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Pedaling Prosperity Propaganda: Rhetoric of Depression?

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The propaganda that the subprime debacle is not enough to derail an otherwise healthy economy fades into the distance when we see all the kings' men, the Treasury, the Office of the President and the Federal Reserve banding together. Somehow this simple "crisis of confidence" has manifested so much momentum that our largest investment banks have to offer loan-shark deals, to hard capital sovereign countries, just to stay in business. The economy is sound they all say, it's only a flesh wound – keep buying.

The embarrassment is that the (government sponsored) American citizens' mandate seems to be to consume, regardless of increasing debt levels or ability to pay. I have grown to believe that the government will always get them out of their messes. Their new game plan is to offset all the bad credit by loading up the more creditworthy to carry the load; in much the same way Citi diluted its junk. I have personally received hundreds of dollars JUST to keep lines of credit open and/or float any credit balance at zero interest till the end of 2008. This is a sign of desperate times and a failed paradigm.

The U.S economy has been made into a voracious credit pyramid desperately needing bigger bubbles just to stay afloat. This is the consequence of the illusion we



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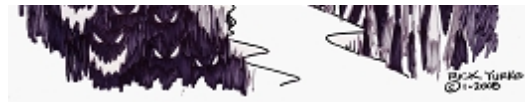
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have been sold – perpetual prosperity. Propping up asset bubbles with more fiat money ultimately threatens not more just inflation but a rapid deflation when the music stops. The dollar retracing the past 40 years' growth is mainly due to the realization that financial engineering was accepted as organic growth. It wasn't and the jig is up. The extent of that failed paradigm finally resulted in issuing mortgages like after dinner mints and showed just how desperate we have become to simulate (no T) growth.



The mindless creation of credit bubble after credit bubble, and subsequent debasement of our currency, has willingly ceded our global economic position. The recent fire sale on our assets (to other countries no less) might someday become a liquidation sale if this practice remains unchecked. Private bank officials are held responsible for such practices because they don't have a printing press. Government bank officials sell their accolades because they do. The Federal Reserve directly oversaw each and every credit bubble and the bad loan policies that bore them. They were close enough to hear that great sucking sound of artificially inflated home equity being withdrawn and pumped into an ever more credit dependent economy. Now what? All the Reserve can do to repair their abdication of oversight is posture and print more fiat money.

Our trip deep into uncharted economic waters has sustained until now only because of the misplaced notion that all the kings' men can make things better. Chairman Bernanke, Secretary Paulson and President Bush are pedaling prosperity while administering duck tape patches as fast as they can. The rhetoric we now hear certainly reminds one of the popular themes that decorated the great depression - prosperity is just around the corner, it's a matter of time, only confidence is lacking.

It is not a matter of recession or no recession; that is a distraction. Rather it is a matter of stagflation or Japan-style depression. A plain old recession would be a miracle. Step back and listen to the blaring sirens howsoever ubiquitous they may have become. This portends to be far more than just another slow down and the misguided belief that deflations/depressions are an anachronism, reserved for more primitive thinkers, is about to be tested. Japan no doubt had a similar notion as 1989 ended.

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