence worse than in the Great Depression and said Lehman Brothers bankruptcy was a turning point in "the collapse of the financial system. It was placed on life support, and it's still (there)."

On the same day at a Columbia University conference, Paul Volker couldn't "remember any time, maybe even in the Great Depression, when things went down quite so fast, quite so uniformly around the world." He cited industrial production falling faster globally than in America because of the fallout from unbridled financial markets. "It's broken down in the face of almost all expectation and prediction," and greater regulation is coming as a result.

"In the future, we are going to need a financial system which is not going to be so prone to crisis and certainly not prone to the severity of a crisis of this sort. (It will) be different from the (one) that has developed in the last 20 years." Its "primary characteristic (should be) a strong, traditional, commercial banking-type system....to service customers, individuals, businesses and governments by providing outlets for their money and by providing credit."

This should be their core business, the same as in America 30 years ago and under closer regulation. Risky "entrepreneurial activity" should be out. Big and small commercial banks must stick to their knitting and not operate like hedge funds or casinos. Mostly what's needed is stability in place of recklessly pursuing profits at the risk of a global economic collapse.

Obama Responds

Since taking office on January 20, Obama has been a caricature of a leader, a Manchurian candidate president, a front man for a criminal Wall Street – government partnership. The latest Zogby poll showed only 27% believe his stimulus will help them, and just 23% have confidence in either party.

In Obama's nationally televised February 24 address to a joint session of Congress, contrast his comments to FDR's, He:

— downplayed the crisis;

— vowed "We will rebuild, we will recover, we will emerge stronger than before;"

— cited our unique greatness – "the greatest force of progress and prosperity in human history;"

— defended trillions for bankers with "more (coming) than we've already set aside:" from a TARP II providing "commitments exceeding $2 trillion" plus another trillion or more from a so-called Public-Private Investment Fund (PPIF) offering sweetheart deal guarantees and financing to investors to buy toxic bank assets at bargain basement prices;

— ignored the most serious unaddressed problems: decades of accumulated debt and the bad asset overhang in the hundreds of trillions that all proposed plans barely dent;

— blamed "people" for "spend(ing) more money and pil(ing) up more debt….than ever before;"

— ignored Wall Street's criminal excess and fraud, and
the looting of the Treasury to reward them; said nothing about a corrupted system that should be scrapped for a fair one;

— offered nothing in the way of a New Deal approach; instead offered an anti-New Deal by promising to shrink the deficit to $533 billion, or 3% of GDP, by 2013; doing it means cutting social programs like Social Security, Medicare, and Medicaid; what FDR provided, Obama may take away;

— defended his counterproductive policies with new ones piling more abuses on the others and increasing the debt burden instead of reducing it;

— lied that they're "not about helping banks – (they're) about helping people;" and

— was silent on his hidden agenda for business at the expense of working Americans and the millions criminally defrauded out of jobs, savings, homes, pensions, and futures.

In today's popular jargon, America failed its "stress test."

Yet, Obama audaciously ended by saying:

"….some day, years from now, our children can tell their children that this was the time when we performed, in the words that are carved into this very chamber, "something worthy to be remembered."

His comments followed Fed chairman Bernanke's earlier in the day's prepared semi-annual monetary policy report to Congress saying:

"If actions taken by the Administration, the Congress, and the Federal Reserve are successful in restoring some measure of financial stability….there is a reasonable prospect that the current 'recession' will end in 2009 and that 2010 will be a year of recovery."

He also said the nation's largest banks aren't "zombies" when, in fact, at least the top 20 are insolvent and need bailout help to keep operating. Earlier, he saw no market bubbles and said high home prices reflected a strong economy.

A Planned Public Response

On April 3 and 4, the Bail Out the People Movement" plans a national march on Wall Street on the anniversary of Martin Luther King's assassination. His message was:

"Rise up against wars of colonial conquest.

Fight for the right of all to a job or an income."

Nationally, more than 50 organizing centers are involved in response to the growing crisis; an absence of leadership in Washington; and an agenda of foreign wars, occupation, and rewarding criminal bankers and the rich at the expense of millions of distressed households.

"Working people must organize independently to Bail Out People, Not Banks. It's time to march on Wall Street," to denounce this injustice and act.

Visit www.BailOutPeople.org for full information on getting involved, a list of endorsing organizations, and information on organizing centers in a growing number of states, including New York, California, Illinois, Michigan, Pennsylvania, Texas, Florida, and Ohio.

In Denial Over the "D" Word

In the dominant media, inconvenient truths are suppressed, denied or delayed until they're too explosive to ignore. Even then, coverage is way short of explaining that we're in the early stages of the greatest ever economic decline. Policy makers are flying blind to contain it. They can't grasp its gravity. All measures tried have failed, and capitalism's ideological roots are at stake. For economist Richard Wolff – "Capitalism Hit the Fan," unworkable, unjust, and spreading global chaos everywhere with frightening speed.

What began as a financial crisis has now exploded with even some mainstream economists predicting a global "depression," and IMF chief Dominique Strauss-Kahn saying advanced economies are already in one.

Perhaps others will admit it after the UK Telegraph's February 26 headline: "Moody's predicts default rate will exceed peaks hit in Great Depression" when it reached 15.4%. The risks are enormous because "we are in unchartered territory….If the economy deteriorates more than expected," the rate could top 20% and be even higher in Europe – for all "non-investment grade issuers."

Merrill Lynch's David Rosenberg used the "D" word earlier in his end of January commentary titled: "Some inconvenient truths."

Not your father's recession he said, but "maybe your grandfather's….We are likely enduring a depression today," and while there are no official definitions, we've had them before – four in the 19th century and a great one in the 20th.

Recessions are generally defined as two or more consecutive GDP contracting quarters although some economists prefer measures of the relative strength or weakness of production, employment, retail sales, and so forth.

For economist John Williams, a depression is a period where inflation-adjusted peak-to-trough contraction exceeds 10%, and in a great one it's 25%.

Duration is also important. On average, recessions last about 18 months. For Rosenberg, depressions last "anywhere from three to seven years" or longer "and tend to follow years of leveraged prosperity proportions" like the period between 2002 – 2007.

Recessions are typically "inventory cycles," while depressions feature "balance sheet compression and deleveraging: debt elimination, asset liquidation, and rising savings rates." When credit expansion becomes a bubble, "the distance to the mean is longer and deeper" with upside excesses producing comparable or greater ones on the downside.

Clearly, we're way beyond a classic recession after a year and a half of massive stimulus, capital injections, "unprecedented interest rate relief," and various other measures producing no end in sight "or any signs of normalcy returning to credit."

Based on reverse-engineering the data, Williams guages unemployment at 18% when discouraged and part-time workers are included. Rosenberg says 13.5%, but either figure far exceeds the official fictitious 7.6%. Rosenberg also places idle manufacturing capacity at 30%, a level reached only once previously in the past five decades.

As for stimulus, Rosenberg sees little impact either from tax cuts or infrastructure spending. The latter "comes with a long gestation period" unlikely to be felt until "well into 2010." It also falls short of boosting long-term growth. With all proposed monetary and fiscal stimulus, the economy will still "be saddled with roughly $1 trillion of excess capacity" by year end.

So far, around $1 trillion in debt has been written off. It's not enough. We're "still in the early stages of credit contraction (and) have no idea when the credit cycle will hit bottom." Before it does, "more than $6 trillion in private sector debt must be eliminated." Time, likely years, are needed for resolution, but the Obama administration plans don't address it.

Going forward, households, especially "boomers," will stress "frugality," not "frivolity." Apres le deluge, saving for retirement is crucial as deflated assets and lost pensions won't provide it.

Here's more:

— Federal Reserve surveys show household credit demand declining to the lowest level on record while debt is at "near-record levels relative to after-tax incomes" and so is the debt-servicing burden;

— 10% of borrowers are in arrears or foreclosure;

— bank delinquency rates are the highest in 15 years and rising; the earlier S & L crisis was pocket change compared to now;

— credit card delinquencies are at an all-time high at a time the overall credit quality index "collapsed to an all-time low;"

— this begs the question: how can banks lend when households can't and won't borrow; "bringing households to the well doesn't mean they will drink;"

— despite much lower home prices, affordability ratios the best in over 35 years, and attractive mortgage rates, the record low National Association of Home Builders (NAHB) homebuilding index showed "residential real estate (perceptions) have changed;"

— on February 24, the latest Conference Board consumer confidence index explained why; it plunged from 37 in January to 25 in February, its worst reading ever, and one year ago it was 76; the Economic Outlook Group's Bernard Baumohl called it a "catastrophic collapse of confidence in the economy" even after all measures the Obama administration announced;

— it also explains "a secular (attitude) change toward consumption;" after peaking last summer, it declined at a 15% annual rate; even food is affected with consumers choosing tuna over trout and spaghetti or Spam over steak or shrimp;

— households have been devastated by a 20% hole in their balance sheets, or a cumulative $13 trillion net worth loss as of January 1; it's the first time this happened since the 1930s; Rosenberg sees it hitting $20 trillion by year-end 2009, a level on a par with the Great Depression with no end of this in sight; this "permanent shock" is a harbinger of "sustained consumer contraction in coming years;"

— household savings are rising but still unsustainably low (at under 3%) and will likely head toward earlier 10 – 12% levels; "there are no more rabbits to be pulled out of the hat" to encourage spending; the effect will be powerfully deflationary "for some time."

Paulson and Geithner's Violation of US Law

Specifically – Title 12, Chapter 16, Sec. 1831o of the US Code collection that Economics Professor and former Senior government regulator during the earlier troubled S & L period William K. Black discussed in his February 23 Huffington Post article titled: "Why Is Geithner Continuing Paulson's Policy of Violating the Law?"

Well before they're insolvent or when serious problems are suspected, US law "mandat(es) that the administration place troubled banks....in receivership, appoint competent managers, and restrain senior executive compensation" to prevent bonuses, huge salaries, raises, and undeserved benefits from being paid.

No provision says taxpayers should bail out bankers. Yet Paulson and now Geithner keep doing it, using vast sums kept secret – both in amounts and to whom beyond the handful of big names made public.

Geithner was at it under Bush. As New York Fed president, his responsibility was "to regulate many of the largest bank holding companies in the United States. Far too many of (them) are deeply insolvent because" they own insolvent banks. "The law mandates that" they be placed in receivership, yet as Treasury Secretary Geithner continues to violate it.

Under George Bush, congressional oversight largely stopped at the cost of today's crisis. According to some, the worst is yet to come because of criminal negligence and complicity at the highest levels of government.

"Secretaries Paulson and Geithner subverted the law by allowing failed banks to engage in massive accounting fraud (including securities fraud)."

In a follow-up February 25 article, Black explained that the FBI warned of a mortgage fraud "epidemic" in September 2004 and reported that "lenders initiated 80% of these frauds....Financial control frauds' 'weapon of choice' is accounting." It flourishes in a deregulatory climate when (as the title of Wheeler and Rothman's 1982 book suggests): "The Best Way to Rob a Bank is to Own One."

The FBI spotted it in time to stop it. Nonprime lenders were the main culprit with Wall Street deeply involved. The fraud was so extensive, it was easy to spot. Instead, banks, rating agencies, and buyers "operated on a 'don't ask; don't tell' policy." While it lasted, profits were huge, and few were the wiser. Today, "many (likely all) the big banks are deeply insolvent due to severe credit losses." They and the Treasury aren't even sure to what degree, but the amounts are staggering in size. "A 'stress test' can't remedy the banks' problem – they don't have the loan files" for documentation.

Under Bush and Obama, banks are licensed to steal. The ("quantitative") looting of the Treasury continues, and global economies sink deeper into a black hole of depression with the public as always the big loser.

The End Game to Economic Ruin?

Who can know, but look what casino capitalism brought us. In December 2006, John Bellamy Foster discussed "monopoly capital's" evolution in commemorating the 40th anniversary of Paul Baran and Paul Sweezy's classic work: "Monopoly Capital – An Essay on the American Economic and Social Order." In his new book, The Great Financial Crisis: Causes and Consequences, he discusses the legacy it left us.

Giant corporations arose early in the last century followed by wars, depression, and more wars. Post-WW II, "capitalism was fully consolidated, particularly within the United States, the most advanced capitalist economy," and for some years thereafter the only healthy major one unravaged by the war.

As a result, corporate America flourished, grew larger and more dominant. Profit-making oligopolies and monopolies resulted "competing not on price but mainly in the areas of cost-cutting and the sales effort." Out of this grew "surpluses, and the economy's problem was to absorb it to avoid stagnation."

It led to overcapacity, so key was "to find additional outlets....beyond capitalist consumption and investment" or face "economic malaise." Beginning in the late 1960s and 1970s, financialization came to the rescue, and "to some extent (shifted) control over the economy from corporate boardrooms to the financial markets. Corporations were increasingly seen as bundles of assets, the more liquid the better." A new "monopoly finance" capitalism was advanced to exploit it.

It produced new outlets for surplus in the FIRE sector (finance, insurance, and real estate), mostly for speculation, not capital goods investments in plant and equipment, transportation, and public utilities that earlier fueled business cycle expansions. It kicked off a "whole new historical period" that wasn't apparent before the late 1960s. But the implications were huge and today have backfired.

The 1980s saw "an unprecedented upsurge of debt in the economy." In the 1970s, it was about one-and-a-half times GDP. By 1985, it was double, and by 2005 it was three-and-a-times GDP, rising, and approaching "the $44 trillion (level) for the entire world." Ever since, "the way was open for a proliferation of financial instruments and markets, which (until the present) proved to be literally unlimited."

Much earlier, Keynes warned about "enterprise becom(ing) the bubble on a whirlpool of speculation" like in the 1920s, the price being the Great Depression.

Beginning in the late 1960s and 1970s, the process began repeating as "economic malaise" needed new stimulus. "Unable to find profitable outlets….within the productive economy, corporations/capitalists sought" opportunities through financialization, speculation, casino capitalism, "while the financial system responded with a bewildering array of new financial instruments – including stock futures, options, derivatives, hedge funds, etc." As a result, a "financial superstructure…took on a life of its own" that today is consuming world economies.

Back then was different. "New Economy" notions took hold. The sky was the limit, but bubbles eventually grow and always burst. Minor by comparison, the 1997-98 Asian crisis showed how fast contagion can spread. Today it's global and out-of-control. No one's sure how to contain it, so bankers are getting trillions in a desperate attempt to socializing losses, privatize profits, and pump life back into a corpse through a sort of shell game or grandest of grand theft process of sucking wealth from the public to the top in hopes enough of it will work.

Speculation and debt need more of it to prosper, but in the end it's a losing game. The greater the expansion, the harder it falls – especially when not making things and working Americans are exploited. Since the 1970s, wages stagnated and lost purchasing power as inflation rose. So did benefits like health care and pensions. Household debt rose to compensate. Two wage-earner households as well. It let "monopoly-finance capital (produce) an accumulation of misery" now exploding since 2008's global collapse, exposing capitalism's dark side and destructive contradictions, particularly its financialization form.

Foster quoted Baran and Sweezy's response to an "irrational system." What's needed is "our moral obligation to (fight) against an evil and destructive system which maims, oppresses, and dishonors those who live under it, and which threatens devastation and death to millions….around the globe." Today, the threat is real, growing, and becoming greater than most anyone imagined, remembers, or has any sure way to contain.

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