The Global Economic Crisis: Financial Fraud has Become Increasingly Pervasive

By Bob Chapman Theme: Global Economy

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The U6 number fell to 16-7/8% from 17% last month, thus, the real unemployment number is 22-1/4%, off 3/8 of 1 percent in two months. The average duration of unemployment heads back up to a new record 34.2-weeks and when the share of the unemployed ranks looking for a job without success rises 2% to 44.3% you have a problem. It is hardly a winner. The workweek was unchanged at 34.3-hours. The employment rate was 58.3%, the same level it was at late in 1983. In order to re-ascend to peak employment levels 11 million jobs would have to be created. That cannot happen as the transnational conglomerates execute free trade, globalization, offshoring and outsourcing. That would be 2.75 million jobs annually over the next four years. Still millions of illegal aliens are streaming across our borders to find work and push American citizens out of their jobs.

There has been a decline in the number of jobless claims, but layoffs of state, country and city employs has added to the jobless, some 20,000 a month. Even with all the funds being injected into the system, the economy is still stagnant. The municipal layoffs will become acute in the last quarter of the year and carry over into 2012, as more and more towns, cities and states seek protection from bankruptcy.

Personal income is stagnant, as are hours worked, as inflation increases robbing workers of purchasing power, thereby negatively affecting consumption. Adding to this discouraged workers hit a record high of 1.32 workers. If it were not for extended unemployment benefits we might just be approaching revolution. You can throw in food stamps as well for 44 million Americans; 16% of the elderly are below the poverty line and 15.7% of the public is in the same boat.

Last week the Dow rose 0.8%, S&P gained 11.1%, the Russell 2000 gained 0.5% and the Nasdaq 100 jumped 2.7%. Banks gained 1.3%; broker/dealers gained 2.0%; utilities 0.9% and the high-tech 2.5%; semis 3.4%; Internets 3.1% and biotechs 0.8%. Gold bullion fell $51.00, the HUI lost 7.2% and the USDX gained 2.6% to 81.08.

The two-year US-T bill was unchanged at 0.59%, the 10-year T-note rose 3 bps to 3.33%, and the 10-year German bund fell 9 bps to 2.87%.

This year foreign governments will finally realize that Europe and the US won't be able to repay most of their debts. In Europe, during the first 6-months of the year, countries will be stressed to pay back debt. All of the funding necessary won't be available and the six with debt problems will need more assistance from the more solvent EU countries, the ECB and the IMF. There will be negotiations concerning how to solve this problem throughout the remainder of the year. The damage to European countries will be staggering. Not only will the debtor countries be hanging on by a thread, but due to a massive funds outflow the solvent countries will be in trouble as well.

In the US the problems of municipalities will finally start to be addressed as federal funding and loans are ended. We warned of the possible bankruptcy of municipal insurers, AMBAC being the focus of our concerns. At that time, three years ago, we recommended the sale of municipals and have done so since.

These predictions came to fruition in December 2010 when AMBAC went bankrupt.

In the final quarter of this year both the European and American problems will be exposed full force. This will bring about a worldwide financial crisis as the true depths of the problems are fully revealed. The impact on western finance will be more devastating than the Bear Stearns and Lehman Bros. collapses. At this juncture the timing is difficult, but that time frame seems reasonable.

Our prediction of QE2 and perhaps QE3 last May proved to be correct. Others didn't begin to catch on until August. We projected another form of government stimulus and it came in the subtle form of a pork tax package. The renewal of the Bush tax cuts. That ended up being $868 billion. That means the Fed or someone will have to come up with about $1.6 trillion to keep the economy from keeling over and going sideways. We projected a full expenditure of $2.5 trillion in exchange for a 2 to 2-1/4% growth in GDP.

As we write European and US debt is expanding at a fast clip. The service of this debt is being exacerbated by lack of a recovery, which began in the Treasury market in June. During the past six months banks have tried to increase lending to middle and small sized companies, but there have been few who wanted to borrow. This lack of growth has impeded tax revenues for both the federal government and state entities. The fall in the stream of funds has forced major new borrowing by both groups. This trap mitigates against drawing savings from foreign countries. This limitation has started to force real interest rates higher as we have recently seen with the US 10-year note whose yield jumped from 2.40% to 3.50%. This in turn has forced interest rates on 30-year fixed rate mortgages to more than 4.8%.

Beneath the surface both in the US and Europe all matter of things are being done to keep both entities afloat. What is being done is being done without the consent of the people. Politicians are terrified and are doing as they are being told. The financial community and central banks are making all the decisions. In order to cover-up what is going on they simply lie about everything. These Sherpa's working behind the scenes fashioning a solution are preparing for debt settlement and some sort of a stabilization fund.

As we have predicted in the past we see a meeting of all countries, as opposed to unilateral action by Europe or the US. A meeting along the lines of the Smithsonian talks in the 1970s, the Plaza Accord of 1985 and the Louvre Accord of 1987, where all nations will revalue and devalue and default multilaterally 50% to 66%. Everything will be on the table. By doing it this way it becomes a simple business transaction and not a situation where everyone is ostracized. This will be detrimental to currencies, bonds and shares. Commodities and gold and silver and the shares will appreciate as they did in the 1930s and the late 1970s. It's a hard road to take, but it is the only one open to the elites.

One of Ayn Rand's disciples, one Alan Greenspan, spent his entire time as Chairman of the

Federal Reserve destroying money. Ms. Rand warned of destroyers appearing among men who would destroy money. As she said, “This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values. Paper is a check, drawn by legal looters upon which an account which is not theirs.”

Today we have the destruction of money – the mediums of exchange – free trade, globalization and the phony terrorism all linked together. A 3-pronged attack to create confusion and fear and as an extension to control and destroy the wealth of the masses. This is a marriage of monetary, fiscal, geopolitical, economic and financial terrorism. The terrorists are in the banks, on Wall Street, in the City of London and running transnational conglomerates that are destroying our society and that of Europe. This complex paradigm is relentlessly day by day creating chaos within society. Needless to say, we have war and occupation thrown in for good measure in Iraq and Afghanistan. This is a profitable distraction and at the same time a method of culling the population of useless eaters. As this all transpires, immune from prosecution, Wall Street and banking pull one outrageous fraud after another. As an example, as we predicted, the Attorney Generals have rolled for the bankers in Foreclosuregate. Five major banks are being allowed to settle with some 50 states. This decision was made in secret by your elected states’ Attorney Generals. This is one of the biggest frauds in American history and all that will happen is the major banks involved will get a slap on the hand and a chump change fine. The public will get nothing. Any fraud by the too big to fail banks is now permissible.

The fraud is now so pervasive and systemic that foreigners, particularly at the upper levels of the corporate world simply refuse to do business with American companies. American executives, particularly from Wall Street and banking, contend there are simply no rules or only their rules. This will elevate into trade war eventually, which has been coming for a long time and actually a trump card for US elitists. The ugliness is still under the surface, but it exists and is gaining momentum. Once that becomes reality the financial system will break down. As we have said many times once that happens all these criminals will become fugitives from justice. If other countries try to hide these people they will be sanctioned and isolated, and that shouldn’t take long. We should have courts to try these crooks. They should go to jail and their entire families be stripped of their wealth, which would go to the US Treasury. Those who committed treason should have all their assets confiscated and they should be hung.

The BIS, the Bank for International Settlements, says the six nations in trouble in Europe are indebted more than $350 billion to these sovereign nations. As we have said month’s ago it will take more than $3 trillion to bail these sovereigns out and if not bailed out many central banks and the ECB will be wiped out. As usual the bankers are trying to stall for time, hoping some miracle or some war will bail them out. Either way the taxpayers, they have decreed will pay the bill. We wonder what the rating agencies, that have been propping up the dollar and the pound will do, when they can no longer get away with lying about these ratings? We don’t believe Spain, Portugal and Belgium and perhaps Italy can survive without going bankrupt. That will take many other nations close to insolvency as well.

We have sited many examples of fraud in this publication.

We have finally come to the conclusion that our system could not function without the rampant fraud in our society.

You have seen this in the operations of “The President’s Working Group on Financial

Markets," in mortgage lending and the daisy chain it created. Then the foreclosures, which lenders didn't own, because they had sold them many times over. The major lawsuits against Goldman Sachs in mortgage syndication and the suits against JPM and HSBC for rigging the silver market. It just goes on and on not to mention Madoff. Many corporations are carrying two sets of books like that was normal. The Fed creating money and credit to the tune of $13.8 trillion most of which went to Europe. It goes on and on.

As yet we do not know how much money the Fed has spent on QE2, which secretly began last June, as we predicted. As inflation is allowed to rise by design it mysteriously doesn't show up in official figures. As you can see, within government you can have it both ways. The results have been a move in the 10-year T-note from 2.40 to a 3.5 percent yield to reflect the risk of inflation that already exists. This rise in yield and the fall in Treasuries on the long end for the past couple of months has been the result of professional selling. The 18 Wall Street banks and brokerage houses that are primary dealers that trade with the Fed, have been cutting their holdings in Treasuries at the fastest pace since 2004, because they see a stronger economy, a rising market and further strength and demand for shares than for bonds.

These dealers cut their long positions in long dated notes and bonds from $81.3 billion on 11/24/10 to $2.34 billion on 12/29/10. The Fed has not been able to control the long end of the market, only the short end. That has led to higher mortgage rates. This will reverse as the stock market corrects or it becomes obvious that the economy is not advancing or recovering.

Price inflation continues unabated and that will worsen substantially as the year wares on. Sellers will not absorb basic price increases; they will be passed on. One printer told me he had had seven price increases on paper in the past year. That is certainly not 1.2% inflation, but the real inflation we talk about at 6.8%.

Gold and silver just completed another mini-correction and again 95% of newsletter writers, analysts and economists were wrong. As we say, go long and stay long. These fools continue to try to justify their existence. As you can see the US government, JPMorgan Chase, Goldman Sachs, Citigroup and HSBC cannot hold prices down for more than several days. The physical demand is overwhelming.