The Severity of Today's Crisis: The Wages of Sin

By Stephen Lendman
Global Research, November 07, 2008
7 November 2008

Region: USA
Theme: Global Economy

"Reaping the whirlwind" for money manager and market strategist Jeremy Grantham in his latest no-nonsense commentary. Worlds different from most in the mainstream. Cheerleaders in upturns. Downplaying risks. Soft-pedaling reversals and still many in denial about the severity of today's crisis. The virtual certainty of a deep and protracted recession. The likely emergence of a changed world order at its end – for better or worse. The result of what Grantham calls "the poisonous wind we all sowed," and went on to explain it with his customary thoughtful analysis. Calling it like he sees it as one of the earliest to spot the current storm. Even though it arrived sooner and with more severity than he imagined. In that respect, it fooled some of the best and brightest but no longer the ones most credible.

Grantham enumerated 10 "poisonous" elements:

(1) an extended period of excess in: "money supply, loan growth, leverage, and below normal interest rates;"

(2) at a time of a "remarkably lucky global economic" climate he called "near perfect;" in January 2007, he observed that "Against all odds, Goldilocks tiptoed through the perils of the first (2005) and second (2006) year of the Presidential Cycle (and) 2006 was the rarest of rare birds – a perfect year;" it was "the best year in the entire history of finance for the selling of high credit risks at low premiums" and sowed many seeds for the current debacle; it produced what Grantham called "the first truly global bubble in all asset classes everywhere with only a few modest exceptions;"

(3) as asset bubbles inflated, the Fed, SEC, Treasury, and (both parties in) Congress dismantled regulations instead of tightening them; they sanctified leverage and rejected efforts to curtail risks; worse still, they "encouraged (extreme) excesses by admiring the ingenuity of new financial instruments and repeated their belief that no bubbles existed and that housing at the peak 'merely reflected a strong US economy;' " when conditions headed south, a "strong economy" was still the near-universal mantra;

(4) the combination of a favorable climate and cheerleading by authorities "produced an even more poisonous bubble – that in risk-taking itself;" the idea was that in the event of trouble, moral hazard would ride to the rescue, so go as far out on limbs as you like;

(5) the "concept of rational expectations, or market efficiency," laid deadly groundwork; the idea that we're "far too sensible" to let major bubbles appear let alone get out of control; the notion is nonsensical on its face; in the "real world of greed and fear, it dangerously encourages the belief that if you take more risk you will automatically receive more reward;" true enough in calm markets, but in turbulent ones it's disastrous; astonishingly, investors were lulled to think that until mid-2007, market conditions "were actually paying

to take risks for the first time in history;"

(6) these bubbles burst like all previous ones; unsurprisingly, they were "absolutely not outlier events;"

(7) built up stresses were so extreme that unwinding them was certain to be painful; in early 2007, Grantham noted that "it is increasingly impressive and surprising how much we have done wrong this time;"

(8) "by far, the biggest failing of our system has been its unwillingness to deal with important asset bubbles as they form;" as the dot.com one grew, Grantham explained it in 1998, 1999 and in a 2002 "Feet of Clay" commentary that "aimed at (his) arch villain, Alan Greenspan;" because of a more dangerous housing bubble, "Bernanke joined (his) rogues' gallery;"

(9) added icing on the cake came from Warren Buffett on derivatives; "financial weapons of mass destruction" he called them; so complex few understand them, and many of them are for gambling, not protection or investing; a sure recipe for trouble; the destruction of the very keys to our financial structure; as a result, trust and confidence have been hugely impaired; "a potentially lethal blow to the system and must be addressed at any cost as fast as possible;" and a final observation:

(10) foresight, imagination and competence are essential to avoid crises; when they occur, these elements in abundance are needed to deal with it; "the bitterest disappointment" this time is how authorities "rationalized and ignored" asset bubble buildups and risk-taking; especially their cheerleader in-chief, "the formerly esteemed chairman of the Fed."

Grantham then asked: "Why did our leaders encourage the deregulation, encourage the leveraging and risk-taking, and completely miss or dismiss the growing signs of trouble and what we described as the 'near certainties' of bubbles breaking?" He suggested two "theories." The first based on "career risk" or what he calls "the Goldman Sachs Effect: Goldman increased its leverage and its profit margins shot into the stratosphere." Eager and needing to keep up, other less talented banks copied them "with ultimately disastrous consequences." They had to because "woe betide the CEO who missed the game….The Board would simply kick him out" and replace him with a "gunslinger."

Theory two is harder to prove: "that CEOs are picked for their left-brain skills – focus, hard work, decisiveness, persuasiveness, political skills (and with luck) analytical (ones) and charisma. The Great American Executives are not picked for their patience." For wasting time "thinking about history and the long-term future. They are paid to be decisive and to act now." Today's CEOs, "to the man, missed everything that was new and different," and these elements "happened to be vital."

In mid-2007, Grantham noted three "near certainties:"

— that US and UK house prices would decline;

— profit margins globally would fall; and

— risk premiums everywhere would rise with the result that "markets and the financial and economic systems" would experience "severe consequences."

The US housing market is down but “probably has quite a way to go” to reach bottom. The UK slump has just begun. It will hit with a thud and cause “another wave of write-downs and stress.” Global profits are falling “rapidly, but have a long way to go.” Most dramatically has been the rise of risk premiums. From record narrow spreads 18 months ago in developed country fixed income markets to far above normal. In emerging countries, the worst is likely ahead and in places may be “very severe.” As for equities, global markets “moved in three weeks from quite expensive to moderately cheap for the first time in at least 20 years.”

But hold the cheers. We’re not out of the woods. Not even close perhaps given the history of bubbles that are punctuated by strong bear market rallies like the one in the run-up to November’s election. Grantham’s research shows that all markets revert to their mean values from their highs and lows. No exceptions, and getting there is very bumpy. Nearly always by way overshooting. Further, the larger the bubble, the greater the overshoot.

In addition, US markets haven’t been cheap since 1982 – 1983 and have been “permanently overpriced since 1994.” Hence a “terrible caveat.” Until the greatest ever 2000 equity bubble, the three most important 20th century ones were in 1929, 1965 and Japan at end of 1989. All three overcorrected by more than 50%. Today, we have “a more global, interlocking, and complicated system, including non-bank players like hedge funds.” We’ve also got destabilizing derivatives in a totally unregulated market. Is a 50% overrun likely? Grantham thinks governments will do anything to prevent it and with luck they will, but not entirely.

He estimates S & P 500 fair value at around 975 and believes that it will likely “overrun on the downside by 20 – 40%, giving a range of 585 to 780 as a probable low.” Its closing October 9, 2007 high was 1565. The lower figure, if reached, will be 63% below the high. In the event of a 50% overshoot, the low will be 487, or a 69% drop. In sum, “the world faces unavoidable declines in economic activity and profit margins, so this overrun is unlikely to be much less painful than average” and may be worse.

Another disturbing sign was in the November 3 closely-watched Institute for Supply Management (ISM) report. The index fell to 38.9% in October from 43.5% in September. Its lowest level since September 1982. Readings below 50 signal contraction. This one is big and maybe worsening. Both new orders and production were their lowest since the early 1980s. A clear sign of a deepening recession with the worst still yet to come.

More evidence as well from an October 30 Bloomberg report headlined: “The Shipping News Suggests World Economy is Toast.” Writer Mark Gilbert cites the Baltic Dry Index that tracks the cost of shipping goods and commodities. It fell below 1000 for the first time in six years with a thud. It’s now nearly 90% cheaper to ship goods over water than early in the year. Air freight is also affected and dropped 7.7% in September, according to the International Air Transport Association, or the steepest decline since the trade group began compiling the data in January 2003.

Given the current economic crisis and some of the worst economic conditions in years, Societe Generale’s Guy Stear and Claudia Panseri said “Earnings expectations still look optimistic, with analysts projecting 2009 earnings for the S & P 500 rising by 19 per cent.” It’s astonishing that some people buy it or that analysts are allowed to get away with such deception. Slowly and grudgingly, they’ll lower their figures as unfolding evidence forces them.

More from Martin Weiss on “The Great American Housing Nightmare: Next Phase”

His latest analysis as of November 3, and it’s pretty grim. He explains that it’s foolish to assume home prices “are so low that they (can’t) go any lower. They don’t stop declining because they appear cheap or match a historical low. They keep dropping until “no new economic forces drive them down. Despite sharp declines already recorded, a steeper plunge is dead ahead.” Because “most of the (housing market) troubles (so far) have been caused by bad mortgages going sour. Meanwhile, the more common causes of housing slumps – high interest rates, rising unemployment, and recession – are just starting to kick in, and the most powerful causes – depression and deflation – are still on the horizon.”

In addition, massive over-indebtedness will pressure greater numbers of homeowners to abandon or sell properties for whatever amounts they’ll bring. Already in 2008, 10% of them are in foreclosure. Nearly 40% owe more than their homes are worth, and all this kicked in before recession deepens and the “next phase of the Great American Housing Nightmare” begins.

Weiss calls it “one of the biggest speculative manias of all time.” With no precedent, so no historical roadmap is available for guidance. “No one can (say) with precision how far US home prices will decline, when they will hit bottom, how many homeowners will lose their homes, or how soon a real recovery will begin.” It may take many years, and the most comparable precedents for today’s crisis had nothing to do with homes.

“They are the Dutch speculative mania of the 1630s, the South Sea Bubble of the 1700s, and the stock market panics of the early 1900s.” The 1929 one as well. Their critical boom-bust elements were quite similar:

(1) Debt: the fuel of speculation; with enough, prices can be wildly inflated; “in many respects, the borrowing mania makes all previous debt manias pale by comparison;” by mid-2008, the Fed reported $14.8 trillion in outstanding US mortgages or 40% more than the official national debt and triple the total of all mortgages a dozen years earlier. Even worse, was the quality of debt. Dangerous and substandard because all types of speculative lending proliferated. Requiring no proof of an ability to repay. No down payment so even low income households could buy unaffordable properties or even more than one. And even pay interest only or less than the full amount.

It’s no surprise that a majority made the smallest required payments and accrued unpaid amounts to their loan balances. The more payments they made, the deeper in debt they fell.

It gets worse. Unlike past speculative periods, non-lenders this time hold most of the mortgages – “institutions and investors far removed from borrowers.” And the $14.8 trillion in residential and commercial mortgages is compounded by another $20.4 trillion in consumer and corporate debt. As a result, Americans are pressured on multiple fronts – unaffordable mortgages, credit card and other loan balances, combined with mounting layoffs and unemployment. A potentially lethal combination.

(2) Investor Frenzy: history shows that the wilder it gets on the upside, the greater the selling panic heading down; at the housing bubble’s peak, the average existing home price was nearly five times the yearly incomes of owners – the highest ever ratio in history; at the same time, home affordability plunged to its lowest ever level; in addition, speculation was rampant as the market peaked; “an astounding 40% of houses and condos were bought as

second homes or investments."

Further, the annual appreciation rate for existing homes jumped from 3.6% in January 2001 to 16.6% in November 2005. For new homes, it surged from 4.8% to 18.1% over the same period. Securitized mortgages (sold globally) added more bubble fuel to the mix – $4.8 trillion worth or 60% more than the total value of all Dow Jones Industrial Average stocks.

(3) Government-Created Monopolies, Corruption, Fraud and Cover-Ups: some of the greatest bubbles in history were created, fueled and extended this way.

For example, failing to create a massive railroad monopoly caused the Panic of 1901. The Panic of 1907 followed the inability to corner the copper market, and the 1929 crash, in large measure, resulted from collusion among brokers, bankers and tycoons. Nearly always, the government fostered a deregulatory climate. Gave selected companies and individuals special privileges. Encouraged concentrated power, and desperately tried to reconstitute the boom after the bust occurred. It proved fruitless, collapse followed, and it portends what may happen today with a potentially similar or even worse outcome than in the past.

Take the two government-created housing monopolies for example – Fannie Mae and Freddie Mac. They got dominant control over the nation's largest debt market – mortgages, and were encouraged to compete aggressively with private subprime lenders. It proved disastrous, showed up early, but was ignored.

In September 2004, Fannie and Freddie's primary regulator, the Office of Federal Housing Enterprise (OFHE), revealed massive accounting irregularities on both companies' books. Four years later, they were still unaddressed. As a result, the SEC began investigating their accounting practices. In addition, their official filings and public pronouncements "consistently and wildly overstated their capital, while understating their risk. Fannie and Freddie were actually houses of cards in disguise," but their executives repeatedly lied about their companies' health in testimony before Congress. That both were undercapitalized and, in fact, insolvent.

It's no surprise given their speculative practices. Between 2005 and 2008, Fannie alone purchased or guaranteed at least $270 billion in subprime mortgages – more than three times the amount it bought in all previous years combined. It went unnoticed, and Wall Street and Washington encouraged even greater risk-taking. In September 2008, it ended with a crash. Both companies were bankrupt, and it no longer could be hidden. They needed "an unprecedented $100 billion" each from the government to keep them operating.

But that amount way understates the problem. It "assumes an end to the credit crunch, no more debt collapses, no recession, and certainly no depression." It thus completely ignores reality. What may be needed for what's "fast becoming history's largest (ever) cesspool of sinking debts and commitments – $5.2 trillion in mortgages guaranteed or owned by the two companies, their $1.5 trillion in debts, and their $2 trillion in derivatives."

(4) Collapse: How far home prices will decline can't be predicted with certainty. However, history once again is a guide:

— in the Dutch Tulip Mania, investors lost nearly everything if they paid cash; even more if they bought on a slim 2.5% margin.

— in the South Sea Bubble, share prices declined about 90%;

— in the 1929 crash, they dropped 89%;

— In the 2000 – 2002 tech bubble, they sunk 78%;

— in the 1990 to the present Japanese bear market, they lost 82% in the leading Nikkei average; and

— in today's financial crisis, losses of up to 99% have occurred in some of America's most noted companies.

Right or wrong, Weiss believes that today's US housing bubble "is as extreme as (the above-listed) examples." He sees it progressing in three phases:

— the subprime mortgage bust already experienced;

— a severe US recession "just beginning;" and

— "depression and deflation" to come.

Home prices will continue falling precipitously with the most over-valued areas and blightest regions with high unemployment hardest hit. "Never before in history have we witnessed home price declines of this magnitude." The result of unprecedented levels of debt, speculation, government manipulation, fraud, corruption and consumer abuse. If history teaches anything, "it's that unprecedented causes (produce) unprecedented consequences." It's now playing out in America and globally with the worst of it to come.

Another Potential Shoe to Drop

According to Nouriel Roubini in his November 4 commentary titled: "The Rising Risk of a Hard Landing in China: The Two Engines of Global Growth – the US and China – are Now Stalling."

In recent years, "the global economy has been running on two engines, the US on the consumption side and China on the production side, both lifting the global economy." As the world's "consumer of first and last resort," the latest macro data show this engine has effectively shut down. "More worrisome," increasing signs show China is also stalling.

Their latest macro data are mixed but all point to "a sharp deceleration of economic growth." Now at 9% compared to past 12% years. At risk is a potential "hard landing" that for China would mean around 5 – 6% growth and not the 9 – 10% it needs to absorb its 24 million new workers annually. Various "macro indicators suggest that China is indeed headed towards a hard landing." It's not good news for America, and in combination, aren't good news for world economies.

One year ago, Chinese exports to the US grew at an annualized 20% rate. The most recent trade data show zero growth, but "the worst is still to come in the next few quarters" as US consumption is falling and is expected to continue declining. In addition, nearly all advanced economies face severe recession that will slow China's growth further.

Monetary policy may prove ineffective, and analysts disagree about fiscal measures. As export demand falls, the country is committed to more infrastructure and other spending and has a huge (near-$2 trillion) foreign currency war chest to do it. But Roubini believes fiscal stimulus will be limited at best. Because of the combined effects of Olympics spending, natural disasters, and social strife in the West, a large budget hole was created. Other factors are in play as well such as a turnover decline in local property markets. Lower fees and taxes have resulted that, in turn, have delayed some industrial development plans.

A "hard landing" may also increase the amount of non-performing loans from "the still mostly public state banks....Once net exports go bust and real investment sharply falls we will see a massive surge in non-performing loans that financed low return and marginal investment projects. The ensuing fiscal costs of cleaning up the banking system could be really high."

An additional factor comes from Michael Pettis – a leading Chinese economy expert. That a tax revenue surge "in the last 4 years has been more than matched by (a) surge in spending so that if revenue growth diminishes (or reverses) it might not be easy to slow spending growth proportionately. Contingent liabilities from non-performing loans could also reduce resources available for a fiscal stimulus."

Nonetheless, fiscal measures are being implemented but so far just modestly, and the "big question is (can China) increase (the amount enough) if a quick order hard landing were to occur." Roubini believes likely not because "moving a massive amount of economic resources from the tradeable (to the non-tradeable infrastructure) sector will take time...." He sees China decelerating to a 2009 7% growth rate – "just a notch above a 6% hard landing (and) an even worse outcome cannot be ruled out...."

In addition, "a hard landing in China will have severe effects on growth in emerging market economies in Asia, Africa and Latin America as Chinese demand for raw materials and intermediate inputs has been a major source of economic growth for emerging markets and commodity exporters....Thus, global growth – at market prices – will be close to zero in Q 3 of 2008, likely negative in Q 4 and well into negative territory in 2009. So brace yourself for an ugly and protracted global economic contraction" next year.

On November 4, the US Commerce Department added fuel to that argument as factory orders slumped sharply as US and foreign businesses curtailed their capital equipment demand for the second straight month. It fell 2.5% in September, much weaker than the .2% expected. In August, it declined 4.3%, the biggest drop in almost two years, and more erosion is expected in the coming months as the US recession deepens.

Exacerbated by plunging US auto sales according to the latest reported figures. They dropped 31% in October to around 850,000 vehicles with GM reporting its worst month since 1945 – down 45% along with Chrysler's 35% and Ford's 30%. According to one analyst, adjusted for population increases, it was the worst monthly performance "in the post-WW II era. This is clearly a severe, severe recession," and auto executives warned that the worst still may lie ahead.

Very likely according to the Fed's Opinion Survey on Bank Lending Practices. It shows tighter standards along with weaker loan demand. It stated: "In the current survey, large net fractions of domestic institutions reported having continued to tighten their lending standards and terms on all major loan categories over the previous three months." Both to businesses and households. In addition, "Demand for loans from both businesses and households at domestic institutions continued to weaken, on net, over the past three months."

At the same time, there are huge federal funding demands that will cause an even greater debt crisis. The Treasury just announced a need to borrow $550 billion in the current quarter. Near-term needs may add $2 – $3 trillion more to that total – to finance the federal deficit, buy $500 billion in toxic assets, roll over $561 billion in maturing Treasuries, and add the unknown factor of what other needs may arise.

On November 5, another worrisome one came from the latest ISM non-manufacturing (or service) sector. It dropped from a neutral 50.2 September reading to 44.4 in October. Another clear sign of contraction. In addition, the non-manufacturing business activity index fell 7.9 points to 44.2, and the new orders one declined 6.8 points to 44. The employment index stands at 41.5, and the price index dropped 16.6 points to 53.4. Any number below 50 signals contraction.

On November 6, two more weak reports came out:

— One from retailers showing their sales plummeted to their lowest level in about 40 years. AP retail reporter Anne D'Innocenzio called it "stunning and rare" and said it augurs a bleak outlook for holiday shopping. Michael Niemira, the International Council of Shopping Centers' chief economist, described October sales as "awful. This reflects the severity of the current financial crisis." The ICSC-Goldman Sachs Index registered a 1% decline to its lowest level since at least 1969 when the index was established.

— The Labor Department reported that longer-term jobless benefits hit a 25-year high with the number of people drawing unemployment benefits jumping by 122,000 to 3.84 million in late October. It was the highest reading since 1983 at a time of deepening recession. In addition, another report showed productivity declined to 1.1% in Q 3 compared to 3.6% in Q 2. Unit labor costs increased at a 3.6% rate compared to .1% in the earlier period.

The View According to Krassimir Petrov

He's an economist and assistant professor at the American University in Bulgaria teaching macroeconomics, money and banking, and international finance, and his world view signals trouble of the most serious kind. "Worse than the Great Depression" he explains in a recent article. Gives reasons he feels are compelling, and lists the "very same mistakes that led to the" earlier one only this time they're even worse:

— asset bubbles in stocks, real estate and more;

— securitization and the immense amount of toxic debt it created;

— excessive leverage compounded by a world of hedge funds;

— corrupt gatekeepers that allowed an Enron and Worldcom scandal and today's far worse problems;

— lagging regulations or a complete lack of them where they're most needed;

— market ideology; laissez unfair fundamentalism; and

— non-transparency to the degree that financial executives even fool themselves.

Combined he sees the current debacle much "worse than the Great Depression" because of six "baked in the cake" fundamental factors:

— overvalued real estate to a far greater degree than in the 1920s when most people paid cash for their homes;

— total US highly-levered credit; again more extreme than in the earlier era; to unprecedented levels;

— the explosion of derivatives; a thousand trillion dollar "sword of Damocles over the financial system;" an estimated $180 trillion held by banks alone;

— the Dow-gold ratio; the "most important ratio between the relative prices of financial" and real assets; leverage creates an imbalance and implies gross overvaluation; it reached its highest ever level in 2000 and needs painfully more downside to unwind;

— global bubbles not easily comparable to the less globalized 1920s; today, however, US stock market and real estate excesses exceed what occurred back then; and

— the collapsing Bretton Woods II as distinguished from Bretton Woods I tied to gold and its ability to restrain credit and financial excesses.

Today's cumulative imbalances far exceed those of the earlier era and suggest a very grim outlook – if Petrov is right. His advice, and he's not alone – think gold.

A Morning-After Reality Check

November 4 election night. It was a happening at Chicago's Grant Park. Like New Year's eve in Times Square. Expectant many tens of thousands assembled for a huge victory rally. Office buildings were emptied to let them come. They arrived early. Awaiting official word that their man won. Eager to greet him. The new president-elect. A change of the guard. A new day. At around 10PM, the crowd erupted when on giant TV screens CNN called it for Obama. "Yes we can" people chanted.

It was mass euphoria. At a time of deepening financial duress. The worst in many decades. Hitting Chicagoans hard like many others. The nation at war on two fronts as well. A possible new one with Iran, and a new Cold War with Russia in the wings. Out of sight and mind as Chicago threw a party and brought the whole city to a halt. Until after midnight when crowds began dispersing.

All night electricity filled the air. "Finally we have someone who will change the world," said a woman. "He'll put the right people in the right jobs," said another. "He wants to make a difference in our country," one more. Not a hint of negativity in sight. Not tonight at least. Tomorrow will be soon enough. Mark January 20 as the day it arrives. Inauguration day. In the meantime, party on.

In less than three months, the age of George Bush will end and a new Obama one will begin. Will it be different or more of the same? Will the new president be less hawkish? Less supportive of massive Wall Street bailouts? Socialism for the rich and the hindmost for the rest? Less controlled by monied interests? More committed to public need? Main Street over Wall Street? More eager to end foreign wars? More dedicated to a new course? Reversing his predecessor's toxic legacy? Governing responsibly for the first time in decades? Maybe ever, but at least since the New Deal? Is anything close to that possible? Think so? Think again.

Comparing Obama to FDR and expecting another New Deal is ludicrous. Yet with every new president hope springs eternal. Candidates promise change (or at least suggest it) and people buy it. A new course. Racial harmony. Peace and prosperity. Populist reform and a radical shift away from the Bush administration's toxic extremism. A deep breath please for a reality check. A wake-up call. A cold shower.

Obama is a creation of Wall Street and America's boardroom rulers. Its dominant corporate power. His administration:

— will continue an imperial agenda;

— won't end foreign wars;

— won't repeal repressive police state laws;

— will let corruption go unpunished;

— will continue to serve monied interests;

— send hundreds of billions more to bankers;

— loot the federal treasury to do it;

— let taxpayers fund it;

— let Wall Street run the Treasury with either Goldman Sachs executives or others just like them;

— increase the size of the military;

— send more troops to Afghanistan;

— continue occupying Iraq;

— begin a new Cold War with Russia;

— continue attacking Pakistan;

— possibly Iran as well;

— will keep waging the "war on terrorism;"

— will continue one-sided support for Israel's repressive occupation of Palestine and proved it by choosing pro-Israeli hardliner and neoliberal Rahm Emanuel as his White House chief of staff; it's considered the most powerful executive branch position after the president and a Dick Cheney type vice-presidency; Emanuel rammed through NAFTA for Clinton and is a Democratic Leadership Council (DLC) insider;

— will send Israel billions of dollars, the latest weapons and technology, and much more annually;

— will maintain the Cuban embargo;

— hostility toward Hugo Chavez and all other independent leaders, democrats or despots;

— will support neoliberal “free trade;”

— keep undermining labor;

— do nothing to foster racial harmony;

— or defend the rights of immigrant workers;

— or reform the US gulag prison system; the largest in the world by far; affecting mostly poor people of color; his own people;

— won’t end the barbaric death penalty;

— won’t release political prisoners or end the war on Islam;

— will support privatizing public education;

— will ignore the plight of tens of millions with no health insurance and many millions more with too little;

— will back a business as usual agenda because “the business of America is business,” and Obama won’t ever forget it. Or the foreign wars he’ll support in its behalf, and

— will protect the two-party duopoly and do nothing to make an anti-democratic America more democratic.

Think a new progressive age is dawning? Think again. An Obama presidency will go Lincoln one better. It’ll prove that the electorate can be fooled “all of the time” – or enough of them long enough before eventually they’ll know they were had – fooled again. One commentator put it up this way: “Forget the honeymoon – I want a divorce,” and Ralph Nader asked: Will Barak Obama be an “Uncle Sam for the people of this country, or Uncle Tom for the giant corporations?”

That said, consider two positive things. Thankfully, Obama isn’t John McCain, and given the dire state of things, he and Congress may have to help people in need. It will be woefully inadequate, packaged to look otherwise, but may be enough to contain public anger. Unless things get so dire, nothing less than massive stimulus will help, and then political exigencies may force a more progressive agenda than party leaders now have in mind. It’s how the New Deal came about. Enlightened politicians and some business leaders were scared enough to give a little to save capitalism. In the months ahead, that choice may again arise.

A View from the UK

It comes from Ambrose Evans-Pritchard in his November 4 commentary headlined: “Revenge of the Left across the world.” He suggests the possibility that America’s election will produce a hostile laissez-faire climate given that “capitalism has run amok” and caused damage so great that Obama “may have to pursue unthinkable policies.” Just as Franklin Roosevelt did once in office.

True or not, some observers believe it or at least are hopeful. Ninety-one year old Eric Hobsbawm for one. The famed British Marxist historian and author in a BBC interview. He calls today's events "the dramatic equivalent of the collapse of the Soviet Union: we now know that an era has ended. It is certainly the greatest crisis of capitalism since the 1930s. As Marx and Schumpeter foresaw, globalization not only destroys heritage, but is incredibly unstable. It operates through a series of crises."

This one will result in "a much greater role for the state, one way or another. We've already got the state as lender of last resort. We might well return to the idea of the state as employer of last resort" the way it was under FDR.

Evans-Pritchard is sympathetic and disagrees with those who think business can go on as usual given that governments have stepped in with massive rescue packages. He quotes Germany's foreign minister, Frank-Walter Steinmeier, saying: "The rule of the radical market ideology that began with Margaret Thatcher and Ronald Reagan has ended with a loud bang. We need a comprehensive new start, so we can reestablish our society on fresh foundations. People create value, not locusts." Thatcher's TINA (there is no alternative) has come full circle. It was fraudulent on its face and is now turned on it head.

So says Nicolas Sarkozy in his "Laissez-faire, c'est fini" comment that needs no translation. "We will intervene massively whenever a strategic enterprise needs our money," he said. It's pouring out of Washington, the UK, and most Western European capitals in a frantic effort to staunch the bleeding that keeps gushing no matter what they do. Because of what Evans-Pritchard calls the "awful truth." Gross excesses producing awesome credit bubbles now imploding and landing with a thud. Their "shock will move by degrees from revulsion to political rage." It produced Hitler in 1930s Germany. Hobsbawm hopes America will be wiser and choose socialism over "the Hegelian broth nearing the boil in Europe."

Given current conditions near certain to worsen and a new US administration in power, it's anyone's guess how a crisis this grave will be resolved or how things will look when it ends. One thing, however, is sure. The age of George Bush is over, and not a moment too soon. But unduing his damage may be too great a task for any head of state – even for all of them combined. The wages of sin are now due.

Stephen Lendman is a Research Associate of the Centre for Research on Globalization. He lives in Chicago and can be reached at lendmanstephen@sbcglobal.net.

Also visit his blog site at sjlendman.blogspot.com and listen to The Global Research News Hour on RepublicBroadcasting.org Mondays from 11AM – 1PM US Central time for cutting-edge discussions of world and national topics with distinguished guests. All programs are archived for easy listening.

http://www.globalresearch.ca/index.php?context=va&aid=10773

Articles by: Stephen Lendman

About the author:

Stephen Lendman lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net. His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III." http://www.claritypress.com/LendmanIII.html Visit his blog site at sjlendman.blogspot.com. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network. It airs three times weekly: live on Sundays at 1PM Central time plus two prerecorded archived programs.