Worse Than the Great Depression?

A Review

By Stephen Lendman
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It's a minority but growing view, including from 86-year old former Goldman Sachs chairman, John Whitehead, at the November 12 Reuters Global Finance Summit in New York. As disturbing evidence mounts, he said: "I think it would be worse than the depression. We're talking about reducing the credit of the United States of America, which is the backbone of the economic system. I see nothing but large increases in the deficit, all of which are serving to decrease the credit standing of America.

Before I go to sleep at night, I wonder if tomorrow is the day Moody's and S & P will announce a downgrade of US government bonds. Eventually (they'll) no longer be the triple-A credit that they've always been. I've always been a positive person and optimistic, but I don't see a solution here." Powerful words from a man who "want(s) to get people thinking about this, and realize (we're on) a road to disaster."

A subject writer, precious metals analyst, and Safe Money Report editor Larry Edelson also comments on. Most recently on November 13 in an article titled: "The G-20's Secret Debt Solution." He's quite dire in saying short-term fixes won't be discussed at its November 15 summit. A "far more fundamental fix is being (secretly) discussed – the possible revaluation of gold and the birth of an entirely new monetary system." It's a topic Edelson has spent much time on previously.

Given the speed and severity of the current crisis, he believes something big is planned and puts it this way: "If we can't print money fast enough to fend off another deflationary Great Depression, then let's change the value of the money." In other words, devalue it, but do it globally. "It would be a strategy designed to ease the burden of ALL debts – by simultaneously devaluing ALL currencies (or at least all that matter) and re-inflating ALL asset prices."

Edelson thinks G-20 officials will discuss this seriously. Essentially, the idea of "a new financial order that includes new monetary units that (will help) wipe clean the world's debt ledgers." At best, it will be a tough sell given that the US, by far, is the world's largest debtor and the one most in need of help. The urgency for all others is that if America sinks, it'll drag down all world economies with it, so it's possible some kind of solution will be arranged. But it's not assured, nor can it be ruled out that the summit will be stalemated as every nation has its own concerns and its own constituency to serve.

Edelson believes that key US officials, including Fed chairman Bernanke, Treasury secretary Paulson, and president-elect Obama back the idea, and (most but not all) key world central bankers and politicians agree that a new monetary system is needed.

Consider a historical precedent at a previous dire time – the Great Depression. In April 1933, Roosevelt issued Executive Order (EO) 6102 that stated:

….a "national emergency still continues to exist (and) by virtue of the authority vested in me….(I) do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations…."

The EO required the delivery on or before May 1, 1933 "to a Federal Reserve Bank or a branch or agency thereof" all such holdings other than amounts used in industry, profession or art and other listed exceptions. Failure to comply carried a fine up to $10,000 (adjusted for inflation today would be 16 times or more that amount), up to 10 years in prison or both. This EO is called the Gold Confiscation (act) of 1933. It's price at the time was $20.67 an ounce. Shortly thereafter, it was raised to $35 an ounce for an effective US dollar 41% devaluation.

What Edelson is suggesting is that world economies together will do the same thing – "a simultaneous and universal currency devaluation" without confiscating gold. They don't have to and instead can "raise the current official central bank price from its booked ($42.22) value an ounce – to a price that monitizes a large enough portion of the world's outstanding debts."

If this happens, debts will be reduced to a fraction of re-inflated asset prices "led higher by the gold price." Further, Edelson believes, in place of the dollar as a reserve currency, "three new monetary units of exchange (will emerge) with equal reserve status" – a new dollar, euro and "a new pan-Asian currency" with the Chinese yuan likely surviving and linked to a basket of the other three.

With devaluation, new currencies will be worth less than the old ones by a considerable amount. For example, "10 new units of money (may then equal) one old dollar or euro." They'll have new names as well, and new "regulations and programs would be designed and implemented to ease the transition to a new monetary system" – if it happens and it's by no means assured.

But if it does, central banks and governments would run things along with the IMF that's had contingency plans for such an eventuality since it was established in 1944. According to Edelson, a new monetary system will include the following:

(1) A new fixed-rate currency regime

Once the price of gold is increased and new currencies introduced, "a new fixed exchange rate system" will be introduced. The floating one and old currencies will be eliminated to reduce market volatility.

(2) New compensatory measures for savers

They'll be introduced as an inducement and to protect against further devaluation. For example, a possible "one-time windfall tax-free deposit could be issued directly to individual accounts or to employer-sponsored pensions, to IRAs, or Social Security accounts." Something like a tax rebate. At the same time, income taxes may be raised to cover the cost or perhaps some kind of global sales tax instead.

(3) Additional programs to protect lenders and creditors

They'll get top priority over individuals but with a currency worth far less than before. So programs will be needed (like tax help) to help them offset the losses that will be considerable.

Can this work? Edelson thinks so as hard as the medicine would be to swallow. Also, it's not a recipe for high growth rates or improved returns on investments the way it was in the great bull market now ended.

Another issue is what gold price would be legislated to reflate world economies. Who can say, but here are some possibilities Edelson sees, and note the dramatic effect on the precious metal if he's right:

— if 100% of public and private sector debt is monetized, "the official government price of gold would have to be raised to about $53,000 per ounce;"

— at 50% monitization, gold would be $26,500 an ounce;

— at 20%, it would be $10,600 an ounce; and

— at 10%, it would be $5300 an ounce.

The lowest figure isn't outlandish in light of historical precedent. Gold hit $850 an ounce in 1980. In CPI inflation-adjusted terms, around $2300 an ounce would equal it today. But if the government hadn't cooked the CPI calculation to keep it low, the number would be about $6250 an ounce. So if a devaluation occurs, perhaps even $10,600 might not seem unusual.

Edelson bases his numbers on US debt only because this country is the world's largest debtor and at "the epicenter of the crisis." He won't be surprised if "the G-20 monetize(s) at least 20% of the US debt markets." If so, he sees gold at over $10,000 an ounce along with currency devaluations "by a factor of at least 12 to 1, meaning it would take 12 new dollars or euros to equal 1 old dollar or euro."

A gold standard isn't needed because central banks need only monitize and reduce their debt burdens "via inflating asset prices in fiat money terms." The obvious question is what to do if he's right. Think gold, and in his judgment, make it "as much as 25% of your investable funds." He's not alone recommending this, including others who believe America is insolvent, will simply default on its debt, perhaps create a new currency as Edelson believes, and do it sooner than most people imagine. Next year perhaps because conditions are so dire and deteriorating fast.

Macro data keep confirmng it. The latest on November 13 with initial unemployment claims at 516,000 or the highest since September 2001. Continuing claims are at the highest level since 1983. For the week ending November 1, the seasonally adjusted insured unemployment advance number was 3,897,000 or an increase of 65,000 from the preceding week.

Crucial to understand is that these figures are grossly understated given the numbers of discouraged workers, part-time and occasional ones, and other ways the government cooks the books to soften or otherwise alter all types of "official" data. None of it, including GDP, inflation, and the rest is reliable. For unemployment, a good rule of thumb is to double the announced figures, so the Labor Department's reported 6.5% is, in fact, around 13% and rising.

In addition, housing continues to deteriorate. Large builder Toll Brothers president, Bob Toll, says "These are bad times if there ever were" any. Along with declining prices and rising foreclosures, it shows in new mortgage application figures – down 40% from a year earlier and no evident leveling off signs.

Still more bad news on November 14 with the Commerce Department reporting October retail sales plunging a record 2.8% after falling the previous three months. Even excluding a 5.5% drop in auto purchases, they fell a record 2.2% with lower gasoline prices accounting for much of the drop. Nonetheless, numbers were down across the board, and August and September figures were revised lower signaling a poor holiday shopping season and very bleak Q 4 that's certain to continue into the new year.

Some observers believe that these and other data lie behind Paulson abandoning his toxic asset purchase plan to give more to "nonbank financial institutions, like insurers and speciality-finance companies" as well as to "Shift Focus in (the) Credit Bailout to the Consumer," according to The New York Times. Others see the Treasury in disarray and still others think the original plan was a head fake, and all along Paulson had other things in mind and will gradually unveil them. They'll offer little for beleaguered households if anything at all.

Details on his newest plan are vague, but apparently consumers won't directly benefit. Around $50 billion will be for a new loan facility to help companies issuing credit cards, making student loans and financing car purchases. It means maxed out households won't be able to borrow because they're already overextended, and lenders will only do business with good credit risks.

Nonetheless, this is the latest twist in what some critics call making Treasury policy on the fly. First toxic asset purchases, then bank recapitalizations and various other handouts, and now the vague outlines of a new plan just announced. Tomorrow something else in the wake of the G-20 November 15 summit.

Its official 47-action items statement (drafted well in advance of the meeting) was in the usual type political-speak. According to The New York Times, "leaders of 20 countries agreed Saturday to work together to revive their economies, but they put off thornier decisions about how to overhaul financial regulations until next year (when it plans) its next meeting for April 30, 101 days after (Obama) is sworn into office." Whatever is finally agreed on, this much for certain is clear. Unchanged Washington/Wall Street dominance is planned along with putting the IMF in charge of global "neoliberalizing" with all its destructive fallout.

A Long-Term View on the Depression

It's from noted sociologist, social scientist and world-systems analyst Immanuel Wallerstein, now a Senior Research Scholar at Yale where he covers world-systems in three ways:

— the historical development of the modern world-system;

— the contemporary crisis of modern world-economy capitalism; and

— structures and knowledge.

He's authored numerous books and writes regular commentaries on major world and national topics. A recent October 15 one is titled "The Depression: A Long-Term View."

It's started in his view. We're "at the beginning of a full-blown worldwide depression with extensive unemployment almost everywhere. It may take the form of a classic nominal deflation (or less likely) a runaway inflation, which is simply another way in which values deflate." What caused it, he asks? Derivatives? Subprime mortgages? Oil speculators? It's a "blame game of no real importance."

Understanding it calls for far more revealing factors, such as "medium-term cyclical swings (and) long-term structural trends." Over several hundred years at least, he describes two major ones. "One is the so-called Kondratieff cycles that historically" lasted 50 – 60 years. The other is called "hegemonic cycles" that are much fewer in number but last far longer.

America contended for hegemony as early as 1873, achieved it fully in 1945, and has been declining since the 1970s. "George W. Bush's follies have transformed a slow decline into a precipitate one. And as of now, we are past any semblance of US hegemony. We have entered, as normally happens, a multipolar world. The United States remains a strong power, perhaps still the strongest, but it will continue to decline relative to other powers in the decades to come." Nothing can change this.

Kondratieff cycles are timed differently. Its last B-phase ended in 1945, followed by "the strongest A-phase upturn in the history of the modern world-system." It peaked around 1967 – 73, and headed down. "This B-phase has gone on much longer than previous (ones) and we are still in it."

Its characteristics are as follows:

— "profit rates from productive activities go down, especially in those types of production that have been most profitable;"

— it directs capitalists to financialization and speculation for higher returns; and

— "productive activities, in order not to become too unprofitable, tend to move from core zones (like America) to (lower cost) parts of the world-system."

Speculative bubbles are profitable while inflating, but they always burst. "If one asks why this Kondratieff B-phase has lasted so long, it is because the powers that be (the Treasury, Fed, IMF, and western European and Japanese collaborators) have intervened in the market regularly and importantly" to shore it up at times of economic disruptions – 1987, the 1989 S & L crisis, 1997 Asian contagion, 1998 Long Term Capital Management debacle, the 2001 – 2002 corporate scandal period, and more than ever today with big unanswered questions whether this time it will work.

It doesn't matter because we've reached the limits of what can be done – "as Henry Paulson and Ben Bernanke are learning to their chagrin and probably amazement. This time, it will not be so easy, probably impossible, to avert the worst."

In earlier depressions, innovations and quasi-monopolies helped world economies recover.

In the late 1930s, WW II played the major role. Today things are different and "may interfere with this nice cyclical pattern that has sustained the capitalist system for some 500 years." They're new structural trends, according to Wallerstein. "The problem with all structural equilibria of all systems, is that over time the curves tend to move far from equilibrium (and it's) impossible to bring them back."

What happened this time? It's "because over 500 years the three basic costs of capitalist production – personnel, inputs, and taxation – have steadily risen as a percentage of possible sales price (so) today (it's) impossible to obtain the large profits" that previously were the "basis of significant capital accumulation." It's the result of capitalism working so well that it finally "undermined the basis of future accumulation."

At this point, the system "bifurcates." The immediate consequence is high chaotic turbulence (now ongoing) and will continue....for perhaps another 20 – 50 years. From the chaos "one of two alternate and very different paths" will emerge.

The present system won't survive. A new one will replace it. It will not be capitalism as we know it, but may be far worse or far better (more democratic and egalitarian). Determining the outcome is "the major worldwide political struggle of our times."

In the short-term, we're moving into a "protectionist world (forget about so-called globalization)." Governments are getting more into production – even in America and Britain. We're also moving more into "populist government-led redistribution," either in a left-of-center social democratic form or a far right authoritarian one. "And we are moving into acute social conflict within states, as everyone competes over the smaller pie. In the short-run, it is not, by and large, a pretty picture."

A Brief Summary of Nouriel Roubini's Latest Views

As of November 11, he says "the US will experience its most severe recession since WW II, much worse and longer and deeper than even (in) 1974 – 75 and 1980 – 82." It'll last through 2009 and cause a "cumulative GDP drop of over 4%." Unemployment will likely reach 9%. The US consumer is debt burdened, saving less and faltering: "this will be the worst consumer recession in decades."

A V-shaped recovery "is out the window." In prospect is either a U-shaped 18 – 24 months recession or a worse multi-year L-shaped one similar to what Japan experienced in the 1990s. Economist Michael Hudson sees an L-shaped depression ahead, more severe than what Roubini forecasts who doesn't rule out something worse than he imagines.

As a result, president-elect Obama "will inherit an economic and financial mess worse than anything the US has faced in decades:" the worst recession in 50 years;" the worst financial and banking crisis since the 1930s; a massive fiscal deficit; a huge current account one; "a financial system that is in a severe crisis and where deleveraging is still occurring at a very rapid pace," thus making the credit crunch worse; a household sector in disarray with millions insolvent and forclosures rising; the risk of serious deflation; a liquidity trap for the Fed as well; and "the risk of a severe debt deflation as the real value of nominal liabilities will rise given price deflation while the value of financial assets is still plunging."

Worse still, this is happening globally, even in mighty China that could see its market peak 12% growth rate plunge to 6% for a "hard landing." Emerging economies will be very hard hit, and advanced ones "will face stag-deflation (stagnation/recession and deflation)."

In countries like the US, Japan and possibly others, interest rates may reach zero with serious potential consequences if it happens. "Zero-bound on interest rates implies the risk of a liquidity trap where money and bonds become perfectly substitutable, where real interest rates become high and rising thus further pushing down aggregate demand, and where money fund returns cannot even cover their management costs."

Deflation also affects debt. At nominal values it will rise and thus increase its real burden. As for monetary policy, no matter how aggressive it gets, it will be "pushing on a string given the glut of global aggregate supply relative to demand (plus) a very severe credit crunch."

With this in mind, projected 2009 earnings are "delusional" and will have to be lowered sharply. As a result, view equity rallies as sucker rally bear traps, and Roubini has a cartoon to explain them:

— top graphic: broker saying "I've got a stock here that could really EXCEL"….really excel someone asks?..another asks "EXCEL?"…still another thinks "SELL," then everyone yells "SELL;"

— bottom graphic: everyone yelling "SELL"….one voice saying "This is madness! I can't take anymore, goodbye!" Good bye, someone asks? Buy? – asks another, and then everyone yells BUY!!

Michel Chossudovsky, Ellen Brown and others explain what's really going on. It's not pretty or what Wall Street wants investors to know. That markets are heavily manipulated. Speculation drives them up and down, and very visible (insider) hands profit hugely in either direction.

Chossodovsky: "With foreknowledge and inside information, a collapse in market values constitutes a lucrative and money-spinning opportunity, for a select category of powerful speculators who have the ability to manipulate the market in the appropriate direction at the appropriate price" – and he explains the various ways how.

Brown on the "Plunge Protection Team (PPT): it's "the group set up under President Reagan to maintain market 'stability (profitable instability also) by manipulating markets behind the scenes."

In other words, financial markets are rigged. "Free" ones don't exist except in the mind's eye of the innocent. They represent no collective wisdom other than the speculators who manipulate it for profit.

Brown: "In a rigged pseudo-capitalist economy, investors are easily separated from their money because they expect the market to follow 'free market principles' based on 'supply and demand.' They are seduced into 'pump and dump schemes" and fleeced.

In today's market climate, trusting in Adam Smith's "invisible hand" is a very hazardous exercise. Brown again: "The market today is indeed controlled by an invisible hand, but it is not necessarily serving the interests of small investors."

Paul Krugman on A Possible Depression

He doesn't expect one, but he's worried at a time when we're "well into the realm of what (he calls) depression economics." He means "a state of affairs like that of the 1930s in which the usual tools of economic policy – above all, the Federal Reserve's ability to pump up the economy by cutting interest rates – have lost all traction. When depression economics prevails, the usual rules of economic policy no longer apply: virtue becomes vice, caution is risky and prudence is folly."

He cites one piece of macro data, among many others, as an example – new unemployment insurance claims (mentioned above) that are high, rising, but not unusual in recessionary times. Standard policy is to cut the fed funds rate, but today doing it is "meaningless." It's officially at 1%, but it's "averaged less than 0.3 percent in recent days," so there's nothing left to cut.

Krugman suggests a huge $600 billion stimulus package, but even that could fall far short, especially if it causes as much destabilization as the Paulson bailout schemes – designed to wreck the economy, not heal it, so powerful interests can grow more powerful and do it with taxpayer dollars.

New Programs for Old Add Up to Same Old, Same Old

Shifting focus to bailing out consumers was covered above and explained as a way to help companies, not households. It's more Bush administration deception that will continue seamlessly under Obama, and just look at his major Wall Street contributors for proof. He fully supports aiding them at a time one observer calls the Treasury "privatized," and it's no secret that it's being looted.

Then there's (supposed) mortgage aid for beleaguered homeowners that falls way short of helping them. Quite the opposite in fact. The newly announced plan is more old than new and only to keep under water owners from deserting their properties and renting. The idea is for lower rates, extended loan terms, lower payments, and adding unpaid balances to principal. It's called negative amortization – when monthly payments are less than the full interest amount due. The interest accrues and principal balances increase, only putting off an eventual day of reckoning for a later time when prices of homes will be lower and owners even less able to afford them.

In others words, the solution is worse than the problem. It will sink owners more under water than at present, delay their defaulting for a later time, turn owners into levered renters, drive them deeper into debt, ensure continued foreclosures for many years to come, and end the dream of home ownership for millions. It will also discourage millions more from wanting one.

And there's more to this ugly plan. There's a catch. It focuses on loans Fannie and Freddie own or guarantee. They dominate half the mortgage market and have about 20% of delinquent loans, so far. Even FDIC chairman, Sheila Bair, is critical saying the plan "falls short of what is needed to achieve wide-scale modifications of distressed mortgages." She wants some TARP money for "fixing the front-end problem: too many unaffordable home loans," but what's needed is an entirely new plan.

One designed to work. With affordable monthly payments, principal balances reduced, and lenders required to eat losses on deceptive loans they never should have made in the first place. The proposed plan is designed to fail, and it's typical of how Washington operates. It was announced by the Federal Housing Finance Agency (FHFA), the same one that seized Fannie and Freddie in September.

On November 13, FDIC officials unveiled their own plan that improves on FHFA's but not enough. It's only for 1.5 million homeowners facing foreclosure in 2009. Its cost is an estimated $24.4 billion, and even so Henry Paulson opposes it because it taps a small portion of his TARP money.

Borrowers who've missed at least two monthly payments will be eligible for a reduced amount – at no more than 31% of their monthly income compared to the 28% of the pre-tax amount lenders once deemed affordable.

In exchange, mortgage companies will be guaranteed that if borrowers fall behind on their payments and they lose money, Washington will cover half of their loss in most cases. The plan's estimated cost is based on the assumption that only one in three borrowers with modified payments will be unable to make them. Currently, nearly half of borrowers under such plans default, so it's doubtful FDIC's plan will work, especially with home prices still falling and likely to bottom well below current values.

Nonetheless, leading congressional Democrats are supportive, and Senate Banking Committee chairman, Chris Dodd, said he'll introduce legislation to let bankruptcy courts modify mortgage loans. It's something consumer advocates want badly and the banking industry strongly opposes. It remains to be seen what kind of new law passes (if any), and despite expressing support for one during his campaign, rest assured that Obama will do nothing to harm his core constituency – his powerful Wall Street backers.

He'll likely let banks set their own terms for their own benefit to the detriment of homeowners. The way it usually works in the end. Further, arrangements announced, in place or planned can't stop foreclosures from rising. Increasing unemployment will intensify the problem. Many borrowers overstated their incomes and can't even handle reduced payments. Others were speculators on second homes and don't qualify.

In addition, home prices keep falling with no end of it in sight. Growing millions of owners are under water owing far more than their properties are worth and assuring many will default and simply rent – for less than they're now paying.

Further, securitizing mortgages complicates who owns them. Except for Fannie and Freddie, they're not your local bank or S & L in most cases, but foreign investors, hedge funds, and all sorts of other non-traditional mortgage paper holders. Usually ones homeowners can't meet with face-to-face, and if they could would be rebuffed. "Servicers" won't modify loan terms because doing so lowers their value for investors and likely would invite lawsuits.

It's another wrinkle in a complicated situation with homeowners at the bottom of the food chain being squeezed, short of major government help not forthcoming or likely in the new year. For them and most others, trouble is baked in their cake that they're now being force-fed to eat.

In greater portions after the Office of the Comptroller of the Currency refused to let lenders forgive large amounts of credit card debt. As much as 40% for consumers who don't qualify for existing repayment plans.

A rare financial industry and Consumer Federation of America alliance asked the Treasury

Department for help on October 29 for very logical reasons. Consumers need it as well as credit card lenders for a way to mitigate growing losses – by assuming small in lieu of total ones and getting extended write-off periods.

But consider how over-indebted individuals may react if they're smart. Why pay anything when it's simpler to default and walk away. For those strapped enough, it's what growing numbers are choosing and the reason lenders like JP Morgan Chase, Citigroup, and Bank of America (already reeling from bad mortgage debt) are concerned enough to seek relief.

Instead, they should be held accountable for their fraud. For destroying savings, pensions, and for growing millions their homes and futures. For charging usurious interest and late charges on credit card balances. For gaming the system for decades but now out of their food source. Instead of help, have them give back and make it on their own, or step aside, be nationalized, and turn them into a public utility, on a level playing field, to serve the greater good for everyone.

Their due reward for what Paul Craig Roberts calls "unregulated banksters and Wall Street criminals, greedy CEOs, and a no-think economics profession (for having) destroyed America's economy," and now wanting to be saved from their own transgressions. Rebalance the tax code instead, make it progressive, and soak the rich, not the poor. It was the original idea in the first place at a time low income earners paid nothing. Today they're overburdened, overtaxed, out of work, and out of hope during the most serious disruption in our history.

They're not offered part of the latest bank handout that's little more than naked theft on top of all of it earlier. This time with another $140 billion windfall that was in a September 30 Treasury Department memo. According to tax experts, it overstepped its authority by overturning section 382 of a 1986 law curtailing the outlandish corporate gaming of the tax system. It nets Wells Fargo $25 billion for its Wachovia takeover and PNC bank $5.1 billion in acquiring National City. Future acquisitions will enjoy similar benefits with taxpayers getting the bill.

This also helps big banks acquire smaller ones, concentrate more power in their hands, and head them closer to near-monopoly control over the entire financial system. A privatized Treasury indeed – with bipartisan support and by the new president-elect.

His new Treasury secretary will maintain the status quo or even sweeten it at a time when ordinary households are in deep distress with little help in prospect beyond measures too inadequate to matter.

According to the New York and London-based CreditSights research firm, it's $5 trillion and counting for fraudsters and bare crumbs for the public. At a time economies are sinking into recession, unemployment and poverty rising, and mayor Richard Daley of this writer's Chicago warning of "huge" layoffs to come.

He compared now to the 1930s and said: "We never experienced anything like this except (for those) people who came from the Depression. When you have that many layoffs early (referring to the city's and what corporate heads tell him) – and they're telling me this is only the beginning of their layoffs – that is very frightening."

Daley warned that local governments could face bankruptcy at a time Chicago-based

Challenger, Grey & Christmas outplacement consultant reported that US job cuts reached a five-year high in their latest numbers and are rising across the board.

It's just as bad for Illinois (and other states) according to Bloomberg. The state "is $4 billion behind in paying bills to its suppliers of goods and services," Comptroller Dan Hynes said. "Vendors face a 12 week delay in getting paid, and the wait may extend to 20 weeks" as conditions deteriorate further. "The unprecedented backlog of bills might grow to $5 billion by March. To call this an imminent crisis is an understatement," and it's affecting all state services. In other states as well across the country.

Even the mighty New York Times is hurting. It's fallen on hard times and may be a metaphor for the country. In 2002, its stock price hit nearly $53 a share and is now below $7.50 (as of November 14), down about 86%. It also owes lenders around $400 million by next May, has a mere $46 million on hand, and it needs all of it and more for operating expenses at a time one observer suggests that the Grey Lady may need to change its slogan to "Less News and Less Money To Print It."

Maybe none according to its publisher Arthur Sulzberger Jr. months back at the Davos, Switzerland World Economic Forum. He said "I really don't know whether we'll be printing The Times in five years, and you know what? I don't care either" because the paper is emphasizing internet news and doubled its online readership to 1.5 million.

Well and good but it hasn't enough online advertising to make up for what it's losing in print, and given today's climate, it may run out of time to make up the shortfall and stay viable. That may prove the epitaph for growing numbers of venerable (and now vulnerable) American and global companies at perhaps the most challenging time in their histories.

A Final Comment

How did it come to this in the first place? In a word: out-of-control excess yields even greater payback, and the only cure for bubbles (according to noted economist Kurt Richebacher) is to prevent them from developing.

The ones now deflating are unprecedented in their size and severity. No amount of policy making magic will easily fix them. America and world economies face a long, painful period ahead, likely more than at any other time in history with no clear idea what will emerge in the end. As one observer puts it: "All we know is that nobody knows."

What's known in the shorter term is what Michel Chossudovsky observes: "The financial crisis is deepening, with the risk of seriously disrupting the system of international payments. (This time) is far more serious than the Great Depression. All major sectors of the global economy are affected (and TARP and related schemes are) not a 'solution' to the crisis but the 'cause' of further collapse" – by design.

So what long-term lessons will be learned when the dust finally settles? According to money manager and market strategist Jeremy Grantham: "absolutely nothing" or put another way – those who don't heed the lessons of the past are condemned to repeat them.

Policy makers won't change. "Free-market" fundamentalism won't be tamed, and nothing in sight promises deliverance to a caring, progressive new world. Before whatever comes out of this in the end, plenty of pain will precede it, then past sins will repeat, and we'll go through the whole cycle again – if we make it through this one.

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