

FED ATTEMPTS TO BAIL OUT BANKRUPT WALL STREET SPECULATORS;
CHENEY DEMANDS STAGED TERROR ATTACKS, WAR WITH IRAN

HELICOPTER BEN UNLEASHES DOLLAR HYPERINFLATION

By Webster G. Tarpley

Washington DC – August 12, 2007 – By deciding to ante up \$38 billion for a hopeless bailout of predatory Wall Street hedge funds and the banks that stand behind them, Federal Reserve Chairman Helicopter Ben Bernanke has placed the bankrupt US dollar on a direct course towards the precipice of hyperinflation. In so doing, he has given new momentum to the backers and controllers of Dick Cheney, who favor an insane flight forward into general war with Iran, deluding themselves that they can thus escape from both military defeat in Iraq and Afghanistan, and from the death agony of the dollar.

On August 9-10, the European Central Bank, the Bank of Japan, the Federal Reserve, plus the central banks of Australia, Norway, Switzerland, and other countries “injected” the equivalent about a third of a trillion dollars (\$325 billion) into the money systems of the world. The Bank of Japan handed out a dramatic ¥ 1 trillion, about \$8.5 billion. The European Central Bank showed signs of panic, or of realism, by spewing out about € 160 billion over two days. Their goal was to stave off a spreading panic at bond trading desks and in the capital markets of the world about junk bonds, collateralized debt obligations (CDOs), mortgage backed securities, and other paper debt instruments. At about 9 AM on Friday August 10, the Chicago futures markets suggested that the Dow Jones Industrial average would open down about 190 points. That meant the potential for spreading stock market panic, with the DJIA closing down 1,000 to 2,000 points or more by the end of the day, quite possibly pitching more banks and hedge funds into bankruptcy. Such an event would also tend to awaken the US middle class to the fact that their 401 (K) and IRA pension plans were being liquidated. This would make the financial crisis a political crisis as well, and perhaps stoke the fires of impeachment. Helicopter Ben therefore followed his predecessor, Bubbles Greenspan, on the path of bailout, although on a larger scale than what Greenspan had ever attempted in public. Bernanke and the New York Fed bought up \$38 billion of toxic mortgage-backed securities from the principal hyenas of Wall Street -- led, we can be sure, by Goldman Sachs, Bear Stearns, Lehman Brothers, J.P. Morgan Chase, Merrill Lynch, and Citibank. For bailout purposes, the banks were given a sweetheart interest rate, just 4%, less than the 5.25% target Fed funds rate used for interbank lending, and much less than the 6.25% the Fed requires from banks coming to its own discount window under normal circumstances. The \$38 billion, injected in three doses during the course of the day, in addition to other Fed measures, was almost enough to prop the market up for eight hours – the Dow closed with a loss of 31 points. So the central banks will need to provide more fixes, sooner rather than later.

As Alan Greenspan instructed Bill Clinton when the latter took office, the bond market, also referred to as the capital or credit market, is much more important than the stock market in the current US-UK financial system. Right now not just dubious junk bonds and mortgage-backed securities, but even the classic triple A investment grade corporate bonds, are in great distress. Indeed, the bond market has partially shut down in response to the crisis. This is far more serious than a mere stock market crash, such as the one of October 1987.

The Bank of England has said nothing about injections, and is poised to raise its interest rates once again, putting additional pressure on the dollar by tempting hot money to flee out of Wall Street to London. The British may well figure that when the battered US greenback goes under, the British pound sterling will remain afloat, and benefit from the US shipwreck. London has in any case already replaced New York as the real financial capital of the world; this has been a strategic priority for Gordon Brown for some years.

WALL STREET DERIVATIVES MONSTERS – TOO BIG TO BAIL OUT

It would take more than \$38 billion to bail out Goldman, Bear, Merrill, and the rest. The bonds of the firms just mentioned are already rated as high-risk junk. The Wall Street banks and investment banks represent a black hole into which literally trillions of dollars could disappear without a trace – it is enough to cite the derivatives holdings of JP Morgan Chase and Citibank, who are listed in the spring 2007 report of the Controller of the Currency as having \$105 trillion in derivatives between them, and the reality is a multiple of that. In addition, there is fear of the unknown. This past week traders from Rick Santelli in Chicago to London stock touts have reported that a large financial entity – something probably bigger than Goldman Sachs – has been selling off a portfolio of some \$10 to \$15 billion in value. No one has said publicly what this entity is, or what this “unprecedented event” might represent. A few days ago, oil hit an all-time high of \$78 per barrel. It then fell back 10%, because so much of the price of oil – at least \$30 at present levels – is pure hedge fund speculation. And these hedge funds, as they near bankruptcy, massively sell off oil futures. Gold has taken some nasty dips for the same reason.

DOW 36,000 IN SIGHT – THANKS TO HYPERINFLATION

In 1998, neocon economic commentator James Glassman got some attention by predicting a steady rise to Dow 36,000. Now, Glassman may get his wish – THANKS TO hyperinflation. If the central banks continue to “inject” tens of billions of dollars every day, while secretly buying masses of worthless kited paper from banks and investment banks, we may soon experience a fool’s paradise interlude which to some will look like recovery – after all, the stock market may appear to be rising. But watch the prices for milk, other food items, gasoline, and other staples. If they begin to levitate upward, we will know that the fan and bellows of hyperinflation are indeed at work.

Helicopter Ben earned his name some years ago by giving a speech in which he said that he could stop a panic from becoming a depression by dumping bales of dollars out of

helicopters to provide stimulus. He has thus always had a hyperinflationary overtone. On Tuesday, August 7, Bernanke presided over a Fed meeting that refused to cut interest rates, and also failed to offer the bankrupt speculators words of assurance that they would be assisted. This was followed two days later by a panicked selloff, with the DJIA down 387 points.

DEATH AGONY OF THE US DOLLAR

These events represent a new phase of the death agony of the US dollar, which has been in decline since about the start of the Iraq war, and has gone from 80 cents to buy a euro to almost \$1.40. Knowing that the dollar is a wasting asset, and also because of widespread hatred for Bush, everyone in the world has been attempting to dump the dollar in any way possible. Russia has set up a ruble-based trading system where oil, gold, and grain can be bought; they don't take American Express. Iran tried to set up a euro-denominated oil market, but has been prevented from starting it because of US-ordered UN sanctions and related economic warfare. But Iran has asked Japan to pay for its oil with yen, not with dollars. Brazil and Argentina have eliminated the dollar in their bilateral trade. Many European oil companies have eliminated the dollar from their international operations. Every time the dollar is cut out of a lucrative commodity flow, Wall Street and the London Eurodollar market lose the ability to skim 5% to 10% off the top of these transactions in the form of financing, banking services, and fees.

NO MORE ZERO INTEREST LOANS FROM TOKYO

For the past five years, the dollar has enjoyed massive support from the Bank of Japan's zero interest rate policy. This allowed hedge funds to load up with free money in Tokyo and transform those yen into dollars to use in speculating in US markets. This created a constant demand for dollars, and also tempted hot money away from Tokyo into high-risk, high-yield investments elsewhere, a practice known as the yen carry trade. But this so-called yen carry trade is ending: the Bank of Japan has now raised its rate to 0.5%, and is set to hike it again this month. This has played havoc with so-called emerging markets for more than a year. The main advocate for the weak yen, my college classmate Hiroshi Watanabe, was ousted from the Bank of Japan some weeks ago. As the yen gets stronger, meaning as it goes from 118 to 117 to 115 to 110 on the television screen, the huge mass of kited loans becomes harder and harder for the US borrowers to pay back, since the yen has become more expensive. Therefore any fall in the dollar in relation to the yen will result in chain reaction bankruptcies among the US firms which went overboard with yen carry trade loans.

This danger is very real. The dollar has been very weak against the yen lately. In fact, the dollar has been very weak in general, falling to an all-time low of almost \$1.40 to a euro, and a 26-year low of about \$2.05 to a British pound. There has also been a long-term low against the Canadian dollar. Given that the US trade deficit is approaching \$1 trillion, this cannot come as a surprise.

All of this represented the background to Helicopter Ben's dilemma of the past two weeks. If he kept interest rates and money supply at their current levels, the subprime mortgage crisis would spread to all non-Treasury bonds and paper, blowing out the bond market. If he lowers interest rates, the dollar will fall like a stone, and the yen carry trade hangover will sink the Wall Street banks. If he raises interest rates to save the dollar, the banks go bankrupt anyway because of the contagion from the collapsing mortgage bubble. For a time it seemed as if Fannie Mae and Freddie Mac, quasi-governmental institutions which deal in mortgage-backed securities, would be used to bail out bankrupt mortgage-backed paper by buying it up, with the taxpayer ultimately left holding the bag. (Fannie and Freddie participate to some extent in the "full faith and credit" guarantee that covers Treasury bonds.) But Fannie and Freddie are already deeply troubled institutions, as the early stages of the bubble collapse have already revealed. Using them for a bailout is being blocked by the Bush White House. That leaves Helicopter Ben with the option of directly monetizing debt – taking in Wall Street's bankrupt mortgage paper and paying out dollar bills in return. He took the first step towards doing just that this past Friday morning.

PANIC DUMPING OF DOLLAR AND HYPERINFLATION LOOM

The Fed measures taken so far have sharply increased the money supply, making the dollar even weaker. Wall Street is clamoring for an emergency rate cut of one half percent or even one full percent as early as next week. If this is done, the dollar will surely take a spectacular dive. Fed boss Paul Volcker was always haunted by the fear of a sickening slide of the dollar which, once begun, would be impossible to stop. Depending on what Bernanke does, we may now be near such a point. In the present situation, a dollar panic is always latent. Scenarios have long circulated about a young MBA manager in Kuala Lumpur or Taipei who comes into the office one morning and decides that his central bank is holding just a few too many dollars. He orders that a hundred million or so be sold. This generates a rumor that the dollar is being dumped by the country in question. A panicked rush for the exits begins. Central banks join the stampede. Country after country begins dumping its dollars and its US Treasury securities. By the time the wave reaches the US, the dollar is down to 30% of its value the previous day, and the Treasury market is in chaos. Volcker may yet live to see his nightmare become reality, in a time-lapse sequence.

As I show in *Surviving the Cataclysm*, the German hyperinflation of 1923 peaked at a rate of 4.2 trillion paper marks to a US dollar. The main cause of this hyperinflation was the British and French policy of driving down the mark to create economic chaos and prevent Walter Rathenau's German-Russian Rapallo alliance. But the main point for our present purposes is that the mark was ruined first and foremost by its international exchange rate. We too may be headed into an era when shoppers take their dollars to the supermarket in a shopping cart, and bring their purchases home in their pockets. This is especially so since today everything in the US except for certain food items is imported from low wage sweatshops abroad. If the dollar collapses, hyperinflation will result all the more readily, since such a large part of the consumer's market basket is composed of imports. If Bernanke had been intelligent, he would have silently bailed out the two Bear

Stearns hedge funds back in June, effectively suppressing the issue, and steering clear of a much larger crisis. He is reviled in Wall Street for not doing this. Given this track record of weakness and incompetence, Bernanke now appears likely to try to quiet the clamor of Wall Street for easy money. His nickname will truly be an omen of hyperinflation.

Another wrinkle in the scenario is that Bush and the Democratic Congress are already on a collision course over spending, with Bush demanding draconian spending cuts which never occurred to him while the GOP ruled Capitol Hill; the goal is to weaken the Democrats with their own key constituencies, who are demanding some largesse from the new majority. Senator Schumer has signaled that he wants to bail out mortgage paper, meaning that he wants to save Bear Stearns and Goldman Sachs. Bush is adamant that there will be no bailout. An irrepressible conflict is therefore more than likely. We have seen how Bush dealt with Iraq, and then with Katrina. Now we are seeing how he deals with a financial breakdown crisis.

THE PAULSON-BERNANKE PLUNGE PROTECTION TEAM IN ACTION

The \$38 billion is outrageous, but it is not all that the Fed was doing for the wealthy parasites of Wall Street. Since about 1989, the Fed has funded a shadowy organism called the President's Working Group on Financial Markets, more popularly known as the plunge protection team or PPT. This entity intervenes every day to prop up Wall Street's speculative house of cards. The PPT buys stock futures in Chicago with the goal up updrafting stock prices in New York. As long as the PPT can keep the price of the Chicago future above the price of the underlying stock on the NYSE, speculators and program traders will sell the future and buy the stock, accomplishing the PPT's goal of generating totally fictitious demand and preventing gaping market breaks where there is simply no bid for stocks offered. A few billion of futures buying in Chicago can generate tens of billions of buying in New York – especially when the operation is signaled by Wall Street figures known to be de facto spokespersons for the PPT, such as Abby Joseph Cohen of Goldman Sachs. Once speculators know the PPT is moving in, they can pile on the bandwagon, and realize nifty short-term gains before selling to the suckers before the next dip. Hundreds of billions of dollars of Fed money have been committed in this way. Whenever you see a sharp rise of the DJIA right before the close based on no news, you can be sure that the PPT is in action. The PPT is basically illegal, but it may have been authorized by secret presidential executive orders, starting under Bush senior and Clinton. Today, Bush would justify it as a war measure to maintain orderly markets.

One of the first published descriptions of what is now called the PPT appeared in my *George Bush: The Unauthorized Biography* (1992). In the wake of 9/11, accounts in the corporate press boasted of the protection that the PPT was giving small investors. Since then, discussion of the PPT has largely been banished to the Yahoo Finance message boards of stocks like JPM, C, GS, BSC, WM, LEH, MS, and other financial institutions. Journalists beholden to the financier oligarchy never mention the PPT. On CNBC, ham-handed interventions by the PPT are nervously explained away as “bargain hunters” or “small investors making a stand.” Most recently, Gary Dorsch has contributed a detailed

study of the PPT entitled “The ‘Plunge Protection Team’ Working Overtime,” *Global Money Trends Magazine*, August 9, 2007.

The panic had started in mid-June, when two hedge funds controlled by Bear Stearns, the sleazy sixth-ranked investment bank in Wall Street, had disintegrated. First it was announced that the hedge fund investors would get fifty cents on the dollar. Then they were told they would get nothing. In spite of this, the DJIA hit an all-time record at 14,000 and a fraction on July 20, although only with a big push from the PPT. “The entire capital structure from equity all the way to AAA can go to nothing,” Steve Eisman, a portfolio manager at Front Point Partners, told a July 19 conference call on the subprime mortgage debacle, according to the *New York Times*. By July 26-27, triple digit dives of the DJIA had become the order of the day, as rumors swirled about Bear and Goldman. Soon it became known that investors in a third Bear hedge fund were being told that they could not withdraw their money.

SYSTEMIC BREAKDOWN CRISIS

In *Surviving the Cataclysm*, my 1999 study of the world financial crisis, I developed the distinction between collapse and disintegration. A collapse can be very serious, like the Wall Street crash of 1929. Prices plummet, but the exchange still remains open for business. Disintegration is much more serious, like the British default of September 1931 that swept away the only monetary system the world had in those days, or the German hyperinflation of 1923, which wiped out the entire German middle class. The US crash of 1987 was a classic collapse, and it was followed by a short recovery of sorts. What is happening today looks much more like disintegration, meaning that credit markets, including bond and junk bond markets, have partly ceased to function as far as non-government securities are concerned.

The discredited Bush Administration has counted for very little in this crisis. Treasury Secretary Hank Paulson, a Goldman Sachs insider, said in the early phases of the panic that the subprime crisis was “contained.” At a later point Bush commented that he had been told that there was a “soft landing” ahead. The only thing that Bush was sure of was that there should be “no bailout” – and this is now the Republican line, no matter how many ordinary families were thrown out on the streets. As for the financiers, they get their bailouts through the corrupt Federal Reserve.

NOT JUST ONE BANKRUPT HEDGE FUND, BUT TWO DOZEN -- FOR STARTERS

Back in September 1998, at the time of the Russian state bankruptcy around bonds called GKO's, Long Term Capital Management (LTCM), a Connecticut hedge fund, went bankrupt, blowing a hole of several hundred billion dollars in the world banking system. LTCM used high leverage and the Black-Scholes model to place gigantic bets on currency movements. If Greenspan had not rushed in with billions of Fed money to carry out a back-door crony bailout, the interbank clearing systems of the US, UK, and perhaps Japan – known as CHIPS, CHAPS, and BoJ Net, would have jammed up, and the hearts

of the financier universe would have ceased to beat, leading swiftly to world economic chaos and depression. But this time it is not one LTCM, but two dozen highly-leveraged hedge funds which have blown up or are about to. Prominent among them are the so-called quant funds, which bet \$10 billion and up on financial fluctuations using computerized predictive models. Prominent among these is Renaissance. The quants complain that their models, which are supposed to incorporate 45 years of market history and experience, are now failing to forecast what will happen next, and losses are mounting. The reason is that we have now encountered a cataclysmic singularity which has not been seen in more than half a century – the beginning of the end of the US dollar. To find a financial earthquake comparable to the present one touching the leading currency of the world, we must in fact go back to the disintegration of the British pound in September, 1931.

In recent days, reality has filtered through, even on CNBC. Commentators have warned of “systemic risk if a big bank blows,” “the end of the world,” “depression,” “Armageddon,” “panic,” “the Hindenburg” (the dirigible, not the signal), “a return to 1990” (when Citibank was bankrupt and secretly seized by the Controller of the Currency), the crash of 1987, the hedge fund crisis of 1998, and a “credit crunch.” “Bond traders are afraid.” “Wall Street is afraid.” Led by Jim Cramer with his celebrated on-air psychotic episode on the afternoon of Friday, August 3, Wall Street has been heaping insults on Helicopter Ben and demanding that he open the cash spigots, cut the fed funds and discount rates drastically and quickly, and reassure the stockjobbers that back door crony bailouts will be available for all, starting with the too big to fail, like JP Morgan Chase and Citibank.

THE TIP OF THE ICEBERG: FINANCIAL INSTITUTIONS IN TROUBLE

3 Bear Stearns hedge funds
3 BNP Parisbas funds
3 Goldman Sachs funds: Global Alpha, North American Equity Opportunities, North American Equity Opportunities
Sowood hedge fund – absorbed by Citadel to mask impact
Bowa Commercial Bank, Taiwan – seized by regulators
Renaissance (quant)
Luminent
Westdeutsche Landesbank hedge fund
IKB Industriebank, Germany
Deutsche Bank ABS hedge fund
AQR Capital Management (quant)
Washington Mutual
Countrywide
American Home Mortgage
Basis Capital
Absolute Capital
Macquarie Bank of Australia
Homebanc

Man Group (UK)

HOW TO STOP THE DEPRESSION

What needs to be done first of all is the commitment that not one nickel of public funds should be spent on bailing out bankrupt and panic-stricken junk bonds and other paper. The US needs a uniform federal law stating quite simply that, unless and until the president can certify that the current world financial crisis has been overcome, any and all foreclosures on homes, farms, businesses, hospitals, and infrastructure are banned. This would be accompanied by a debt freeze or debt moratorium on payment of principal and interest, again for the entire duration of the crisis. Something similar was done in the New Deal. The interests of bankrupt banks and mortgage lenders must yield to the social imperative of not evicting 10 or 15 million people over the coming months. No bailout of the financiers. Just a law that stops foreclosures, and lets the financiers, not the people, fend for themselves.

A federal ban on foreclosures is obviously a measure in the New Deal tradition. A monetarist follower of Milton Friedman or von Hayek, by contrast, would say that the homeowners who default should be thrown into the street, so that the market can work. A Malthusian might care only about the carbon footprint of the homes involved. A mexophobe would rant that illegal aliens might get some of the money. In this wasteland of ideas, the New Deal approach emerges as the only one consistent with human life and human civilization in such a crisis.

Republican Ron Paul, interviewed on August 10 after the close by the infamous Kudlow, blamed the credit market panic on interest rates which had been too low. Paul should recall that any interest rates above 5%, as charged on these mortgages, are historically very high. (During World War II, for example, successful New Deal policies allowed a typical 2% yield for a 10-year Treasury note, with other rates in line with that.) Paul was adamant that there be no bailout, but did not distinguish between help for ordinary people facing foreclosure and eviction on the one hand, and bailouts for predatory financier sharks on the other. His only advice was to “let the market liquidate bad debt and bad investment” – which, under current conditions, will mean that more than 10 million people will be thrown out on the street during the next few months. One hears an echo of monetarist Andrew Mellon, Herbert Hoover’s Secretary of the Treasury, whose advice on how to deal with the Great Depression was “Liquidate labor, liquidate stocks, liquidate real estate....” Those on the receiving end of such “creative destruction,” as Schumpeter called it, have generally lost their enthusiasm for monetarism.

Paul mocked warnings that “poor people are losing their homes” – a sadly Dickensian moment, since that is just what is happening to ten million Americans. When asked how much he would like to cut federal spending, Paul said that under his presidency it would come down by “50-60-70%” – figures which seem to bode ill for the future of Social Security, Medicare, Medicaid, food stamps, unemployment insurance, WIC, Head Start, S-CHIP (medical care for poor children), TANF (what is left of welfare for mothers with

dependent children), and other programs which keep many Americans alive. The Republican line from Giuliani to Paul is that these institutions are part of the hated “nanny state.” When asked for specifics about what he would cut, Paul mentioned the abolition of the Department of Education, a favorite target of Republicans. Does that include Pell grants and federal support for subsidized Stafford loans, which are the only way the ghetto poor and much of the middle class can hope to send their children to college? No help here for victims of the current economic breakdown crisis, but Kudlow said that this approach would be well received on Wall Street..

GOPer Ron Paul has said that he admires the late Ohio Senator Robert Taft, “Mr. Republican,” who was like many in his family a member of Skull and Bones. One wonders if this admiration includes Taft’s sponsorship of the infamous union-busting Taft-Hartley Act, which has allowed many southern states to effectively block union organizing with so-called “right to work” laws, thus greatly facilitating the demolition of the US labor movement over recent decades. Taft-Hartley has been the key to the race to the bottom in wages and working conditions in this country. It should be repealed and replaced with a modern version of the pro-labor Wagner Act, which made it easier for workers to organize, bargain collectively, and defend themselves. Repeal of Taft-Hartley would be a first step towards rolling back the low-wage Walmart-McDonalds model for the US economy.

THE UPTICK RULE OF 1934 ABOLISHED – JUST IN TIME FOR THE PANIC

In an irony of history, traders in the Chicago futures pits have been complaining to CNBC about the abolition only a few weeks ago of the 1934 New Deal era rule which had required short sellers to wait for an uptick in the stock they were targeting before they could complete their trade. The rule change had produced disruptions and uncertainty, the trader complained on CNBC. The New Deal rule, one of the final vestiges of the regulations introduced after the Great Crash of 1929, was one of the last factors saving today’s finance oligarchs from themselves. Once the uptick rule was gone, the death agony of the current system entered a new phase.

WORLDWIDE ASSET BUBBLE

Tiresome commentators have been prating on ad nauseam about the unprecedented world-wide boom. What we have in fact been witnessing since Bush’s attack on Iraq has been a world asset bubble, benefiting derivatives, hedge funds, stock and real estate speculation, junk bonds, and other paper instruments. In the real world, 2 billion people, a third of the world, have to get by on less than \$2 per day. Some 40,000 human beings per day do not make it, and succumb to starvation, malnutrition, or diseases like dysentery and diarrhea which can be cured for pennies. Under almost two decades of globalization, this situation has been getting worse, not better. That is the big picture from which all real analysis must start. As for the United States, the living standard has fallen by about 65% since the beginning of the current reactionary political cycle with the coming of Nixon in 1968. The US is currently running a merchandise trade deficit of between \$800 and \$900 billion, heading for a trillion dollars per year soon. This means that the US has to borrow

more than \$2 billion per day just to keep sucking in food, consumer electronics, and services from the rest of the world. The foreign dollar overhang is enormous: about \$1 trillion each in Japan, China, and Saudi Arabia, who now in effect hold a mortgage on the USA.

On top of all this, the US is already thoroughly de-industrialized. Steel, chemical, and auto are now a shadow of their former selves. Industrial employment has dropped to the lowest levels in well over a century. The US industrial economy ended when Volcker ran the Federal Reserve and instituted a 22% prime rate in 1978-1980. As the dollar falls, we will hear commentators assuring the public that a collapsed currency will mean that US exports are cheap. The problem is that there are almost no factories left to produce anything that might be exported, so these benefits cannot accrue.

THE COLLAPSE OF AUTO AT THE ROOT OF TODAY'S CRISIS

The big event, the great economic watershed of the last two years, has been the demolition of the auto industry, the heart of the US postwar economy. Not just the Big Three have been hit hard, but also suppliers like Delphi, Lear Corp., Tower, and Collins & Aikman have been gutted by predators like Cerberus and Wilbur Ross. During the Bush years, 300,000 industrial jobs have been lost in auto. But the tragedy does not stop here. As the Minneapolis bridge collapse tragedy, the New York steam pipe explosion, and the Utah mine disaster remind us, this is an economy approaching the point of actual physical breakdown, that is to say of thermodynamic collapse. The interstate highway system with its bridges and tunnels is in ruins. Freight rail, passenger rail, and commuter rail are junk heaps. The electricity grid goes into brownouts and blackouts on hot summer days. Commercial aviation has passed beyond the breaking point. Water systems, from the Mississippi levees of Katrina to the cryptosporidium-laced water of Washington DC, are appalling. There is a deficit of about 1,000 modern hospitals in rural American and in the inner cities, but viable hospitals are being shut down all the time because of predatory financier incursions –closing that need to be stopped in their tracks by that federal law forbidding foreclosures, however camouflaged. This is an economy decades deep in post-industrial rot, running an infrastructure deficit of \$10 trillion and probably much more. The private sector has already struck out, as in the case of the high-toll Dulles Greenway near Washington DC during the 1990s, and in the looting of the fixed capital of the freight rail system by predatory management. What is to be done? Let the venture privateers build the Trans-Texas corridor? Call in the hedge fund vultures and privatize the Indiana turnpike, guaranteeing only that money will be siphoned off the pay greedy venture capitalists located based abroad? Tell people they should walk or use bicycles? Or take the New Deal approach, which would rebuild infrastructure with thirty-year 2% loans from a special window at the nationalized Fourth Bank of the United States, the former Federal Reserve. This would include giving every US city a comprehensive urban mass transit-interurban train system with the goal of saving the billions of man hours lost to traffic jams and road rage, while taking perhaps one third of cars off the roads during rush hours by offering an attractive commuting alternative.

BREAKDOWN STAGE OF GLOBALIZATION

Under the globalization of the 1990s, the system lurched from one brush with systemic crisis to the next – the Mexico and Orange County crisis of 1994 was a typical example. In 1998, when the globalized system threatened to implode because of the LTCM and Russian GKO crises, Greenspan began citing the danger, not of systemic breakdown, but rather of the Y2K computer glitch, which might cause viable banks and firms to appear bankrupt. Greenspan therefore cranked up the printing presses and flooded the gutters of Wall Street with sloshing liquidity. When Brazil was about to go bankrupt in 1999, Soros demanded a “wall of money,” and he got it. The result of all this was the dot com bubble of 1999-2000; the dot communists went belly up starting in the spring of 2000. The dot com-heavy NASDAQ lost 80% of its value. Greenspan responded to this with a new bubble, this time in housing and real estate. As home prices went into the ionosphere and adjustable rate mortgages and interest-only mortgages were given to applicants of the most modest means, Greenspan celebrated the “wealth effect,” meaning that home owners were now supposed to take out a second mortgage (or home equity loan) on the additional value of their property, and then spend that extra money in the stock market. The housing bubble got going in earnest with Bush’s attack on Iraq in March 2003, and expanded home ownership was a favorite Republican theme in the 2004 elections.

The Wall Street-London casino economy of hedge funds, derivatives, and pure speculation may sometimes seem to be a separate and self-contained universe, but it is not. It ultimately depends on income flows which have to be derived from the real productive and physical economy of the world – that is to say, from manufacturing, farming, mining or other production somewhere. Finance oligarchs do not like to be reminded of this, but every few decades a depression or even a breakdown crisis comes calling to remind them of this basic fact. Contrary to what is said on CNBC, the US economy is not sound, and the debt-strapped US consumer has indeed reached the end of the line.

THE FOUR TRILLION DOLLAR HEDGE FUND BUYOUT ORGY OF 2006

Under Bush, with figures like White and Paulson at the Treasury, Wall Street has forgotten what productive investment in new plant and equipment even looks like. Millions of jobs have been lost to the runaway shop under the auspices of free trade swindles NAFTA, CAFTA, GATT, and WTO. Under the reign of these financial parasites, we have witnessed an unprecedented boom in leveraged buyout deals, where one group of corsairs used junk bonds to take over an existing company, often firing many of the employees, cutting the wages and increasing the hours of those who remain, introducing speedup, busting unions, terminating health care, selling off parts of the business, and leaving what is left groaning under the burden of crushing debt which has not added anything to technology or other capabilities, but has lined the pockets of Wall Street lawyers and investment bankers. These deals are a microcosm of what is wrong with US vulture capitalism today: paper wealth for a few gluttons of privilege is maximized, while jobs, wages, working conditions, and productive output in the real economy are mercilessly driven down. Leveraged buyouts and junk bonds need to be outlawed as a public menace. When Wall Street begs for aid in the coming months, don’t

forget that they were the ones who for years applauded every time American workers were fired by a leveraged buyout (LBO) pirate.

Since paper profits are no longer invested in anything productive, they flow into these leveraged buyout deals, often called private capital transactions. The peak of this activity came in 2006, when there were \$4 trillion in mergers and acquisitions, with \$1 trillion of straight leveraged buyout deals. About \$500 billion of this frenzy came in December 2006, setting the stage for 2007 to become the crisis year it has now become. Every LBO or private equity or private capital deal means fewer jobs, lower wages, less buying power, and thus, most to the point, less ability to keep up with mortgage payments. This problem was escalated by the takeover of many of the subcontractors and parts suppliers of the auto industry by predator hedge funds during 2005-2006. It got even worse when battered Chrysler was sold by Daimler Benz to the Cerberus Fund, aptly named after the hound of hell. As the collapse and looting of auto rippled through the economy, the income flows on which the sustenance of the mortgage bubble depended were severely constricted, leading to the current panic.

CONTRACTION IN REAL ECONOMIC ACTIVITY IN THE USA

Thirty-six years ago this week, on August 15, 1971, President Nixon ended gold settlement among nations and fixed currency parities, and thus pulled the plug on the Bretton Woods world monetary system, the most successful world currency arrangement that the world has ever known. Nixon was responding to British demands for gold payment. Among many crimes, this was Nixon's greatest. Since then, world economic growth has gone negative, into reverse, with net world deindustrialization in the US, the former USSR, eastern Europe, the UK, the EU, and elsewhere. (Only China, partially outside the system, represents a consistent exception.) During all these years, the London-New York financiers have been concerned to keep political power in their own hands by engineering a gradual decline or "soft landing," treating the US population like the frog in the pot of water which is slowly brought to a boil. The key to this has been the looting of underdeveloped countries to keep the homeland stupefied and inert. In all these years, the big question has been about The Contraction – that is to say, about the moment when events like the 1987 stock market and dollar crash, the 1990 banking crisis, or the 1998 hedge fund debacle would begin to translate into mass layoffs, business shutdowns, economic disruptions, Hoovervilles, and bread lines inside the US itself. This is what happened over 1930, as the US descended into the Great Depression. It appears to be happening right now.

HARBINGERS: FREIGHT CAR LOADINGS DOWN 4.2%; TRUCKLOAD VOLUME DOWN 5%

It would appear that the point of Contraction has been reached in the first months of 2007, and that the real or physically productive economy has been in marked decline for some time. This is also the opinion of Richard C. Cook. It is hopeless to rely on the cooked figures of the Bush administration, the most notorious liars of the age. Private associations may well be more accurate. One obvious data series for measuring real

economic activity is freight car loadings and trucking ton-miles, which few hedge fund operators have ever heard of. But these real-world physical units are a useful way of estimating overall levels of real economic activity, as distinct from total derivatives held by banks and other measures based on toxic paper.

According to the American Trucking Associations, “the truckload industry started 2007 poorly as seasonally adjusted (SA) volumes plummeted 5.0 percent from December. This was the largest monthly decrease since a 6.5 percent drop in February 2000....Compared to January 2006, the total SA loads index was off 2.3%, which was the first year over year contraction since July 2006.” (American Trucking Associations, *Trucking Activity Report*, 15:3 (March 2007)). The same tendency was confirmed several months later by the Association of American Railroads, which announced that for the week ending April 28, weekly rail car loadings were down 1.7% and intermodal units were down 5.6%, both compared to the same week a year before. For the first 17 weeks of 2007, rail car loadings were down a cumulative 4.2%, while intermodal trailers were down 11.5% (Dow Jones, May 3, 2007) These are only fragmentary snapshots, but they do provide more than a strong hint that the Contraction is indeed upon us. Are there any economists left who still look at the real, physical economy?

The great question posed by any depression is, who should pay for it? Should working people, the victims, pay by having their wages, working conditions and standard of living driven down even lower than the current minus 65%? Or should it be those responsible -- the economic royalists and financial parasites, the jackals, lampreys, and hyenas of Wall Street -- who are made to disgorge? For any person of good will, the answer is clear. The full program for doing this is discussed in my book *Surviving the Cataclysm: Your Guide Through the Worst Financial Crisis in Human History* (1999). One more example will suffice.

SLAP A SECURITIES TRANSFER TAX ON WALL STREET

With the New York Stock Exchange churning over 2.5 billion shares per day, and with the VIX volatility index at an all-time high, how might markets be cooled down? One socially useful way to do this would be the Securities Transfer Tax or Tobin tax, a levy of about 1% on the total turnover of securities markets – stocks, bonds, futures, options, derivatives, Treasuries, foreign exchange, and other paper property titles – paid by the seller on each transaction. It is named after Professor James Tobin of Yale University, who originated this idea as a way to discourage rampant speculation in currency markets. It would be eminently fair. Right now the financiers who send trillions of dollars rushing through the markets every day all get an absolutely free ride. By contrast, working people who need to buy clothing, shoes, and school supplies in many states have to pay the odious and regressive sales tax, second only to the ultra-regressive poll tax as the worst tax ever devised. In Maryland the sales tax is 5%, but groceries are exempt. In Virginia, there is a 7% sales tax, and supermarket checkouts are included. In California the sales tax is often 7.75%. If working people have to pay these taxes, why cannot finance oligarchs pay a mere 1% on their speculative activity? The results could be liberating: right now US banks probably hold derivatives, including structured notes, to the tune of

some \$400 to \$500 trillion of notional value. A 1% Securities Transfer Tax would thus produce some \$4 to \$5 trillion of new revenue – enough to guarantee Social Security into the 22nd century, replenish Medicare and Medicaid, fully fund Head Start and WIC, and begin rebuilding vast sectors of infrastructure to give the US a modern economy, not a post-industrial rubble field. All that is needed is political will.

CREDIT FOR JOBS AND PRODUCTION, NOT FINANCIAL BAILOUTS

The Fed's \$38 billion at 4%, if committed for a decade or two, would have been enough to reconvert and retool the dying Detroit automobile industry to produce modern urban mass transit and long-range maglev trains. (Consider that Chrysler was sold to Cerberus recently for a paltry \$5 billion.) A hundred thousand industrial jobs could have been secured, and much more. Or, \$38 billion would finance a permanent human colony on the moon, with incalculable benefits in the form of technological spin-offs, and honoring Stephen Hawking's prophetic observation that humanity has no future if we do not go into space. The \$325 billion wasted worldwide would have been enough to give all of Africa clean water, electricity, and transportation. Instead, that third of a trillion was shoveled into the furnace of the panic to keep the hyenas above water for one more day. The Fed has never lifted a finger to prevent millions of Americans from being thrown out of their homes, but when the malefactors of great wealth, the Wall Street bankers, were threatened, the Fed sprang into action.

NEEDED: CHEAP FEDERAL CREDIT FOR REAL PRODUCTION

At the end of the day, the secret of economic recovery is that the Federal Reserve System is illegal, unconstitutional and a failure. It thus needs to be nationalized at once, and incorporated into the federal government as a bureau of the US Treasury. This means that decisions about interest rates, money supply, relative priorities of full employment or reducing inflation, bailouts or non-bailouts, would have to be made by public laws, debated in election campaigns, passed by the congress, and signed by the president – not decided in secret by unelected and unaccountable cliques of finance oligarchs. The resulting national bank or Fourth Bank of the United States should issue tranches of \$1 trillion long-term, low-interest credit from time to time for production for business activity in industry (meaning manufacturing), farming, mining, infrastructure, home building, public construction at Davis-Bacon rates, new productive plant and equipment, new productive jobs with union pay scales, infrastructure of all types, and other areas of tangible, physical production. New schools, hospitals, libraries, and other socially necessary projects should also be funded. But those who want money for any kind of financial speculation, flipping condos, gambling, prostitution, organized crime, narcotics, drug money laundering, pornography, and other sociopathic activities will be cordially invited to take their chances in the free credit market they admire so much. As long as the credit goes only to well-managed productive projects, the loans will be repaid, and revolving credit arrangements will allow these payments to be recycled into a series of additional projects. With these methods, it should be possible to create 4 to 5 million new, productive, jobs per year at union wages, putting an end to decades of monetarist unemployment, underemployment, and despair. Full employment, something most living

Americans have never experienced, would be attained within four to five years, and the country returned to the status of a high-wage economy, not a low-wage service economy. As Richard C. Cook says, the essence of New Deal economics is to see credit as a public utility. It is too important to be left to greedy banksters.

The nationalization of the Fed is more feasible now than it was a few months ago. Wall Street is boiling with resentment against Helicopter Ben, partly for his failure to bail out the Bear Stearns hedge funds and other entities silently, through the back door. A cartoon lampooning Helicopter Ben's ineptitude and incompetence has even appeared in the *Washington Post*, which since the mid-1930s has been the house organ of the Federal Reserve System. (August 11, 2007) In the current crisis, Helicopter Ben may well assume the role of the infamous Brownie of Hurricane Katrina, and this is in fact the theme of the cartoon just mentioned. Helicopter Ben may actually believe some of the monetarist garbage that he has been spouting before his students for so many years. If he does, the damage will be incalculable. The Fed may soon become so hated by wide sectors of the US population, providing the first chance we have had for a serious attack on this illegal institution since the late 1930s.

CHENEY'S THERMONUCLEAR BAILOUT

The disintegration of the dollar system is ultimately one of the strongest factors impelling Cheney's controllers – meaning the George Shultz-Rupert Murdoch faction of the US-UK ruling elite. From Cheney's point of view, an economic depression requires drastic austerity measures to drive the standard of living down even further below its present reduced level, with the proceeds going to the finance oligarchs. Can these cuts in the standard of living be accomplished under the present system? If not, what kind of dictatorship can be used to impose them? This is, after all, the reason the German financiers like Schacht turned to Hitler. The Cheney doctrine calls for a staged terror attack in the US using WMD, followed by an attack on Iran and the declaration of martial law under Bush's many executive orders. As I pointed out on July 21 in my "Cheney Determined to Strike in US with WMD this Summer," there are many signs that the neocon group is driving hard to implement the Cheney doctrine this summer.

Thom Hartmann has reported on Air America that lawmakers with whom he has spoken report that the US intelligence community continues to issue warnings to the Congress that a new terrorist attack is coming. According to one unconfirmed report, a US Senator is reported to have told an impeachment activist that the Democrats could not impeach Bush-Cheney, because the senators were being threatened with "them blowing up seven US cities" – a possible reference to statements by Juval Aviv, a veteran Israeli intelligence fixture. Aviv warned on August 2 that there would be a new terrorist attack on the US within no more than 90 days, with multiple targets: "What they're going to do is hit six, seven or eight cities simultaneously to show sophistication and really hit the public. This time, which is the message of the day, it will not only be big cities. They're going to try to hit rural America."

The McClatchy newspaper chain is reporting that Cheney is continuing to push behind the scenes for an attack on Iran: “Behind the scenes, however, the president's top aides have been engaged in an intensive internal debate over how to respond to Iran's support for Shiite Muslim groups in Iraq and its nuclear program. Vice President Dick Cheney several weeks ago proposed launching air strikes at suspected training camps in Iraq run by the Quds force, a special unit of the Iranian Revolutionary Guard Corps, according to two U.S. officials who are involved in Iran policy.”(Warren P. Strobel, John Walcott and Nancy A. Youssef, “Cheney urging strikes on Iran,” McClatchy Newspapers, August 10, 2007)

A MIRROR FOR CHENEY: THE FÜHRERKONFERENZ OF AUGUST 22, 1939

What do Cheney’s closed-door arguments to Bush sound like? We cannot know for sure right now, but we can use historical precedent to get an idea of what the old reprobate is saying. To cite the obvious parallel at the beginning of the last world war, let us recall Hitler’s arguments in favor of the Nazi attack on Poland at the *Führerkonferenz* of Nazi bigwigs, government ministers, and top generals on August 22, 1939 – almost 68 years ago this month. The reader will note from these excerpts how Hitler emphasized the prospect of economic breakdown as a key reason impelling him towards war:

“I have called you together to give you a picture of the political situation in order that you may have some insight into the individual factors on which I have based my irrevocable decision to act and in order to strengthen your confidence.... For us, it is easy to make the decision. We have nothing to lose; we can only gain. Our economic situation is such that we cannot hold out more than a few years. Goering can confirm this. We have no other choice, we must act.... The political situation is favorable to us.... All these fortunate circumstances will not prevail in two or three years. No one knows how long I shall live. Therefore a showdown, which it would not be safe to put off for four or five years, had better take place now.... I shall give a propagandist reason for starting the war – never mind whether it is plausible or not. The victor will not be asked afterward whether he told the truth or not. In starting and waging a war it is not right that matters, but victory. Close your hearts to pity! Act brutally! Eighty million people must obtain what is their right... The stronger man is right! Be harsh and remorseless! Be steeled against all signs of compassion! Whoever has pondered over this world order knows that its meaning lies in the success of the best by the means of force....” (Shirer, *Rise and Fall of the Third Reich*, pp. 529-532)

Acting out a Nietzschean creed which he shared with today’s neocons, Hitler within a few days manufactured the Gleiwitz radio station incident. This operation was carried out by SS General Heydrich on the evening of August 31, and provided Hitler with the immediate trigger for war. SS provocateurs staged a raid on a German radio station near the Polish border and read an anti-German tirade on the air. Some drugged German concentration camp death row inmates were then delivered to the scene under Operation

Canned Goods. These bodies, dressed in Polish uniforms, were riddled with bullets and left around the station to give the impression of the aftermath of a firefight. Goebbels, the controlled media of the day, screamed unprovoked Polish aggression against Germany. This is the incident which Hitler then cited as the immediate pretext for war.

Neocon spokesmen are coming forward to glorify the coming slaughter. Among them is Stu Bykofsky of the *Philadelphia Daily News*: "One month before The Anniversary, I'm thinking another 9/11 would help America. Remember the community of outrage and national resolve? America had not been so united since the first Day of Infamy - 12/7/41. We knew who the enemy was then. America's fabric is pulling apart like a cheap sweater. What would sew us back together? Another 9/11 attack. It will take another attack on the homeland to quell the chattering of chipmunks and to restore America's righteous rage and singular purpose to prevail." In the last week of July, congressional scoundrel Tom Tancredo announced that a new terror attack was imminent, and demanded that the US issue an ultimatum that such an attack would be answered by the destruction of the Islamic holy places in Mecca and Medina. The State Department invited Tancredo to shut up, which may actually signal some resistance there against the wider war.

On Friday, August 10, after the carnage of the day on Wall Street, CNN reported that there were unsubstantiated internet threats of a radiological dirty bomb in truck bomb format which might be delivered in New York City, Los Angeles, or Miami. In New York, the attack was supposed to come on 34th street, where Macy's department store and the Empire State Building are located. It then transpired that the only source for this absurd rumor was Debka File, a notoriously unreliable speaking tube for certain fringe elements in the Israeli intelligence community. Debka File claimed to have gotten this intelligence from intercepted al Qaeda communications, but the guess here is that it was simply made up out of thin air. These incidents were part of a broader pattern: on the afternoon of August 8, one of the hottest days of the year, a mysterious package, probably somebody's lunch, was found in the DuPont Circle metro stop on the red line. Three stations were ordered close by the Homeland Security Department, and the entire rush hour was held up for three hours, causing an upheaval on the lives of tens of thousands of commuters. The mysterious package was then exploded, and found to be wholly innocuous. Chertoff would like to be the P.T. Barnum of terror stunts, but he seems to be falling short.

The urgent need was for a politician to stand up on national television and warn that any new terrorist WMD attack would come directly from Cheney's office, and that the Cheney faction should be held criminally responsible, including under the Nuremberg Code.

IS A STRIKE WAVE COMING IN THE US?

Forty years of passivity, demoralization, apathy and defeat weigh heavy on the US population. But the mass strike may not be as far away as is generally supposed. A veteran organizer for the United Auto Workers observed in the 1980s that Americans

were never going to rise up in mass action, because they were too concerned that one missed paycheck would result in eviction from their homes. Suddenly, 10 million or more have nothing left to lose, and they may soon be joined by many more. A mass strike cannot be decreed by bureaucrats, nor is it totally spontaneous. It requires thorough preparation, but it is likely to be detonated by an outside event, often of the most unpredictable type. The only thing to do is to keep up a campaign of mass political education about the vast possibilities of a general strike, especially in response to an illegal war and/or an unconstitutional dictatorship, of the type which Cheney's controllers so ardently desire.