The Beginning of the End of the American Empire

Excerpt from "The Global Economic Crisis"

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The following text is a preview from Global Research Publishers' recent book on the Global Economic Crisis.

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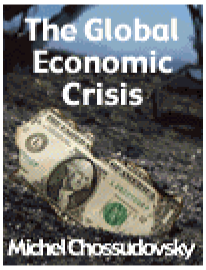
The Global Economic Crisis



Michel Chossudovsky
Andrew G. Marshall (editors)

The following is a sneak peak of Tanya Cariina Hsu's chapter in the new book from Global Research, "The Global Economic Crisis: The Great Depression of the XXI Century." Order now from Global Research.

"I sincerely believe… that banking establishments are more dangerous than standing armies."–U.S. President Thomas Jefferson; Letter to John Taylor, May 1816

America is dying. It is self-destructing and bringing the rest of the world down with it.Often referred to as a sub-prime mortgage collapse, this obfuscates the real reason. By associating tangible useless failed mortgages, at least something 'real' can be blamed for the carnage. The banking industry renamed insurance betting guarantees as "credit default swaps" and risky gambling wagers were called "derivatives". Financial managers and banking executives were selling the ultimate con to the entire world, akin to the snake-oil salesmen from the 18th century but this time in suits and ties. And by October 2008, it was a quadrillion-dollar (that's 1 000 trillion dollar) industry that few could understand.[1] Propped up by false hope, America is now falling like a house of cards.

The Beginning of the End

It all began in the early part of the 20th century. In 1907, J.P. Morgan, a private New York banker, published a rumor that a competing unnamed large bank was about to fail. It was a false charge but customers nonetheless raced to their banks to withdraw their money, in case it was their bank. As they pulled out their funds, the banks lost their cash deposits and were forced to call in their loans. People therefore had to pay back their mortgages to fill the banks with income, going bankrupt in the process. The 1907 panic resulted in a crash that prompted the creation of the Federal Reserve, a private banking cartel with the veneer of an independent government organization. Effectively, it was a coup by elite bankers in order to control the industry.

When signed into law in 1913, the Federal Reserve would loan and supply the nation's money, but with interest. The more money it was able to print, the more "income" it generated for itself. By its very nature, the Federal Reserve would forever keep producing debt to stay alive. It was able to print America's monetary supply at will, regulating its value. To control valuation, however, inflation had to be kept in check.

The Federal Reserve then doubled America's money supply within five years, and in 1920, it called in a mass percentage of loans. Over five thousand banks collapsed overnight. One year later, the Federal Reserve again increased the money supply by 62 percent, but in 1929, it again called the loans back in, en masse.[2] This time, the crash of 1929 caused over sixteen thousand banks to fail and an 89 percent plunge on the stock market.[3] The private and well-protected banks within the Federal Reserve system were able to snap up the failed banks at pennies on the dollar.

The nation fell into the Great Depression and in April 1933, President Roosevelt issued an executive order that confiscated all gold bullion from the public. Those who refused to turn in their gold would be imprisoned for ten years, and by the end of the year the gold standard was abolished.[4] What had been redeemable for gold became paper "legal tender", and gold could no longer be exchanged for cash as it had once been.

Later, in 1971, President Nixon removed the dollar from the gold standard altogether, therefore no longer trading at the internationally fixed price of 35 dollars. The U.S. dollar was now worth whatever the U.S. decided it was worth because it was "as good as gold". It had no standard of measure and became the universal currency. Treasury bills (short-term notes) and bonds (long-term notes) replaced gold as value, promissory notes of the U.S. government and paid for by the taxpayer. Additionally, gold could not be traced because it was exempt from currency reporting requirements, unlike the fiduciary (i.e. that based upon trust) monetary systems of the West. That was not in America's best interest.

After the Great Depression, private banks remained afraid to make home loans, so Roosevelt created Fannie Mae. A state-supported mortgage bank, it provided federal funding to finance home mortgages for affordable housing. In 1968, President Johnson privatized Fannie Mae, and in 1970, Freddie Mac was created to compete with Fannie Mae. Both of them bought mortgages from banks and other lenders and sold them on to new investors.

Flush With Cash

The post World War II boom had created an America flush with cash and assets. With its military industrial complex, war exponentially profited the U.S. and unlike any empire in history, it shot to superpower status. But it failed to remember that historically, whenever empires rose, they also fell in direct proportion.

Americans could afford all the modern conveniences, exporting their manufactured goods all over the world. After the Vietnam War, the U.S. went into an economic decline. But people were loath to give up their elevated standard of living despite the loss of jobs and production was increasingly sent overseas. A sense of delusion and entitlement kept Americans on the treadmill of consumer consumption.

In 1987 the U.S. stock market plunged by 22 percent in one day because of high-risk futures trading, called derivatives, and in 1989 the Savings & Loan crisis resulted in President George H. W. Bush using 142 billion dollars in taxpayer funds to rescue half of the S&Ls.[5] To do so, Freddie Mac was given the task of giving sub-prime (at or near prime-rate) mortgages to low-income families. In 2000, the "irrational exuberance" of the dot-com bubble burst, and fifty percent of high-tech firms went bankrupt, wiping five trillion dollars from their over-inflated market values.[6]

After this crisis, Federal Reserve Chairman Alan Greenspan kept interest rates so low they were less than the rate of inflation. Anyone saving his or her income actually lost money, and the savings rate soon fell into negative territory.

During the 1990s, advertisers went into overdrive, marketing an ever more luxurious lifestyle, all made available with cheap, easy credit. Second mortgages became commonplace, and home equity loans were used to pay credit card bills. The more Americans bought, the more they fell into debt. But as long as they had a house their false sense of security remained: their home was their equity, it would always go up in value, and they could always remortgage at lower rates if needed. The financial industry also believed that housing prices would forever climb, but should they ever fall the central bank would cut interest rates so that prices would jump back up. It was, everyone believed, a win-win situation.

Greenspan's rock-bottom interest rates let anyone afford a home. Minimum wage service workers with aspirations to buy a half million dollar house were able to secure one hundred percent loans, the mortgage lenders fully aware that they would not be able to keep up the payments. So many people received these sub-prime loans that the investment houses and lenders came up with a new scheme: bundle these virtually worthless home loans and sell them as solid U.S. investments to unsuspecting countries who would not know the difference. American lives of excess and consumer spending never suffered, and were being propped up by foreign nations none the wiser.

It has always been the case that a bank would lend out more than it actually had, because interest payments generated its income. The more the bank loaned, the more interest it collected even with no money in the vault. It was a lucrative industry of giving away money it never had in the first place. Mortgage banks and investment houses even borrowed money on international money markets to fund these one hundred percent plus sub-prime mortgages, and began lending more than ten times their underlying assets.

Post 9/11 Militarization: Financing the "Global War on Terrorism"

After 9/11, George Bush told the nation to spend, and during a time of war, that's what the nation did. It borrowed at unprecedented levels so as to pay not only for its war on terror in the Middle East (calculated to cost four trillion dollars) but also pay for tax cuts at the very time it should have increased taxes.[7] Bush removed the reserve requirements in Fannie Mae and Freddie Mac, from ten percent to 2.5 percent. They were free to not only lend even more at bargain basement interest rates, but they only needed a fraction of reserves. Soon banks lent thirty times asset value. It was, as one economist put it, an “orgy of excess”.[8]

It was flagrant overspending during a time of war. At no time in history has a nation gone into conflict without sacrifice, cutbacks, tax increases, and economic conservation. And there was a growing chance that, just like in 1929, investors would rush to claim their money all at once.

To guarantee, therefore, these high risk mortgages, the same financial houses that sold them then created “insurance policies” against the sub-prime investments they were selling, marketed as Credit Default Swaps (CDS). But the government must regulate insurance policies, so by calling them CDS they remained totally unregulated. Financial institutions were “hedging their bets” and selling premiums to protect the junk assets. In other words, the asset that should go up in value could also have a side-bet, just in case it might go down. By October 2008, CDS were trading at 62 trillion dollars, more than the stock markets of the whole world combined.[9]

These bets had absolutely no value whatsoever and were not investments. They were just financial instruments called derivatives – high stakes gambling, “nothing from nothing” – or as Warren Buffet referred to them, “Weapons of Financial Mass Destruction.”[10] The derivatives trade was “worth” more than one quadrillion dollars, or larger than the economy of the entire world. (In September 2008, the global Gross Domestic Product was sixty trillion dollars).

Challenged as being illegal in the 1990s, Greenspan legalized the derivatives practice. Soon hedge funds became an entire industry, betting on the derivatives market and gambling as much as they wanted. It was easy because it was money they did not have in the first place. The industry had all the appearances of banks, but the hedge funds, equity funds, and derivatives brokers had no access to government loans in the event of a default. If the owners defaulted, the hedge funds had no money to pay “from nothing”. Those who had hedged on an asset going up or down would not be able to collect on the winnings or losses.

The market had become the largest industry in the world, and all the financial giants were cashing in: Bear Stearns, Lehman Brothers, Citigroup and AIG. But homeowners, long maxed out on their credit, were now beginning to default on their mortgages. Not only were they paying for their house but also all the debt amassed over the years for car, credit card and student loans, medical payments and home equity loans. They had borrowed to pay for groceries and skyrocketing health insurance premiums to keep up with their bigger houses and cars; they refinanced the debt they had for lower rates that soon ballooned. The average American owed 25 percent of their annual income to credit card debts alone.[11]

In 2008, housing prices began to slide precipitously downwards and mortgages were suddenly losing value. Manufacturing orders were down 4.5 percent by September, inventories began to pile up, unemployment was soaring and average house foreclosures had increased by 121 percent and up to 200 percent in California.[12]

The financial giants had to stop trading these mortgage-backed securities, as now their losses would have to be visibly accounted for. Investors began withdrawing their funds. Bear Stearns, heavily specialized in home loan portfolios, was the first to go in March.

This was only an excerpt from Tanya Cariina Hsu's chapter. [To read the rest, order the book from Global Research.]

Global Economic Crisis
The Great Depression of the XXI Century
Michel Chossudovsky and Andrew Gavin Marshall (Editors)

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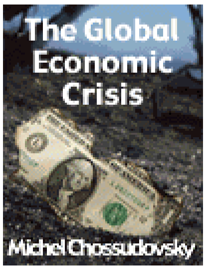
The Global Economic Crisis



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This book takes the reader through the corridors of the Federal Reserve, into the plush corporate boardrooms on Wall Street where far-reaching financial transactions are routinely undertaken. Each of the authors in this timely collection digs beneath the gilded surface to reveal a complex web of deceit and media distortion which serves to conceal the workings of the global economic system and its devastating impacts on people`s lives.

Despite the diversity of viewpoints and perspectives presented within this volume, all of the contributors ultimately come to the same conclusion: humanity is at the crossroads of the most serious economic and social crisis in modern history.

"This important collection offers the reader a most comprehensive analysis of the various facets – especially the financial, social and military ramifications – from an outstanding list of world-class social thinkers." -Mario Seccareccia, Professor of Economics, University of Ottawa

"From the first page of the preface of The Global Economic Crisis, the reasons for all unravel with compelling clarity. For those asking "why?" this book has the answers." –Felicity Arbuthnot, award-winning author and journalist based in London.

"Today, the economic meltdown is reconfiguring everything – global society, economy and culture. This book is engineering a revolution by introducing an innovative global theory of economics." -Michael Carmichael, prominent author, historian and president of the Planetary Movement

"This work is much more than a path-breaking and profound historical analysis of the actors and institutions, it is an affirmation of the authors' belief that a better world is feasible and that it can be achieved by collective organized actions and faith in the sustainability of a democratic order." -Frederick Clairmonte, distinguished analyst of the global political economy and author.

Notes

1. Bank for International Settlements (BIS), Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in 2007 – Final Results, 19 December 2007. Report available at http://www.bis.org/press/p071219.htm. The amounts actually exceeded one quadrillion dollars. According to the BIS report, outstanding derivatives worldwide had reached US $1.144 quadrillion, or US $1,144 trillion. This included Listed Credit Derivatives of $548 trillion, plus Over-The-Counter (OTC) notional (or face value) Derivatives of $596 trillion. The latter was comprised of Interest Rate Derivatives at or near $393+ trillion; Credit Default Swaps at or near $58+ trillion; Foreign Exchange Derivatives at or near $56+ trillion; Commodity Derivatives at or near $9 trillion; Equity Linked Derivatives at about $8.5 trillion; Unallocated Derivatives at about USD 71+ trillion. See also http://www.siliconvalleywatcher.com/mt/archives/2008/10/the_size_of_der.php.

2. Murray N. Rothbard, America's Great Depression, Ludwig von Mises Institute, Auburn, 2000, p. 102.

3. Susan B. Carter, Scott Sigmund Gartner, Michael R. Haines, Alan L. Olmstead, Richard Sutch and Gavin Wright (Eds.), Historical Statistics of the United States, p. 235, 263, 1001, 1007.

4. President Franklin D. Roosevelt Executive Order 6102, 5 April 1933, requiring "all gold coin, gold bullion, and gold certificates" to be delivered to the Federal Reserve Bank by May 1st 1933 under a criminal penalty of a $10,000 fine, ten years' imprisonment, or both.

5. Dan Beighley, "Historical Perspectives", Orange County Business Journal, 13-19 October 2008. The FDIC places the total loss to the taxpayer even higher, at $153 billion; Timothy Curry and Lynn Shibut, "The Cost of the Savings and Loan Crisis: Truth and Consequences", FDIC Banking Review, July 2000.

6. NASDAQ Composite Index March 2000 – October 2002 (peak of 5048 to low of 1108).

7. David M. Herszenhorn, "Estimates of Iraq War Cost Were Not Close to Ballpark", New York Times, http://topics.nytimes.com/top/reference/times topics/people/h/david_m_herszenhorn/index.ht ml?inline=nyt-per, 19 March 2008.

8. Speech by Richard W. Fisher to New York University, "Responding to Turbulence", Federal Reserve Bank of Dallas, 25 September 2008.

9. International Swaps and Derivatives Association, Inc. (ISDA), Mid-Year 2008 Market Survey.

10. BBC News, "Buffett Warns on Investment 'Time Bomb'", BBC News, http://news.bbc.co.uk/2/hi/2817995.stm, 4 March 2003.

11. Ben Woolsey and Matt Schulz, Credit Card Statistics, Industry Facts, Debt Statistics, Creditcards.com, 2008.

12. U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders (M3), 2 July 2009; "Foreclosure Activity Up 14 Percent in Second Quarter: Activity Increases 121 Percent From Q2 2007", Realty Trends, August 2008, http://www.realtytrac.com/News-Trends/newsletter/2008/August.html; "California

Foreclosures Up 200% From Last Year", PRNewswire-USNewswire, 6 September 2008.

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