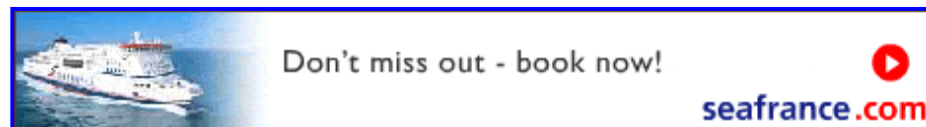


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Crisis may make 1929 look a 'walk in the park'

Last Updated: 11:21pm GMT 29/12/2007

Page 1 of 3


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As central banks continue to splash their cash over the system, so far to little effect, Ambrose Evans-Pritchard argues that things risk spiralling out of their control

Twenty billion dollars here, \$20bn there, and a lush half-trillion from the European Central Bank at give-away rates for Christmas. Buckets of liquidity are being splashed over the North Atlantic banking system, so far with meagre or fleeting effects.

- [Read more from Ambrose Evans-Pritchard](#)
- [Is the crisis getting worse? Get the latest comment](#)
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As the credit paralysis stretches through its fifth month, a chorus of economists has begun to warn that the world's central banks are fighting the wrong war, and perhaps risk a policy error of epochal proportions.

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FEATURE FOCUS



Faces of power: The Fed's Ben Bernanke, the BoE's Mervyn King, the ECB's Jean-Claude Trichet

"Liquidity doesn't do anything in this situation," says Anna Schwartz, the doyenne of US monetarism and life-time student (with Milton Friedman) of the Great Depression.

"It cannot deal with the underlying fear that lots of firms are going bankrupt. The banks and the hedge funds have not fully acknowledged who is in trouble. That is the critical issue," she adds.

Lenders are hoarding the cash, shunning peers as if all were sub-prime lepers. Spreads on three-month Euribor and Libor - the interbank rates used to price contracts and Club Med mortgages - are stuck at 80 basis points even after the latest blitz. The monetary screw has tightened by default.

York professor Peter Spencer, chief economist for the ITEM Club, says the global authorities have just weeks to get this right, or trigger disaster.

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"The central banks are rapidly losing control. By not cutting interest rates nearly far enough or fast enough, they are allowing the money markets to dictate policy. We are long past worrying about moral hazard," he says.

"They still have another couple of months before this starts imploding. Things are very unstable and can move incredibly fast. I don't think the central banks are going to make a major policy error, but if they do, this could make 1929 look like a walk in the park," he adds.

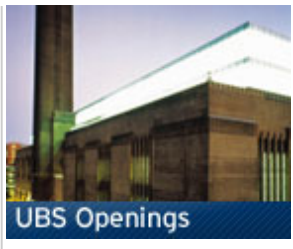
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director Paul Tucker says the crisis has moved beyond the collapse of mortgage securities, and is now eating into the bedrock of banking capital. "We must try to avoid the vicious circle in which tighter liquidity conditions, lower asset values, impaired capital resources, reduced credit supply, and slower aggregate demand feed back on each other," he says.

New York's Federal Reserve chief Tim Geithner echoed the words, warning of an "adverse self-reinforcing dynamic", banker-speak for a downward spiral. The Fed has broken decades of practice by inviting all US depository banks to its lending window, bringing dodgy mortgage securities as collateral.

Quietly, insiders are perusing an obscure paper by Fed staffers David Small and Jim Clouse. It explores what can be done under the Federal Reserve Act when all else fails.

Section 13 (3) allows the Fed to take emergency action when banks become "unwilling or very reluctant to provide credit". A vote by five governors can - in "exigent circumstances" - authorise the bank to lend money to anybody, and take upon itself the credit risk. This clause has not been evoked since the Slump.

Yet still the central banks shrink from seriously grasping the rate-cut nettle. Understandably so. They are caught between the Scylla of the debt crunch and the Charybdis of inflation. It is not yet certain which is the more powerful force.

America's headline CPI screamed to 4.3 per cent in November. This may be a rogue figure, the tail effects of an oil, commodity, and food price spike. If so, the Fed missed its chance months ago to prepare the markets for such a case. It is now stymied.

This has eerie echoes of Japan in late-1990, when inflation rose to 4 per cent on a mini price-surge across Asia. As the Bank of Japan fretted about an inflation scare, the country's financial system tipped into the abyss.

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Comments

noone can really add anything to the two letters off "andrew"he understands the issues better than anyone. scary really.

i think this why our politicians now seem so inept.i think we realize that they will have very little influence on our futures.happy new year!

Posted by rod smith on December 31, 2007 4:55 PM

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Let us all take a bit of a strain...

The old world will reel and tumble a bit, but not to worry. BASIC budgeting at everyones local level will solve the root problems. Pay your self first, govt second and pay cash, dollars, pounds what ever, with not credit debt. Live close, love your neighbor and learn to be self sufficient.

end

Posted by Tennessee USA on December 31, 2007 3:00 PM

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I read with interest and dismay the comment by "Ben Dover on December 29, 2007 7:42 AM" about his socialist banking system. It is all so simple take away private banks and merge it into 1 big bank issuing loans at 1%!!! Well, you are basically saying, lets get rid of capitilism and move to more socialisation. Why is this a problem? Because again, it puts control of the money supply in the hands of people who will use it for polical gain and power. I can see a scenario where the "banks" would not lend just for profit but for polical gain, just to its voters and the projects it wants done. It would cause a monopolisation of production..... communism. As well as run away inflation. At least with the profit motive (even though banks do make money out of thin air) they will give to anyone or demand a higher return, this at least in theory controls the supply of new money, until the central banks lower the interest rates too low (like your example to 1%) where people borrow cheaply to invest causing bubbles etc, or too many people get into debt (credit boom). Your solution would cause a monetary crack up even quicker than the corporate facism we have now.

The answer is very simple, firstly the profit motive is not the evil in any of this, it is the driving force so: 100% reserve banking, hard currencies (i.e. gold), no central bank. This way a government cannot decide at a whim i.e. during elections to take away your wealth to buy another term in parliment. For all of this we need an end of socialism and a return to SMALL government (what the original American republic was meant to be). With this sort of banking / government structure you would see prices declining, increased production and economic freedom (which is also personal freedom) which is completely unplanned, yes it seems choatic and cant be predicted but well.....read Adam Smith. Also read as I keep saying Rothbard, Mises and Hayek and read keynes only if you think you know how to plan and offer freedom and protect your people from tyranny better than the FREE market and the decisions that individuals choose to make. There isnt enough space to debate all of these things, which is a shame because the media will never question socialism and why we have central banks, they will be shouted down by some government handout dependant group. The answer is TRUE

100% reserve free banking and true capitalism (not government crony-ism), the government has no business giving favours to certain groups at the expense of others and offering contracts to "friendly" companies. This is why the US constitution was NOT meant to be a "democracy" it was a REPUBLIC to defend against the tyranny of the largest group that happens to exist at a given time. We in the UK do not have a constitution that one day we might return to. As Hayek implied governments have been hard at work in our school system creating the socialist man which means we are doomed to forever repeat these mistakes (if indeed they are mistakes and not planned as some readers imply after all they are only bailing out the banks so they can stay solvent, to hell with the people! There should be immediate huge tax cuts on business, highly reduced government spending, followed by tax cuts on all individuals, there should be NO BAILOUTS!).

Posted by Andrew on December 31, 2007 1:56 PM

[Report this comment](#)

Good, from my original posting below about socialism I see that there are still many freemarket true capitalist left. That recognise that FIAT money is fraudulent. However, it is not just based on "confidence", it is also based on a persons desire to take on more and more debt (or a nation to take on more and more debt). A FIAT "money" can be inflated almost forever, but not "FIAT debt". There comes a point in time where people will not / cannot take on more debt (i.e. personal reasons or debtors refuse to lend) or service their current debt which causes an end in consumption. Now in any economy based on consumption this is likely to cause serious problems (not least because these debts are later sold further leveraged magnifying losses).

This is why US and UK have open borders, FIAT debt is a PONZI scheme they need more victims to pay the rest. Plus with the baby boomers expecting to enjoy their retirement because of the ponzi scheme that is western style banking we need to increase and increase our populations.

Now, why is this situation so very serious? One fact that many people do not realise is that we are hitting peak oil. Currently we have cheap energy (oil prices) this is all about to change, since 9/11 we have seen (read Chaney's "Project for New American Century") the US and UK government (and originally Spain, all three of the most indebted nations on the planet) invading two countries for oil, and then giving huge contracts to its favoured companies (both for rebuilding and security). We have probably less than 3 - 5 years before a MAJOR increase in oil prices due to a true peak in production comes into effect. Also oil companies need higher prices to extract the less accessible oil. Also, to extract this oil, they require more energy, hence certain nations looking to go nuclear.....hang on if they go nuclear we can invade them right!!!??!!!

I saw an interview the other day with one of the energy advisors to Chaney (Matthew Simmons) and he said that the public really do not understand that a huge crisis is coming which will effect our way of life and the economy. This will have a huge impact on food prices and energy costs. Dont forget with regards to high food costs we have government intervention to thank again:

- 1) China and India both have real wage increases and they want to eat better, we have declining real wage rates
- 2) All pesticides and fertilizers are made from either oil and natural gas, you do the maths
- 3) Food (cereal production) is falling due to ethanol production (with government intervention), causing animal feed to rise in price, causing meat to rise in price as well

- 4) UK and the US are bankrupt!
- 5) There will not be increases in industry as the pound falls. There is too much red-tape, taxes and the end of the largest credit boom in history, also there isn't a great deal of capital to invest or industrial know-how.
- 6) Soon we will be at around 200 dollar oil which with a falling pound means we can't afford it either (wait for them to invade Iran, we will just by coincidence see some more terror attacks in the UK or US soon where the public will demand military action, more laws, ID cards....etc... leading to cheaper oil temporarily for the UK and US, even though we are at Hubbert peak).
- 7) China and India need more oil to continue developing, so they are bidding the price up
- 8) UK / US cannot afford higher prices either materially or politically, so increased geopolitical tensions (causing higher prices)

High inflation or deflation is a distinct possibility next year as governments move to try and deal with the above problems. (I won't mention the derivatives bubble that is well over 236 trillion dollars as of the end of 2006, which was 8 times the GDP of the entire planet, they will need to inflate like mad to nominally fix that one, or cause wars.....history repeats itself).

(No central banks, hard currencies and 100% reserves)

Posted by Andrew on December 31, 2007 12:50 PM

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The only way out is for this Government to start cutting taxes. The easy credit has brought millions of families to near bankrupted. To sustain future growths we need to put more real money back into people's pocket. Very tight wage increases and high local taxes have squeezed families into using too much credit. Easy credit leads to higher inflation due to the buy now pay later culture. This fuels demand and supply cost more. It's time to stop using the consumer as a means to keep the economy growing! We need to rebuild our manufacturing economy or suffer a fate worse than the great depression. The total meltdown will come when the very higher credit card interest rate causes millions to default on unsecured credit payments.

Posted by Dennis Fenwick on December 31, 2007 11:05 AM

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Don't Waste Your Life.

Posted by m c on December 31, 2007 4:45 AM

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What a worrying story. But let's be honest, who here in the UK really thought the housing equity driven consumer boom would last forever? The central banks clearly bear a lot of responsibility, and as for the governments - wasn't Bush elected on the basis of reduced government interference in business? The banks have so much responsibility for this, though. Credit Default Swap traders have earned enormous salaries, (I know of at least 1 who made over \$15mn, as the CDS market has spiraled to \$50trillion. that's \$50 trillion of nominal contracts supported by maybe \$7 trillion of debt. The banks continue to lend to weak corporations because by purchasing CDS contracts they believe they are fully hedged. So why did the CDS market spiral as bond issuance slumped. Well capital adequacy ratios had something to do with it, but the real reason was the introduction of the TRACE system which allowed customers to see the true prices - and the spreads for fixed income securities. The major investment banks took a beating on their profit margins and simply went off-balance sheet where they could continue to rook their customers.

Posted by Toni on December 30, 2007 11:44 PM

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Classic case of DVT - the question is can the patient be saved. Will the clot move further towards vital organs at the heart of the financial system or cause permanent disability or paralysis in the non life affecting extremities.

If you're a fan of momentum investing the risk reward looks deeply skewed towards the downside. New paradigm China effects, threats and greed have desensitised us to the path of prudence and unfashionable long term sustainability. Faults of the human condition as old as the the story of Icarus.

Posted by CPNK on December 30, 2007 6:56 PM

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Whilst the blame flies around no-one seems to grasp that energy drives economies, not money. Money is just a hollow proxy.

Whilst there may be a strong case for economic mismanagement up to now, the reality is that things are about to get much much worse as we enter the mother of all energy descents.

Economists are about to find out that you can pass money around as much as you like but in an energy deprived world the true value of money will be almost zero.

Stop moaning and start living sustainably.

Posted by Oilmageddon on December 30, 2007 1:25 PM

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Greenman, so you are saying that money is more durable than rivers, trees and fish. You could be right, but it won't outlast concrete, motorways and factory farmed food.

Posted by andrew on December 30, 2007 9:54 AM

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My wife and I played the vile cards we had intentionally acquired (we're stinking property developers) and ran for the mountains while we still could, with small amounts of gold dripping from our intercontinental saddle-bags. We're home and free boys and girls. Jealous? You should see our garden.

Things will get better: things will get worse: things will get better...and so it goes, as always. Then the biosphere takes a hit, green technologies fail to reproduce fossil carbon's usefulness (hydrocarbon trumps carbohydrate) and now everyone suddenly does their sums and sees that the (essentially parasitic) financial sector has increased its market capitalisation manyfold, turning cabbages into SUVs and air into tarry treacle. Yes, it WAS all begun on Reagan's watch.

BTW - if you don't mind me asking...who on earth is Ron Paul?

Posted by john newson on December 30, 2007 9:12 AM

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Average equity capital has fallen to 3.2 per cent (nearer 2.5 per cent sans "goodwill"), compared with 5 per cent seven years ago. "How on earth did the Financial Services Authority let this happen?" he asks.

What do these percentages express and how could the FSA have changed things?

Posted by superses on December 29, 2007 9:29 PM

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Lots of Americans posting here, which is useful as you can give me some advice re the coming global meltdown. I'm interested in moving to the hills, converting my assets into gold, stockpiling food, buying a gun and re-starting my relationship with Jesus Christ. The problem is that guns are hard to come by here - Shane, the shady fella in my local pub, says he can get me one for £600. I don't quite trust him though, so do you think that by placing my faith in Jesus he'll protect me or should I explore the firearm option? Also I remember 'thou shall not kill' being one of the ten comandments, so if I do get a gun and I'm faced with a pack of pillagers should I try and maim them, or, as they're no doubt intending to break some of those commandments themselves, go for head shots? Hope you can help, tough times bring some tricky dilemmas

Posted by The Empty Vessel on December 29, 2007 5:40 PM

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Indeed, the remark on the Spanish bank bailout is very intriguing. Spain is in my opinion the weakest link in Europe. Would be interesting to learn more about this bank bailout.

Posted by Luitenant on December 29, 2007 1:17 PM

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Here the deal: its not about sub-prime mtges- its about bankers and wall st actually gambling with derivatives and hedge funds and they will all lose their ass. there is no way for those debts to be re- paid they are GAMBLING DEBTS- no pay out! now the federal reserve is neither - USA borrows \$\$ from England and cant even buy stock in it - the \$ come from an old agreement of the virginia company which states the queen gets 10% of everything US ! so US is borrowing its own \$! if this whole house of cards comes tumbling down - all \$\$ becomes newspaper- there is no 'value in anything' except on a barter basis - when you have nothing to barter , you starve - all the money in the world wont save you -- because \$ will be worthless - as will labor --everything shuts down because theres no \$\$..people will raid their neighbors and steal food like locusts thru an area -the british have had it out for the US since 1783 and they want us down even at the expense of EVERYTHING- strange grudge match - but there is a way out, - that is the govt takes over the banks and issues loans at 1%,the govt invests in rebuilding infrastructure, nuclear plants & dam building etc employing workers and doing what should have been done 50 yrs ago- the banks gambling debts are unpaid, taxes for war and property are zeroed out and we start clean -- no one owes anything- any questions ?

Posted by Ben Dover on December 29, 2007 7:42 AM

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All this problem has been caused by Greenspan. We need to hold him accountable for this mess

Posted by socrates@yahoo.com on December 28, 2007 5:08 PM

[Report this comment](#)

The most important thing to remember is that whoever loses in the current world credit fiasco there will inevitably be some winners. Make sure you are one of them. So often the man in the street is ignorant of the main economic trends that hide below the surface. Transparency is the

basis of confidence in money markets, however don't forget that the money comes from someone else's confidence in those institutions. What happens when that confidence has gone?... yeah I guess the money disappears too. Buy property in those parts of the globe that have the most potential for economic growth and you won't have to worry about the banks... the money will have disappeared, but it will look after itself!...

Posted by Andrew Brown on December 28, 2007 11:02 AM

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I agree with Bryan completely. No small part of this debacle has been caused by the huge "agency" conflict between managers of large financial intermediaries and their stockholders. This new nomenclature social caste has successfully immunized themselves against the traditional "market mechanism" they endlessly proselytize the rest of us about, while simultaneously proceeding to destabilize the world's largest housing markets. And, of course, not one of them will, God forbid, be sent to jail or stripped of their excessive severance packages.

Posted by CHRIS DAVIS on December 28, 2007 10:19 AM

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John Burns blames PRC CHINA for buying US government debt which pushed down US interest rates. Now PRC is revaluing their currency and inflation will spread like a firestorm. OIL is the real culprit and that crazy Iraq war for piling up American debt....but let's forget that catastrophe. Someone somewhere knows how much American debt is carried by European banks...and he will be placed under a restraining order and interned for 42 days (without charge) by the British government.

Posted by richard bond on December 28, 2007 10:10 AM

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I'm scared, I want to buy a gun, oh my god what if my computer crashes, shit, my kid is at college at ??? University he'll be robbed eventually even though he's in a great area?

Let's be scared about everything! Hurray! we're scared!

We all have an "other" to our minds eye, (antipodes)". Elites cannot kill everything.....etc.....

HOPE

Posted by Christopher on December 28, 2007 3:42 AM

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"Only after the last tree has been cut down.
Only after the last river has been poisoned.
Only after the last fish has been caught.
Only then will you find that money cannot be eaten."

- Cree Indian Prophecy

Posted by Greenman on December 27, 2007 11:11 PM

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if houses and flats were sold at prices higher than the market value with loans that cant be repaid and people have been using new credit cards to pay off old credit cards (a fistfull of dollars and a few dollars more) hedging against increasing equity thats no longer there and institutions have borrowed to buy fictitious value in mergers takeovers and aquisitions (all complete lunacy) why did we deregulate the b%\$t%£d\$?

Posted by brian king on December 27, 2007 10:35 PM

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The root causes and behaviors of the current financial upheaval and possible failures are well delineated in the web site pages of www.GenerationalDynamics.com...as well as the warnings of what may come to pass.

Posted by Lia Ambience on December 27, 2007 9:44 PM

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Having returned to the internet after Christmas I am amazed at the volume of responses and the high proportion of anti-fiat contibutors. The anti gold commentators seem to be generally capable of nothing more complex than making false statements about gold or making vague generalizations about the intellectual competence of those they disagree with.

For the record gold does have an intrinsic value - it is a commodity used in art and jewellery. Beyond that it has demonstrated itself over thousands of use to be the most popular medium for transferring purchasing power through space and time, which is the primary task of money.

In my opinion gold demonstrated serious drawbacks in terms of transferring purchasing power through space many centuries ago. Carrying around lumps of metal is inconvenient, and dividing up a metal with a very high value per unit into small units in order to pay for low priced goods is a problem. For these reasons the banknote was developed, leading to fractional reserve banking. However in the age of internet banking, one can buy and deposit gold in (let us say) Australia and buy a pair of socks for a fraction of a grain in London and simply transfer ownership of the gold from one account to another via internet. Therefore I suggest that in practical terms the outlook for a return to gold as money is brighter than at any time since 1914.

The classical gold standard did not fail because there was no public demand for gold as money. Quite the reverse. It failed because governments fixed the price in public contract and were then overwhelmed by the demand. Governments decided to default on their contractual obligation to exchange banknotes into gold.

In my opinion this demonstrates that gold can only function as money in a truly free market. A system where the government fixes the price and then covertly inflates the money supply cannot survive any more than a fiat system where the state tries to fix interest rates and then inflates the debt.

I would suggest opinion central planning cannot work in finance any more than it can in industry, because the planning burocracy, deprived of the information provided by the free market, cannot determine the price at which supply and demand match. Alan Greenspan has

repeatedly (most recently in the Jon Stewart interview) emphasized that central banks cannot control events.

This is why Ron Paul (and whether you agree with him or not, he remains the only western politician addressing the issue of how could one return to goldmoney) is not asking for a return to the classical gold standard, but is proposing that citizens should be allowed to choose what money they wish to use.

This is surely the core of the issue. None of the anti gold people have answered the following questions:

Why do we have to use money whose value is determined by bureaucrats?

In a free market, citizens should have the right to decide what means of payment they wish to use. Why do those who wish to use fiat money presume they have the right to deny others the use of gold, or cigarettes, or any other commodity as their choice of payment in freely agreed contracts?

Posted by huw on December 27, 2007 7:51 PM

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canada is a great country pity about its neighbour....ron paul is the usa last chance

Posted by geoff on December 27, 2007 7:41 PM

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Iv'e read that real estate declined by 90% at its worst (1933). There might be some real bargains to be had if you have some cash.

Posted by Dave on December 27, 2007 6:47 PM

[Report this comment](#)

Would credibility and confidence be restored if those responsible for the fraudulent over-rating of bad debt hidden within CIDs. SIVs. etc., were removed from the system and were to be called to answer for their irregularities conducted across the financial world.

Posted by bryan on December 27, 2007 5:07 PM

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Quote "My Grandma has more economic sense than these 'financiers' and she's been dead 10 years. What a farce!"

Any chance of a seance ?

Posted by Drew Peacock on December 27, 2007 5:00 PM

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Buy gold, while there's some left.

Posted by jim on December 27, 2007 4:39 PM

[Report this comment](#)

"SAVE THE FAMILY"

I just discovered this site and am compelled to share some thoughts. Everyone wants to blame someone else for their own problems Inflation/deflation it wont matter the most important thing to remember is regardless of blame we all need to take care of ourself and the only way

to do that is best taken from a BOY SCOUT motto " Be Prepared" . We must educate ourselves about what is going on in the world and it is difficult to do in a world that is constantly bombarded with conflicting information. I have spent years reading and studying money, politics, and the like. As a father, son , brother and friend I can lend a bit of advice regarding current times. If your a unsure of the future the only thing you can do is prepare. The internet is full of ideals if you look, public libraries are full of books, local college libraries will let you use their resources as well. Read-Be informed-Prepare and then go on living life. Fear like greed can weigh you down if you let it. I offer a few suggestion for the lay person that have been passed on by my ancestors. Find a few enclosed and put some to use. Remember you must take action not just think and talk about it.

- 1.You can't eat what isn't available(prepare an emergency food supply and rotate it regularly. Store some water.
 - 2.Have something to barter with, yes gold is great, however silver is the poor mans gold.(most potential barter would involve day to day things Gold makes small transaction tough)
 - 3.Educate yourself beyond your current knowledge. Learn a trade(take classes)
- Barter is still a viable way of life and may again be a means of survival.

Remember foremost you can't help anyone else including your family or friends if you can't take care of yourself first.

After you have taken some steps toward self preservation you will see how easy it becomes to sleep at night.

Moderation is the key. Don't go overboard. It is best to find like minded individuals who share your concerns and can lend you advise regarding some of your concerns as well.

When you are prepared you will find life more enjoyable

Posted by Mike Roberts on December 27, 2007 3:20 PM

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Odd question, but very odd responses:

Does anyone think that by reading a) this article and b) the vast number of troll responses that an average Telegraph reader (that's .co.uk, hint!) will b voting for ome guy whose name I can't even remember (despite it having appeared in at least 20% of all the posted comments here?

Vote: No to trolls2008.com

Posted by Tim on December 27, 2007 2:17 PM

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I haven't studied the book of Revelations in any great detail, but it surprises me how many people seem to link the credit crunch to its prophecies or to a lack of faith in Christ - I counted eight among these comments before I got bored.

Actually, now I read it myself, I may have missed a bit - Rev 6:8 - "There before me was a pale horse. Its rider was named Death, and Hades was following close behind him. They were given power over a fourth of the Earth to kill by sword, famine, plague and sub-prime mortgages".

(From the Colorado Bunker-Dwellers' Bible, Armour-Plated Survivalist Authorised Version. Free tinned goods and 9mm ammunition with every copy sold)

Posted by Tom on December 27, 2007 1:54 PM

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The book of Revelation speaks of the "beast" gaining economic, military, and secular control of the world. If this is true something unimaginable will happen in these areas. The world systems, at present, aren't structured to single individual. One of the comments spoke of corruption and mismanagement. Man believes he can run things. It ain't so.

A surface reading of Revelation will take one to the conclusion, God is superintending things in the background and the foreground.

I, for one, believe the Bible.

Posted by Ron Blades, Retired on December 27, 2007 1:09 PM

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i need to pump a spoonful of liquidity in light of my northern rock. anyhow, why is everyone so keen on ron? he has made some great appearances, but mr jeremy is yesterday's man. as an aside, try the six hand massage in the hyatt if you are in town. all the best, and be greedy now others are fearful.

Posted by jakarta playboy millionaire on December 27, 2007 1:00 PM

[Report this comment](#)

What a load of alarmist twaddle

Posted by william on December 27, 2007 12:43 PM

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Inflation in whatever form is an insidious disease which wipes out both the innocent and the guilty.

I am amazed that the media let governments and financial analysts away with using pseudo forms of inflation measure, which are designed to include supermarket champagne but exclude everyday items like food and energy. I understand this is called core cpi.

This problem (boom followed by bust) was caused by not including housing costs in the official inflation measure.

Any engineer will tell you that if you have inaccurate feedback (the inflation measure) you will have an unstable system.

Having caused this problem with too low interest rates for too long, given false credibility by an imaginary inflation measure, we now appear to be about to make the situation even worse by reducing interest rates.

It has the sense of a gambler having lost most of his money bets the rest on one final throw of the dice.

Posted by James on December 27, 2007 11:14 AM

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In my view the world has been running on debt built up in the Anglo Saxon world.

Governments and its people have now reached the maximum debt they can afford to pay back.

I can't see how lowering interest rates to 1% in the US and 4% here is going to help much, this is what got us into this mess in the first place. All this massive debt has got to be unwound and it is going to be painful. The longer we put it off the more painful it will be.

Posted by Bertie Poole on December 27, 2007 10:29 AM

[Report this comment](#)

Buy the Aussie dollar and the Chinese yuan. Backed by strong economies and resources in our backyard which will supply the engines of growth in Asia, China and India.

Where else can you earn 7% risk free.

AUD and RMB, the reserve currencies of the 21st century.

Posted by Sam Peckinpah on December 27, 2007 8:49 AM

[Report this comment](#)

What is required is good governance - Transparent, efficient and well regulated! The sub-prime crisis is a crisis of over-spending and debt caused due to corruption and lack of transparency, with companies, politicians and bureaucrats on the gravy train. No standard, be it gold, silver or platinum - can compensate for a lack of sound management.

Posted by Vivek.M on December 27, 2007 7:11 AM

[Report this comment](#)

We're doomed Cap't Mainwaring! Doomed I tell ye!

Posted by Peter Day on December 27, 2007 6:58 AM

[Report this comment](#)

For those hoping for survival advice, we fled to the mountains back in '73 recession, and farmed 40 rented acres largely by ancient tractor and single bottom plow, no electricity, water from the creek, etc. We "survived", starving blue, while old acquaintances got rich back in the city on trading. The old-timer who had homesteaded our place came by, we showed him our stock of food and oil, little pelton wheel on the creek, piles of firewood, hay. He laughed. When the 1929 depression came, the city folks fled to the hills looking for food, took everything he had, so he joined them up on the dams that FDR kept people employed on, for 25c a day and found (room and board). He himself lived in a trailer down by the river, filled with furniture and fixtures he found at the dump or got from seasonal laborers being evicted, living on social security and a share of the farm rent we paid to his son. Most survivalists aren't really that. There's only so many squirrel and coon to shoot in your 'lil patch of holler. Just live within your means and save.

Posted by Lil Abner on December 27, 2007 6:43 AM

[Report this comment](#)

I may have missed something, but it seems to me that this article is simply saying that when a monetary system, like that of the US (ala the FED), is based on credit, then eventually it will implode. It is merely that it is happening now that we hear about it. There is nothing that will solve this problem, since the root of the problem is that the economy is a perpetual debt economy.

What does this mean? If you borrow \$1M from the FED how do you pay the interest? After all, the \$1M is the principle that you owe back? That's right! You have to borrow more just to pay the interest.

Simple, huh?

Posted by economy student on December 27, 2007 5:49 AM

[Report this comment](#)

The article raises a couple of new and interesting points, such as the Spanish bank bailout.

But the readers' comments...ah, these are indeed precious! A select few of you have a richly developed sense of humor. On the other hand, I am astounded by just how many ninnyes have gotten their hands on a computer.

Posted by Doug Pugliese on December 27, 2007 5:18 AM

[Report this comment](#)

Did you read the post from one of the fundamentalist Americans below? Good one mate. What an oxymoron it is to ask people to put their faith in God, adopt the path taken by Jesus but arm yourself for the apocalypse. You guys fit the mould of all fanatics, hiding behind your sanctimonious "ism's" whilst promoting violence.

There seems to be little distinction between your foreign policy adventures in the middle east and your solution to local issues; get a gun and praise the lord. Priceless!

Posted by Jon Gundrum on December 27, 2007 3:30 AM

[Report this comment](#)

Did you read the post from one of the fundamentalist Americans below? Good one mate. What an oxymoron it is to ask people to put their faith in God, adopt the path taken by Jesus but arm yourself for the apocalypse. You guys fit the mould of all fanatics, hiding behind your sanctimonious "ism's" whilst promoting violence.

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Posted by Jon Gundrum on December 27, 2007 3:30 AM

[Report this comment](#)

Re: A Walk in the Park

I feel the FED and the global central bankers have deceived everyone with their attempts to pump LIQUIDITY into the system. NOT SO! Please read DR. JOHN HUSSMAN's (ALPHA) illumination that the so-called Funds injected were merely rolled-over REPOS. It's all "smoke and mirrors" in the

global central bankers pretending to take action to give the appearance that they can actually do something. The Truth is that the global central bankers (FED included) are totally IMPOTENT to prevent a COLLAPSE OF DEBT which was the cause of the 1929 DEPRESSION as well as the 1990 JAPANESE DEPRESSION. CREDIT worldwide is disappearing into a big BLACK WHOLE and the global central bankers know it and can't do anything to stop this phenomena called DEPRESSION. The Day of Reckoning has arrived.

I anticipate massive job losses and the crash of all global stock markets which are all in bubble-land, followed by commodities. Pension Funds, Tax-free Muni and State Bonds, Insurance Companies, Banks, Financial Institutions are mostly INSOLVENT having invested into TOXIC WASTE ABCPs et al. which were criminally rated TRIPLE A to give the illusion of no risk.

The world has witnessed through the HOUSING MANIA the first Global Bubble of greatest magnitude, surpassing even the TULIP MANIA of the 17th Century, and the SOUTH SEAS BUBBLE of the 18th Century.

We have entered the Winter of the Kondratieff cycle. God help us all!

Posted by Leigh Nelson on December 27, 2007 2:16 AM

[Report this comment](#)

Vote for Ron Paul. He has the solution.

check out ronpaul2008.com

mises.com

lewrockwell.com

Posted by Michael Bates on December 27, 2007 1:21 AM

[Report this comment](#)

Sorry if this sounds racist or xenophobic but apparently these immigrants are too ignorant to understand that you can't afford a 1/2 million dollar house on 6 dollars an hour

bankers???

what's a banker?

They seem more and more like santa everyday

Posted by ol_seabee@yahoo.com on December 27, 2007 1:14 AM

[Report this comment](#)

Ever notice that the home prices are way high in the areas where the immigrants are prevalent?

Oh, demand you say?

I live in Florida and the banks are handing out unlimited free money to hispanic immigrants but in a timed expansion

When they run out they just go in and borrow more and then the appraisers say the property is worth the debt levels of that the banks basically decide

They detached loan principal levels from INCOMES!!!!

HELLOOOOOOOOOOOOOO!!!!

Posted by ol_seabee@yahoo.com on December 27, 2007 1:10 AM

[Report this comment](#)

This is the perfect storm orchestrated by the Power Elite of the world to institute a "One World" Government. It is the only feasible way people will abdicate all their rights-- when we are penniless and begging for food, we will welcome the facism surely to come as a result of the impending financial worldwide disaster.

Posted by A Buehler, Texas on December 27, 2007 1:03 AM

[Report this comment](#)

Banks create money out of thin air and loan it into existence

They charge us interest on our money at it's point of creation and issuance

You cannot borrow your way out of debt

That is why Ron Paul is focusing on the "federal reserve" bankers

International merchants have bankrupted and bought up America with CREDIT!

We need money to circulate among us

People need to have money and own their homes

Immigration is used as a weapon against American families

Immigration and credit need to be fixed and then the rest should fall into place

If we have money and keep it circulating without bankrupting ourselves with impossible debts, we will recreate the means of production that the international merchant bankers have stolen from us and taken overseas

I'm positive

America is blessed

Inform the public of my words

immigration and credit are the problem

Family first

The only reason they got away with making Americans believe we needed cheap labor is that they create an artificial shortage of money through interest bearing debt/money creation

The merchants want to take over the entire world off our backs and then kill us off

Posted by ol_seabee@yahoo.com on December 27, 2007 1:02 AM

[Report this comment](#)

I have a suggestion:- All of the above suggests a huge interest in Bullshit. Instead of buying gold and silver as a hedge, why don't we all just invest in Bullshit? It is obviously a very popular commodity, very marketable, always in demand. It is far too common for anyone like Soros to corner the market in it, indeed, he has significantly added to the supply. In order to profit from the market in Bullshit, you need to first find the source:- and one of the most productive sources is the politician. They produce vast quantities. Invest in as much as you can afford, but be sure you have a safe place to keep it, as others will covet your Bullshit, and want to claim it as their own (RE: Al Gore, et al). Now, when you have gathered in all the Bullshit that you can handle, spread it around. They used to have muck spreaders that did a great job of it, but now we have the media to do it for us. The media have made a spectacular living spreading Bullshit, and their production based on it has been little short of miraculous. Now, there will come a time when you will find yourself tired of dealing in Bullshit. When that time comes, just stop buying into it. Stop listening to the politicians, stop reading the newspapers except for the occasional hard-core fact, and most of all, stop listening to those who don't know what they are talking about, which includes most of the people above. If you enjoyed this, and would like more, please let me know. There's more where this came from....

Posted by Commentator on December 27, 2007 12:05 AM

[Report this comment](#)

The danger we have is in a democracy, can we resist the route towards hyperinflation in the attempt to fight deflation?

This is something I have been thinking about. My rationale for this fear is explained in my recent article, "Receipe for hyperinflation" @ [link](#) (it is too long to be displayed in this comment).

It will depend on who is in charge in 2008 after the presidential election.

Posted by Contrarian Investors Journal on December 26, 2007 11:32 PM

[Report this comment](#)

I am really disappointed in these comments. We obviously need a new way to teach economics (and possibly journalism) in the West.

I'm just afraid that this bunch of dumb asses will eventually get the financial system they deserve.

Oh, and just to make it obvious... The sky is NOT falling! We are not about to "pay the price" of decades of capitalism. And we don't need that STUPID STUPID STUPID gold standard!

(For the life of me, I've never understood the gold standard fetish. What are we? Leprechauns?)

Posted by depressed... on December 26, 2007 11:17 PM

[Report this comment](#)

It is no coincidence that the sub-prime meltdown is occurring just as oil has reached its peak supply. The only real question remains whether the policies that brought on the credit crisis were intentional in that demand-destruction is the only way to extend the plateau of peak-production out a little further.

Inflation resulting from the worldwide rise in food production costs, and food shortages now starting to bite, are the direct result of ever-increasing oil prices. All industrial activity will feel the brunt of the oil shortages about to hit. Even a small technical blip is magnified into a another reason to increase oil prices, as has been evident throughout 2007, and its not going to get any better.

The sub-prime meltdown is certainly not over with. The bulk of the disaster is yet to be seen, there are no levers to pull or buttons to push left for central bankers; whatever actions are taken will have no observable effect and will only become footnotes in history, that is if there's anyone left to chronicle the event.

Posted by William Jorgensen on December 26, 2007 10:51 PM

[Report this comment](#)

Gold coins?

I'd rather invest in a gun thanks.

Posted by Ben in New Zealand on December 26, 2007 10:14 PM

[Report this comment](#)

Whose bright idea was it to use debt as collateral to borrow more money? Debt, by definition, is to owe money. This is another prime example of the "elite" on Wall Street creating a new way to pull money out of our pockets and put in into theirs. If this turns out to be as bad as everyone is forecasting, the crew on Wall Street (and every other world market) should be pulled out of their offices, tried for crimes against humanity then summarily executed with their heads placed on pikes in around around said market centers and all waetlth distrubted to the citizens they have affected.

Stupidty and greed are the cause of this. Wake up everyone!!!

Posted by Charles on December 26, 2007 9:36 PM

[Report this comment](#)

Who cares?

The real news is that the New England Patriots are about to complete a perfect NFL regular season.

The Super Bowl is little more than a month away.

Posted by Paddy Fitzpatrick on December 26, 2007 9:32 PM

[Report this comment](#)

If the prime moving cause of this impending crisis is all due to the sub-prime lending of various irresponsible financial institutions, why are Central Banks/Fed Res etc. rushing to bail them out? Surely they should be left to stand on their own two feet. This is how capitalism works - there will be losers as well as winners, but sensible and sustainable capitalism has no place for naked and unadulterated greed, as the problems emerging now testify.

Posted by Tim Wood on December 26, 2007 8:33 PM

[Report this comment](#)

The biggest tragedy of this era was the election (?) of George W. Bush. Al Gore would never have let this war happen or have allowed the borrowing of 60 billion per year to finance a war that was really about oil and financing a tax break for wealthy Republicans. Patriotically, we had a surplus in the 90s. Our dollars are quickly becoming worthless because there are too many of them with absolutely nothing to back them up. We are on the verge of catastrophic financial upheaval and a forced realignment of the way the world does business. Those who get hit the hardest will be those who made ends meet by living off the increased equity in their homes. The only protection is Gold and precious metals, the world's only real money for the past 5,000 years. At the end of WW II, a bit of graffiti was written on the bombed out Reichstag. It said, "Enjoy the war. Peace is going to be terrible." If you substitute reality for peace, that statement reigns true today. This is going to be ugly.

Posted by Jed Davis on December 26, 2007 8:12 PM

[Report this comment](#)

Part of the problem is that in the USA the money is privately owned. the Federal Reserve is "Federal" in name only, being owned by the largest money centered banks. The President gets to appoint the chair, but the government doesn't own it. Thus the profit motive, not the good of the People is the primary consideration. They have converted the system from a gold backed real money system to a fiat currency backed by nothing. History records no example of a currency backed by nothing not eventually being worth...nothing. No surprises here.

Posted by Susan BetzJitomir on December 26, 2007 8:02 PM

[Report this comment](#)

economic collapse? 1929 times five? food shortages? wars? panic in the streets? government by dictation? end of the rule of law? who cares ? not me. ten years ago i adopted a bunker mentality and can ride out any collapse for many years. strength of my defencs is based on guns & gold & freeze dried food 5000 one liter bottles of water and a remote location on vancouver island that provides seafood and a forest that provides deer. so, good luck to you all out there and stay away from me.

Posted by g k stuart on December 26, 2007 7:58 PM

[Report this comment](#)

From the desk of Rajan KOHLI

Sir, could you pls confirm that you have received our comments.

thanks in advance

Posted by Rajan KOHLI on December 26, 2007 7:55 PM

[Report this comment](#)

Everybody is talking about "bubbles in financial system, depression, etc etc", but tax collections are more on the global level. Production of luxury as well as essential items are increasing, flights are running full, materialistically the world is becoming richer day by day, grants to third-world contries are increasing day by day ,----- etc. Only issue as on date is nonsense lending by the banks in subprime mortgage market for their own greed. Few billion dollars losses in the banking system can be absorbed easily. But future lies in high interest rates, world must take steps to reduce the oil prices by 35 to 40%. World must go for peace so that economies of USA and Western countries aare not overburdoned with unnecessary war expenditure.

Increase interest rates by another 2 to 3% - the present industries can afford it by squeeing unnecessary expenditure. Deficit budgeting should be avoided, the economic powers are shifting towards the developing countries and their involvement towards balancing the world economy must be encouraged. We aare definately in the second phase of increased bull economies and the fears of sub-prime mortgage has already been factored into.

No worries, the future is very bright. Keep on doing the hard work with balanced logic. We shall be marching towards another 20 to 30 years of great success.

Posted by Rajan KOHLI on December 26, 2007 7:41 PM

[Report this comment](#)

To Why Worry,

And the Democrats have done what to prevent this?

Both parties have the same interest at heart, making themselves money at our expense. Its horrendous to see that people still buy into the right/left division that the Demopublican powers that be continually sell us.

Ok, so say the Democrats get into power, what are they going to do to fix our monitary problem? Tax us to death to pay for more government entitlement programs that are nothing more than money pits that suck up money faster than a black hole sucks up matter?

Come on, get real.

BTW, Washington DC needs a Dr.. One that understands the monetary situation we are in now and one that knows how to cure it.

Calling Dr. Ron Paul!

Posted by Rob on December 26, 2007 7:36 PM

[Report this comment](#)

There should be massive movement to get out of The Federal Reserve System. By any reasonable measure it has been a complete failure. Inflation is rampant, the consumer is tapped out. A system of credit and consumption could never succeed without REAL WAGES increasing. If minimum wage was \$20 per hour and had kept up with household inflation we many have a chance to pull through.

The majority of the working class simply does not earn enough money to continue with the present system. Maybe the Wall Street Guy will have to get a real job finally?

Vinny

Posted by Vinny on December 26, 2007 7:31 PM

[Report this comment](#)

America needs Ron Paul to become president in 2008. He understands monetary policy better than any other candidate. Ronpaul2008 dot com

Posted by Jason on December 26, 2007 7:25 PM

[Report this comment](#)

Well, John, to go back to the gold standard, whats in fort knox would have to raise to a price of 62,000 dollars an ounce.

The government is already insolvent. The federal deficit makes up 400% of the GDP as in the last 25 years we have gone from creditor to debtor. We borrow from China to war in Iraq.

Expect America, Mexico and Canada to create the Amero [much like the Euro] around 2012. Inflation is high which is why the FED has stopped publishing the M3 [electronic money supply

The Bush admin, wrongly, has made tax cuts during a time of war. A Disastrous choice because thats how wars are paid for and which causes inflation or debasement of the dollar so the debt of war can be paid off. Those people who voted for tax cuts are now seeing their wealth devalued as the dollars value drops.

We have already started down the slippery slope.

Posted by AckSyn JAcKSyn on December 26, 2007 6:57 PM

[Report this comment](#)

To demand lower rates to forestall a crash pretends that prior activity levels were sane. They were not and a return to those activities at those levels only delays rather than eliminates the mean reversion required to have markets return to sustainable levels of credit and liquidity. Asset and liability creation rates and levels must 'normalize' on thier own.

Posted by Robert on December 26, 2007 6:18 PM

[Report this comment](#)

The President says all is well. Of course it is. His rich friends are not hurting. Dumb ass

republicans continue to think it is not an issue if the president says it is ok. May God help us all.

Posted by Why Worry on December 26, 2007 6:07 PM

[Report this comment](#)

Lewis Cleverdon's comment above is exactly the sort of inane gibberish that gets us into heaps of trouble. The problem at issue is poor monetary and fiscal policy, which is what is setting us back currently. Climate, energy, and food security are buzzwords and obscure the issue we're talking about. Why do leftists always think that their nonsense comments are relevant? Because they don't understand what is being discussed and, like children, think that slogans and platitudes about "the earth" are the answer. They will spew forth their pre-programmed garble on any topic they like, and relevance to the discussion at hand be damned.

When children do this it can be cute and remind us of what's important. When adults do this it is dangerous. The innocence of childhood is sacred, but innocent adults are better known as fools.

Posted by James Deppeler on December 26, 2007 5:41 PM

[Report this comment](#)

It's only a matter of time before the Globalist Elite (who control the Central Banking cartel) pull the plug on the deck of cards that is the U.S. economy. Sage advise is to get out of ALL debt (asap), invest in precious metals (taking physical receipt thereof), ensure you've plenty of water, non-pershible food supply, fire-arms+ammo, a good "bug out" plan, etc. For you sheeplized naysayers, I strongly suggest you do some research beyond the propaganda spoonfed by the Elite's controlled "mainstream" media.

[link](#)

[link](#)

[link](#)

Posted by AmericanConstitutionalist on December 26, 2007 5:40 PM

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The sky is always falling -- sometime NEXT year.

Posted by Dick Tuck on December 26, 2007 5:08 PM

[Report this comment](#)

The Japanese are the cause of the world's excess liquidity. The Japanese Banks using their depositors' money (without paying them any interest) make money by supplying money to the massive Yen carry trade. The Japanese banks are also making a killing on this and never paying their depositors. The excessive liquidity went into engineered financing of all types of alphabetical soups worldwide. Hedge funds created ways to play banker with loaned Japanese money without being regulated like the banks. The banks got into the hedge funds games using off book trading. After all the banks were being made to look like unprofitable morons compared to the unregulated whiz kids with calculators. It's all nuts. The hedge funds and banks now trade "asset backed" derivatives worth US700 trillion dollars. How can they do that when the whole world's economies combined total up to a mere US30 trillion? Simple answer, they CAN NOT. These gamblers, hucksters, fraudsters have bankrupt the world. Joe sixpack gets thrown out of his house and even gets blamed for the greedy, gluttonous bankers and

whiz kid hedge fund idiots excesses.

My mum and dad used to tell me about the Great Depression - it was no walk in the park. This Greater Depression may be a walk in the park for the super rich elite bankers but it's going to be pure pain for mum and pop six pack. Millions will die unable to afford food and heating - how's that for a walk in the park???

Welcome to the monster politely called DEBT. It has teeth and mauls all who think it's a game worth playing.

The Japanese, Chinese, Asians, Russians and Arabs, who all have savings, buy up and take over the Anglo-Saxon world because the white idiots thought they could get rich shuffling debt.

Posted by Robert Baldwin on December 26, 2007 5:02 PM

[Report this comment](#)

Thank you Gordan Brown for selling all that British central bank's gold to us back in 2000 at US \$280. The old ancient relic sure is looking sweet today compared to the smart central planners junk paper commonly called "toxic waste". People guard your pensions from the fox!

Posted by joseph constitutional shelton on December 26, 2007 4:58 PM

[Report this comment](#)

Have you ever heard of throwing good money after bad? That is exactly what the central banks are doing. The cost of bad deals cannot be undone, and when central banks do what they're doing it's in effect applying a short-acting pain-reliever which ultimately is poison. It masks the symptoms somewhat as it makes things much worse and they need to STOP.

Posted by James Deppeler on December 26, 2007 4:44 PM

[Report this comment](#)

As an American, I find it difficult to believe that Gordon Brown could have done anything in England to forestall a problem made in America. I could be wrong.

The problem I discern from reading the article and the posts here is that the "remedy" is to cut interest rates, but the Fed and other central banks would be doing so while inflation is on the rise. Even governments can only absorb so much in real losses (inflation higher than interest rates) and eventually would have to do something to stop the bleeding. Breaking the back of inflation would mean inducing a recession, possibly via monetary contraction, if that is possible - a recession on top of the one being created already by the credit crisis. Raising interest rates higher than the rate of inflation to halt the losses would certainly induce the recession. Printing more money is always an option for governments, but then inflation accelerates even faster. At the same time, increasing "liquidity" simply means pumping more money into an already inflationary global economy.

All in all, it seems there is no exit. So the game will be holding the door open just long enough for the big money boys to get through. The howling from the world's leading advocates of the "free market" to save them from a doom of their own making grows louder by the day.

Posted by John, Texas on December 26, 2007 4:32 PM

[Report this comment](#)

I am not a professional financial person but while thinking about this current " situation", it occurred to me and which could be right or wrong, that because of the ever increasing level of debt that perhaps there came a moment and a day when all loans after that date would in hindsight, be found the great majority to not be repaid?

Posted by Joseph Jones on December 26, 2007 4:13 PM

[Report this comment](#)

Pity the poor Tories will face one hell of a mess when they win the next election.

Much like the Democrats in the USA.

Posted by Jenna Bush on December 26, 2007 3:58 PM

[Report this comment](#)

All free market economies have a boom and bust cycle. It is impossible to regulate, or avoid. Recall that the Israelites of long ago had a 50-year Jubilee where all debts were cancelled, and all land reverted back to the original families...preventing extreme booms and busts that the world experiences now. The Creator knew this...and the financial "Armageddon" that is at hand is impossible to fix. The bust is coming full steam ahead, and the outcome will be horrific.

Man is incapable of governing himself. The Kingdom of God is the only hope.

Posted by Rick Shade on December 26, 2007 3:48 PM

[Report this comment](#)

Wow! An eye opening assesment of our "Global Economy". As an American who has learned the hard way about the negative affects of consumerism and lousy financial management, I can't wait for history to repeat itself and create the new opportunities a post-depression world will offer. I'm ready.

Happy New Year!!

Posted by Jim Getten - Oregon - USA on December 26, 2007 3:42 PM

[Report this comment](#)

Will the Great Awakening lead to the abandonment of fiat currency and central economic planning?

Or will it lead to total government control over any and all economic activities? Will an attempt at total control lead to a cataclysmic war?

Does anyone think governments don't have plans in reserve for maintaining control in a total

economic collapse?

Wake up, People!

Posted by John Danforth from Warren, MI , USA on December 26, 2007 3:26 PM

[Report this comment](#)

This is a believable article with lots of specifics about a cascade effect of banks having to take the bad assets back on their balance sheets and damaging their capital ratios to low levels. When writeoffs are considered, there is danger that the captial will be gone from the banks and that they will not lend to each other.

I did learn about an interesting economist in the article that I did not know before: [link](#)

This bank crisis scenario here is very credible.

Posted by Nathan Chitty on December 26, 2007 2:54 PM

[Report this comment](#)

The American people are in need of an honest politician. One who will enlighten them to the financial problems that exist in theire world economy. One with a solution to their past mistakes.

Who? Try Googling, you'll find him there.

Posted by Fred Foghoven on December 26, 2007 2:45 PM

[Report this comment](#)

Ron Paul is the only U.S. presidential candidate who understands the magnitude of this problem. It's time for people to wake up.

Posted by vanessa on December 26, 2007 1:54 PM

[Report this comment](#)

I thought we were looking at these issues with a fairly educated eye at the Los Angeles Times real estate blog. Tarnation, you folks have a macro view of the world economy that we would not be able to educate into our kids for any foreseeable number of generations. Bottom line? Every one put so much faith and credit in ucnle sam. Now that he's taken seriously ill, the kiddies are beginning to wonder who'll be feeding them in the future? And all of this because we're all so damn greedy. Only suggestion -- more solutions please, and less apocalypse. We've all been out-gamed by some very sharp individuals. Time to smarten up.

Posted by Uncle Billy on December 26, 2007 1:31 PM

[Report this comment](#)

Many of us learned years ago in the Wilson-Callaghan era that there are two most excellent ways to ride a slumpy downthene.

Invest in booze shares and regularly sample the product.

You will happily weather any hiccupping storm and Christmas will go on forever, cheers.

Posted by Les Crawford on December 26, 2007 12:13 PM

[Report this comment](#)

"As long as reserve banks are in the hands of vested interests, the public will be the primary victims of this financial debacle."

As if there's any way to de-vest the interests of the folks running the reserve banks. Even if you were to take humans entirely out of the loop and run the whole shebang by computers, you'd still have to worry about the interests of the programmers. What needs to happen is coupling the power with the responsibility. Capitalism is good at that because when you make bad economic decisions, it generally falls on the head of the decision maker. And, unfortunately, most everyone nearby. Still beats having the decision maker cloistered away in some government ministry, moving imaginary economic forces like Hitler in the Feurersbunker during April 1945, ordering imaginary regiments into battle.

(Not a Godwin's Law violation. I'm referencing Herr. Shickelgruber's terminal delusions, not his active crimes...)

Posted by Cybrludite on December 26, 2007 11:30 AM

[Report this comment](#)

Well, There are many comments to this article and most of them appear to be based on either theory, history or a mixture of both. If people are SO concerned about the near future, I would like to know how many posters have actually liquidated their assets?

I have.

How many have bought gold?

I will.

How many are prepared to forsake these shores for a more agrarian based society?

I am.

Gentlemen, talk is reportedly cheap but without action it may prove to be very expensive.

Posted by Ian Ramsden on December 26, 2007 10:54 AM

[Report this comment](#)

It is wonderful to see so many experts who seem to have all the answers and "I told you so" attitude when ever there is a crisis yet none of these folk seem to have had any interest in making any difference by thankfully, taking occupations that would allow them to make a difference.

It is back to the pub to those other experts who always know what is wrong in the world and have an opinion to match.

Posted by Ernie Goody on December 26, 2007 10:52 AM

[Report this comment](#)

A very sobering article about a situation which has been coming our way for decades. (Most of it is over the heads of ordinary people).

Since the advent of Television our thinking time has been frozen or mentally retarded dramatically. It is an accepted fact that Governments and Banks cannot control inflation? It is driven by 'market forces.' -How come we don't talk to George Soros, he makes billions via these weaknesses? -He must know something that the rest of us frequently don't?

Clearly, the underlying part of this looming stockmarket collapse is that we threw away manufacturing industry in favour of North Sea Oil. -We even put the oil production figures into the manufactured goods for export statistics. (To further fudge the issue).

Very unfortunately, I speak from the total authority of the scrap heap, where millions of us reside? Watching from the sidelines in amazement: (What value Education now?) We have long been advised that we should all be filling shelves at Tesco's or imparting our in depth industrial knowledge to all and sundry via 'B and Q?' -Otherwise we must become 'public employees,' now nearing 60% of the population! (The point at which the Russian economy

collapsed).

Happily we are not alone? -Your obituary column clearly shows, nearly everyday, that all the real achievers in life, (who paid for our today,) are passing away in droves! -Most of whom were largely under rewarded or completely unrewarded.

My view of the financial wizz kids is that I can't wait to join the former. -The snouts in the trough are running out of pigfood it seems?

Posted by Edward Ashley-Smith on December 26, 2007 10:15 AM

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No one knows the full results of any economic action taken by the central banks. economics is not exactly science, and the results have never been solid. this is not textbook; this is the real world. what we should be doing, as a society, is to provide a safety net that is independent from the fluctuations of the money markets. but that will never happen in today's new world order. we will remain hostages of the financial turmoils, both intentional and unintentional ones, until the system is changed altogether.

Posted by Elios on December 26, 2007 10:02 AM

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I live in Los Angeles, no doc zero down home loans with teaser rates are still being made to illegal aliens.

The sub-prime problem wont slow or go away for at least 1-3 years AFTER the banks stop giving out loans to people who can't even prove their legal residence let alone any sort of income over an extended period of time to pay off a \$500,000.00 loan.

As long as mortgage companies can sell these "toxic crap" loans to clueless investors they'll keep making them.

Lets hope the foreign folks financing America's illegal immigrant home loans run out of assets before we run out of America.

Posted by Smitty on December 26, 2007 9:52 AM

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In order to win elections you have to serve the needs of the majority.

Since the majority seem to be debt laden my concern is the debts will have to be written off either by having a period of hyper inflation to devalue the debt and my savings (this is the normal third world approach) or by piling it onto the tax burden (which is what happened to the Northern Rock debt and a lot of the current US home loan debt).

Those of us that operate our lives without debt end up paying for those that dont. If everyone believes this we will implode as nobody will bother to save anymore.

Posted by Mike Smith on December 26, 2007 8:14 AM

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Everyone please stop listening to TALK radio and go back to listening to MUSIC.

Everyone just go out and buy a shirt the day after tomorrow and the economy will be just fine.

The government's screw it all up when they go poking around in our affairs.

Posted by chris on December 26, 2007 7:39 AM

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More rubbish from the pied piper of the tin hat brigade. Oh dear the sky is falling, the sky is falling...trust me Ambrose when everyone says it's fallin'...it ain't

Posted by Richard on December 26, 2007 7:31 AM

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Thanks to John Ish Ishmael (December 23, 2007 6:39 PM) I have read Tim Congdon's FT article. It raises some important questions.

According to that article's author, Northern Rock's crisis is one of liquidity. The response by the BoE has been to print new money (thus expanding the debt pool) but at zero cost to itself. It has then offered this new (fiat) money as a loan, to shore up Northern Rock - an amount that could hit £30bn. For this rescue package, the BoE will charge 6¾ per cent, thus reaping a handsome profit (about £2bn) -- after making something from nothing at zero cost -- for the Exchequer, and thus the UK Taxpayer: in theory at least.

If this is the mechanism being employed, then we are surely dealing with very simple concepts. If that is the case, then why was the Government of the day (and thus the BoE) unable to offer equally exorbitant financial support to Marconi, or General Electric, or several British shipbuilders, or British Steel, or the British Motor Industry, along with a slew of other industries who had to endure unfair competition from Asia???

If our Square Mile financiers are so happy to print new money and reap profits to bail out some two-bit lender, then why were they unable to do the same for our major industrial companies? Had they done so, they would have prevented our technological know-how being exported (at "buy one get one free" prices) to competitor nations, such as China, India, Malaysia, Brazil, et al? Correct?

If the core principles of debt growth as a tool to repair and restore failed financial institutions is defensible, then why was it not employed with equal vigour to defend (both British and American) industry? After all, the issuance of debt and expansion of fiat currencies has remained unchanged for centuries. We are dealing with nothing radical or new here.

This grossly unequal treatment lends credence to both Dr. Gene Nelson's [December 23, 2007 6:19 PM] and John Stang's [December 23, 2007 1:45 PM] arguments about destroying the West's middle classes. Are we witnessing the deliberate destruction of Western Culture by a greed obsessed cabal living in New York, London, Geneva, and Basle who worship globalization in its wildest and most unrestrained forms?

Posted by Errol Flynn on December 26, 2007 7:02 AM

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I'm a bit befuddled. Should I or should I not buy that new Maybach now?

Posted by Sir Olden Atwoody, LSMFT on December 26, 2007 6:21 AM

[Report this comment](#)

Between Ambrose Evans-Pritchard and Algore THE SKY IS FALLING. What a laugh. Live within

your means. Pay your bills. And humans cannot control the climate. PERIOD. LOL.

Posted by Northland LJ on December 26, 2007 4:15 AM

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The first step towards a solution would be to dismantle the Central Bank system. These banks, with their 'independence' are the root cause. They are responsible to nobody and are protected from suffering the results of their actions.

Central Banks, the World Bank and the IMF must be abolished.

Posted by Tony Sadgrove on December 26, 2007 3:33 AM

[Report this comment](#)

As an American who is trying to educate my fellow citizens regarding the evolution of this crisis (most of us don't even know what the FED is) I would like to share what I know of current events with you.

The FED in 2001 was doing two things that impact the current crisis. Number one was pushing credit to the lowest rate possible to encourage demand after the shocks of the dot com bust and the 9/11 attacks which were serious threats to the financial stability of the nation. I believe this was necessary and a positive roll for the central bank at the time. It is also true however that the FED abandoned it's role as a regulator of the banks and other financial institutions by allowing the creation of SIV's, CDO's, etc. OFF the balance sheets of the institutions. See this link for more information on that [link](#) .

This second activity essentially created a shadow banking system that was largely unregulated very much like the system we had before the FED was created almost a hundred years ago. The hedge funds, SIV's , CDO's, etc. took in deposits from investors and provided the vehicles for dispersing huge amounts of loans to the housing markets, inflating those markets sometimes to insane levels. Look at the inflation rates in California housing for examples. Free banking was essentially reconstituted in the United States. Free banking has NEVER worked in this country and probably never will. I am no great fan of government regulation in most industries, it is usually inefficient and often inequitable, but banking (and institutions that work like banks) is different. Trust the bankers just as much as they trust their tellers! People are fallible and access to large amounts of other peoples cash is a prime mover of less than noble impulses. Having said that I also recognize that a well regulated bank is the very best place to keep your cash in a free country. Banking is an essential part of the economy and I want to see each and every major bank in this country survive this crisis and prosper.

The financial engineering that brought us SIV's drove the housing bubble, enabling the inflation of prices and misdirecting the wealth of the nation (and the world) into the construction of more shelter than we actually need instead of encouraging investment in more productive sectors of the economy, some of which moved overseas.

I think that Dr. Bernanke and the rest of the current FED is on the right path to clean up this mess, see this link [link](#) for more on that, but but I also think that the FED can not do it alone and that responsible leadership from all branches of the U.S. government which has been lacking for far too long is essential.

The predatory lending on credit cards, in rent-to-own type stores and payday loans MUST be reined in by legislation and enforcement or demand will fall due to excessive interest expense

on an already strained consumer base. Failure to do this will result in a marketwide deflation ala 1930-33. Cut responsible borrowing by consumers and you damage demand by far more than the run up in commodity prices that we have recently seen. Predatory lending must cease for our financial survival.

Posted by Carl on December 26, 2007 3:22 AM

[Report this comment](#)

Run for the hills. We are doomed!

Posted by Hillary Klinton on December 26, 2007 3:21 AM

[Report this comment](#)

They have printed up massive amounts of money, on the ability of the middle class to produce enough wealth to support the value of the printed money.

Then, they bankrupted the middle class. They have nobody to produce hard assets to pay the bills.

Now, any money they print will simply go into a black hole, creating endlessly more inflation.

Eventually however, they will be able to print their way out, but by then, gold will be 2200 USD/oz

Buy :

Gold

Silver

oil

ag commodities

water

Farm land

Sellstocks.

Posted by ra balke on December 26, 2007 3:07 AM

[Report this comment](#)

Those who claim that gold is the answer merely trumpet how little they know about central banking.

The risk we are facing is the risk of HYPERDEFLATION, a word that the long-suffering gold bugs cannot possibly comprehend.

Look at where the billions of dollars have been made in the last 3 months. In high quality, US government bonds. And every scenario outlined in the article about massive DEFLATION (Deflation is NOT inflation) which calls for dramatically lower interest rates makes holders of high-quality US treasuries more profitable.

We are talking about the massive REDUCTION in

house prices amplifying throughout the economy. This is not inflation. It is DEFLATION. Get the basics right, and then go from there.

A fool and their money are soon parted. I'll take my government bonds over your gold any day. Email me at mdubque@yahoo.com with questions.

Matt

Posted by Matthew Dubuque on December 26, 2007 2:27 AM

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It's all as clear as mud. Is there no journalist with the clarity of mind to tell financial stories in terms that ordinary readers can understand? There are several diagrams/charts but there is none that elucidates the problem. I suspect it's not quite as complicated as it's made to sound. The longer something takes to explain, the more suspect it becomes.

What is a simple summary of the problem? Banks are afraid to lend because they don't think people will be able to pay back, no? And this is supposed to be solved by changing rates? Once it's clearly presented, the folly of the strategy is evident. It wouldn't matter what rates were, or how much money was available, if they don't think it will be repaid, they won't lend it.

Therefore the only thing that will make any difference is helping people/businesses to pay. There should be protection not globalisation. Our industries and our everything are being killed by unfair competition. Nobody should be allowed to trade with the EU unless their working conditions and pay are up to EU standards. That will stop unfair competition. That will help industry. Industry and people will be able to pay back. Banks will lend.

To hell with the stock exchange and the supernational corporations.

Don't you think that sounds at least as plausible as most of the gibberish above?

Posted by Feargal Mooney on December 26, 2007 2:22 AM

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Somebody mentioned a book saying that a financial mess was going to occur in 2008-09. This fits with the 80 year economic cycle. True, it had some man-made help, as will this one. Since WWII is soon to follow, I think everybody has read the script from the last play. Deja-vu anyone

Posted by Ronald Zond on December 26, 2007 1:59 AM

[Report this comment](#)

All these 'psuedoinsightful' comments from the 'learned' few have ALL failed to state the obvious causes for our economic woes. Namely, the socialist push for Globalization which involves illegal immigration and the fervored effort by them to inact laws that destroy our Constitutional freedoms toward greater Socialism to ultimately end in Communism! Until the citizens of this country begin to realize socialist forces in this country are NOT out to provide everything for us but out to CONTROL us, this country will continue its spiral to oblivion. When you consider that 68% of all the government's tax collections goes for social programs that produce false economic production, is there any wonder why our system is suffering? And I'm

just talking about the Central Government. State governments have also undertaken to enact the socialist agenda as well. By taking away more and more ability from its citizenry to create and produce, the government is incrementally destroying every avenue available for its citizens to do for themselves which makes it even more necessary to rely on the central government to provide for them. The foreign invasion from other countries is making it possible to obliterate the very social order and independence of its citizenry to do for themselves. Why all these intellectual giants can't see this (perhaps because it's the King with no clothes syndrome) is beyond me. Education is NOT an entitlement! Health care is NOT an entitlement! Illegal immigrants are NOT entitled to the same privileges as citizens, nor are they entitled to cross our borders without punishment. Feel good slogans like 'It's for our Children,' does NOT make it so! Socialist control of our government is a very REAL threat to this country's future existence, and we citizens need to do whatever necessary to take back control of it. Without capitalism, without freedoms provided by our Constitution, without the ability to own property and protect it with hand guns, this country will not survive as the world's ONLY truly free society and hope for humankind.

One other very important element that's been actively promoted over the last few years in our country is the idea that 'diversity' is a good thing. It is NOT! Diversity creates chaos and anarchy and ultimately results in deadlock and failure. Madison and Hamilton had not the slightest idea about this when they reasoned for a faction-controlled central government, and it's finally come to nest as a cancer exposing the raw meat of our backsides.

Back out all the socialist controls, and you'll restore the economy to an even greater ability to not only survive but to provide the beacon to the rest of the world's human life forms who are oppressed and murdered by despots and Communists.

Posted by David Tucker on December 26, 2007 1:59 AM

[Report this comment](#)

Prudence ultimately wins over opportunism or delusion.

Posted by Andrew Fiddes on December 26, 2007 1:51 AM

[Report this comment](#)

All of this is fascinating, but it misses the essential point which is not financial or economic but environmental. The "borrow all day, all night, all year" spirit created during the Reagan Administration in the US, implemented through (1) an unprecedented government spending and federal tax program (unprecedented except as a response to the Great Depression and World War II when they were necessary) and (2) deregulation that encouraged massive consumer borrowing, was a means of avoiding the oncoming limits to growth, producing a very large and unsustainable increase in exploitation of natural resources (eg. happy-go-lucky SUV gas guzzling and construction of large-thn-affordable houses) when what was called for was conservation of natural resources. Now we are suffering from the exhaustion of those resources sooner than would have occurred otherwise. The problems in the financial markets are symptom, not the disease.

Because this is the collapse of a bubble that has been artificially maintained for a quarter century, the collapse to get us back to a sustainable level of consumption HAS to be severe.

Posted by Nicholas Clapp Arguimbau on December 26, 2007 1:49 AM

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Posted by Nicholas Clapp Arguimbau on December 26, 2007 1:49 AM

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Its Soros Stupid!

Posted by Trep Won on December 26, 2007 1:38 AM

[Report this comment](#)

support asset prices and consumer prices will rise even faster and then govt price controls - a sad commentary on the fatal error of ceding control of the world economy to Wall Street - where are the statesmen ????

Posted by tom on December 26, 2007 12:58 AM

[Report this comment](#)

The author of this piece is sadly in need of a copy editor. When I read something with spelling and grammar errors, sloppy writing, like this, it makes me wonder if the author is a dim wit.

Surely you can do better.

Posted by Gail Milner on December 26, 2007 12:46 AM

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I am the COO of a vertical American manufacturer. Greed and the desire to juice financial markets has driven this problem. It does not take a genius to understand that if your business plan is based on the borrowing of people who can not pay, you will end up in the red. Now, banks are turning on their credit worthy clients and everything is grinding to a stop. Soon, when the mob is sufficiently scared to death, they will stop spending and the vultures on the side lines will make their move and profit. Ups and downs, it is the way of the world. In the end, there is a beginning, a middle and an end to everything. Do the right thing, stay on a balanced path, and show your clients respect and you will always win, The rest is poppycock.

Posted by Jeff Shaffer on December 26, 2007 12:23 AM

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Excellent analysis fo the fiat money system, which must be replaced by a market chosen Money of inherent value.

Only hard Money will stop the fraud.

The first step would be for the various legislatures to reduce and then stabilize their own spending of debt created 'money' of ever declining value. Then to enact and enforce, with the gallows if necessary, an absolute limit on the replacement of worn out paper IOUs. When the value/price of the chosen hard Money is fairly stable, the stage will be set for the conversion from fiat currency to the chosen Money.

BTW, fiat currencies are not minted, they are printed or created electronically via Mandrake's magic, out of thin air. Real Money is minted from specie into Coin.

Posted by Jim Lorenz on December 25, 2007 11:47 PM

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In my opinion, complacency of the American people will be the most profound tragedy of all.

Posted by Virginia M. Higgins on December 25, 2007 11:34 PM

[Report this comment](#)

Ron Paul is the only Presidential Candidate that has the right idea.

Posted by Charles on December 25, 2007 11:16 PM

[Report this comment](#)

Peggy Lee Said It All:

Break Out The Booze And Keep Dancing!

Her song has even carried me through the George Bushhh Years

Posted by Good4You on December 25, 2007 10:49 PM

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To the person who said that central banking allows people to actually make more money, that may be true in a sense, however that money is worth less and buys less goods than the same amount of money would have bought even a day earlier. This extra money is simply artificial wealth that was never actually produced by anyone. Under central banking your money will always be worth less today than it was yesterday. As soon as people catch on to how central banking works they will want to withdraw everything from the banks, and that is when the crisis happens.

Posted by stephen on December 25, 2007 9:50 PM

[Report this comment](#)

Big mouth bankin has been awfully quiet lately. Bailout money is flowing to countries without bubble economics and currencies without very strong ties to either €, £ or \$.

Comodities and Security has just deglobalized during the past two months.

Posted by josh on December 25, 2007 9:05 PM

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thanks, george. it happened on your watch, you take the hit. this is one you can't blame on bill clinton.

god help us.

Posted by andy on December 25, 2007 8:38 PM

[Report this comment](#)

Thanks for your wonderful paper UK!

We have herein, the classic failure to integrate economics and ecology?

The NWO (or whatever one terms it) has failed to bring notice to itself, that limits of growth do incur. We still have no 'scientific curency" ala 'energy credits'. Computers make BTU/currency unit calculations fairly economical and possible now.

SirWinston had it right when he opted 'In the end, the Americans will do the right thing . . . after they have tried everything else'.

Electrified consumerism is merely a trick to enable the minority to rule . . . time to take stock in reality and equate production and consumption to value added to society and the world ecology . . . not production for profit, but producti;on for use? What ever happens to the concept of 'Good Work' as ethical production?

Funny joke: The \$ is beening devalued as it is to be replaced by Amerio, as the wise sell their \$s before this happens.

Will worldwide debt be written off or 'slide' into another off-budget balloon . . . as one poster implied?

Or, one can always continue the War and off-load inflation into the smoke futures. Has anyone noticed that the vaunted AT future will be premised on 'loaning' the new technolgies to the consumers. This seems to imply a future cloaked in inflation?

Posted by gary USA on December 25, 2007 8:19 PM

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It's starting to look like a bottom is near. All the chicken littles are out and clucking in full force.

If You owe the Bank a \$1,000,000 they own You. If You owe the Bank a \$1,000,000,000,000 you own the Bank. You, being the dollar. Bank, being the world.

A way of settling accounts without have to go through the mess of getting the Bank to agree.

Stop the Social Democratic experiments. Pay the fare. And for God's sake start having babies.

Jihad is in your living room.

Thank You.

Posted by John McKowen on December 25, 2007 8:02 PM

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I believe that there is more of a fundamental problem. The value of your currency is what one perceives it to be.

When governments just print paper money, there is no real value. It becomes what ever faith you have in it.

Posted by John Thompson on December 25, 2007 7:51 PM

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Good posts and I enjoyed reading so many well written thoughts. As an average person; how can we use this situation to make money? Is commodities really the answer? Just for my info; how exactly is this different than the late 70' & early 80's?

After the fall of communism we experienced growth and new opportunity - how much does Eastern Europe (former USSR) influence the world banking? Thanks.

Posted by Wade on December 25, 2007 7:49 PM

[Report this comment](#)

The Greedy foisted on the stupid part of the American Public Housing Loans of junk. What do you think's gonna happen when you do this. But you continually lie to about what really has happened and what shall happen. Welcome Globalization Ministers; already your hands are filled with other people's blood. Perhaps the people need to carry you out naked into the streets.

Posted by john smith on December 25, 2007 7:46 PM

[Report this comment](#)

It seems to me as though there must be something terribly wrong with the current banking system. Where were the checks and balances? Or do we simply need to revert to the gold standard? After all, they can't print more gold. What a mess.

Posted by John on December 25, 2007 7:43 PM

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Get your hands on cash. Buy Gold and Silver. Get a 1 yr supply of food and as much water as you can store. Buy a gun and ammo. And foremost start a relationship with JESUS CHRIST. The nukes are coming in 2008 in the USA and when the time to act comes the time to prepare is over.

Posted by B L. on December 25, 2007 7:33 PM

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The Eu and others shoul FORCE OUT these inept and fat bellied bankers before it is too late. The risk of MAJOR civil disorder in UK, USA and France is truly beyond what you want to think about. The riots in Paris banlieues could be normality in case of a credit collapse in whic, AS USUAL, the middle class is the one that gets screwed by the banks and theovertaxing by "panem et circenses" governments. THIS is exactly what triggers populist revolutions like fascism, thanks to the well fed and careless top brass of the Wall Street types... Be prepared for another round of middle class turning to the very extreme right (or left) very, very soon, and this could be much worse and sooner than believable.

Posted by PANEM ET CIRCENSES on December 25, 2007 7:22 PM

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This problem started when the law against usury was dropped. I served in the USAF from 1950 to 1964 and we punished those lending money and requiring twice the amount be paid on payday. Now, I hear of lending organizations being paid 40% interest on overdue loans.

Simple greed caused the problem and will now devour those responsible.

Posted by Dan Ames on December 25, 2007 7:21 PM

[Report this comment](#)

For those of us who didn't vote for Bush/Cheney..for those of us who actively protested that Administration...for those of us who chose fixed rate mortgages...for those of us who have excellent credit...

Do we get to kill the others?

Posted by Gern Blanston on December 25, 2007 7:15 PM

[Report this comment](#)

All this goofing around with the market! If we would just let the invisible hand of the market spank those who need spanking and get on with things, we would all be better off. Instead we have the remnants of John Maynard Keynes to worry about.

Posted by Doug from Eagan on December 25, 2007 7:06 PM

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It's probably going to be worse.

I remember from 1995 onward watching Trent Lott's Senate Banking Committee especially, and Newt Gingrich's gang of criminals in the House remove all of the post-Depression safety nets. Let's hope it doesn't go that far, because without those safety nets, there is no theoretical bottom, and I saw it coming then, given the Republican agenda.

Just remember who brought it to us, if it happens.

Posted by EnderW on December 25, 2007 7:00 PM

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The fantastically well of are going to be just fine you'll see! they ahve accountants and lawyers excercising due dilligence day and night!

Dont you worry about them while other peoples children are off to war, they will still be able to preserve the Bush tax cuts for yet another year!

Ahh, have no fear we will continue to bill returning soldiers for lost missing and damaged equipment and deny them better armor and vest as the very wealthy do okay during this season of concern? This bnation will see to it the VA isnt funded enough for health care and domiciliary housing for the premanently disabled, a drag on the economy?

And to ensure that will be the case Bush will also slit the throats of more childrens health care as he signs yet another veto foe SCHIP!

rejoice CIGNA! the Grinch will see them all through as the little people pay histroic prices for fuek and heating oil as food prices rise, and health care evades them too!

Tiz the season to create more tax shleters as never before, the more they make the more they

take!

Posted by stew on December 25, 2007 6:58 PM

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At the risk of offending most readers...

The LOVE of money is the root of all kinds of evil...unchecked greed and coveting without any sense of "doing unto others as we would have them do unto us" have created this mess.

Jesus told us that we would reap what we sow...we all have been demanding cheap, easy credit so that we could live a lifestyle we could not afford...do not blame the politicians, they are followers not leaders.

My advice would be for all of us to evaluate what is important in this life before it is too late...naked I came into this world, naked I will depart...

Posted by Mark on December 25, 2007 6:53 PM

[Report this comment](#)

We've finally reached the death throes of the greatest pyramid scheme of all time. Hope you got a couple year's worth of vienna sausages.

Posted by skorpidzo on December 25, 2007 6:50 PM

[Report this comment](#)

All you naysayers must be libruls who are just looking for a government handout because you're too lazy to get a job. It's always some vast conspiracy to you people. Well look in the mirror folks, it's your rejection of God and Country that are going to be your downfall. As for me, I'm doing great. I've got a big house, a hot wife, some great kids, a great job selling real estate (never risking my money either), a few very expensive cars, and I started from nothing. Only the shirt on my back and \$40 in my pocket. No government handouts. Nothing. Just hard work.

Posted by W_is_the_best_prez_ever on December 25, 2007 6:36 PM

[Report this comment](#)

From a view point not yet discussed, I submit, as a believer in The Holy Bible, that this article is just another sign of the soon emergence of the "Rider on The White Horse" in "Revelation", The 666 who will solve all of the world problems in the first few years of his rein as a world-wide leader and ruler, but then will unleash unholy hell on the world for the next few years, with all of this culminating into "The Battle of Armageddon", with the forces of Jesus on one side, and the forces of Evil and Satan on the other.

This may give rise to a great laugh among the secular populace, but nobody was laughing when a Tsunami hit after its predictions were largely ignored.

Look at all of the signs being fulfilled for the end times; i.e., wars and rumors of wars, diseases that cannot be cured, ungodliness everywhere, mass disobedience, a great falling away from the church while at the same time a great coming to God, financial distress as covered in this article, the technology already here for the antichrist to take over and rule, such as cameras at every corner, the computer to keep track of those who do not obey, and the predecessor of the mark of the beast placed on each person, like the reading of the iris, the reading of your fingerprint, and the micro chip being placed into your arm or forehead for identification

purposes.

Yes, "The Rapture" is very near, and the coming of The Lord to fight "The Battle of Armageddon" against Satan and His anti-Christ is not far behind.

The world going into a financial and political tail spin will usher in this, so-called, hero to persuade all nations to give him power to rule. He will have control over all financial transactions to force people to worship Him. Just look now as the world is accepting a one world currency; namely, the Euro. In my opinion, the USA will soon follow to adopt this as its currency.

This Man of Perdition will force everyone to take "the mark of the beast" or they will not be able to buy, sell, or trade.

This coming bank crisis is just one of the many signs that this world is rapidly coming to a conclusion and that The Son of God is returning in all glory and power. Not as The Lamb of God who was sacrificed for our sins. But as King of Kings, and Lord of Lords, and as The Lion of the Tribe of Judah, with all power to destroy evil.

Laugh if you desire, but they stopped laughing in Sodom and Gomorrah as the fireball from God destroyed those twin cities of sin, and there was no laughing in Noah's day, when the waters rose and the Ark with only 8 souls were saved from the flood waters. Man is nothing compared to the greatness of God. His foolishness is wiser than the wisdom of man and his weakness is more powerful than the strength of men.

God's Word is true and what was said in His Holy Word will come to pass, and is being fulfilled today.

Posted by John A. Malagrín on December 25, 2007 6:27 PM

[Report this comment](#)

Unadulterate garbage not suitable for the consumption of an informed audience. The financial problem is far less serious than you portray in this article - there have been far more significant issues that had to be overcome, and were dealt with significantly, during the last twenty years.

Like when US equities fell 22% in one day in 1987. Or the trillion dollar US real estate/banking crisis in 1989-92. The current situation, even if at the worst case of \$700 billion, is no cause for great alarm...would you be making the same "world-ending" scenario if the US equity market dropped by an equivalent amount, representing a 5% downshift in prices? Of course not.

Fortunately, the problem is centralized in a small group of investment banks, and in hedge funds. Both of these groups now are giving back a portion of the huge profits they have made during the last few years, and are in fine condition to do just that. That's why, in the case of the investment banks, all of their equity market prices remain at healthy levels. If the capital squeeze upon them were so burdensome, they easily could issue new shares for billions of dollars in new capital.

What's also fortunate is that the vast majority of savings, community and commercial banks in the US, along with the vast network of credit unions, remain virtually unscathed by the present problems of the investment banks. Which means that the lenders who perform most of the lending that keeps the real US economy growing are ready, willing and able to provide funds for creditworthy customers. This is a far different and brighter landscape than 1989-92, when an overwhelming number of US lenders suffered extensive injury to their balance sheets to cause a true credit crunch.

Perhaps what actually has happened during the last several months is a re-evaluation of risk limits back to historical averages with respect to credit provision, which would explain the difficulty some issuers may now experience in borrowing new funds. The wider Libor spread also can be explained as a recognition by a pervasive grouping of lenders that as much as Central Banks want to push the financial community to share in the losses of the investment banks and hedge funds by seeking to force lenders to provide credit at lower costs, in the present environment of growing economies and inflation, the bulk of inter-bank lenders will not accede to being lead down a road of artificial interest rate pricing for which they receive no benefit.

Posted by ROCKCOM on December 25, 2007 6:24 PM

[Report this comment](#)

Ok...so what am I to do as an individual? I've made some mistakes in my past and have learned from them and have made some tough decisions. I've cut my bills from 5gs to 2gs. I have about 25gs of credit card debt. I was planning on spending all my pay checks on paying off my credit card debt by the end of 2008 and then trying to build a savings in 2009.

Should I do something different? Should I build my savings now and then try to pay off the credit cards in 2009 if the market hasn't crashed by then?

Not good with Money from Houston, Tx

Posted by Jack on December 25, 2007 6:18 PM

[Report this comment](#)

this is alarmist clap-trap written by a paranoid conspiracy theorist. The same author of this article thinks Clinton and the FBI covered up the Oklahoma City Bombing despite overwhelming evidence to the contrary. This problem is big, but 1929? there is no evidence for this

Posted by jay on December 25, 2007 6:12 PM

[Report this comment](#)

I thought that the EU banks were just congratulating themselves that they dodged the US subprime mortgage bullet by being careful lenders. I seem to recall reading this in one of your EU news articles several months ago. Could it be that financially when the US catches a cold the rest of the world still catches pneumonia? Stiff upper lip, and all that.

Posted by Patrick Curry on December 25, 2007 6:10 PM

[Report this comment](#)

Here in USA, I've stopped watching the "news", such as it is, because they don't report the important facts. Stories like this get pushed to the back of the financial section, if printed at all. Yes, the Anglo-American "support structure", the shadowy merge of corporate structures of government bodies, planned this from the beginning. They learned from 1929 and are about to get every other property on the Monopoly board. Too bad I'm a restaurant worker with a college degree living off 400 pound sterling a month after taxes (\$800). So am I escaping this? Who knows?

99.9% of all Americans don't see what's happening. Oh, bugger, indeed

Posted by Steven Johns on December 25, 2007 5:56 PM

[Report this comment](#)

Mark my words, a whole lot of inflation is much more preferable than a little bit of deflation. Open the monetary floodgates at least temporarily.

Posted by Brion Pollon on December 25, 2007 5:53 PM

[Report this comment](#)

Its all about GREED! And all the dimwits calling the shots in the U.S. and abroad got big fat Christmas bonuses. When they should be handed their walking papers.

Posted by bob illinois on December 25, 2007 5:44 PM

[Report this comment](#)

Y2K Hysteria anyone? Mkts will get through this crisis as well.

Posted by Jack on December 25, 2007 5:40 PM

[Report this comment](#)

Never heard of the guy. Recycling 1929 has been going on for 78 years and its always wrong. Like global warming, a 1929 deja-vu is pure intellectual sasquatch. Sorry, but I'm not participating.

Posted by HankAmerica on December 25, 2007 5:32 PM

[Report this comment](#)

Everything is going as the globalists have planned. None of these events are an accident.

Posted by Fish on December 25, 2007 5:29 PM

[Report this comment](#)

It's George Bush's fault for appointing Alan Greenspan.

Posted by David B on December 25, 2007 5:11 PM

[Report this comment](#)

The bubble economy was caused by the US and Greenspan. The nail that pierced the bubble is the Iraq war, which has cost the US \$500 billion in military expenditures and about \$1 trillion in such consequences as the price of oil and hidden inflation. The transfer of wealth has been incredible, bearing in mind that the cost to produce a barrel of oil in Saudi Arabia and other Middle Eastern countries is slightly under \$2.00. Now America hopes for the sovereign funds of the Middle East, and even Singapore to bail us out. Those sovereign funds are buying America only to exchange their dollars for assets they hope will survive. This gamble may not pay off as the American economy sinks due to the endless waste of assets in Iraq.

Posted by John Harding on December 25, 2007 5:08 PM

[Report this comment](#)

Merry Christmas. I've read every comment, and you all seem very intelligent, something I will not claim to be. My intuition tells me that this is going to work exactly as planned. We will all be "owned", subjects, slaves. The world economy will collapse, and when it does a new monetary system, already in place and at the ready for implementation, will be heralded as the "savior" to remedy this ingeniously planned fiasco. The monies of the world will all be under one system, thus giving the architects complete control over all we buy and sell. Think MONDEX, 51% owned by Mastercard, which I believe is fully owned by Citi, the largest corporation in the world, which, blatantly enough is headquartered at 666 Fifth Avenue, New York City.

Posted by carson on December 25, 2007 4:59 PM

[Report this comment](#)

Wake up useful dupes. The crisis is of debt based currency "systems" These are corrupt in nature ... and by design are confiscatory. When a national government borrows funds from central bank at interest, they owe more than they borrowed. You are trying to use logic and you are dealing with "Gangsters". There is only one way to deal with "Gangsters" ... and it is not using logic. Jesus physically ran the "Banksters" from the temple, for good reason. Since world war two they have rebuilt the world economy to this precise point in time, now is time to tighten the noose.

Study Nathan Rothschild at the defeat of Napoleon, and how he benefited on rumor. You clucks have been hadat least most of us have.

Posted by Buck Wheat on December 25, 2007 4:54 PM

[Report this comment](#)

When a British paper is screaming the sky is falling you know that things are under control.

Such drama queens you Brits.

Posted by An American In Texas on December 25, 2007 4:50 PM

[Report this comment](#)

Your comment that the US GDP% of budget deficit is meagre compared to the UK's is incorrect. Almost every economist does not add to the US deficit the emergency appropriations for wars (app. 200 billion per year) that aren't counted in the 'official;' deficit numbers and the US government's 'borrowing' from the Social Security's 'trust'(another 200-250 billion per year) fund.

I am very disappointed that the Telegraph editor cannot do his job in this instance by providing accurate numbers..

Posted by Drew Currah on December 25, 2007 4:47 PM

[Report this comment](#)

Your comment that the US GDP% of budget deficit is meagre compared to the UK's is incorrect. Almost every economist does not add to the US deficit the emergency appropriations for wars (app. 200 billion per year) that aren't counted in the 'official;' deficit numbers and the US government's 'borrowing' from the Social Security's 'trust'(another 200-250 billion per year) fund.

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Posted by Drew on December 25, 2007 4:41 PM

[Report this comment](#)

Ambrose -

If you are not already familiar, you need to check out

sixthmanresearch.com

-dcd

Posted by Daniel Diaddigo on December 25, 2007 4:40 PM

[Report this comment](#)

Everone always looks to blame someone. Especialy powerless policos. Politicians in a free sociaety have little to no control over an economy, be it Bush or Brown.

The blame can be placed squarely on those that take on debt and those who dish it out. Let them suffer the consequences and make transparencythe rigor.

Posted by Paul Clark on December 25, 2007 4:21 PM

[Report this comment](#)

Read:

The Creature from Jekyll Island by Griffin and watch The Money Master's video by Bill Still.

Posted by Tom Schneider on December 25, 2007 4:12 PM

[Report this comment](#)

Liberal doom and gloom what a shocker!

Posted by David on December 25, 2007 4:10 PM

[Report this comment](#)

Treating everyone like subprime lendees by excessively tightening mortgage loan criteria and curtaining availabilty of credit is "shooting yourself in the foot". It's akin to shutting off the water supply to a buring building. Our economy runs on credit. Banks and the Federal Reserve should not severely restrict credit to consumers and businesses primarily becuse THEY made an enormous amout of risky mortgage loans. They need to go back to previous mortgage loan restrictions and resolve the riskly mortgage loans THEY made with unqualified home buyers. Greed and praying on less solvent people is the cause of our financial crisis. Severely restricting credit on a credit-dependent economy is not the solution to this problem.

Posted by DB on December 25, 2007 4:10 PM

[Report this comment](#)

Do all the English Islanders respond so emotionally to a reporter's rants over the interpretation of future events that are read in somebody's tea leaves. The responses to this article look like panic-politics so me. They focus on Brown and not the underlying message. It's almost like like finding a cause that fortifies some preexisting belief -- regardless of what news the messenger is delivering. Talk about blind faith!

If everyone believes a meltdown is in the future then selling assets should be the name of today's game. Don't waste time. Sell everything and head for the hills. Personally, I'll be looking forward to the bargains.

Now, if there's an issue that should frighten all the world's citizens, it's certainly the potential election of Hilary Clinton. That's something to worry about! One cannot imagine the effects of the world's capital flow if she's in control.

Posted by Surelock Homes on December 25, 2007 4:07 PM

[Report this comment](#)

Only one politican in the entire world, RON PAUL, has the skills to fix a country's bad economic

situation and prevent a disaster that would affect the world.

Posted by charlieboy on December 25, 2007 4:05 PM

[Report this comment](#)

LABOUR HAS A TRACK RECORD OF LEAVING THE COUNTRY IN AN ECONOMIC MESS. WHAT SHORT MEMORIES VOTERS HAVE.

LABOUR NEARLY COST BRITAIN THE SECOND WORLD WAR.

IT THEN LED TO THE WINTER OF DISCONTENT. IMF BAILOUT. 3 DAY WEEK. RUBBISH IN THE STREETS

FOR THOSE DUMB ENOUGH TO VOTE LABOUR AND BE ON A JOINT 5X MORTGAGE. WELCOME TO YOUR PARTY.

Posted by GATVOL on December 25, 2007 4:02 PM

[Report this comment](#)

Watch "The Money Masters" to understand the truth behind the intentional actions of the central banks. www .themoneymasters. com

or look for it on youtube.

Posted by GP - California on December 25, 2007 3:55 PM

[Report this comment](#)

I am currently a lending broker for the biggest bank in the world, and look at peoples credit, liabilities, and assets on a daily basis. The U.S. has people that spend more than they can afford to , and the average person is about 20-30k in debt. Credit is issued to people and they just go wild. Cars, houses, cash advances to pay the car note. I was taught at an early age , if you can't afford it , you must go without it , until you save enough money to buy it.

Posted by Disciplinarian Red on December 25, 2007 3:52 PM

[Report this comment](#)

To add more fuel to the fire, the USA is poised to start turning every available bushel of corn into fuel for our autos in the name of appeasing the greenhouse gas Gods manufactured by the left wing. We have just begun to see the inevitable upswing in food prices across the edible spectrum. This will turn into a hurricane force vortex further sucking money from households least able to afford it and greatly accelerating an inflationary cycle.

Posted by Frank- Midwest US on December 25, 2007 3:47 PM

[Report this comment](#)

Inflation is a man-made condition, not something "magical", and therefore un-cotrollable. All the Central Banks need do is cease to Print "notes", otherwise listed as "money". Read Ludwig von Mises, Human Action for real world economics. (you can publish my e-mail, if you wish. I do not fear spam returns, or hate mail)

Posted by Howard L.Wilson on December 25, 2007 3:44 PM

[Report this comment](#)

Buy now, if you have not already done so, Gold coins. They have always kept value over the last 5,000 years. And they can easily be sold, one at a time as funds are needed, when

disaster strikes.

Posted by John Foster on December 25, 2007 3:43 PM

[Report this comment](#)

Robert Millar I agree spot on with your analysis see below: -
How typical that:

A) a relatively simple case of American banks not keeping to their own quality-of-lending rules should spark such a large problem with other banks not keeping to their own safety rules and

B) we get the professional doomsayers telling us that "disaster" is on the way which sparks off all kinds of inappropriate actions, causing a crisis where none actually existed.

The american banks have created a problem for us all!!!!

Posted by Henrymen on December 25, 2007 3:37 PM

[Report this comment](#)

Ron Paul warned Bernanke about the approaching crisis on national TV months ago during Bernanke's testimony before the House Finance Committee. Bernanke and the rest of the Committee chuckled. After all, what could a man who advocates sound money and fiscal responsibility know?

Posted by Robert on December 25, 2007 3:15 PM

[Report this comment](#)

This is merely a gloom and doom story meant to play on the emotions of the grossly uninformed, which from what I am reading here, are most of you.

Far down in the piece we find this:

I don't think the central banks are going to make a major policy error, but if they do, this could make 1929 look like a walk in the park," he adds.

So here he basically "outs" himself as being an alarmist when even he doesn't believe it.

People are so willing to believe the world is coming to an end. Books were written in the 70's and 80's announcing the coming disaster in the financial markets and what we should do to save ourselves. Of course nothing happened and the only one who was "saved" was the author, who made tons of money selling his "the sky is falling" book.

Posted by jjv on December 25, 2007 3:10 PM

[Report this comment](#)

May God help us all.

Posted by Paul Vieth on December 25, 2007 3:06 PM

[Report this comment](#)

Heard this all before. Doom and gloom from the catastrophe junkies. The truth of the matter is that the weak will perish, the strong survive, the reckless will bankrupt, the cautious will thrive. In the end, those who eschewed the quick buck for the tried and true will find their rewards for pennies on the dollar. Markets ALWAYS benefit the prudent.

Posted by Marci on December 25, 2007 3:06 PM

[Report this comment](#)

Once again, everyone seems so shocked that this would actually happen. Our founders(US) warned us about bankers & their propensity to getting control of the issuance of "money".The average time it takes for a currency to crash once removed from the discipline of gold is approx. 33 years - we're right on schedule.

Posted by Dave on December 25, 2007 3:02 PM

[Report this comment](#)

If only the problem was limited to Gordon Brown! ...There would be an easy solution!... The problem is linked to the excessive flexibility put into the financial systems that allow imbalances to grow for longer and longer without the required market corrections! Hence, the huge balance of payments deficits that mean that individuals, companies and/or government in the US and UK have been making ever increasing debts. The required correction is enormous: stop making more debts, start reimbursing excessive debts... a contraction of GDP in the US of at least 15-25% is required (all things equal)..and any delay will increase the required correction... whatever sophisticated finance trick you dream of. This means that hedge funds and the like will have to be severely curtailed...given their power, this will not happen without a major crash and they will take with them the whole economy! Excessive greed without any regulation! It will take time and disaster before this is even accepted! These guys (people in power) should have followed a course in systems dynamics before being allowed to manage the economy

Posted by Anthony Dreamer on December 25, 2007 2:49 PM

[Report this comment](#)

For those that have read 'Conquer the Crash' by Robert Prechter jr. and have take the necessary steps to protect themselves must feel somewhat comfortable at the moment. For those that haven't read the book you might want to so that you can see what we can expect in the next few years. Prechter outlined exactly what is happening at the moment.

Posted by Zycon (Jim Thorne) on December 25, 2007 2:41 PM

[Report this comment](#)

Ahhh...The early morning Christmas papers from London...Who can relax now? The CPI of 4.3 per cent from November is not a rogue figure but is the result of work (oil), herk (commodities), and turks (food prices). The clothes in the washing tub have become unbalanced and we need to rock steady in order to rebalance the load. If you have to stop the tub, open the door and reload the clothes, yes, there could be some time.(maybe a year). For example, my spouse and I were thinking of buying a new SUV which has now changed to the new Town and Country van we had before which I was so fond of. I would use restraint.

Posted by Ava Tunney on December 25, 2007 2:34 PM

[Report this comment](#)

What can the average Joe do to ensure survival?

Posted by John on December 25, 2007 2:20 PM

[Report this comment](#)

We're DOOMED! No more money! What will we do, if we can't bury ourselves in materialism and cash? Gosh! We may have to stop spending! GASP! Cut up our credit cards! Say it isn't so!! It is the end of the world for sure.

Remember Y2K? It was horrible. Stock piling food and water all those months for that big day. I've got leftover food in my Y2K bunker too.

GET A GRIP FOLKS! This kind of scare-speak is simply to sell papers and ad space. Honestly, what can you or I do if the banks do collapse? NOTHING!

Take a deep breath and enjoy your life!

Posted by Matt on December 25, 2007 2:04 PM

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Not only that, but Everton lost...

Posted by Deano on December 25, 2007 1:51 PM

[Report this comment](#)

All of this may come to pass, but how does the average citizen protect himself/herself and their families? buy gold and silver for food?

Posted by Henry Barth on December 25, 2007 1:43 PM

[Report this comment](#)

The problem is food. Economies are built on food securities. If the global food reserve is running out in the face of international famine, there can be no economic peace and prosperity. (except for those at the very top.)

Posted by clay on December 25, 2007 12:39 PM

[Report this comment](#)

I think you folks are 'way too pessimistic and cynical. You're worried about worthless fiat money AND deflation? If I had a pile of money I'd welcome deflation - it's INflation I'd be worried about. But if I had a lot of land and houses and commodities, and of course DEBTS, then I'd worry more about DEflation and welcome INflation.

And as for fiat money - Is there some other kind? What makes gold so valuable anyway? If so much of it weren't locked away in bank vaults there'd be a surplus of it and the price would drop.

Posted by John Koch on December 25, 2007 12:17 PM

[Report this comment](#)

Maybe you Brits ought to sell some of those Royal Jewels to offset Brown's implosion. I know they 'bring' tourism dollars but the Real Estate and vast holdings are so Old World. Tell those Blue Bloods to get a damn job!

Posted by Denis OBrien on December 25, 2007 11:55 AM

[Report this comment](#)

Sounds like very challenging times may lie ahead. I am wondering what might one do to best prepare for those challenges? There are many options and possibilities, I know, but which would be the most advantageous for small investors without much room for error?

Posted by Bob Garrett on December 25, 2007 11:42 AM

[Report this comment](#)

So we confidently head towards the coming trainwreck of the western economies. Apart from the harm self inflicted by the West the biggest threat will be China's attempt to take control of the financial system. It will get very nasty then.

Posted by Dr. M.A. Rose on December 25, 2007 11:40 AM

[Report this comment](#)

A large percentage of the 'security' in the USA sub prime market has pennies on the dollar value. \$1/square foot suburban land lots were turned into \$10/sq foot land by plopping a \$60-\$100 thousand cost but essentially junk structure on them. Not only are the borrowers unable to pay the mortgages, they are facing tens of thousands in costs to correct deficiencies in the structures. Termite treatments were not done, insulation was left out of walls, floors are warping, roofs leak, plastic plumbing leaks inside of slabs that are cracking from improper site preparation and insufficient steel.

I have cash and I wouldn't consider most of this stuff for any more than 10/20 cents on the loaned dollar.

Posted by Jimney Cricket on December 25, 2007 11:22 AM

[Report this comment](#)

Isn't it time we scrap the global monetary system entirely, and simply invest in humanity as our first priority.

HRH King James II
The Commonwealth of Australia

Posted by HRH James II on December 25, 2007 10:50 AM

[Report this comment](#)

Be not fooled by this manipulated "collapse" of the financial markets. The world is not the place you have been made to believe.

If you aren't prepared for the collapse of the global markets and financial systems, and the new system that will be put in place, you may not be too late. But don't delay. Only a few months left, and you will have a safe deposit box full of regrets.

Get your money into hard assets NOW! Save food and water and all necessities and learn to grow and be self-sufficient. Times are accelerating at

a rapid rate. Don't get lost in the fray.

Posted by Michael on December 25, 2007 10:42 AM

[Report this comment](#)

Ok, I know there are a lot of educated people reading this stuff so here it is in a nutshell from a little friendly Mortgage Broker. Gerald Celente, Editor and Publisher, The Trends Journal, Rhinebeck, New York: "Economic 9/11, we believe is going to hit the United States in 2008. And just as the World Trade Centers toppled from the top down, we're going to see the crash happen from the top down as well. This talk about the sub-prime market. Yes, that's a problem, but nothing compared to when the big firms start failing, when banks go bust, brokerages go out of business. In 2008, we're going to see some major, giant firms fall and get hit by an economic 9/11. We don't know what the fuse will look like, but we know that the bomb is set already. And when it's lit, we believe it's going to happen before June of 2008". If any of you actually took the time to research this quote from the Global Financial Trends Institute would find that this Economy only has at the most a few months to the most till November Elections because that is also when our Federal Government runs out of \$\$ and will Default on their Loans for the first time in History.... Either way our Economy as we know it is HISTORY.....Start buying food storage if you value this information at all. Our last warning.

Posted by Jason on December 25, 2007 10:06 AM

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maybe her royal highness and family can give up a few estates and champagne bills

Posted by barry b. on December 25, 2007 10:04 AM

[Report this comment](#)

It really goes to show that fools and their money are easily parted.

Posted by Henry Pilkington-Smythe on December 25, 2007 10:00 AM

[Report this comment](#)

The problem is they have you believing they've all lost their billion dollar trousers. You'll all scream to do something and blame your favorite hated target. They will come back wailing for more relief from you, and you'll demand your "incompetent lying leaders" toss more slop at the fat pig trough, and they will, a few more times.

Then, when they've drained you utterly, again, after feeding on your bloated home rising prices for a decade or two, you'll thank the Lord they've averted the worst of it.

Next comes their dagger ready for your willing neck vein, again.

You're so easy, they laugh at you.

Posted by SiliconDoc on December 25, 2007 9:47 AM

[Report this comment](#)

Arguments are cogent and apocalyptic. These dire warnings are not only given by Mr. Ambrose, but are almost the universal cacophony of august pundits and educated minds of those in the know. This universality of opinion, whilst well thought through, leads me to believe that the time has arrived to gradually bet the long shot and swim against the current, if you can muster the intestinal fortitude. Not easy, is it?

Posted by Siamak on December 25, 2007 9:42 AM

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It seems that more control and power is gained by disasters. Desperate people are willing for most anything.

If you remember when the famine came into the world and God told Joseph how to care for it... by the time the famine was well advanced, Pharoah owned everything...no private ownership of land. At last,... the folks sold Themselves.

Could happen again ?

Wilma

Posted by Wilma Meyers on December 25, 2007 9:10 AM

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Meanwhile "Red" China is a fat cat in the black. And Putin is checking out all the finery in the pimp catalogue.

Posted by John on December 25, 2007 8:56 AM

[Report this comment](#)

I fell very sad that only the rich own silver, gold, have cash reserves and other critical supplies. If this gets really bad, most average people are going to be very miserable.

Posted by NewTV.com on December 25, 2007 8:53 AM

[Report this comment](#)

The US Fed's Chairman is a former economics professor who spent his academic career looking at the past. He hasn't had a clue about what is going on in the real world and is now scurrying about talking with anyone he can get to speak to him regarding what to do. The Fed thinks it should be fighting inflation when in reality the only way out of the financial mess is to promote inflation as quickly as possible.

Posted by Omar on December 25, 2007 8:48 AM

[Report this comment](#)

NEW WORLD ORDER

The only words anyone really needs to know. That is what the FALSE FLAG terror attack 9/11 is all about and what the War on Terror is all about--which will never end--which is what they want because it generates money for the bankers which rule the Central Banks and the Federal Reserve, which want a one world government. This is why they are destroying America's and the World's economy slow but sure--outsourcing of jobs, not building a wall against the invasion that is all but annihilating us, letting our economy rot, letting millions go homeless, letting corporations dictate the law of the land, the dumbing down of our culture so as to more easily control the cattle, and on and on and on. This is ultimately leading to our collapse and to the North American Union, just like the European Union. Everyday we are coming closer and closer to a Global Government and this is precisely the NEW WORLD ORDER's agenda. Ever hear about the frog and the boiling water?

Posted by John Doe on December 25, 2007 8:47 AM

[Report this comment](#)

Yawn.

A UK paper blowing issues vastly out of proportion and grabbing some talking head to propagate fears?! Impossible.

Posted by Jablowme, Heywood on December 25, 2007 8:02 AM

[Report this comment](#)

This is such a shame to see happening. All of the press and media wanted to downplay and still do downplay the warnings of US Presidential Candidate, Ron Paul for trying to warn of such a mess...and now you have "experts" saying the same things he has been saying.

People in the US really need to read up on Ron Paul and be sure to vote for him in their state primaries and the general election. Ron Paul is the ONLY candidaet who understands what is going on with this disaster of an economy that the Fed has manipulated into this downward spiral.

Go check out Dr. Ron Paul at ronpaul2008.com and also read the news stories about him posted on ronpaulforpresident2008.com

The US NEEDS to elect Ron Paul before it is too late. :(

Posted by Brian on December 25, 2007 7:34 AM

[Report this comment](#)

This rant is simply preposterous. European loves a hysterical pessimist. Let's deal with actual facts not hysteria shall we? Economic growth in the US is strong and has been for 7 years. Inflation in the western world is low by any historical standard; ignore the lies contained in this rant. In life there are always problems and the current ones are minor. Ignore the narcissism of a few know nothing bankers who were stupid enough to buy sub prime loans. They got what they deserved.

This story reminds me of the Onion headline: "World Ends, Poor and Minorities suffer most". Just ridiculous and totally detached from reality.

Posted by Erick Blair on December 25, 2007 7:32 AM

[Report this comment](#)

Quote: A Dresdner poll found that 71 per cent of German women want the Deutschmark restored. With Brünhilde fuming about Brot prices, the ECB has to watch its step.

= =

I had to look this up: In Icelandic and German mythology, Brunhilde was a strong and beautiful princess who was cruelly deceived by her lover.

Quite amusing comparison... German housewives seduced into monetary union which develops in to a hurtful financial relationship. I didn't find exactly what brot was but presume it's a sausage.

Posted by David S on December 25, 2007 7:12 AM

[Report this comment](#)

There are a few solutions:

1, If you are an American... Vote for Ron Paul

2. If you are in Europe... Educate your fellow man about the value of gold! Find a Ron Paul candidate.
3. Stock up on ammunition and food (for our UK friends... stock up on rocks or blunt objects)

Posted by David Dee on December 25, 2007 7:07 AM

[Report this comment](#)

I wonder if the captain were entirely competent, if he would have driven the "Titanic" into the iceberg?

Now there's a rather large hole in the ship and the question is: Do we attempt to repair the hole before we all sink or do we abandon ship right now?

Right now, the same geniuses who, having hit the berg, are busily widening the hole, apparently in an effort to let the water run out. Exactly why a dramatic cut in interest rates will remedy a problem created initially by artificially low rates simply eludes me.

Now our ship may roll over to the starboard (hyperinflation) or to port (deflation). Our captain is, even now, counterflooding to avoid the latter so we get the former.

Either way we go down: Welcome all to the abyss.

It's every man for himself.

Posted by Rick S. on December 25, 2007 5:59 AM

[Report this comment](#)

It doesn't surprise me at the few who really understand who has the power of 90% of all the money. The federal reserve was the greatest flimflam to ever be mastered. Until the money is taken out of the hands of these banking internationalist and put back in control of the countries, they will decide what will happen and when. They have all the power. They are the main cause for all wars. The U.S. Has to borrow two billion a day just to pay the interest to the fed who is no more part of the federal government than the federal express. And while we're at it we give israel 15,000,000 a day. Do you people really not understand who rules the world. The three greatest powers are in this order media, money which gives the last, power!

Posted by Billy on December 25, 2007 5:56 AM

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The sky is falling.

Posted by Chicken Little on December 25, 2007 5:54 AM

[Report this comment](#)

Why do I get the uncomfortable feel that there are piles of gold accumulating in Israel surrounded by smiling faces while the rest of the world takes another hit.

Posted by Ed S. on December 25, 2007 5:40 AM

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I think Stephen Vine & George Brouxhon comments above reflect my thoughts on this subject. The equity markets are absolutely being manipulated by the Fed, US government and the private(reserve)banks so that they(elitists) win and the rest of us(99%) lose. The song remains the same. BTW, don't forget to be a chump and vote to support democracy(elitist control).

Posted by jamesmiklos@verizon.net on December 25, 2007 5:15 AM

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Stop the madness, all of you! 1929 had different rules for capital. There was no FDIC and margin was 90% and the banks could use deposits to gamble in the markets. This "crisis" now is severe, but it shouldn't be overwhelming as many claim. Those who bought crap debt should suffer in the FI markets and in the equity markets. The write offs should come like the hemorrhaging of filth from the veins of the infirmed. But let the poor showings come and then let business rebound, which it will, and balance sheets will once again show strength. The Fed's in each zone need to step up to the plate and be ready to lend and the "leaders" of the various institutions need to be bold and calm everyone through this episode. Otherwise, if they lose their heads, we will find ourselves in the doomsday scenarios painted here.

Posted by SouthernYank on December 25, 2007 5:14 AM

[Report this comment](#)

Too bad you Brits let your gov't disarm you several years ago. It's gonna be tough trying to survive the collapse with no means to defend yourself and your family from roaming gangs other than wielding an old cricket stick.

Posted by Gen. Jack D. Ripper, USAF (Ret) on December 25, 2007 5:10 AM

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You've got to take these scare mongering reports with a pinch of salt. Why, only the other day I was reading about a hypothesis called, "Global Warming" - as if the planet is getting hotter, if you please!

Posted by Doctor Mick on December 25, 2007 5:05 AM

[Report this comment](#)

David WA Robertson: Aren't they supposed to wait for the True Messiah before they precipitate the End Times? Well, bush is certainly doing his part.

George Brouxhon: "As long as reserve banks are in the hands of vested interests, the public will be the primary victims of this financial debacle." We already know who the victims will be, that's a given. Who will be the primary beneficiaries?

Posted by Stormport on December 25, 2007 4:50 AM

[Report this comment](#)

Who's profiting in all this? Where- in whose pocket?- is this bountiful plunder ending up????

Posted by george on December 25, 2007 4:39 AM

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The big question is if gold will go up, or will there be no buyer with sufficient money to purchase the selling of it? Remember, as much as gold has been considered a "store of wealth" it is a commodity that is taken from the ground, like soybeans, and hedged. In fact, it's worse

in that it is not destroyed. Foods are eaten. Gold becomes abundant. Any guesses on \$1000 gold, or is it \$500 gold?

Mike
NYC

Posted by Mike on December 25, 2007 4:29 AM

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So "Liquidity doesn't do anything in this situation," says Anna Schwartz?
So you don't think those nice greedy folks who run the world's economy don't know that? Ha!
They're just doing what they are told to do!
They see the world's vastly shrinking resources and the growing world's population. $1 + 1 = 2$
Baby!
Welcome to Doom!

Posted by Franky goes to Hollywood on December 25, 2007 4:18 AM

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Here in the United Korporations of Amerika, the body politic remains mostly asleep, below deck, as the USS Titanic II flirts with one financial iceberg after another.

What worries me more than the coming worldwide financial collapse is the accompanying conversion of our current republic to a fascist Military/Police State -- one configured to protect the current rulers' stake in preserving (and somehow extending) their obscene level of monetary worth. A prelude to this conversion can be seen everywhere -- from the Bu\$ch-Cheezy RICO junta's usurping of the U. S. constitution's Bill of Rights to the ultra-secretizing of government policies/plans/operations. Heil Bu\$ch-Cheezy!

[link](#)

nt_OP.htm

Posted by Larry W. Bryant on December 25, 2007 4:16 AM

[Report this comment](#)

From top of third page: " A Dresdner poll found that 71 per cent of German women want the Deutschmark restored"

-will this break up the euro/eurozone? germany bring back it's mark? Will the US or other countries suffer most?

Posted by YLG on December 25, 2007 4:14 AM

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So, What does the average guy with a mortgage and some credit card debt do?

Posted by purple hayes on December 25, 2007 3:56 AM

[Report this comment](#)

"Why are the stockmarkets moving up 1%to2% one day, down 1% to 2% the next day, up the same amount the next day etc.,etc,- most odd considering the above scenario.

One must conclude this is an organised phenomena that allows shadowy figures to obtain a return of 1% PER DAY average.

Presumably this ritual will continue until the "fixers" have accumulated enough to protect themselves from the coming wreck."

Oh pleeeeeease. let me guess it's the Trilateral Commission working in conjunction with the New World Orderists, with their mission blessed by the Priory of Scion and guarded by the Knights Templar. Why is it every article like this has to bring out at least one whack job.

But seriously, indeed it's going to get worse, I only took one economics course but as I recall recessions are pretty cyclical and happen fairly routinely. Depressions less so but certainly are not way out of the realm of normal market behaviour. They serve the function of wringing speculation and excess risk from he market. Ugly as hell when they're severe but they too pass. It's foolish to think that somehow we've managed to construct an economic system that can prevent these from happening.

Another thought about the collapse of all "fiat currencies", as opposed to those based on hard assets. That always sounds good but hard assets have no intrinsic value either, merely what the market says they are worth. How else do you explain the price of diamonds, when it is one of the most mined gemstones in the world. After all at this very moment millions of them are walking around, not to mention the tons upon tons of them that have been buried with their owners.

Posted by Jon on December 25, 2007 3:55 AM

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Thank you Mr. Weinbaum, prior to your succinct comment I was debating which way the axe would fall. But when the choice is so clearly stated as between bank failure or money failure the political choice is clear.

I hear hyperinflation is beautiful this time of year.

Posted by just doug on December 25, 2007 3:50 AM

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Why do bubbles happen and too much liquidity slosh around? Govts like it--easy to get your

party reelected when the economy appears robust. Keeps taxes flowing in, too. Wall St-types like it--They know how to fleece the bubble before it pops. Plus, they'll still get huge bonuses based upon the large assets which were under mgt during the bubble, plus the commissions from the flurries of trading in, then OUT of these messes; finally, a lot of small investors go along w/ the "momentum" in order to get rich. This in both stocks and housing. Hopefully, they time the market as well as the bigwigs. The rest of us? We'll see 401K stock savings plans take a hard fall and we'll pay higher taxes at the fed and local levels to pay for the liquidity injections and because the credit crunch has made it more expensive to borrow in all areas, even municipalities. And housing and rents have been pulled up to insane levels which will take years to work out.

Posted by Nancy S on December 25, 2007 3:35 AM

[Report this comment](#)

This is a good article, as awareness of a problem is the first step in correcting it, and the financial institutions have been hiding the facts of their situation.

Facts are far more useful than emotions, and Ben Stein's column today titled Bursting the Economic Fear Bubble contains some critically important facts. Unemployment in the USA is low, housing is not that large a part of the economy, and housing losses may reach just 1% of available credit.

I would add that many baby-boomers are in their peak earning years, and China is not going to stop growings, especially not before the Olympics.

There are plenty of trouble-makers and short-sellers who are hoping for a recession or depression, but

Posted by F. Stephen Masek on December 25, 2007 3:20 AM

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The big difference between 1929 and 2007 is that in 1929, zero percent of the Federal budget was spent on social programs. In 2007, that number is 65%.

The dependent masses going without will make this one far more interesting than the last.

Posted by Bill on December 25, 2007 2:55 AM

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He's full of "crap" with all of this "the sky is falling" nonsense. The socialists cannot imagine that people can survive without government sticking their ever-enlarging noses into free people's business. Go about and enjoy life and tell these morons to go to hell and take their stupidity with them.

Posted by ct sherwin on December 25, 2007 2:50 AM

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Why do these idiots have to put a report out like this on christmas?

Posted by andy on December 25, 2007 2:43 AM

[Report this comment](#)

The financial leaders will take and take until there is nothing left but their stacked bank accounts.

Four of the biggest U.S. investment banks — Goldman Sachs Group Inc., Morgan Stanley, Lehman Brothers Holdings Inc. and Bear Stearns Cos. — will pay out about \$49.6 billion in compensation this year.

[link](#)

Posted by Trent on December 25, 2007 2:18 AM

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this stuff is all pre-planned by the bildenburg group. it doesn't just happen. in the USA real-estate melt down in the late 80s, American companies bought up the same real-estate they sold to the japanese at half the price the japanese paid for it just a year or so before. [rockefeller center] it sent the japanese economy into a tailspin that they are just recovering from.the american, british,and dutch capitalists do this all the time, and it always works !!plus they hedge their bets, it doesn't matter who wins the presidency, they back both candidates. if one guy gets out of line [like john kennedy] they kill him. he was going to pull all american troops out of vietnam before these guys had a chance to make money. always follow the money, if you lose money, someone makes it, europe loans america a trillion dollars, we default, where did the money go?when you figure that out you will know i'm right/ look up that group on the internet, look hard, you'll find the answer.i could be killed for telling you this.

Posted by jim on December 25, 2007 2:18 AM

[Report this comment](#)

In US and Europe most if not all of the Investment Banks/Money Center Banks where the issuers and distributors of the sub-prime/cdo garbage. They laid it off, probably fraudulently, like the hot potato. What ever happened to fiduciary responsibility?

Posted by mhk on December 25, 2007 2:07 AM

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Some will argue that now that this sentiment is becoming "mainstream", this simply won't happen. OK, it won't happen this way - it will happen worse. You can rationalize anything, even this, but it doesn't change a thing. This credit (and debt) issue is going to sink us deeply.

Posted by Art on December 25, 2007 1:57 AM

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The banks can't say because it's worse than we think or can discern. If the true situation were known, you can count on another Great World Depression.... and another world war.

As far I can tell, the big players are trying their best to create the transparency needed. They all had huge writedowns recently and posted amazing losses. But if they move any faster they risk triggering the end game. But if they move too slow, they risk the same thing.

Rock and a hard place... and both are squeezing.

Posted by ecofeco on December 25, 2007 1:54 AM

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Alternatives abound. Visit this interivew by Sara van Gelder and Bernard Lietaer

[link](#)

ID=886

There are alternatives.

SARAH : What are the implications of this? What does it mean for those of us who aren't transacting deals across international boundaries?

BERNARD : For one thing, power has shifted irrevocably away from governments toward the financial markets. When a government does something not to the liking of the market - like the British in '91, the French in '94 or the Mexicans in '95 - nobody sits down at the table and says "you shouldn't do this." A monetary crisis simply manifests in that currency. So a few hundred people, who are not elected by anybody and have no collective responsibility whatsoever, decide what your pension fund is worth - among other things.

SARAH : You've also talked about the possibility of a crash in this system...

BERNARD : Yes, I see it now as about a 50/50 chance over the next five or 10 years. Many people say it's 100 percent, and with a much shorter time horizon. George Soros, who's made part of his living doing what I used to do - speculating in currencies - concluded, "Instability is cumulative, so that eventual breakdown of freely floating exchanges is virtually assured."

Joel Kurtzman, ex-editor at the Harvard Business Review, entitles his latest book: The Death of Money and forecasts an imminent collapse due to speculative frenzy.

Just to see how this could happen: all the OECD Central Banks' reserves together represent about \$640 billion. So in a crisis situation, if all the Central Banks were to agree to work together (which they never do) and if they were to use all their reserves (which is another thing that never happens) they have the funds to control only half the volume of a normal day of trading. In a crisis day, that volume could easily double or triple, and the total Central Bank reserves would last two or three hours.

SARAH : And the outcome would be?

BERNARD : If that happens, we would suddenly

be in a very different world. In 1929, the stock market crashed, but the gold standard held. The monetary system held. Here, we are dealing with something that's more fundamental. The only precedent I know of is the Roman Empire collapse, which ended Roman currency. That was, of course, at a time when it took about a century and a half for the breakdown to spread through the empire; now it would take a few hours.

SARAH : So local currencies could provide some resilience for a community that could help it survive a currency melt-down or some other international breakdown. You've also mentioned that local currencies help promote sustainability. What's the connection? ...

BERNARD : The biggest issues that I believe humanity faces today are sustainability and the inequalities and breakdown in community, which create tensions that result in violence and wars. We can address both these issues with the same tool, by consciously creating currency systems that will enhance community and sustainability.

Posted by Tricia Fitzpatrick on December 25, 2007 1:53 AM

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I see that some mentioned 1929 and the crash. At that time we had the same type of lousy loans, A.R.M.'s and interest only loans when the real estate bubble popped it took the economy with it into the depression.

when one ignores history one is doomed to repeat same. Insanity is doing the same thing and expecting different results! Of course the politicians with their programmes had something to do with it, per usual.

If their name says incumbent vote no to their reelection. Have a nice day, and when it crashes do not be under windows of high buildings.

well Merry Christ Mass people!

Posted by J.R. Hamilton on December 25, 2007 1:53 AM

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For the socialists this is nirvana. Hillary's march to totalitarianism will begin with a government-engineered collapse of the market-based economy - due in large part to government-forced lending to people who have no business taking out a mortgage. Why didn't the government simply expropriate the property and give it to the parasites, thus saving the fiction that it was anything other than a wealth transfer?

Posted by R LaBonte on December 25, 2007 1:40 AM

[Report this comment](#)

Oh please! As long as the CEO's and upper echelon of these firms reserve the right to "earn" millions of dollars a year despite losses passed on to taxpayers and consumers, as was predicted beforehand over the lack of guidelines and restrictions involving the house-of-cards consumer lending practices), why should anyone believe in their efforts to stem the tide when they are given free money to cover their "mistakes"? Corporate greed is the cause and sadly, the name of the game. Nobody suffers at their level, just the middle and lower classes.

Posted by Mark Daddario on December 25, 2007 1:28 AM

[Report this comment](#)

America and the world need Dr. Ron Paul and his ideas on monetary policy ASAP.

If you don't know who Ron Paul is, please check him out at www.ronpaul2008.com. Do it for your children!

Posted by Tara on December 25, 2007 1:27 AM

[Report this comment](#)

No gates, no walls will work this time. Today's proles will not stand quietly in line hoping for handouts. Those who grubbed millions and billions in causing this situation will suffer with all of us. An economic state of siege would mean chaos.

Posted by Terry on December 25, 2007 1:23 AM

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This is what happens when you get off the talley stick system!

themoneymasters.com

Posted by Ken on December 25, 2007 1:21 AM

[Report this comment](#)

Let's get it straight. "Inflation" is the term they use to define debasement of the currency.

Posted by Sheldon R. Waxman on December 25, 2007 1:19 AM

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Those of the Austrian school of economics (Mises.org) seem to understand that counterfeiting has consequences and massive counterfeiting has massive consequences.

Everyone else seems to be amazed at the crumbling of counterfeiting-based monetary systems. Maybe it's because they don't call it counterfeiting. Could it be that simple?

Counterfeiting benefits the counterfeiters and harms everyone else. Since the conterfeiters are politicians and bankers, should we be surprised that they are ever-so slow to "understand" (admit) the nature of the problem?

(Plese ignore my name. I am not the Australian moron.)

Posted by John Howard on December 25, 2007 1:15 AM

[Report this comment](#)

Comparing what is happening now to 1929 is proof that Mister Aristocatic-Longname Ambrose Evans-Pritchard (or is it that Mommy, sorry, Mummy, insisted to give you her name too?) knows about as much about economics as President Bush does about public speaking. You Brits take U.S. accomplishments and ideas and inflate them to ridiculous levels. For Example:

1) Multiculturalism: Where to begin how much the British have glorified this infantile idea? Apparently the mayor of London thinks that if you are not tolerant of everything everywhere (except of course a mind of one's own), especially imbecile muslims blowing themselves up, than you must simply be a bigot.

2) Global Warming: According to the British, the environmentally smart thing to do is live in a hole and sterilize yourself if the North Atlantic is to continue to bring the Brits warm air.

Now you want to inflate the U.S. economic situation and compare it to the Great Depression? Come on guys, just how hard is it going to be to convince my future students that the British were once the world's largest imperial power?

Posted by Not Both Parents on December 25, 2007 1:12 AM

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I am impressed with you Brits level of understanding of a fiat monetary system. Only a small percentage of the people in any country have more than a foggy understanding of the subject. A fiat monetary system is fundamentally fraudulent. But it is the only kind in existence in any country, anywhere.

It works only as long as the general public has enduring faith in the currency.

The problem is compounded by the fractional banking system here in the USA, and probably in most, if not all countries in Western civilization. The net effect is that each bank, by loaning out 80% of deposits has the ability to create "money". This can be easily shown by example of a citizen placing 1000 dollars (or pounds, Euros, Swiss francs etc.) on deposit at a bank. If the bank in turn loans out 80% to a borrower, there now is 1800 dollars. The depositor has a statement showing 1000 dollars, and the borrower has 800 dollars in hand. If this process continues, it can be shown that 5 times the original deposit money is now in the system.

Where is this "money" ? It never existed of course. It is simply ink mechanically splattered on paper, or electronically embedded in computers.

The problem comes when the public gets worried and starts a run on the banks.

Oversimplified, the world banking system is basically a system of IOU's. No real money is involved.

Central banks have their store of gold, but it does not back the currency. If gold were used to back the world currencies in circulation, it would be as precious as its weight in diamonds.

Posted by Harry in USA on December 25, 2007 1:11 AM

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My definition of democracy: The people get EXACTLY the government they DESERVE! God help us!

Posted by David on December 25, 2007 1:08 AM

[Report this comment](#)

The noxious "chemistry" formulated from mixing the white magic with the black magic of economic wizardry is like the nerve gas VX that I studied as a young soldier in the US Army 45 years ago. A small droplet daubed on your ankle would kill you in a matter of seconds. It caused something like a chain reaction of cellular collapse throughout your body. Certain snake

venoms also cause this cellular collapse scenario. Isn't it time we start telling the general public to not panic, but lower the life boats and form lines so that every one gets a seat, and steadily rows away from the whirlpool that is about to happen when this ship of state goes rudder up and races toward her grave at the bottom? Why wait any longer? At least the public will have some thing to think about these winter nights.

Posted by Tom Tridico on December 25, 2007 1:05 AM

[Report this comment](#)

The proles are quite different these days. Forget about comparisons so The Depression. People are not going to stand in line in hope of receiving handouts and alms. Those who made millions and billions will find that the walls and gates will not hold. If the economy tanks it will not be for a period of discomfort. It will be, in the most charitable and positive terms, life changing for one and all.

Posted by Terry on December 25, 2007 1:04 AM

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I have been,as an American who was raised in "Macro-Economics" a spectator in to world of the Financial Sciences.From My perspective:First "Geo-Economics" Clasical Finance RE: Debetors Prison,"Loyds of London.?"@... The "Wealth Fund,s of .. Chine # bil. Or perhaps The EU, equivilant. I am positively "Influenced" as to the Immediate future of "Infra-Structure Intensive" Investment as the solution to the Financial "Short-Term" Problems

Posted by Valery Carrera on December 25, 2007 1:04 AM

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Perhaps forgotten in the missives about the sub-prime loan problem is that those loans are secured by real property which indeed are hard assests with real value. It is not correct that forclosed property looses immense value, the market value is generally fairly consistent in the recovery. The problem with the forclosure process is the lag time between forclosure and selling the asset for capital. This lag, once all the non-performing loans are out of the system, will eventually correct itself. I cannot see how this crisis is perpetual. The banking crisis of 1929 was caused by speculative money without any fixed assests behind them. This is not the case now. The infusion of cash will allow the banks and paperholders to continue to loan money to good risks and keep cash flows current. I cannot see this as a prolonged problem unless the FED or ECB does not act appropriately. Bernanke and his FED have not impressed me to this point.

Posted by ADKautz on December 25, 2007 1:02 AM

[Report this comment](#)

The Socialists can borrow from Peter to pay Paul until Peter runs out of money or hides enough to stay afloat. After awhile the house of cards will fall. I'll be okay regardless of what Paul does. Hopefully someone will hang the Socialists.

Posted by wordust on December 25, 2007 12:48 AM

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Oh well.

Posted by Steve on December 25, 2007 12:47 AM

[Report this comment](#)

Sweet, plans are coming along perfect. Another depression, another terrorist on the USA,

Marshall Law, and then N.W.O. starts.

Like someone didn't KNOW what would happen with the sub-prime loans.

Posted by jojo on December 25, 2007 12:29 AM

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American man here posting a comment.

Wow, you english guys are smart!!

On this side of the pond there is little understanding of what is happening before our very eyes.

Suffice it to say: we are bankrupt.

As our presidential elections near NOT ONE candidate even seems to understand our problems.

Meanwhile, state and local governments scramble to find money for budget minimums as our roads and schools crumble. The unfunded liabilities are in the 100's trillions and real debt in the 10's trillions and budgets CAN'T EVEN BE BALANCED.

The mega-wealthy who bought and benefit from the new system are simply taking their money overseas and now betting against...well...their homeland.

The rise you currently see in the stock markets are short sellers taking positions, as they can only short stock on the increase.

Posted by Seth Stone on December 25, 2007 12:28 AM

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The banks wanted to play and now they got to pay. Its all downhill from here. Mismangement and pure greed got them into this dilemma so now its time to run scare and scare they are..... into the nightmare of Inflation, It would be wise for anyone to start storing up on food.

Posted by Arlene on December 25, 2007 12:21 AM

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Imagine what a financial collapse will do to our inner-cities? NO longer can we buy off the slum-dwellers with bribes like welfare, subsidized housing, or Affirmative Action. The West will look like post-Katrina New Orleans, writ large.

Posted by Garrett Caffrey on December 25, 2007 12:20 AM

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What we are seeing is the implosion of the rotten and corrupt welfare state and undemocratic bureaucracies such as the EU. It was never a question of if, only when, since welfare states are not economically sustainable. The good news is that current governments will be blown away like the "down of a thistle" and out of the ashes will arise the Nation state based on sound economic policies and limited government. As for those who created and benefited from this mess, may they be justly held accountable.

Posted by Wayne Goodfellow on December 25, 2007 12:04 AM

[Report this comment](#)

Where could you go and how fast can you get a passport. I there any advice for those of us who have children and are stay at home mothers?

Posted by shara dillon on December 25, 2007 12:02 AM

[Report this comment](#)

Ron Paul for President of the United States. He's the only guy willing to even touch these issues, much less understand them.

Posted by Anthony on December 25, 2007 12:02 AM

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The sky is falling, the sky is falling!!!

Yeah, this is going to be as bad as the year 2000 bug...

To say that the market hasn't seen the size of the problem yet is just assinine. The real players have already analyzed this six ways to Sunday and have devised their plans.

Just remember that both sides of these bad mortgages are in a tough spot. The banks will have to cooperate with the borrowers to get them to keep paying on the mortgages rather than walking away. This mutual danger will keep everyone walking on eggshells, and it will work itself out with some losses, but no meltdown.

Mortgage brokers I've talked to say there is no problem for a qualified person to get a loan today.

Markets are pretty good at causing corrective forces.

If you want to be alarmist, join the global warming nuts. At least there you're expected to be an alarmist, and you can get away with it without being laughed at... yet.

Posted by Ken on December 24, 2007 11:58 PM

[Report this comment](#)

This is orchestrated and has been in planning for a long time. Those in control of our purse strings will make us all dependent on the government. Welcome to the New World Order Out Of Chaos plan to merge America into a quasi world government. At first it will be regional, then global. You are all being duped, robbed, and looted by those that control the globe. The few control the masses because YOU cannot wake up from your sleep! Hope you all have your ducks in a row, water, dry goods, and something to barter with because the currency is going to FALL. Make no mistake about it this is not by accident. Fools.

Posted by Ron Paul on December 24, 2007 11:55 PM

[Report this comment](#)

Everyone here has seemed to lose sight of the basic laws of money. Google "The Penny King" and maybe you might begin to get a clue, all of you, who so think you know the cause of the global depression!

According to the "penny King" "every form of currency and coin denominated higher than a penny is worthless, that includes bonds, bank notes, fed res notes, and any other form of promise to pay!

The Penny is really finally King!

Posted by Alex S. Gabor on December 24, 2007 11:51 PM

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Maybe now people will finally learn what's important.

Merry Christmas.

Posted by chris on December 24, 2007 11:49 PM

[Report this comment](#)

I should think that everyone who has posted comments to this story must be an experienced money man/woman. But what about the vast remaining population which knows little about all of this? I really do wish all you clever pundits could explain things in a way the man pushing the wheelbarrow full of banknotes in Germany in the 1920s could easily understand!

What is REALLY going to happen? If people with mortgages lose their houses by the tens of thousands, they have to live somewhere, they have to be housed somewhere. And someone has to pay for all that. They also need to be kept fed and watered, too.

Will the supermarkets run short of food? Should we already be hoarding iron rations? Candles? Matches? Extra blankets for when the oil for the central heating runs out and there is no more to be had?

Will hundreds of employers go bankrupt? Will thousands, tens of thousands, or millions of workers be out of work? How would that play with all the migrant workers said to be "stealing British jobs"? Will the government have to invoke the Civil Contingencies Act in order to quell unrest here, there and everywhere?

In words of one syllable, please tell us what we should be doing right now to minimise the dangers.

On the other hand, I have heard the same kind of doom and gloom horror stories before, and yet as if by magic they were all gone in a week and superseded by completely new stories. In other words, just how much of all this is pure, unadulterated hype?

Posted by Mike Mitchell on December 24, 2007 11:48 PM

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Greed is the cause of it all. People cant even afford to get health care in America. Let alone retire. The whole distribution of wealth is becoming for the select few at the top. You think this is a crisis just wait till HN51 hits. The straw that broke the camels back. Thats when it will get real ugly. Mankind has lost its way.

Posted by Damian Rose on December 24, 2007 11:28 PM

[Report this comment](#)

The Central Bankers of the world, in particular the Federal Reserve, got us into this incredible mess. It is highly doubtful their inflationary polices will get us out. Not unlike 1929, we are at the end of an historical credit binge cycle. More debt, denominated in printed fiat paper money will not do anything other than debase sound currencies. This is beginning to look like the

Weimar Republic all over again.

Posted by Ray Banko, USA on December 24, 2007 11:24 PM

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There is one candidate for the 2008 US Presidency who has spoken eloquently on precisely this danger, for more than 25 years. He is a student of Austrian economics, and is derided as a "kook" for his unabashed support of currencies which are actually backed by "something."

The financial "geniuses" of the world apparently never thought THEY would be called to pay the piper.

Reality. Wins every time.

www.ronpaul2008.com

[link](#)

Posted by RW on December 24, 2007 11:21 PM

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One needs to follow th money trail on this, someone is going to make obscene profits out of this.

Just before the stock market crash of the 1920s "Montagu Norman-Bank of England" was warning his friends (cronies) to sell their stocks because of a SHAKEOUT coming to the US markets.

This one is being engineered for someones financial benefit, just like the Asian monetary crisis of a few years ago.

Posted by John W on December 24, 2007 11:13 PM

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Allow me to guide you to this interesting documentary found on 'stumbleupon' video.

[link](#)

Posted by dave on December 24, 2007 10:47 PM

[Report this comment](#)

Given that this paper is a mouth piece for the establishment, be certain that its intent is to precipitate the implosion that they write about. (cf. Greenspan's recent remark that "The Fed is powerless to do anything" and compare with far more circumspect (and private) sentiments of an Arab OPEC minister!)

Confused? Yes, poor dears. Nothing is changed there ... God Help you all.

Posted by not sheep on December 24, 2007 10:45 PM

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LOOKS LIKE NOT EVEN QAUZI SOCIALISM IS A WORKABLE ECONOMIC THEORY. ONLY GOOD OLD FASHIONED CAPITALISM IS THE ONLY WAY TO GO , IF YOU DON'T HAVE THE CREDIT RATING THEN YOU DON'T DESERVE THE CREDIT. LET ALL OF THE BLEEDING HEART LIBERALS PAY FOR THE LATEST MESS THEY HAVE MADE.

Posted by JON on December 24, 2007 10:45 PM

[Report this comment](#)

I was working as a high tech consultant in California a couple years ago and found it very odd that a mailman was buying a \$500,000 home while I was having sleepless nights over my \$220,000 home back in my home state of Georgia. The simple maths just did not add up and I knew there and then without an economics background that something was amiss. Then an engineer friend of mine that earned half my salary bought a \$800,000 home in the same Cal area and I was sure things were going to be ugly soon. Simple reasoning that's all it takes.

Posted by Garba Maigoro on December 24, 2007 10:37 PM

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Me thinks you folks have got Gore da tude, the ski isn't falling, money will never be stronger than man and Merry Christmas to all.

Posted by larry jeneson on December 24, 2007 10:33 PM

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Panic journalism is in vogue - partly because the hypermedia and Internet now blow everything up into a semi-catastrophe and partly because of anti-Americanism in the world.

The question that should be discussed is how does this crisis compare to the many crises that have gone before. Despite the doom mongering article I submit that it about at the same level as the Asian financial crisis of about 10 years ago - serious, but tractable.

From colleagues in the business I can assure you that some of the companies taking write downs are doing it because there is currently no stock price penalty for doing so. Indeed a write down now can be useful for future balance sheets.

Another useful point of reference is the quality financial newsletters and their view into 2008.

Almost to a letter the top performing stock pickers (rated by Hulbert) are bullish for 2008. And most of them are fully or close to fully invested in the market.

I'm no expert, but I have observed that consensus in most social/political situations is frequently incorrect. And the consensus from the chattering economic classes is very negative (with an element of schadenfreude too).

I am betting they are wrong and am fully invested. By June next year this crisis will be a faint memory.

Posted by M Morris on December 24, 2007 10:28 PM

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All of the CEO's and boards of these banks thought it was a great idea to loan people who wanted to buy a Rolls but could only afford a VW a loan!!! Others thought it was a good idea to invest in all these funny loans! Now we hear people can't pay off their credit card dept! The pain has only just begun! I would hope all of the CEO's and board members are the first to go and without the millions! Just go!

Posted by Tom on December 24, 2007 10:15 PM

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"How typical that:

A) a relatively simple case of American banks not keeping to their own quality-of-lending rules

should spark such a large problem with other banks not keeping to their own safety rules and

B) we get the professional doomsayers telling us that "disaster" is on the way which sparks off all kinds of inappropriate actions, causing a crisis where none actually existed.

Posted by Robert Millar on December 23, 2007 9:24 AM

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When the world economy, is run for the benefit, of a few (private) American banks, what does one expect.

The Fed in private hands is the cause of the world's troubles.

Posted by Peter Barnes on December 23, 2007 9:19 AM"

This is quite laughable. I knew that if I read enough comments, I would come across comments that blame America for a global problem in a global economy.

Posted by Fernando on December 24, 2007 10:09 PM

[Report this comment](#)

The present generation of leaders seem to have ignored the lessons of the past. The same conditions that created the collapse of the world economy in 1929 were present when this American administration took office. The present situation is going to ruin many, but if you follow the money, you will find that it was contrived in order to create great wealth for a few insiders just as occurred in "The Former Great Depression".

Posted by Al Saunders on December 24, 2007 10:09 PM

[Report this comment](#)

I call this situation the kamakazi dollar. Debt, no certificate fiat money, and when the bubble pops, it cannot lead to sound money policy.

So to correct the situation, the central banks flood the market with more debt backed liquidity. How is this a win program? It devaluates the existing Debt, by artificial insemination of more worthless debt.

Buy gold & wait for a repayment on worthless current obligations? We'll see. Might be a winning strategy.

So we have the Black Horse -riding- inflation w/depression?

Get the old movie "Roll Over". Watch it, and wonder, if it may happen.

I hope not, Bill

Posted by Bill McPike on December 24, 2007 10:06 PM

[Report this comment](#)

"The Great Depression was a direct cause of the Second World War."

Posted by Andre Carrington on December 23, 2007 4:06 AM

I thought the cause of WWII (in general was the Nazi invasion of Poland and the Japanese bombing of Pearl Harbor (which I believe happened on December 7, 1941 - Not Dec. 7, 1929)

But I could be mistaken.

Posted by Butterball on December 24, 2007 10:05 PM

[Report this comment](#)

What BS - the Sky is falling - Don't worry - climate change will kill us all before the Banks collapse - everybody run for the hills - oh forgot the hills won't be there they will be covered in water from the glaciers melting and if there is a hill standing - the starving Polar Bears will eat you when you get there.

Posted by Tim Patrick on December 24, 2007 9:49 PM

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Just another example of American arrogance and greed. Their inept policies and failed ideas are finally catching up to the worthless bastards. What is really uneasy is the attempts by the EU and Britain to attempt to prop up this bankrupt hollow empire. The country, their people and their arrogance is what destroyed them; let the bastards suffer in their own mess. Europe has been a caretaker way too long to America, saving them from themselves for way too long. Every European, and the rest of the civilized world should have a good laugh and applaud the death of the empire, may its ugly head never arise again to stain the world.

Posted by Ahmed on December 24, 2007 9:48 PM

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articles like this , written by greedy wall street pigs are not helpful

Posted by jim jones on December 24, 2007 9:47 PM

[Report this comment](#)

Chicken Little should measure the unemployment rate more closely as the severity of the credit/housing crisis worsens.

People may be ingenious enough to withstand a big hit.

Posted by Gene & Holli on December 24, 2007 9:46 PM

[Report this comment](#)

As an American, the question becomes, what does one do to minimize the impact of this coming financial disaster if one is invested in money market funds? Do I reallocate my money to something else?

Posted by Al G. on December 24, 2007 9:38 PM

[Report this comment](#)

Vote Tory.

Posted by Philip Usherwood on December 24, 2007 9:36 PM

[Report this comment](#)

The manipulation of man continues through the use of fiat currencies. Your masters are leading you to another World War for greater gain over humanity. We're letting it happen! When will we learn? We are serfs to a valueless piece of paper and those who print it. Wake up or else all the trees in the world will be gone!! Liquidity = diluting of value! You're going to work harder than ever. Time to put the children to work now because your owners don't think mom and dad working, at lease two full time jobs, is enough!The politicians are all bought and paid for! Stop looking to those fools for anything except when you're ready to arrest them!

Posted by Manny on December 24, 2007 9:26 PM

[Report this comment](#)

Here in America inflation has been skyrocketing for the last 2 years and has not been reported accurately. The average American could see firsthand what was going on. Today it's reported, accurately, that credit card debt is out of control here in the USA. With inflation taking away the purchasing power of the dollar, the people have been turning to credit to get by and now they've reached their credit limits and it's all about to come crashing down.....and it may make 1929 look like a walk in the park. That's the real truth , my friends, from the USA.

Posted by David Boothby on December 24, 2007 9:25 PM

[Report this comment](#)

do what we're doing in Texas: buy gold & silver. not paper, or stocks in companies that mine, produce, finish, or sell the stuff. go for the hard stuff. stash it, carefully, somewhere known only to you & your chosen heir(s), & wait it out. right now, ounces of silver are pretty cheap by historical standards, & could go MUCH higher. gold has a long way to climb, & as more & more people stop using the dollar as a reserve currency, or accepting payment in dollars at all, the attendant rises in precious metals, especially the currently lower priced ones, will only accelerate. your call. think it through, & play the hand. or just listen to the sheep-herders as they croon their sleepwalking songs. well, best of luck on that one.

Posted by Lawrence Langner on December 24, 2007 9:20 PM

[Report this comment](#)

The Telegraph has done it again! It's about time a major paper tells it the way it is! I only wish U.S. Newspapers would be so forthright. What on earth will happen if everyone runs to the bank at the same time to make a withdrawal? --Jerry McGlothlin, Raleigh, North Carolina

Posted by Jerry McGlothlin on December 24, 2007 9:19 PM

[Report this comment](#)

If anyone has the telephone number for the IMF, Gordon Brown would probably be pleased to receive it as a Christmas present.

Posted by Kenneth Rea on December 24, 2007 9:12 PM

[Report this comment](#)

What people do not realize is that this isn't a result of anything Brown did.

Greenspan milked asset bubbles for two decades before he left, and what is just now starting is the result of a long, long build up in the market.

The FED should not have a printing press for play money. We should have stayed on the Gold system.

Posted by js on December 24, 2007 9:08 PM

[Report this comment](#)

Brings to mind those famous words: "He predicted 9 of the last 5 recessions." Keep predicting rain every day, and then say "I told you so."

Posted by MarkB on December 24, 2007 9:08 PM

[Report this comment](#)

This is what the banks greed have brought on themselves and ultimately the rest of us. By lending all this money on terms to squeeze people to the point where they can no longer pay, what did they think would happen. What did they think when they lied about customer data, about the amount of money they lent in the bank, when they appraised houses at 2x their value, then strapped people with a loan that the payments would double and triple. What do they expect when they send out credit cards, and eventually when people can no longer pay, they think well jack up the interest rate to 30 - 50% that way they will certainly be able to pay that back. How can people cope when interest rates on credit cards become so high that people's balances double their amount every month, then they can't pay. Then they accuse those borrowers of being dead beats and the worst kind of scum, after it was them who through their outrageous increases in interest created the situation which made them unable to pay. Let the banks die and reap what they have sown for themselves out of their own greed. Don't bail them out. Why reward the greedy rich bastards who care about money at the expense of bleeding people to death.

Posted by Adam on December 24, 2007 9:02 PM

[Report this comment](#)

Not to be racial, but the "monetarists" of the Freidmans & Co. perpetrated the paper money, "free float" (that has never been a free float) system as the cure for the "barbarism" of that ancient relic, gold.

The current crises will worsen because paper money (ie. unlimited credit creation) allows for the bubble we have to balloon to cosmic proportions; and the central banks have allowed the world's sophisticated bankers to gamble without even casino rules.

Monetarism, as most Jewishisms do, ignores simple human psychology. Fear is taking over. The denouement will be the writing off of large debts, and a huge shrinking of ballooned economic figures.

There will be a good side: (1) the bubble in China will collapse too, along with China's reckless ecological disaster; (2) prices of commodities and oil will come tumbling down; (3) as oil drops by over 50%, the arrogance of Putin, the Russians, and the oil barons will stop, and they too will be in financial troubles. Here in the U.S. the Republican party philosophy of

"spend and spend, cut taxes and cut taxes, and borrow and borrow" will be defeated at the polls. Hold on. The denouement will merely be the correction of the folly of paper money monetarism.

Posted by Ware Adams on December 24, 2007 9:01 PM

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This guy predicted, some 15 years ago, that Japan would be the overwhelmingly dominant economy of the world.

Posted by T. Wilson on December 24, 2007 9:00 PM

[Report this comment](#)

Perhaps readers in the UK have'nt noticed that salaries of Wall Street Types have increased I believe, by 14 % not bad after loosing billions of depositors money. Maybe there is such a thing as a "free Lunch"

Posted by Bob Lee on December 24, 2007 8:55 PM

[Report this comment](#)

Out Of Control. For years I've been asking myself, how everyone can all of a sudden afford a brand new car and a half million dollar home (in not of the best of neighborhoods mind you) with salaries what they are (Miami.) It's about time some sense if brought back to our economies. It's about time the corporations pay their fare-share of taxes. About time the bankers and politicians are exposed (to all those not paying even a modicum of attention.) And it's about time people started to wake the hell up.

Posted by Jules on December 24, 2007 8:55 PM

[Report this comment](#)

Will everyone just relax! sheeese! Despite the housing bubble implosion and credit mess... there is more than enough cash flow and other assets in the U.S. alone to keep the western world from a depression! When things are at their worst the U.S. dollar will come roaring back and the euro and other currencies will plummet! Keep your assets in U.S. currency and stocks and you will be fine.

Posted by atomic on December 24, 2007 8:49 PM

[Report this comment](#)

Watch for the ratings companies to go first then things will get interesting real quick.

Posted by Ken on December 24, 2007 8:47 PM

[Report this comment](#)

History can only repeat its self (Rome) because as the heart of man goes so goes man. Money is not the evil that we will be facing its the love of money and the politicians and the clergy the Sadducees and the pharasees all one in the same will make the fall of Rome and 1929 a bad day at the office.

Posted by william Mc Burney on December 24, 2007 8:47 PM

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Greenspan tried to slow the housing market by raising rates...yet China just kept buying our Treasuries...so created a false environment...low rates during a Fed rate raising campaign... so you can partly blame China... last time Greenspan raised rates in 1998...it worked...mortgage rates in the U.S. went from 6.75% to 8.25% in short order and therefore the housing market slowed to a reasonable rate of growth/appreciation... this time it did not work because of their buying and buying and buying...

Posted by Jon Burns on December 24, 2007 8:44 PM

[Report this comment](#)

A capital idea, benman! The bankers who privatized a Gilded Age's worth of riches in the past decade should now be allowed to socialize their losses courtesy of the panicked taxpayer. Not.

All this drama just goes to show you: true capitalism is for poor people. Socialism is for rich people who were hit by the volatility speed-bump on their way to being megarich.

Good thing they have conditioned so many bovine sheeple to panic their way into the abattoir while the bankers can get out..

Posted by E. Cartman on December 24, 2007 8:44 PM

[Report this comment](#)

It seems there are a lot of people to blame for our current condition. Of course, the experts should GIVE UP the bulk of the blame and ACCEPT their multi-million bonuses - which they will. But the rest of us gave up common sense when we bought into their idea that we could spend our way into prosperity by borrowing against next week's pay check and the equity of our homes to buy a vacation that lasted a week and which we pay interest on for the next 20 years. My wife and I are among the few who saved pennies and set aside for a rainy day, but we now live in an immoral age where punks and thugs will simply come and take our meager food stores and drive us out of our homes - which they will wreck. We have trained three generations (at least) to expect the taxpayer to take care of them and these people have few scruples. Drive your car into the wrong neighborhood? You know which ones to stay out of already, don't you. But what may have been a safe neighborhood today, may not be the day after Xmas. Merry whatever!!!

Posted by David from Indiana USA on December 24, 2007 8:38 PM

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The world's central bankers have always been corrupt to the core. These elitist fools have been allowed to conduct a game of financial extortion upon the little people of the world for far too long and as we say here in America, the Fed needs to be abolished as quickly as possible and let the natural laws of the marketplace replace these fools who practice their self-serving game of extreme capitalism all for their own greedy benefit. I say liquidate all central banks (especially the U.S. Fed) and let Mother Nature take care of the rest! It's time to rid the world of fiat money and fractional lending once-and-for-all!

Posted by Ralph Harrison on December 24, 2007 8:38 PM

[Report this comment](#)

The U.S. government flat out lies about inflation and distorts the true figures. The so-called "Core inflation" doesn't include energy or food prices. Real world inflation is 10 percent a year.

Posted by Joe Average on December 24, 2007 8:30 PM

[Report this comment](#)

Ah, growing pains on the global level, which include a major restructure or gradual elimination of the Federal Reserves of the G8 (current credit structures reduce the need for banks but since governments like to control the people, don't count on it) so to remain in office the guys getting the paychecks from the government will:
reduce interest rates with a twofold effect; cause real estate to inflate in value, cause the resetting arm mortgages to stay at the level the people qualified under, and no foreclosures or defaults....both of which will directly impact the credit markets for the good. Problem is, we will have inflation, higher gas prices because the Cartel will bitch and moan about parity and in general we will pull through with life getting just a little tougher for the common man...oh yeah, they will look for scapegoats...people still need witches to burn....any other questions?????

Posted by beentheredonethat on December 24, 2007 8:28 PM

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The rot should have been spotted long long ago with the "Private Finance Initiative" which was effectively off-balance sheet borrowing by HMG.

If the Chancellor was so stupid or cynical as to borrow off-balance sheet for what were effectively government-guaranteed projects, should anyone be surprised that:

- a) he took the eye off the ball regulating the banking sector or;
- b) that the financial sector of the economy copied Brown's fecklessness?

The whole tragedy of course required the siren voice of Tony Blair's "leadership" which no one could stand up to.

Blair will go down in History as one of the jumped up public schoolboys in the film "IF" - unprincipled and out of control and more tyrannical than the tyranny he purported to oust.

Brown is just Blair's stooge - funding the madness - and now he's in power we see him for what he is - a Crabbe and Goyle to Malfoy Blair. (Apologies JK Rowling!)

Posted by Roberto on December 24, 2007 8:27 PM

[Report this comment](#)

If you post Ambose Evans-Pritchard in their 'correct' order the initials are APE - why are youse taking financial 'hints' from an APE???

Posted by zyskandar A Jaimot on December 24, 2007 8:21 PM

[Report this comment](#)

And would any of this be different if our economies were not so entangled. It seems to me, from a very very perspective, by entangling our economies, we are victim to whatever illness anyone else may catch and like illnesses they spread. Yet we were told we must globalize because. On the other hand, every one of these failures, is reason to decouple ourselves. Let American banks sink and let Americans suffer the consequence. Let British banks sink and let them suffer or Japanese banks sink and the Japanese suffer ... but to pull everyone down seems like the best argument to not be entangled in economies of such scale.

Posted by James Callahan on December 24, 2007 8:19 PM

[Report this comment](#)

I just bought 128 apartment units. I will spend \$15000 on each unit. I borrowed \$5.6 million at 7.25%. The seller took a bath and they deserved it

Posted by [ddn123@bellsouth.net](#) on December 24, 2007 8:17 PM

[Report this comment](#)

Hi Brits, across the pond. Just for your general information, F.D.R. took the US off the gold standard in the 40's.

Following World War II the International Monetary Fund (IMF) was established at Bretton Woods, New Hampshire. The goal of the IMF was, and still is, to stabilize national currencies. This was to be achieved, in part, by each member country being assigned a specific quota of gold and currency to be held by the IMF. This reserve would then be used to bolster the credit of countries in debt and ravaged by World War II. Much of this IMF monetary strength was, however, based on the strength of the U.S. dollar, which soon came under great pressure because of U.S. inflation and deficit spending.

For a variety of reasons, dollars began streaming out of the United States in the 1960s and early 1970s and into the treasuries and central banks of foreign nations. As U.S. deficits and U.S. inflation climbed, so did the demand to exchange these foreign-held dollars for gold. As a result of this unprecedented demand for U.S. gold, President John F. Kennedy in 1962 forbade Americans to hold gold coins. The demand for American gold continued, however, and by 1964 U.S. gold reserves had fallen to \$15.5 billion (in 1947 American reserves were at \$23 billion). By 1967 U.S. gold reserves had fallen to \$12 billion and on August 15, 1971, because of continuing assaults on the dollar, President Richard Nixon announced that dollars held by foreign countries would no longer be redeemed for gold. The United States was effectively off what remained of its gold standard.

Both Democrats and Republicans had a hand in the coming demise.

[link](#)

encyclopedia/For-Gol/Gold-Standard.html

Posted by [michae maineiri](#) on December 24, 2007 8:12 PM

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.
Such fearmongering.

.
Even if losses end up to be 1 trillion USD, that is still only 4 percent of the world's annual gross product.

.
Pay the piper, sack some CEOs and move on.

Posted by [avraam jack](#) on December 24, 2007 8:11 PM

[Report this comment](#)

It is true that Ambrose Evans Pritchard's columns tend to provide more real insight into global

finance than most other online sources.

Still, one must read between even his lines.

As the global system's disintegration continues apace, it is unlikely that even Mr. Pritchard will be able (or inclined) to sound the alarm at a suitably-high level.

We are left to our own devices.

There really is no suitable life raft that can protect us from the collapse now underway. Yes, perhaps gold and silver (and other hard "goods") can mitigate temporarily the effects of the fall, but the window will be quite narrow, and the rescue purely transient.

It's a fact - though one does not expect everyone to agree - that a new order is scheduled to replace the old, and relatively soon at that.

Consider the following link from the Executive Intelligence Report site. It reviews the Council on Foreign Relations Financial Vulnerabilities project, and makes for grim reading.

The CFR ran a war-game scenario a few years back. It's clear that that august body is preparing for the worst.

[link](#) (CFR Bankers Plan for Financial Crash)

(As always, it is wise to account for an author's bias. Though it is hard to take Lyndon LaRouche seriously in his bid for the role of "Prime Rescuer," he is nonetheless a shrewd, insightful economist and commentator.)

It is clear that the emperor has no clothes, and neither do we.

The emperor has no cover, and neither do we.

Posted by d. michael on December 24, 2007 8:07 PM

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So, *real* inflation in the US is now over 11%?

John Williams - Shadow Government Statistics

[link](#)

Posted by Jerry T. on December 24, 2007 8:01 PM

[Report this comment](#)

Never forget that we're dealing with bankers and their supervisor here. As in America where I live, the impact of greed and stupidity upon this crowd cannot be overstated.

Posted by Chris Miller on December 24, 2007 7:57 PM

[Report this comment](#)

If history doesn't repeat itself, it at least rhymes. The classic example of this piling on was the Dutch Tulips - the resulting axiom was that once ladies in sewing circles were involved in a commodity, it was way overvalued.

The overvaluation of houses was only made possible by faith - faith that prices would continue to rise. This in turn led to lots of debt consolidation, and new debt, as people used their home

equity to consolidate and pay off consumer debt. What seemed to many homeowners as a windfall should have precipitated thanks and more responsible behavior, but instead more debt followed.

It may be worth asking if there is a spiritual component here: is the acquisition of more and fancier material goods somehow assuaging some void in the lives of many people? In the political realm, almost all spiritual/human calculations have been eclipsed: When is the last time anyone has heard a politician refer to the "American Dream" in anything other than materialistic terms? It's always home ownership and perhaps a nice car, and the college degree that enables you to get them. Is that really what makes human beings happy, really happy? Whatever it is that we're missing, it seems we have a tendency to replace it with things that ultimately don't yield real happiness.

If they did provide happiness, we'd be assuaged - instead we want more and more, and better. If we could find some of what we're really missing, fewer people would find themselves in such financial trouble - money and the rest wouldn't matter as much.

There's nothing inherently wrong with money, it's the abuse of it, like abusing everything else, that leads to problems. That abuse is happening on all levels for a reason - money has become the central driving force in the life of modern man, and it is a powerful tool which has become unhinged from deeper meaning, opening up every grim possibility. The latest scenario is the just the newest cancerous result.

Posted by Greg Buls on December 24, 2007 7:53 PM

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You are part of the problem.

Posted by Me on December 24, 2007 7:53 PM

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Many of these comments are, indeed, SPOT ON. However, what many of us don't realize is that is the world markets really do adjust to allow the bubble to pop, buying gold (as one reader suggested) may help, but that won't be enough.

If things get really ugly, you will be worth only what you can carry, if you are forced from your home, rental unit, etc. This would be a good time to stock up on dry goods, spirits, tobacco products, chocolate, ammo, water filtration systems, etc.

If nothing happens too severe, then you have a nice survival insurance policy. If the situation gets really ugly, then you have a leg up, to say the least. You may need to rely on the barter system (exchanging of goods) rather than using fiat currency.

God Bless and Merry Christmas. 2008 may will be one for the record books!

Posted by Mark Edwards on December 24, 2007 7:51 PM

[Report this comment](#)

Thank you to the Telegraph for publishing as much of the truth as is possible to know in the circumstances. I am Irish. None of the Irish newspapers provide critical coverage of the Financial house of cards that is ready to collapse the Western economic structure. The Irish newspapers are continuously describing this as a remote problem, only really affecting the US and a few banks (because the logical conclusion is to blame it all on Bush). I have read the work of Austrian Economist Kurt Richebaecher, and found this very instructive, though the good doctor passed away earlier this year. He predicted that the US was heading for great

trouble, as a result of the decision to reallocate resources (human, finance, and physical) on unproductive, non-essential activities like the real estate boom. This was the height of irresponsibility, but it dovetailed neatly with a perceived political agenda of the left/liberal agitators, that emerged from the student revolution on 1967/1968 in the Western societies. The combination of Reagan/Thatcher free market economics, and the new liberal left enthusiasm for consumerist societal behaviour, that is facilitated by state policy, and unconstrained by limits whether moral or financial. This agenda is about irresponsibility, and selfishness, being acceptable behaviour for market participants, and state policy being supportive. Lying is universal. In the end everybody acts in their own interest, and the level of trust in the system collapses. Politicians, bankers, media journalists, state officials, economists have been turning a blind eye to what is really going on, or have been ideologically committed to ignoring the underlying reality of everything that is going wrong in the system. The question arises, as to whom will be the scapegoat next year? The system is collapsing, because of a moral collapse in the human beings running it. And state policy has been supportive of liberal banking for a decade, resulting in a cleanout of conservative practices. A classic example of this is Brown's cash/capitalization requirements for British banking. The only question is, 'can the people whose political beliefs (some of whom even dabbled in Maoism) who caused this moral decline, manage to attribute the blame on others, using their influence of the communications media?' The economy is doomed, it is only a matter of time.

Posted by Deco on December 24, 2007 7:50 PM

[Report this comment](#)

And the noose tightens even more.

None of this would be happening had we stayed on the gold standard.

Fiat money invites nothing but usury and greed.

Posted by IMWordWind on December 24, 2007 7:44 PM

[Report this comment](#)

In 1929 people borrowed too much to buy stocks. They hoped the stock would rise in value and it didn't. It fell instead.

Today you just have to replace the word "stock" with "real estate". You have the same situation. People trying to get rich quick. Greed gets punished every time.

Posted by Steve on December 24, 2007 7:40 PM

[Report this comment](#)

I highly agree with the points so well put in this article. However, I would add that the real danger to our ability to wiggle out of this mess is to be found in the United States 75% of the US economic engine is the consumer. That translates into upwards of 60% of global economic output. If the US consumer stops in his tracks (as there are now signs that this might be happening) because of the disruptive nature of the subprime debacle then we are more likely to head in the direction not of inflation but deflation. This was the worry after 9/11 (globally) and it is now more than ever threat.

Posted by Donald Thumbly on December 24, 2007 7:35 PM

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nothing will change down the path of destruction until the bodies of the perpetrators, wall street gangsters, banksters, corporate criminals and crooked politicians pile up in the morgues!

Posted by HHN on December 24, 2007 7:32 PM

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"The evolution of synchronized easy money world wide will be first increasing finance/stock bubbles and then, when these let go, a great destruction of paper wealth in a gigantic finance/stock crashes. These will likely be synchronized world wide. That destruction of paper wealth will be highly deflationary. First, as stock prices drop, for example, the valuations will drop like a stone, and trillions of dollars of paper money will literally disappear like smoke."

Posted by Murray Rothbard on December 24, 2007 7:28 PM

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One thing forgotten in the doom and gloom is that the hard assets that have fallen out of favour are still there, namely homes. Yes, the values of the securities have dropped precipitously, but much of this is because of accounting rules that require an asset be written down completely. The UK market, unlike the States, was wildly overpriced. In the States, it was an issue of lending to those who could not really afford homes. This will eventually balance out. In the UK, however, there are greater concerns. The next year will require deft management and hard nosed decisions for the greater good. It will be a test for the global economy.

Posted by M Holzmann on December 24, 2007 7:25 PM

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The "Money Henchman" will do whatever is necessary to keep the "game going"! The number one question I always ask is: What can replace fiat money? - Think hard about that, before you answer it!

Posted by Norm Ezzie on December 24, 2007 7:23 PM

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The country I worry most about in this coming crisis is the UK. What exactly is it that you people DO over there?

I live in Canada where I drive a German made car, watch American made movies on my Japanese TV, and I pay my bills by selling the Americans, the Germans, and the Japanese all the excess electrical power & natural resources I produce. Where is the UK in this equation? I occasionally see a Range Rover on the highway, sometimes I buy a case of Newcastle Brown", but that's pretty much it. I simply cannot understand how your economy functions. Other than trading "asset based securities" in "The City", who is actually at work in the UK producing sufficient value added goods & services to permit your population of 60 or 70 million people to leave the same lifestyle we work so hard to maintain here in Canada? I just don't get it, but hey, more power to you. I hope it all works out and you continue to spend like drunken "lager louts".

Posted by John D on December 24, 2007 7:20 PM

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Nothing here is happening by accident. FDR said that nothing in politics happens by accident and if it happens, it was planned. If you want global government, then everything is going as planned. Read G. Edward Griffin's " Creature from Jekyll Island. It's all there.

Posted by Glenn Hunt on December 24, 2007 7:15 PM

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People somewhat seem suprised. This has been going on since after WWII, and will continue until Governments STAY OUT of monetary policy, and allow free markets.

Posted by Jason on December 24, 2007 7:10 PM

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A lot of posters talk in very cutesy ways about backwards swimming, life boat drills, significant crash, it's inflation, it's deflation....

There is quite a mess of statements here, but nothing really practical for anyone reading it to grasp on to. Instead of doing an egotistical, "I told you so" kind of statement, can anyone out there tell people what they really need to do?

- Put dry goods in a shelter for a couple of years?
- Horde as much water as you can as systems break down?
- Buy all the gold and platinum your money will buy?

?

Posted by Geldmeister on December 24, 2007 7:10 PM

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HELLO! This was no accident. This has all been very carefully planned by the "money masters." The super rich elite make money whenever there is a CHANGE, positive or negative, in the market economy. They manipulate it for their own benefit. The crash of '29 was purposely caused by the bankers and made their wealthiest even wealthier. It's another way they transfer the wealth to the top. As they say in Vegas, "The house always wins."

Posted by C Paddon on December 24, 2007 7:09 PM

[Report this comment](#)

The FRB came to power in the depression era because it was triggered by the recalling of the 24 hour notes and everybody was forced to sell their stock THAT VERY DAY! Private bankers wanted to control America's economy which meant taking us off the independent gold standard. Today's crisis comes so that the FRB FORCES the USA to merge with Canada and Mexico furthering their ever seeking power and America's too stupid to wake up.

Posted by Richard Robinson on December 24, 2007 7:06 PM

[Report this comment](#)

Please read, "The Creature From Jekyll Island - A Second Look at the Federal Reserve," by G. Edward Griffin.

Also read, "Shadows of Power," by James Perloff.

You'll understand this mega-scams of central banking and political power much better after reading these two books.

Our English brothers and sisters will be interested to discover the incestuous links between the Fed and the BoE. The tentacles of this octopus run far and wide around the planet.

Good luck to all as the stuff hits the air-moving device. As for me, I will have my lawn chair

and a beer ready to watch the whole bloated, Jabba-the-Hut, pile of stench fall.

Posted by Robert Semands on December 24, 2007 7:05 PM

[Report this comment](#)

US only has one chance...Ron Paul. Does no one understand that he is the only candidate in the US elections that is addressing this growing problem?

Posted by Matt on December 24, 2007 7:04 PM

[Report this comment](#)

I say get Rob Hopkins view of it all from Transition Town Totnes, where they are building their own financial system and food network for when the Fecal Matter hits the Air Movement Device.... get on board with www.transitiontown.org

Posted by Jeff Jones on December 24, 2007 7:03 PM

[Report this comment](#)

The subprime lenders in the US who gave out the money to people who could never possibly repay should be criminally prosecuted. These greedy scumbags are bringing ruin on the rest of us. They need to pay restitution and do prison time for their crimes.

Posted by Henry on December 24, 2007 7:00 PM

[Report this comment](#)

Fiat money is the theme of the current therapy. There cannot be monetary recovery without "value" introduced. Value comes from the monetary systems' self correction. Roosevelt turned a two year self correction based on "value" into a 12 year government manged depression based on fiat money. WWII corrected the market.

Posted by Chris Zdraje on December 24, 2007 6:59 PM

[Report this comment](#)

The CEO's have no fears or worries, they still give themselves their annual bonuses of a quarter of a Billion Dollars and more upon leaving their positions with their handshake retirement packages, as the next batch of CEO's step in line to fleece the corporations. Off shore looks good to them, if only they can make it there, before being held up in and by the courts. The Unions have their part to play in this game too, as everyone wants to go to the trough, but no one wants to replenish it. What are they teaching in these economic schools anyway. Better a man with horse-sense, then a man from Harvard or Yale, Oxford or Eton. Shame on this class of financiers.

Posted by Randy Ranson on December 24, 2007 6:57 PM

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I share the author's doubts that industrialized economies "will roar back to life" next year, given that we lack the most basic conditions that allowed the boom to flourish.

Those basics were: global energy security, food security, and climatic security. All three were prerequisite for globalization to advance this far, and all are evidently now degenerating.

For brevity's sake a single example just of the latter's impacts must suffice here - When climatic impacts intensify, as they have for over two decades, damage thresholds are passed (like stormwater over-topping a levee) causing step-changes in losses. To survive, insurers currently have no choice but to start withdrawing cover. Yet that cover is the basis of most assets' collateral value.

So, can we print enough money to maintain insurance cover (commercial & domestic) despite the IPCC's prognosis (sans BAU) of at least 3 decades of intensifying global weather damages ?

Perhaps it would be wise to launch the "fair-deal" workfare programs now, (in say global reforestation, energy efficiency and micro-generation, as a means to mop up at least a part of the central banks' predictably large print runs, while also minimizing risky social alienation ?

Lewis Cleverdon

Posted by Lewis Cleverdon on December 24, 2007 6:52 PM

[Report this comment](#)

Out of all the comments only one mentioned that sale of your gold at what has proven to be outlandishly low prices. I have been informed that this took place under chancellor Brown but apparently your readers think that not a matter of importance.

Posted by norman joe on December 24, 2007 6:51 PM

[Report this comment](#)

Historically, collapse of paper money systems never went down nicely. There will literally be blood running in the streets.

Optimists are buying gold and silver. The realists are buying canned food and ammo.

Posted by Sunny Meadow on December 24, 2007 6:44 PM

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I am diversifying into canned goods and toilet paper. Man, the trades I am going to make!

Posted by Michael Jones on December 24, 2007 6:38 PM

[Report this comment](#)

Invest in mattress manufacturers cos that's where the smart money is going but be quick.

Posted by harry maxwell dunn on December 24, 2007 6:36 PM

[Report this comment](#)

Oh no, you have unleashed the bunker dwellers.

Optimism, or gloom is more important than central banks.

Don't ration out that Spam quite yet.

Posted by Charles on December 24, 2007 6:29 PM

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They're all full of shit.

Posted by Poobah on December 24, 2007 6:28 PM

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"This clause has not been evoked since the Slump."

What "Slump"? and when was the last time it was evoked?

PLUS here again a cycle of bad news being perpetuated by media which is not what the "walk in park" person said!

He said it may! May!!

Please people wake up to the MSM's manipulation of news to make news!

Self-fulfilling prophecies we have here!

Finally.. Put your collective thinking caps on! There are in the US and EU alone about 500+ million people most of whom are working and will continue to work. They are betting their productive lives almost 90% are they will be able to pay off mortgages with cheaper money over 25 years then with money today! This is money they don't have but what do they have? They have their collective energy to work each day. Productivity of the individual is what mortgages are based on.

No bank literally puts out immediately \$100,000 when they sign a loan. Parts are paid out.

Parts stay in the bank. Relent again and again. All based on the faith that almost all the borrowers/workers will continue to work. It's been going on since the 1900s and has been the single best engine for mankind productivity, life style improvement even life prolonging. Think about 100 years ago the average life span being less then 45! Today 75.

So to all those naysayers, handwringers, sky is falling... where do you want to end up?

Posted by Jim on December 24, 2007 6:26 PM

[Report this comment](#)

It has long been the goal of those who view themselves as "Tri-lateralists" to pursue "World Peace through World Law and Trade". In acts that have not been secret this has been pursued with the creation of three spheres of economic influence, i.e. North American Trading Bloc, Euroland, and Chindia (with Japan). Those who have seen that and understand the concept of a fractional banking system are not surprised by the current "credit crisis". The seeds for it were planted more than 60 years ago by US President F.D. Roosevelt. The first burst of warmth leading to germination was the closing of the gold window by Richard Nixon.

Howling into the wind at night about what seems to be unfairness is as worthless as trying to stop a speeding locomotive, headon. All one needed to do was run with the "new system" and get pulled along by the draft. The excessive gains demanded by organized labor will now have to be returned. This will allow the pendulum to return to normal.

Some may argue this is fascism as "big business" will reap many benefits, but it is not. It is merely the painful but long overdue correction or unwinding of the aforesaid excesses as a function of market forces. What will make it very painful for the masses is that government interference (in the name of buying votes) prevented the correction from happening sooner. During that time the masses (mostly through debt) lived well beyond its means.

Posted by Richard B from NJ - USA on December 24, 2007 6:25 PM

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I wonder if or when individual property rights or ownership will be sacrificed to a Soviet style

government ownership?

Posted by Alex on December 24, 2007 6:24 PM

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It's unfair to base one's view of the potential future responses to the crisis by the Fed & the ECB based on the dilatory and wrong-headed reaction of the Bank of Japan to that country's real-estate insolvency crisis. Both the BoJ and the big Japanese banks were incredibly slow to react, allowing a major deflation to take hold whose effects are still being felt to this day. By comparison US banks and financial intermediaries are acting at warp speed, putting bad assets back on their balance sheets, while shoring up capital with injections from sovereign wealth funds. In addition, reducing credit available to the perennially over-indebted US consumer would be a financially healthy development.

Posted by CHRIS DAVIS on December 24, 2007 6:22 PM

[Report this comment](#)

the usa is simply bankrupt

Posted by snarf on December 24, 2007 6:20 PM

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Nobody has mentioned the power of prayer amidst this tenebrous atmosphere. You never know, folks, it MIGHT just be the solution.

But let's cleanse the temples (or stables) as a starting point.

Waddy say?

Posted by Ted Knight on December 24, 2007 6:16 PM

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...I'll be the 1st. to admit that I know very little about how the international money system claims to work. Unfortunately, in reading this article/the comments attached, (not to mention my direct experience of America's portion of the 'economic system'), it seems the bankers pictured/mentioned, (...B.Bernanke, M.King, J.Claude Trichet, A.Schwartz, M.Friedman, etc.) know about as much as I do...

As the last steady employment I had occurred between '99-'01, I know a little something about the '29-

'36 depression-like collateral damage effects of economic mismanagement, (and my government, under that

'stalwart capitolist hero, George,

'Guest-Worker's-Paradise' Bush), which seems thrilled by such long periods of unemployment affecting his

'subjects'!!(I mean 'subjects' in a '13th. century english monarchy' sense!).

Another 'minor' point of concern:

W.W.2 saved America's economic A**, allowing survival of the Great Depression. W.W.3 ISN'T going to perform any such miracle, if/when, Mr. Bush, in his 'compassionate conservative', (...'mentored by Christ'), NAFTA/CAFTA economic worshipping manner, (yikes!), gets his way from the so-called

'democratically controlled', ('impeachment is off the table'-N. Pelosi-) congress, and opens the '2nd.

Malabar Front'!... (...another unnecessary pillaging/war, this time with Iran, again over ('ever-so-slightly-nonexistent') Weapons of Mass Destruction!)

CondiSleeza Rich should have stuck to piano concerts, a subject she is reputed to know something about, instead of international (non-) diplomacy!

Posted by R. Goodlad_Frano on December 24, 2007 6:16 PM

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Ron Paul received contributions from over 100,000 different people this quarter. He received \$18,000,000 from those 100,000 people. His support is wide and deep. Look around your town and notice you see RP signs everywhere. Grab a cup of coffee and go to [link](#)

Posted by Mayberry on December 24, 2007 6:15 PM

[Report this comment](#)

Let us not forget that ultimate accountability lies with the british electorate: with those who voted for Labour and those who didn't bother to vote at all.

Posted by Thabo on December 24, 2007 6:14 PM

[Report this comment](#)

Why don't the banks just renegotiate these ridiculous variable subprime mortgages to a lower, more reasonable, fixed rate with a payment that the mortgagee can afford? Nobody becomes homeless, the banks still get payments at a lesser rate, of course, but they still make money on the loan. They'll take a hit, but so what? It's better than bankruptcy and depression.

Posted by RJ on December 24, 2007 6:03 PM

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For every article talking about how bad it's going to be, I read another saying nothing is going to happen.

Posted by iPikachu on December 24, 2007 6:02 PM

[Report this comment](#)

Money is valueless. Wealth is tangible.

Banks deal in money and intangibles.

Depression is when "real value" of tangible property lose monetary value.

"Real Value" never changes. The monetary value of wealth has to increase to save the banking system.

INFLATION IS THE ANSWER TO THE PROBLEM.

Posted by Kenneth DeRousse on December 24, 2007 6:01 PM

[Report this comment](#)

All the lessons of the past ignored and all the rules torn up. Get rich quick ,greed and overpaid dumbed down bankers and a Political class laughable in its stupidity. They gave the people credit to boost growth and now we have the result. Have fun people. It is going to be hell.

Posted by John Albert on December 24, 2007 5:59 PM

[Report this comment](#)

This banking crisis can only be solved by wages. Lending can only be a fractional basis of earnings. The sub prime collapse in the USA would not even exist if 4 billion dollars more of wages had been paid in 2007 to the working class people of America. While American business cringes at the thought of rising wages, without that there is no recovery. China too will suffer

as it is American workers wages that they have been so fast to destroy with their trade policy and US trade policy in concert, that pay their growth.

Note that the US Federal Reserve has pumped in the order of \$500 Billion of liquidity into the markets and a trivial sum to workers would have done the trick. Bluntly one dollar of wages represents in a 30 year note at present interest rates, about 1/15th of the value of a mortgage in funding. Since most mortgages are going bad on a simple margin of about 5% of the note value, this means one dollar more in wages would have funded nearly 300 times its value in sub prime mortgages.

This crisis is one of people like the bankers not understanding what on earth is going on. They have funded trade policy where I as an American Citizen must pay about a net 45.5% income tax on my wages while my foreign competition does not. This constitutes a trade war against me as an American citizen and the only solution is to repeal the US Tax Code. Otherwise; the whole world economy stands on the brink of collapse.

Bankers have no power to fix this crisis because the issue is not liquidity. The issue is wages, and until the issue of taxation is fixed, nobody has any hope of wages going up. Also the logic in Washington DC is that American high wages and benefits are the problem. In fact they are the solution. If you have money you have the following advice.

James 5

1Go to now, ye rich men, weep and howl for your miseries that shall come upon you.

2Your riches are corrupted, and your garments are motheaten.

3Your gold and silver is cankered; and the rust of them shall be a witness against you, and shall eat your flesh as it were fire. Ye have heaped treasure together for the last days.

4Behold, the hire of the labourers who have reaped down your fields, which is of you kept back by fraud, crieth: and the cries of them which have reaped are entered into the ears of the Lord of sabaoth.

5Ye have lived in pleasure on the earth, and been wanton; ye have nourished your hearts, as in a day of slaughter.

6Ye have condemned and killed the just; and he doth not resist you.

Please note the Lord of Sabaoth in the text is the God of War! Welcome to the war you actions have built. I hope you change directions before the bombs drop on us all.

Posted by Paul Noel on December 24, 2007 5:58 PM

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"The sky is falling, the sky is falling" of course the economy grew at a 4.9% rate last quarter. If this were a Democratic Administration we would be witnessing the best economy in the last 50 years according to the press.

Posted by Phillip J Hubbell on December 24, 2007 5:51 PM

[Report this comment](#)

The Central Banks tentative, almost reluctant response, to substantially bring down interest rates to quickly resolve this crisis speaks to the core of the issue - corporate greed over the greater good - the few rather than the many.

The question all of us should be asking now is not what to do next but why should we remain part of a Central Banking system that is not responsive to the true needs of the people of the nations it serves. China and Russia have they own Central Bank and can move quickly when situations like this occur. It is a valid point of discussion.

Creativity and innovation are the hallmarks of the Western world. We can do better than the 19th century banking system we suffer with today. A robust start to this discourse should begin with the candidates in the upcoming U.S. election. They need to be asked their views regarding the Central banking system and its slow self-indulgent response to the crisis that may, as the author of this article said, "make 1929 look like a walk in the park." We need to know which of the candidates has true vision.

Posted by Benjamin Wible on December 24, 2007 5:43 PM

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Those of us who have studied both economics and sociology recognize that this article is nothing more than a fear-mongering device aspiring to obtain its own self-fulfilling prophecy.

There is no "great depression" in the making. There is a mild recession, at worst.

Posted by Bryan on December 24, 2007 5:42 PM

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When G Brown, then the finance minister, sold all of the central bank gold at the lowest bid price a few years ago, I knew something was up and loaded up on gold and silver stock, lucky or wise I still have to live with tax, recession and or depression. They wanted total control of the peoples power to voice economic choice. Just like Nixon in 73 they learned nothing. Fiat currency must have some kind of base other than the good will of politicians to properly run a country. I guess another war won't matter as long as it saves the economy, right. Where should I move to find a properly run economy.

Posted by m perry on December 24, 2007 5:42 PM

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From the US side of the pond, it is noted that only 6% of the sub-prime mortgage loans (not ALL mortgages) are at risk. Of those, the percentage that fail has yet to be determined; not all will fail.

I too love the theories of Milton Friedman and free market economies. Unfortunately, he passed away in Nov. 2006 and no one can speak for him. Government (US) intervention to preclude alleged discrimination and eliminate red lining caused the banks, pressured by Congress to loan to ALL; hence the problem. I was forced to study Galbraith, Keynes, and

Samuelson - all adored by the US Democrats and European Socialists.

So leftist programs once again get us in trouble. Me? I OWN my own home, have a small silver and gold reserve. IF and I emphasise IF there is a collapse, borrow and spend fiat currency like crazy; repaying with "Weimar" Dollars and Euros.

Fear not, all sounds like the cacaphony one would expect at the bottom of the cycle.

Posted by Bill Crowoey on December 24, 2007 5:41 PM

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[link](#)

Posted by Walley on December 24, 2007 5:41 PM

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Great article on this subject. We will continue to see crises like this one until we realise that fractional reserve banking with fiat money is an intrinsically weak system that is highly vulnerable to theft and fraud.

Posted by Edward on December 24, 2007 5:41 PM

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Why would anyone expect there would be no consequences for the actions of the past years?

Fiscal responsibility has been shunted aside, I sincerely believe, with the hope that the payback won't happen during "my" lifetime.

Encouraging anyone, a government or an individual, to borrow and spend recklessly should be a crime. But no, we will all get to pay.

And still there are those saying that the size of USA's national debt (some say 40 - 50 trillion dollars) is no problem.

Who is crazy here?

Posted by Bill on December 24, 2007 5:41 PM

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this is nothing but abother fake crisis forced down our throats by the control bank to force us into taking the amerio which is another nail in the coughin for america this nothin but a fake crisis just like 1929 THE CENTRAL BANK AND THE FED IS OUR PROBLEM DONT BE FOOLED BY THIS MEDIA BACKED FAKE CRISIS IT DOESNT HAVE TO HAPPEN WATCH THE Zeatheist Vidios on youtube

Posted by Walley on December 24, 2007 5:41 PM

[Report this comment](#)

Try reading Peter Schiff's latest analysis, where (in short) he says that the great debate between deflation and inflation will be resolved in the only way politically correct: deflation in terms of gold price, but in terms of your paper pounds, dollars (whatever) a massive inflation.

He says that powers-that-be will go for monetizing the debt and that means near- or hyper-inflation. This is all because of abandonment of the gold standard (whereby Central Banks are no longer obliged to hold gold reserves as they may have been in 1929).

I am afraid that what they mean by 'no more time to pay heed to moral hazard' bluntly means 'pull the printing presses out of mothballs' - stop lending and start giving paper money away.

I honestly wish it wasn't the most likely scenario, but given the size of the problem, sadly, it is.

Posted by Lloyd on December 24, 2007 5:36 PM

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This is an economic 911, a device to insist on a single global economy, to further the cause of the fascists who have seized control of world powers.

this is not a conspiracy theory, it's a conspiracy assertion.

oddly, those who will be affected least will be people like me, who never made enough money to throw it away in speculation and conspicuous consumption.

pay careful attention in 08 to talk of a world dollar.

why anyone would bear children into this economic/political fascist scheme is beyond me...

Posted by jack whiteside parsons on December 24, 2007 5:35 PM

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The crash can't come soon enough for me. I've got a few bob stuffed away under my mattress and I'm hoping to fund the purchase of a house with it. I've waited years to get on the property ladder, now it looks as if I might actually make it. One person's misery is another's happiness. That's capitalism folks, no use complaining now.

Posted by Kevin Reay on December 24, 2007 5:33 PM

[Report this comment](#)

Gordon Brown should be 'hanged drawn and quartered' for the destruction he has done to this country as chancellor just so that he could buy votes to get Labour re-elected.

Posted by George on December 23, 2007 12:06 PM"

The same for here in the US. This bubble started in the late 90's with them loaning money to EVERYONE. It was all to promote their political agenda. These "banks" have to go.

Ron Paul 2008

Posted by RonPaul2008 on December 24, 2007 5:29 PM

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And thats being optimistic;

well written anyway

Posted by JM Casanovas on December 24, 2007 5:26 PM

[Report this comment](#)

Revelation 6:6, 14:8, 18:3,11

..And I heard a voice in the midst of the four
beasts say, A measure of wheat for a penny, and

three measures of barley for a penny; and see thou hurt not the oil and the wine.
..And there followed another angel, saying, Babylon is fallen, is fallen, that great city.
..For all nations have drunk of the wine of the wrath of her fornication, and the kings of the earth have committed fornication with her, and the merchants of the earth are waxed rich through the abundance of her delicacies.
..And the merchants of the earth shall weep and mourn over her; for no man buyeth their merchandise any more:

Lots of good comments. Good article Ambrose. Because the world banking system has been co-opted by selfish greedy bankers - it is inevitable that it will eventually collapse as predicted in Revelations. Question is what can ordinary people do to survive it? We don't get this in american papers because they are controlled by the bankers. Rockerfeller/CFR/FED.

Posted by Emery on December 24, 2007 5:20 PM

[Report this comment](#)

As an unemployed American, I have seen the jobs go to india or china with no one caring that I am on food stamps trying to raise a family. Now as the chickens come home to roost for the phony money system we live under it is time to consider eating the rich people that have enjoyed driving past in fancy new leased autos and living in fancy unowned homes.

Posted by Whiteyard on December 24, 2007 5:18 PM

[Report this comment](#)

No big bloody surprise here, as long as socialism prevails and the U.S.A. continues to ignore it's Constitution & Republic principles, it is all but inevidable. Ever since women were giver the right to vote, and any swinging dick American citizen has been allowed to vote for "entitlements", the United States has lost it's true identity & soul. Over 60% of the U.S. budget is for entitlements, and the weasel Democrats will continue to blame it on the Irag war? The U. S. media & hollywood perpetuate this fraud and the American public readily believe the lie. What about the other money pits such as the United Nations and what about all the U.S. aid that goes out? What does the United States get for it's enormous amount of aid? A bloody stab in the back without fail. I've traveled the world, and with few exceptions, those who accept aid from the U.S. are ungrateful, corrupt, dangerous children. The only comfort I have is that if the U.S. falls, so will the rest of the miserable world. The U.S. Congress & Senate has become corrupt and the American Public remains silent, it is truly sad. Our politicians are now funded by the Chinese, Saudis, Arabs, and other foreign countries. The liberal democrats & Euro-socialists will continue blaming everything on the Iraq war, but not everyone in America is a mind numbed robot. Something is going on in America, and Pres.Bush, the democrats, and a portion of the Republicans are involved. It's called the North American Union Sham.

Posted by Benjamin Frank on December 24, 2007 5:15 PM

[Report this comment](#)

In July, FT showed us a chart averaging 5 of the EU's most prominent economists data into the most interesting market-projection. I was shocked to see how they had unanously targeted December 17th, as the final spike in the US stock charts, as I predicted this would arrive sooner.

Once again, Media has effectively sold us on the joys of a Gold-card Christmas. This story makes it appear we're potentially headed for a bloody Valentine's Day. It's Christmas. -Let us pray!

Posted by Tom-Scott Gordon on December 24, 2007 5:15 PM

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Greenspan (the former Fed Chair) likened the current situation in the US to 1837 and 1907 depressions (not the Great depression.)

Greenspan said: "The behaviour in what we are observing in the last seven weeks is identical in many respects to what we saw in 1998, what we saw in the stock-market crash of 1987, I suspect what we saw in the land-boom collapse of 1837 and certainly [the bank panic of] 1907."

Posted by David on December 24, 2007 5:13 PM

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Let the markets decide.. banks will go into bankruptcy due to their poor handling of credit/loans. New Banks should be able to come up and do business and take over the credit markets by leveraging the new liquidity injected into the markets. Survival of the fittest.. let the dinosaur banks adapt or step aside for the new generation of banks..

Posted by Sid on December 24, 2007 5:10 PM

[Report this comment](#)

Look, it's very simple people. Spend LESS than you make. Save a little for rainy days.

It's GREED out of control that has led to the crisis.

Spend less than you make. I guess this wisdom is too simple for the sophisticated egomaniacs to comprehend.

We will all reap what has been sown. Get ready for the disaster drill. Put your faith in God, not your money.

Posted by Stan on December 24, 2007 5:07 PM

[Report this comment](#)

Perhaps the curiously slow unraveling of this crisis is allowing the players time to craft a plan for how they will get all of there lost profits back.

We all know how bankers hate to lose even a penny.....

Posted by Shawn ONeal on December 24, 2007 5:04 PM

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I think it's total nonsense. People are panicking like Chicken Little. If they'd just chill out and relax there would be no problem. It's self fulfilling prophesy because these folks are all panicked over nothing.

Posted by David Powell on December 24, 2007 5:04 PM

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Your fluff piece reminds me of the story of chicken little. An 80bp TED spread is a panic? Hardly. Comparing the current situation to the '29 Panic belies your poor schooling and lack of even a rudimentary knowledge of history.

Bull markets climb a wall of worry,you should leave investing to us grownups.

Posted by Sherman McCoy on December 24, 2007 5:01 PM

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It is already happening in the USA. In my city, the majority of 'for sale' signs seen on properties read 'Pre-Forclosure Sale.' Moreover, realtors have signs up saying things like 'Forclosure notice? We can help!'

The understanding of economics displayed by previous posters far exceeds my own. However, I am not blind. It is so obvious that we are in serious trouble. And here in the states, it's as if everyone is waiting until after we've had our holidays to deal with any of it. Holiday spending is at record levels.

Either the average American doesn't realize what is going on, or his head is in the sand, as they say.

Posted by Dave on December 24, 2007 5:00 PM

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Always interesting that the amendments creating the Federal Reserve System and the federal income tax came so close together in history. Our Fed is not a long-arm of the U.S. government. It remains a private organization and has no "reserves". It does make sure that the banking system gets bailed out first with everyone else taking a back seat. 1991, 1994, and 1998 are prime examples. We should be equally concerned about Hillary Clinton claiming to have the power to reduce the price of oil once she is elected. Her references to Jimmy Carter's positive energy programs are way off base. When Ronald Reagan was elected, oil was heading for \$36 per barrel. One year before he left office, oil was at \$10 per barrel and we were far from a recession.....except in the drilling fields.

Posted by Lhirsh on December 24, 2007 4:58 PM

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I am finally glad to see that someone is pointing the finger for this mess at the central banks, where it belongs. The FED raised interest rates 28 times in a row! Who cares about inflation if no one can borrow to keep their sound business going. Business(and therefore jobs)lifeblood is

capital. Without it nothing happens and business fails, people are laid off, government debt increases... it does spiral out of control. CBs need to set interest rates low(3% or below) and more importantly keep the terms of getting capital reasonable. Subprime was not the cause ... the FED and their counter parts created this regulatory/policy mess and continue in their ignorance. This is Alan Greenspan's true legacy!

Posted by Bruce Rein on December 24, 2007 4:55 PM

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There is not enough money in the world to pay off all the loans of the world since the present financial system is built on debt. New money is issued with new debt attached. Therefore the present system is inherently unstable and thus unsustainable.

The house of cards is destined to collapse. From the ashes will arise a more honest monetary system that will benefit all people, not just the elite.

The Poet once said, "Neither a borrower nor a lender be."

Posted by James Doring on December 24, 2007 4:54 PM

[Report this comment](#)

Agreed, The band fiddles while the Titanic slowly slips beneath the sea.

If you watch the 'experts' on the financial shows the head of all these funds scantily look old enough to drive...They have never seen a real estate turn down ,nevermind a major market correction. Here in the US they were giving home loans to illegal aliens and anyone that walked in with nanry a credit check...No exaggeration. Those decisions will now come home to roost but those at the top already cashed out there stocks and bonuses,and now themselves stocked with their escape plans and gold hoard in Paraguay etc..The Bush family bought 80K acres there last year next door to their president...investment? I think not..

Got Gold/ Silver? what have you?...oh yes, stacks of paper backed by....?

Posted by MadMax on December 24, 2007 4:51 PM

[Report this comment](#)

We have lived through a decade or more of technologically driven increases in worker productivity matched by even more expansive growth in low cost labor being integrated into the global economy. This should have resulted in a prolonged period of falling prices for end products as took place in the later part of the nineteenth century. Instead central banks around the world, lacking any real theory to guide their actions, worked real hard to maintain stable or mildly rising consumer prices. Interest rates were pushed below the natural rate and huge volumes of liquidity slopped about from one asset bubble to another seeking security turning balance sheets into mush. The last time the world had a similar growth in productivity and industrial labor force matched with a steady price level monetary policy was in the 1920's. As happened then the ultimate crisis was one of solvency and not illiquidity, and as with all such insolvency crisis over the past 500 years the speed with which they unfold is driven not by the speed of communications but by the time it takes the human mind to admit that all has been lost.

Posted by Robert Avila on December 24, 2007 4:51 PM

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you are missing a very important graph - volume of corporate bond issuance in US\$ since 2000. You will find 2007 was a record year for funding and investors have jumped in. Coupon rates for many corporate borrowers are near all-time lows. let's look at ALL the facts, not just the selective ones...

Posted by Michael on December 24, 2007 4:47 PM

[Report this comment](#)

Unfortunately, due to the politicization of journalism, you can't know what to believe. It is easy to speculate that there is an ulterior motive behind articles like this which is to affect next year's election. And, Mr. Pritchard is definitely a left-winger. To believe, or not believe, that is the questions.....

Posted by Don DeVan on December 24, 2007 4:42 PM

[Report this comment](#)

As they say down-under, they've stuffed it up. Being old, I've lived the bulk of my life in the "good times". I feel so sorry for the young generation that will fully pay for the sins of the previous three-stooges-generation.

Posted by Ken Sack on December 24, 2007 4:38 PM

[Report this comment](#)

The gold bugs are the most prophetic here in 12/2007. A great opportunity lies with the silver bugs. Many do not know that silver is about 3 times more scarce than gold worldwide. With AU/AG price ratio at 50-1, a windfall awaits.

Posted by T Hanchett on December 24, 2007 4:22 PM

[Report this comment](#)

In answer to Huw:

Why do people harp on about the gold standard? Gold has no intrinsic value either; it has value only because, like money, people think it has value. Its value goes up and down with supply, demand, and speculation, like everything else, including money. Linking a currency to gold or anything else will not help. Restoring confidence in the financial system is the only thing that will help, and good luck.

Posted by Mike on December 24, 2007 4:20 PM

[Report this comment](#)

What's the greatest shortage in today's world? Cold, hard cash! Nothing is paid for. Hence, there is no realistic price to anything -- not real estate, not stocks, and therefore, not mutual funds, not savings. The entire world is set up for an across-the-board collapse that will bring down great fortunes, the hedge funds, powerful leaders, and return us to a simpler world where food, clothing, and basic shelter become our greatest goal, and common unifier.

Posted by BRUCE BUNCH on December 24, 2007 3:26 PM

[Report this comment](#)

We are living in a world of converging crises - from debt currency system to overpopulation, oil depletion and climate crisis just to name a few. In contrast to the 1929 depression, the forthcoming depression is likely to last several decades, not just a few years, as it will partly be caused by physical and geological constraints.

Dear reader, the time to act is RIGHT NOW. In fact it may already be too late.

I have realised the magnitude of the coming crisis some 3 years ago. So I packed in my job, sold our suburban house, taken control of all my little pensions and invested it all, including the pension funds, in a small farm. Here we are now just about self-sufficient not only in food, but also in water, energy and oil for heating and transport. And we supply food to local residents.

You, too, may still just about have enough time to save yourself and your family, but time is running out. If you are lucky, you may have 6 months.

Merry Christmas!

Posted by PaulS on December 24, 2007 3:02 PM

[Report this comment](#)

Scary situation we face now. This is one of the many reason's I support Ron Paul for POTUS. He is the only candidate who understands the financial crisis the US is facing. Sound money, abolish the fed, eliminate the IRS, follow the law of the land....The MSM and people call Ron Paul and his supporters kooky, I now wear that title PROUDLY!

Posted by David on December 24, 2007 2:52 PM

[Report this comment](#)

I'd like to remind George who writes below that 'taxes cannot go up any further...' that in the year before Thatcher was elected, the top rate of tax in this country was 96%. I know... and now we [the taxpayer] have kindly been made accountable for the 100 billion bailout of NR and it's shareholders, do think it couldn't happen again.

Posted by Chris on December 24, 2007 2:49 PM

[Report this comment](#)

Spendthrift governments who play "Father Christmas" to their populations by robbing Peter to pay Paul and then borrowing more on top of that to spend on wars and domestic programs are as much at fault as the poor banking and lending practices on this (the west) side of the pond. The maxim of Lady Thatcher might be appropriate here, "Keep your powder dry and have lots of it."

Posted by Bryan Dabney on December 24, 2007 2:37 PM

[Report this comment](#)

THIS HAS BEEN PLANNED FOR YEARS AND IS INTENTIONAL.
ONE WORLD GOVERNMENT AND POWER IS WHAT IT'S ALL ABOUT.
BUSH HAS PROVED IT BY HIS RECENT ACTIONS.
THINGS ARE GOING JUST AS PLANNED.

Posted by JERRY (USA) on December 24, 2007 2:22 PM

[Report this comment](#)

The next shoe to drop will be the credit card bubble, as people put their everyday expenses on the cards hoping things will turn. They won't. Stock up on baked beans and pilchards.

Posted by Keith McCartney on December 24, 2007 2:18 PM

[Report this comment](#)

central banking is just as foolish as soviet central planning was -- the world knew that gordon brown was a jackass as soon as he sold gold at the bottom of the market -- to expect central bankers to clean up the mess they've created is absurd

Posted by hugues da mousse on December 24, 2007 2:10 PM

[Report this comment](#)

Who owns the Federal Reserve? The answer to that question is all-important.

Posted by Kelly Brook on December 24, 2007 2:09 PM

[Report this comment](#)

This is not credit crisis. It is a solvency crisis. If the largest banks did an honest balance sheet everyone would know this by now. As the average person catches wind of the subprime smoke and mirrors they will rush to liquidate their paper wealth on mass, only to find that their paper is only worth paper. Yes, very like 1929 indeed.

Posted by William Kirby on December 24, 2007 2:03 PM

[Report this comment](#)

What do you expect from socialism? Tax and spend and if you cant tax anymore borrow money from the banks. Inflate and socialise all losses.

"The end of the business cycle" I think Gordon Brown said! When he said this we were in the largest credit boom ever, we are now entering the end of this boom. Due to socialist regulations and economic planning, the only thing keeping the UK alive is NOT independent businesses (our services industry which is all we have left), its government spending (which they borrow) to "stimulate the economy". Well all this central economic planning and increased attacks on our liberties (ID cards, anti terrorist powers, nanny state blah blah) reminds me of something from the recent past....communism.

I would suggest people educate themselves, even if you dont agree with them try looking at some of the following authors you probably never heard of (true free market capitalists and NOT the "phoney croney socialist" based system we have, under both labour and the conseratives which people think is capitalism when it isnt) :

Ludwig Von Mises (see mises institute)

Murry Rothbard

Ayn Rand

Hayek

And even Adam Smith (the invisible hand isnt Gordon Brown's!).

You will soon see that socialism causes a lot of these issues (yes, the USA is just as socialist as we are except they have different priorities).

Also teach yourselves how our central banking system works and how money is created (there isnt any gold in those vaults any more, check out the GATA website). You will see the things

you dont learn in school and may even question why we need a central bank.

If these questions are not asked then one comment by a savvy reader saying that a depression would increase the power of the banks is completely correct. Whether it comes about because of a conscious conspiracy or because it has been the fashion since 1929 to move every aspect of life under government (bank) control I dont know. But yes a group will emerge more powerful from this and with such a dumbed down population I doubt very much it will be the public who enjoys enhanced economic freedom. Keynes was a socialist and we are now facing the consequences of a planned economy.

We need a return to hard currency and the remove the government / crown / monopolised banks the right to issue OUR money turning us into debt slaves and socialising all their spending by inflation.

And before you tell me the gold standard didnt work, have a read of those authors and you will see how government was manipulating the standard during British and then American imperialism and the eventual full adoption of socialism. These are not conspiracy theories its just governments cannot help but tinker with the system and give handouts for polical gain.

Also, dont forget to write to now Prime Minister Gordon Brown to ask if he wants to sell some more of the NATION's gold for around \$300 (or any other paper currency) an ounce, I know some people who would be interested.

P.S if indeed, you do see the world of finance in a different light WRITE to your MPs and demand we debate these issues! Talk to anyone who will listen! The economy is taken for granted and seems to be viewed as something separate from politics when it is the only important thing in politics. So do we want a centrally planned economy giving into the whims of big banks with ever decreasing civil liberties or do we want to be left alone, free and without government intervention? Ideology is not dead in politics and we are in a very dangerous turning point where we face freedom or debt salvery with government control. We need to return to TRUE capitalism without government made manopolies and free from government controls.

Posted by Andrew on December 24, 2007 1:24 PM

[Report this comment](#)

The last labour government nearly bankrupted this country, and Callaghan had to go cap-in-hand to the IMF to bail us out.

Brown is taking us down that route with an increasing soviet type economy built on debit. The last month Brown has started to spend money like no tomorrow. They have managed to lose well over a million manufacturing jobs. There were quite a few people who called the Major's Government a failure, but they managed to attract record inward investments and leave the country with an excellent economy.

If only we could turn back the clock.

Posted by A Walton on December 24, 2007 1:13 PM

[Report this comment](#)

Economics is about modeling human responses to economic stimuli, but the bottom line is that

its also about raw survival politics. The reason why the central banks and governments have failed to react preemptively, to control the spiralling asset boom, is that voters can get hurt very badly in their pockets. It is simply not possible to take carefully judged incremental monetary measures to control such bubble situations so late in the day. Action should have been taken, in both the UK and the USA, to reduce spiralling house prices a couple of years ago. But no politician, or central banker, seems to have the guts to admit to the voters that they can't be as asset rich as they would like to be, without putting the stability of the economy at risk. One should never underestimate the pervasive political influence of the global financial services industry in shackling the politicians and central bankers to limited, inadequate, and untimely policy decisions. The risk is now that the authorities will panic when their models don't come up with the answers. This could be messy, so hold on to your hats, and your money!

Posted by Chris on December 24, 2007 12:54 PM

[Report this comment](#)

Many thanks for all your fascinating thoughts.

To add a point. I don't think anything is inevitable. What we have is a big risk, if mistakes are made. This piece is not predicting anything as such.

The outcome over the next couple of years will be shaped by the actions of the Fed, Bank of England, ECB, and the Chinese central bank. They have considerable power to cushion any effects. The question is whether they will judge the risks correctly at a very difficult moment. Obviously the Bank of Japan misjudged it in 1990-1992, spooked by a false inflation scare.

The Fed misjudged it in 1930-1932. (Although of course, much of the trouble both times was already baked into the pie by policy mistakes years before. Having said that. I am not sure that the US excesses in the 1920s were all that bad by comparison with today.. there was no property or commodity bubble)

I agree that any call to reflate our way out of this mess is a counsel of despair. Such a policy will lead to another round excesses.

Like many of you, I have been tearing my hair out for years watching the debt-bubble grow to dangerous levels. But that is water under the bridge now. At this point, I prefer action to safeguard free-enterprise and the open global system, in the hope we can slowly right the ship in years to come.

The central banks must feel free to cut rates dramatically if need be, without the reproach of moral hazard being thrown at them.

To let this mess run its natural course may be too dangerous.

Posted by ambrose evans-pritchard on December 24, 2007 12:50 PM

[Report this comment](#)

To those who supported the Bush tax cuts I'd ask: how does it feel now? The cuts converted a \$300 billion budget surplus to a \$600 billion deficit, and it was downhill from there. Of course, Cheney didn't think deficits mattered.

Posted by Jack Lohman on December 24, 2007 12:39 PM

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Could we have the first suicide of a serving Prime Minister? Macbrown, hara-kiri would be better than death by a thousand cuts! He is like the walking-dead anyway and still in denial.

I await news that Belgium has split and the Euro has burst. The rider from Ghent is nearing Aix.

Posted by Millie Alfred on December 24, 2007 12:35 PM

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@Stephen - on your first point I disagree. Henry Ford's innovation in America was not the assembly line, but the extension of credit so that workers could consume his mass produced goods. The 1920s were the first modern credit bubble as folks borrowed to buy refrigerators, radios, houses and all sorts of goods. When the stock market fell, real estate (a tangible good) became the next bubble. When real estate debt soured, the banking system went bust.

Posted by Martin on December 24, 2007 12:33 PM

[Report this comment](#)

In 1929 large numbers of people lived close enough to outright starvation to make a huge financial collapse a real world tragedy. Now, despite cries from loose money addicted bankers in Bimmers, even a 1929 style meltdown won't, in the west, be nearly that big a deal. Heck, if the crisis provides impetus for a move to hard money, it may even prove beneficial for those outside the financial community in some years.

Posted by Stuki Moi on December 24, 2007 12:04 PM

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George says: "...so that the world always owes the banks more money than actually exists at any one time."

Well, with regard to household mortgages, the real property still exists and can be resold.

Of course with credit card debt, most of the money has already been spent on goods and services that can't be called back.

Also, of the scary derivatives number, I would like to see a simple disaggregation of derivatives market data. Much of the derivatives number might actually be pretty harmless. Take equity options or options to buy T-bills. Can these really be harmful?

Posted by Joseph F on December 24, 2007 11:52 AM

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In any event, banking conditions aren't likely to change even if \$40 billion in additional 28-day repos actually materialize. Indeed, a Bloomberg report noted "A Fed official told reporters that the U.S. central bank's efforts won't add net liquidity to the banking system. The plans are aimed at buttressing so-called term funding markets, such as for one-month loans, rather than overnight cash." Should be interesting.

Finally, it's worth repeating that the total amount of outstanding repos has increased by only \$18 billion since March, nearly all of which has been drawn out as currency in circulation. Most likely, the Fed will enter a "permanent" open market operation on the order of \$10-20 billion at some point in the coming weeks to formalize that increase in outstanding currency. That move will probably be met by ridiculously over-hyped reporting as well. But it's entirely predictable.

In short, Wall Street analysts aren't paying attention to the data if they believe that the Fed is "pumping" hundreds of billions into the economy to provide some kind of "safety net" for the banking system or the mortgage market. Is it really too much to ask that they make some attempt to understand the subject about which they opine incessantly?

As for the Fed itself, it's a great gift to offer people hope, but a great disservice to offer people false hope, and I think that's what the Fed is doing. What's going on in the mortgage market is not a crisis of confidence that we can talk ourselves out of - it's a problem of structural insolvency, where many borrowers literally don't have the means to service their debt over the long-term, because many of them were counting on rising home prices over the short-term. By acting as if a few billion in repos will substantially change this equation, the Fed is raising hopes, and setting the markets and the economy up for disappointment that will be far worse as a result. Bernanke would be better off admitting that the Fed has no chance of providing meaningful "liquidity" when the Federal government is issuing Treasuries at ten times the rate the Fed can absorb them. At that point, Americans would see better that the resources we need to invest, compete and become a financially sound nation are being hoarded by the Federal government and sent up in flames.

Posted by Dan Dare on December 24, 2007 11:37 AM

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All money is by decree...or fiat

The British Pound has been devaluing for...centuries.

We are just at the start of the balancing of the books that haven't been balanced in centuries...event...or whatever

Posted by Hypertiger on December 24, 2007 11:34 AM

[Report this comment](#)

If the Fed is actually adding liquidity, you'll see not only the two \$20 billion repos on the 17th and 20th, but additional repos to replace the \$39 billion that are coming due this week (\$5 billion mature on Tuesday the 18th, and fully \$34 billion are set to mature on Thursday the 20th). If the Fed does nothing but those two \$20 billion longer-dated repos, all it will have done is to change the maturity of its outstanding repos, without changing the amount.

Now, that's not to say I believe that even if the Fed does temporarily buy \$40 billion of government securities for 28 days, before selling them back out, it will do much for the solvency of the \$12.7 trillion U.S. banking system, much less exotic CDOs and mortgage-backed securities. If you track all those daily and weekly rollovers and figure out the total quantity of Fed repos outstanding at any given time, you'll find that the Fed has only injected \$18 billion in "liquidity" since March.

If investors think the Fed buying up a few billion of Treasury and agency debt means a hill of beans, they might do well to remember that the U.S. government is running up annual deficits in the hundreds of billions. In fact, the U.S. Treasury will float tens of billions of new debt in December alone (most of which will be sopped up by foreigners, who have increased their

holdings of Treasuries by well over \$200 billion in the past year). This will be mixed in with refinancings.

Last week, for example, the Treasury auctioned \$21 billion in 3-month bills and \$20 billion in 6-month bills. In doing so, the Treasury offset every bit of the Federal Reserve's actions this week, even if it turns out that the \$40 billion "term auction facility" represents new liquidity and not just rollovers. Why aren't investors just as interested in that? When the Fed does open market operations, all it's doing is buying up a tiny fraction of U.S. Treasury debt and replacing it with currency and bank reserves. But every time the Federal government issues more debt to finance its deficits, the new issuance cancels out any beneficial increase in liquidity the Fed could possibly provide.

So it's difficult to understand why investors would get all excited about the Fed temporarily buying up a few billion in government securities, when we've got a Federal government that's simultaneously and permanently issuing and then constantly rolling over many, many times that amount. It's an escape into dreamland to believe that Fed actions have any chance at all of providing more "liquidity" when the Federal government's deficits suck up in a matter of weeks every bit of liquidity that the Fed has provided in a year. These Fed actions are nothing but marginal tinkering around the edges of the global financial system, and investors are starting to catch on.

Posted by Dan Dare on December 24, 2007 11:33 AM

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huw [December 23, 2007 11:48 AM] has provided Telegraph readers with a system analysis that is sufficiently accurate for most people's day-to-day needs. We should be grateful for his prescient contribution.

The issuance of debt as a tool to inflate and enrich bankers was invented (2 or 3 centuries ago) by a certain group of people who shared a certain socio-religious identity. This same group were persecuted during the 20th Century, in part, for the role they also played in the Weimar Republic. This debt mechanism (growing money on trees) has helped Princes, Kings and Queens for about three centuries, and in the meantime facilitated the killing of millions through debt-financed war.

We need to end the influence of this particular group (which I cannot name explicitly for obvious reasons) without resorting to persecution! Instead, we must apply knowledge and understanding, and pass through a period of "cold-turkey" so we may purge our financial system of the scourge of debt, which only ever leads to the creation of fiat currencies. We must face down this demon and slay it once and for all. Socialism is not the answer, but basing a financial system on smoke, mirrors, and intangibles is more suited to a Harry Potter novel, and not the foundations of a system we should be able to defend morally and ethically.

The importance of Bankers in our culture has been grossly inflated, when in fact they have no more real worth than Estate Agents. It is Engineers, Scientists, and Technicians who make and sustain cultures, whilst giving real value to assets. When a culture starts to reward bankers, pop singers, and even young female dancers with salaries running into the millions, you know the end is nigh.

Britain needs to reject all American influence and get straight back to its own native roots so it can begin to repair the damage 60 years of American Imperialism & hegemony (i.e., cultural,

economic, & political) has caused. The world would be a better place if it had more British maturity and far less American puerility to guide it.

Finally, the Telegraph employs many excellent writers & commenters, but Ambrose is a shining star. Few of us could thank him enough for his 2007 specials.

Merry Christmas to all! Remember ... always have faith in the future; putting faith in politicians has caused us this mess, so we do deserve collective punishment. Let us take it like the men we are. We will get thru this eventually and be stronger & wiser for the experience. Be cheerful & brave.

Posted by Errol Flynn on December 24, 2007 11:29 AM

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there is only one way to sort all this mess out, and that is to sit back and do nothing,.

Posted by w .stone on December 24, 2007 10:14 AM

[Report this comment](#)

POINT OF MAXIMUM DELUSION.

Debt, debt and more debt and the great bankers solution, lower, lower and still lower interest rates - keep cutting interest rates and keep the delusion party going.

There's just be a small snag, however, a gigantic small snag! All those millions invested by foreigners in Government treasuries who expected, in good faith, a fair return - what about them? What happens when they do the obvious and bail out?? One massive humdinger of a currency crisis.

There is no clever way out of this mess that has taken nearly 20 years of blind fiddling to create. We are at (or just past?) the POINT OF MAXIMUM DELUSION and what follows now is a return to reality and truth. Two and two still make four except when debt implodes and then they can quickly make eight or more - lots more unpayable debt!

Posted by Laurence Rutherford on December 24, 2007 10:11 AM

[Report this comment](#)

A depression is coming and it has nothing to do with a self-fulfilling prophecy. It has been manufactured. Depressions create fear and unrest which can be manipulated. In order to protect ourselves from this people need to go back to local networks. No more Tesco, cars and Government looking after you. Farmers markets (which will become cheaper than imported food), walk or cycle and start looking after your neighbours. In other words: community.

Posted by dan on December 24, 2007 10:05 AM

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A good time to leave the country. Cheerio Gordon.

Posted by Chris F on December 24, 2007 9:42 AM

[Report this comment](#)

Check out Congressman Dr. Ron Paul's numerous speeches, debate clips, particularly his

lengthy questioning of Bernanke before the House Banking Committee. A Ron Paul Presidency will finish off this utterly corrupt criminal banking syndicate's "house of cards" and restore REAL sound monetary power and policy to the nation strate governments where it belongs. The central banking cartel is a RICO action that has destroyed Europe, is in the process of bankrupting America, and will destroy the world if they are allowed to continue. The world will function very well without this criminal syndicate.

Let us also not forget however: this criminal bunch is also responsible for assassinations and assassination attempts throughout history -- we are dealing with the most evil of the global elitists. Money is power -- seize their unjust money and their uncontrolled power and save humanity. The answer and the solution is really quite simple

DR. RON PAUL FOR PRESIDENT 2008!

Posted by President Washington on December 24, 2007 9:38 AM

[Report this comment](#)

The US and Europe still spending like there's no tomorrow while mired in debt. Much of the debt owned by the Asian economies, which sit on a growing mountain of cash. Who has the power now?

Posted by Big Spender on December 24, 2007 9:30 AM

[Report this comment](#)

When wondering why what is going on, is going on, it is useful to reread Alan Greenspan's article Gold and Economic Freedom (available on the Internet). In it he gives the following explanation for the Great Depression (I have slightly shortened the passage):

When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage.... BAnk of England refused to allow interest rates to rise when market forces dictated.....

The "Fed" succeeded... but it nearly destroyed the economies of the world in the process. The excess credit which the Fed pumped into the economy spilled over into the stock market -- triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank failures. The world economies plunged into the Great Depression of the 1930's.

Sounds familiar?. Now the Central Banks wants to drop money from helicopters to stop the money supply contracting:

QUOTE

The central bank could instead give money to the private sector without taking debt in exchange. Some call this a money 'rain'. A money rain will increase wealth (WHOSE?)and boost

consumption and aggregate demand, temporarily raise equilibrium real rates (lowering actual real rates relative to equilibrium) and increase expected (??!! inflation...

[link](#)

page 36

Why do we have to have money whose value is determined by unelected or anonymous bureaucrats?

Posted by huw on December 24, 2007 9:26 AM

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Ambrose Evans-Prichard uses the term "sub-prime lepers". We can all certainly do without such negative ignorance in the media. If Ambrose were here where I am, he'd be receiving a very severe sub-prime bloody nose right now. I and all of my neighbors are sub-prime and we are all still in our homes!! On the other hand, these central bankers like Criminal Mervyn King and Helicopter Criminal Bernanke print money out of thin air that is very definitely not theirs to own and still can't make ends meet. So let's get the shoe on the foot where it belongs.

Posted by Tom Lowe on December 24, 2007 9:10 AM

[Report this comment](#)

The over emotional quote of an obscure academic is not sufficient grounds to predict gloom, doom and 1929 style disaster.

A calm analysis of the root cause of the current problems lies in the inter-bank market. A number of banks, mainly American, have sold supposedly rock solid asset backed mortgage securities to unsuspecting banks around the world. Many of these loans have turned out to be worthless as assets. Just how many is as yet unknown hence the risk aversion in the inter-bank market.

This mistrust can be cured at a stroke by Central Banks forcing banks issuing these "securities" to take them back onto their own books. This may well lead to a consolidation among Wall Street Banks. But that is a small price for them to pay for the chaos they have caused since August.

The Euro and the European Central Bank have been a haven of tranquility and stability whilst the Anglo Saxons economies have endured paroxysms of shock and disruption. Their actions in dealing with this Anglo Saxon crisis has been masterful and an object lesson to the Bank of England.

Posted by John Collins on December 24, 2007 9:03 AM

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This is wonderful. The American and British people are sooo stupid. They think there is a free lunch and that the government can provide for their safety.

However, when the depression hits, they are going to be his big with high unemployment and hungry men, women, and their children on the streets. It will not be a total loss; they will get a much needed educations

Posted by D Wornock on December 24, 2007 8:35 AM

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All this comes from Banks' hiring people who can't do simple arithmetic. Also, it seems no one thought through how these Collateralized Drivel Obligations would actually "work"; sort of like a huge valve installed in the New York City water system in 1902 or so which the water authorities dred having to use. It was tested once--in 1902. Whether it would turn again is another matter.

Guess I'd better quitely sell and walk carefully to the bomb shelter.
Relieved we haven't heard from the Ron Paul crowd. Beware Gold Inflation!

Posted by Nathan Redshield on December 24, 2007 8:09 AM

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Terrifying! I see you didn't hold back anything in the use of language, to get that across. I have been expecting this for five or six years now but, because it hasn't happened, I see this as only one of the possible outcomes. The transfer of assets from us to Asia has obviously begun - and this is a necessary thing - and completely in line with straightforward over-spending.

The other option is a shift in power, and the needs for the developing economies to keep their trading partners afloat. I'm not sure I can dismiss this idea that we are looking at a new economic paradigm. China, India, Korea and the internet all point to a possibility that our profligacy will be bailed out as the opening stages of that new pattern. We probably have to have inflation to get the debt burden down, and we will probably see some misery; but it may not be as bad as the structural faults indicate.

I have mentioned before on this site that the Americans pulled off a neat trick of increasing their debt for decades while improving their standard of living every year. That was a paradigm shift in economics and I'm not sure we aren't seeing something similar at the moment.

Views from those people who know more about this than me (obviously including the author), and who have a twinge of instinct that there might be something in this, would be most welcome.

Posted by Christian Thomas on December 24, 2007 6:47 AM

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Interesting series of "connected predictions". Reminded me of the domino theory postulated by the hawks trying to keep us in Vietnam back in the 70's.

Where in the equation are the effects on oil prices and currency exchange rates? If all comes to pass how do we include the tremendously positive effect of a stronger dollar and vastly reduced crude prices on the world capital markets? Using 1970 as a basis, adjusting for inflation, and reducing the speculative pricing in crude we can see sub \$40 crude, and the dollar strengthen by better then 50%. It would be great to see that factored into the mix. Add in the likelihood of reduced US Federal deficits for good measure.

Posted by Ed Knau on December 24, 2007 6:34 AM

[Report this comment](#)

The story obfuscates interbank lending rates when it says "Spreads on three-month Euribor and Libor ...are stuck at 80 basis points". I can only presume this means interbank rates are now 80bp above central bank cash rates or short term government bond rates for the same

maturity

Posted by Norm Sturrock on December 24, 2007 6:04 AM

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"There are currently no comments for this entry."

Pretty much sums it up...what's there to say about financial Armageddon.

Posted by Brian Tilley on December 24, 2007 5:41 AM

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They did it to themselves and got too greedy, snorting too much coke off the old financial paperwork most likely, the proverbial fan is spinning standing by to sling whatever ends up hitting it...I'll never hold another credit card so long as I may live...

Posted by Bert on December 24, 2007 5:24 AM

[Report this comment](#)

The system needs a strong contraction. To many houses have run ponzi schemes defrauding investors for too many years. Heads need to roll and prosecutions undertaken of individuals who disguised and sold the suspect paper as investment grade. Many managed groups should absorb the rat eaten cheesy paper within their asset bases and write off the mountains of crud. The market needs kill off the worst insolvent organizations and terminate the employment of many of thieves.

Posted by Larry Hallatt on December 24, 2007 5:13 AM

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Why so gloomy - the 1929 depression was cause because there is no liquidity in stocks. This financial crisis is now under well control, the central banks are loaning out money, the labor, eurobor needs to go down so all these ARM can go down to where they should be - at 5.25%. The investors in these CDO, SIV and what other schemes are going to wake up and learn that risky bonds are risky, and they should just buy US Treasury instead.

Posted by Dave on December 24, 2007 4:49 AM

[Report this comment](#)

I don't wish to be the skunk at the garden party, but look--Modernist bankers/central banks have been employing fiat currency (pseudo-money) to fuel economic expansion and the Leviathan Modernist state since October 1914. In the 1990s pseudo-bankers and financial industry profiteers decided they could fuel greater expansion by employing pseudo-equities to the same effect. Now in the USA the Fortune 500 megacorps owe more debt than they have in asset value (check out GM and Ford for starters), and pseudo-equities abound ("derivatives"--oh, please!). The Modernists have achieved worthless fiat currencies and worthless pseudo-equities. There can be NO MAGIC BULLET! Tilt--Game over! Predator Capitalists in their avarice have sucked all the value out of currencies and equities. That's all, folks! In essence, the West is broke, sucked bone dry by Modernist Ideologies and Predator Central Bankers and Capitalists. "If you can keep your head when all around you are losing theirs, perhaps you haven't heard the news yet."

Posted by Franz von Kyberg on December 24, 2007 4:34 AM

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I think people have to get their heads around a perpetual bubble.

Posted by bubbleben on December 24, 2007 3:42 AM

[Report this comment](#)

The trashing of the West's economic/financial well-being is not by accident or happenstance, but by design, according to this Web page:

[link](#)

Posted by Deacon on December 24, 2007 3:07 AM

[Report this comment](#)

The crisis is limited to interbank lending. Banks are perfectly willing to lend to quality borrowers. The broader economy is not at risk.

The corporate bond market could be revived if Moody's, Fitch, and Standard and Poor could be replaced by rating agencies of integrity. AAA mortgage bundle fraud cannot be undone without new rating agencies, and new AAAAAA ratings.

Banks don't lend to banks because banks are not credit worthy. Bankers sold their morality along with the bundles of mortgages they know could never be repaid. One could say the banks suffer a crisis of morality.

Main Street is fine except for the folks who purchased homes they could not afford on usurious terms. They shall return to the shanty towns from whence they came.

The Fed correctly perceives the inflation dragon as the enemy. 4.3% inflation per month works out to 50% per year. Such a rate befits a fiat currency backed by full faith and credit in a police state regime that pursues wars of aggression, renounces the Geneva Convention prohibition against torturing prisoners of war, renounces the US Constitution prohibition against unreasonable search and seizure, renounces the Magna Charta right to habeas corpus, and destroys evidence of these high crimes and misdemeanors.

The issue is currency collapse and credit collapse due to lack of integrity on the part of bankers, the US Government, and the Federal Reserve. Sanctions follow indulgence in crime. Prudence rejects their debt obligations.

The Fed does not help matters by lending money to bankrupt banks and thereby expanding the supply of a collapsing currency. Let the bad banks collapse. Plenty of banks in the world are able to lend sound currencies backed by bustling asian economies, oil, and respected governments. Chinese banks have two trillion dollars to lend. Middle Eastern banks have equal assets to lend. Japanese banks and the Yen appear to be sound.

Some US banks will survive if they take care to avoid lending to the insolvent. The insolvent banks must be exposed before bankers can trust bankers. The US Government must be replaced before its debt obligations can be trusted. The US currency needs to have more value than the paper it is written on.

Posted by KGB on December 24, 2007 2:59 AM

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Judgment Day is coming

Posted by Anthony on December 24, 2007 2:51 AM

[Report this comment](#)

If the coming crisis will make 1929 look like a "a walk in the park", God help us. We all know that the Great Depression led directly or indirectly to World War II. How did the war end? Why with an atomic bomb, of course. Somebody has to have the courage and presience to save us from a catastrophe, even if it is our own making.

Posted by Lydia E. Dugan on December 24, 2007 2:47 AM

[Report this comment](#)

well...with a \$48 trillion debt load in America....Mr B will have to print dollars for the next 10 years just to cover up all the dang blunders that has been made by the stiff shirt "my sh!! don't stink" nincompoops of Wall Street.

[link](#)

Posted by madmilker on December 24, 2007 2:15 AM

[Report this comment](#)

I firmly believe that Professor Spence is correct in saying that there is a narrow window of opportunity to fix what is wrong before it overwhelms us all. The problem is that the Central Bankers are currently operating on a basis of politics more than economics. Given the adversarial nature of politics, I doubt if they could agree on what to do let alone do it in time.

Posted by Jim Bennett on December 24, 2007 1:37 AM

[Report this comment](#)

There are worse "ghosts" than inflation! People not having a roof over their heads are worse!! And plenty of historians can assure that 1929 was a mass hysteria, and finally many got well out of it!!! But, as is commonly said, "when America sneezes, Europe catches a cold!"

Posted by Historian Erik O. Paulsen, OH,CWVM on December 24, 2007 12:52 AM

[Report this comment](#)

The governing banks of each nation should force all its banks to declare their Exposure to Prime Dept Markets,so that we can see the size and shape of the problem. Then we can take out the 'bad' case banks so the system can go back to lending to 'good' banks.The dud banks can be sequestered until an understanding of solutions found and implemented.. painful but puts confidence back in the good banks

Posted by declan mansfield on December 24, 2007 12:36 AM

[Report this comment](#)

The BOE has been aggressively adding liquidity in the direct response to Northern Rock. The ECB has restrained growth of its monetary base until last week. But the net addition was nowhere near the \$500 billion that that US financial media reported. My calcs on the ECB's adds last week shows that the net was "only" around €125 billion, which is still enormous. It expires on January 4, so it will be interesting to see how much is rolled over. We have to see

this in the context that the EU credit markets are frozen, and the banking system, virtually so. The EU also faces unusual year end rollover pressures. So it remains to be seen how much of this credit becomes permanent. It also remains to be seen just how much offsetting "money" has been destroyed in the ongoing chaos.

In contrast, the Fed has been tight, extremely so, especially for this time of year. The Fed totally offset the add via the first TAF auction through a variety of actions. The net result was that they reduced the SOMA by \$9.4 billion on the week. The 4 week net now shows an incredible drain of over \$16 billion. This is far tighter than at any time over the past 4 years during this period, when the Fed is usually adding reserves hand over fist.

Virtually no one in the US media noted that the Fed has now redeemed \$35 billion worth of its T-bill holdings in the SOMA over the past 3 weeks, including the announced \$14 billion redemption setting Thursday 12/27. The Fed has stated on the NY Fed website that it intends to continue these transactions as necessary, along with considering reverse repurchase agreements and Treasury bill sales. This is the flip side of their announcements regarding the TAF auctions.

The rapid growth of MZM and other broad measures is directly correlated with the flight of investor \$ out of the ABCP market. The declines in ABCP outstanding match, virtually dollar for dollar, the simultaneous growth of Institutional Money Funds and Non-transaction deposits in banks. This is a temporary phenomenon that will end when there's no more cash to be had from the ABCP market.

The Fed's tightness seems geared toward restraining this broad money growth. As you noted that could be a deeply flawed strategy. Considering that much of what is reflected in the data in the broader M's is fictitious capital, that is, bad or even worthless paper that is yet to be written off, I believe that the reported data on money supply is grossly overstating the actual totals. The facts should become clear at some point next year as the writedowns and writeoffs grow. Sooner or later, probably sooner, some institutions, rather than bailing out their money market funds as we have repeatedly seen this year, will choose instead to allow these funds to break the buck, in turn revealing that published money supply figures are wrong. As the values of money market funds adjust to the new reality, so will the data on broad money supply.

Posted by [Lee Adler](#) on December 24, 2007 12:17 AM

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Talk about hyperbole

Posted by [Jojo](#) on December 23, 2007 10:44 PM

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I am not sure why, but the term 'vital nerve' reminds me of the collapse of certain buildings on 9/11. You know the ones I mean. It was especially dramatic because they became rubble so suddenly, "the central core of the buildings was compromised", they say. This was never supposed to happen, remember, in normal circumstances.

Gordon Brown, and our friends taking part in the European experiment, may have exposed the central core of the banking system to compromise.

I in no way wish to demean the 9/11 tragedy, but the resonance for me is very strong. The

damage to the banking system can be so subtle, no one notices, until it's too late.

I pray that I am wrong.

Posted by Alan Burt on December 23, 2007 10:14 PM

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This is sad story but very interesting. By every day we are closer and closer to unprecedented financial troubles. Unfortunately financial markets are not isolated from international affairs. Kosovo, Middle East, Chinese dollar reserves, US radar base in the Czech Republic etc. have close ties to the next development on financial markets. These mentioned points have enough power to speed up the problems and bring us very close to much worse situation than it was in 1929 even if only one of them spark.

Posted by Jiri Rehor on December 23, 2007 10:13 PM

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This is the reason all the anti-terrorism legislation was introduced all across the Western World.

Just as the world knew 15 or 20 years in advance of the collapse of the British Empire and later, the collapse of the U.S.S.R. the Ruling Class are well aware of China's rise as the worlds new economic power.

America is presently doing exactly what Britain and the U.S.S.R. did prior the collapse spending themselves into bankruptcy via military spending in an attempt to stave off the collapse.

Calm

Posted by Calm on December 23, 2007 10:10 PM

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Of course what will be uncovered last, and will be by far the biggest scandal, is all the fraud by mortgage originators, banks, savings banks and other industry insiders. I will make a bold statement here, there is not a single TILA disclosure for Option Arms mortgages anywhere that conforms with the TILA law. Not one.

Posted by Not A. Bushbot on December 23, 2007 10:04 PM

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what caused this problem GREED ON A GLOBAL SCALE
rod I.O.W

Posted by rodney burt on December 23, 2007 9:53 PM

[Report this comment](#)

Larouche, Larouche, who is Larouche? Did Ambrose-Pritchard predict this?

Posted by Richard Williams on December 23, 2007 9:34 PM

[Report this comment](#)

I am, I think, most alarmed by the fact that 12 hours after being published "There are currently no comments for this entry."

It speaks volumes.

Given that the Federal Bank allowed (wanted, caused!) The Wall Street Crash to happen - might we not ask who or what wants this global meltdown to happen. Who stands to gain - control and power, of course.

This didn't just happen in the last 6 months, and it's hard to think that the movers and shakers weren't aware of it - or else what the heck are they talking about at Tripartite/Davos/Bilderberger meetings if it isn't money and power and how to get it? And it didn't just happen because people are greedy - just as The Wall Street Crash didn't "just happen" either. So - what's it FOR? What's the story? What's up?

It will be interesting to see what emerges as the pseudo-messianic politico-economic "necessities" that will be presented as the only solution to the coming crisis. Universal chipping, anyone? Or is that for after the next fabricated crisis?

Interesting times.

Posted by JacquesArden54 on December 23, 2007 9:33 PM

[Report this comment](#)

The above article is a hysterical description of the problem. It is likely that some firms will go bankrupt. The important fact is that the percentage of mortgages, car loans, and credit card balances that are bad is still a small percentage and by no means a threat to derail the economy and at some price they will be acquired. It very likely will leave a few players bankrupt. Overwhelmingly americans have considerable equity in their homes. This is nothing like the Savings & Loan crisis and it didn't bring the house down. WW

Posted by victor Van Wallegem on December 23, 2007 9:10 PM

[Report this comment](#)

I agree with a lot of this article. But I certainly do not agree with the central banks pumping vast amounts of credit into the already bloated banking system.

People conspicuously fail to see central banks as businesses, nor appreciate that it is treating central banking as business that allows optimal outcomes.

In this case there is a very good reason why interest rates have been rising. Lending banks have made a large number of loans backed by property that will probably not be worth what they lent on them for decades now. Interest rates need to rise to allow banks to recuperate their losses, and simply to reflect the higher risk environment we are now in.

Instead of letting interest rates find a new (higher) level, they are cutting rates. Fortunately this doesn't do to much harm as the rate that counts is the LIBOR rate and not the bank base rate. Nevertheless lowering rates is completely the wrong response: the banking crisis is not caused by a shortage of credit. It is caused by a shortage of viable assets to lend against.

If houses are no longer secure investments the answer is not to reduce interest rates and keep writing mortgages. The answer is to reduce mortgages issue until the price of those assets is realistic again and not going to fall any further, and in the meantime to have much higher

rates to reflect the insecurity while still generating a return.

Also, inflation is currently vastly understated and rising at an accelerating rate. rates are needed in such circumstances simply to allow a central bank to generate a meaningful return on its capital.

Posted by William Palfreman on December 23, 2007 9:03 PM

[Report this comment](#)

I'm an educated man, 2 MAs, but am not a finance man. This is undoubtedly important stuff so please write it such that everyday readers can make full sense of it. Don't you know that if you can't explain it in simple terms, it means you can not fully understand it yourself?

Posted by RMJ Atkinson on December 23, 2007 9:00 PM

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The great economist Ludwig von Mises warned us of this decades ago. He said:

"This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.'

"But then, finally, the masses wake up. They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against 'real' goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.

"It was this that happened with the Continental currency in America in 1781, with the French mandats territoriaux in 1796, and with the German mark in 1923. It will happen again whenever the same conditions appear. If a thing has to be used as a medium of exchange, public opinion must not believe that the quantity of this thing will increase beyond all bounds. Inflation is a policy that cannot last."

Posted by fazsha on December 23, 2007 8:28 PM

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Economic Terrorism!!

The US has been so afraid of and fighting terrorism since 911 but in the meantime they>>from Allan Greenspaw on down have been have masterminded the biggest TERRORISM of all "FINANCIAL/ECONOMIC TERRORISM" and have exported to every corner of the world and as this article says it's going to make 1929 look like a walk in the park>>Greensawn and the Wall Street fraudsters should be all arrested and placed in Gauntanimo for what they have done>> but as usual the mobsters will go free and the average joe will be saddled with the fall-out from all that coming down!!

Posted by dennis ott on December 23, 2007 8:25 PM

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How come nobody has anything to say on this. ??? The end of the world is nigh? (How do I pay school fees if the market goes down the plug hole).

Light Xmas reading - sorry too busy pressing the sell button. Who gets left holding the baby?

Posted by Chris Murray on December 23, 2007 8:24 PM

[Report this comment](#)

With regard to the recent debate on interest rates, surely a marked slowdown or even halt in UK house price growth can only be a good thing. It is this feeling of increasing personal wealth every month of every year that drives our country's obsession with consumerism, and why we recklessly build up ever more personal debt on a perception of the endlessly increasing worth of our main asset. Why should my home be worth 10%, 15% or even 20% more this year than last year - it will only be if enough people are prepared to believe that it is. In spite of the apologists with vested interests (which now includes most of us), there is NO logical reason for house prices soaring ahead of annual salary/wage increases. Surely someone someday is going to wake up and say "the Emperor has no clothes".

Posted by Brian Bell on December 23, 2007 8:16 PM

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We're all doomed! Doomed I tell you!

Posted by Doom on December 23, 2007 8:07 PM

[Report this comment](#)

Yes, the credit soufflé, again.

I'm sorry. But as one with cash in the bank, and no debt, I have to question the value of anything any economist has to say today.

An economist is a Derby hat with nothing underneath it.

Were I in the shoes of any one of these these teetering mortgagees, or even the shoes of anyone who still owed more than 70% of the original mortgaged purchase price of a domicile, I would let the bank have it back. You simply owe likely 5x what it is worth. Let the bank have it for that price. They are the ones who underwrote it, right?

I'm honestly seeing the incredible happen though. There is an old expression, one grown trite over these oddly bilk ridden years, Once shame on you, twice shame on me!

Anyone who cannot figure out the numbers and understand the mortgage/insurance/realtor/bank industries simply gambled everything that they could trying to make housing quadruple, even quintuple in cost and keep people paying the absurd price of the shacks these industries now own, is simply a fool.

Let them have it back. You'll soon enough buy it at 10% what they are asking for it in a foreclosure sale, all boarded-up, and sold "as is - where is" with no guarantees whatsoever. I mean what is THAT worth anyway?

Grande Tripe is all that the purveyors of pyramids of endless credit are selling in a fool's economy.

Central banks would do far better to raise rates and give the populace a reason to save their money.

This is how real economies are built, economies that last more than just a few bubbling years.

It's called hard work, and letting the fools suck wind until the wise up.

If it looks too good to be true, it is. And, if you have to work hard for it, it might just be worth the effort and able to teach you not to throw it away.

Don Robertson, The American Philosopher

Posted by Don Robertson, The American Philosopher on December 23, 2007 7:56 PM

[Report this comment](#)

This article raises the blood pressure but in the end brings it down !This roller coster ? ride is not good for us living in free world. People in the controlled world might say "heck with your system, we are better of in a socialist system". There is indeed some thing wrong with the mind set of people, those who run day to day systems in free world and make policies. They will either conquer the world or go down in the history as monkeys !

Posted by amar duggal on December 23, 2007 7:51 PM

[Report this comment](#)

I made the comment not long ago to watch the next wave...that being credit card default. This last ingrediant will spoil the pot past any salvation. Play your cards close to the vest and stock up on baked beans and pilchards. Kudos, Mr. Evans-Pritchard for another inside look at this global beehive.

Posted by Derwentwater on December 23, 2007 7:02 PM

[Report this comment](#)

Fear and Greed. They make markets. And Fear has no better friend than the media and the battery of commentators who make a fat living by predicting a repetition of 1929, Chinese hegemony etc etc.

Fortunately since 9-11 the world's investors have become a little more inured to a world which is wholly unpredictable, so such commentaries take on more of the character of the court jester than formerly. and a good thing too!

Posted by Joss Wynne Evans on December 23, 2007 6:57 PM

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Got Gold?

The bottom line is that the entire banking system is based on debt. Debt is money, money is debt. If you don't understand that, or you're in denial of that you don't understand monetary policy, macroeconomics or post-Keynesian banking: AND YOU NEED TO. This paper you call money is only valuable if the banks can create more debt. Once a critical mass of debt has been reached only two possible things can happen: A deflationary collapse (you don't ever

want to experience that), or runaway inflation created at the central level in an effort to postpone the deflationary collapse. There is ONLY one class that gains value in such an environment: fixed supply commodities. Gold, silver, wheat, oil, etc. (And for those who think consumption goes down in a deflationary environment: LOL. You're cute).

Posted by See the Future on December 23, 2007 6:49 PM

[Report this comment](#)

Not a bad piece, except that the writer ignores the reality of Central Banking.

It was Tim Congdon - referred to in the article - who recently let the cat out of the bag in the FT.

[link](#)

The fact is that the longer the Northern Rock fiasco goes on, and the more money is actually minted and lent by the Bank to Northern Rock, then the more money the taxpayer will make.

That is the reality of Central Banking. The money created by the Bank costs nothing, but makes (at current base rate) 5.5% and this "seignorage" is the privilege of those who create money.

It's about time a quality newspaper like the Telegraph actually followed the FT's lead and printed the truth, because that opens up the way to simple but radical solutions which will not cost "tax payers" a penny.

Such as the creation of a "default fund" into which this seignorage may be paid, and from which any losses - after the shareholders have taken the first hit - would come.

Posted by Chris Cook on December 23, 2007 6:46 PM

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Perhaps a useful follow up would be a point by point set of actions that ordinary folk can follow immediately to better insulate themselves from the meltdown scenario the writer outlines.

Posted by John Ish Ishmael on December 23, 2007 6:39 PM

[Report this comment](#)

Kudos for an excellent article Ambrose. The only thing I'd take issue with is the comment that the 4.3% inflation figure may be a "rogue" figure. It's "rogue" alright, but not in the way the Fed and the Bureau of Labor Statistics (BLS) would hope. Both the Fed and the BLS are desperate to obfuscate any price increases behind hedonics (quality adjustments) and computer-modeled substitution and geometric weighing. The BLS & Fed want to ignore the staggering increases in the costs of healthcare, education, housing (until recently!) fuel and food, and instead emphasize the great deals we can get on cheap plastic Chinese lawn furniture and iPods. They hope the American people, scared stupid by both the Administration & T.V., won't catch on, and that the rest of the World, still in need of the UberConsumer, will ignore & play along to save this gravely wounded economic system.

The problem is that the Internet has provided a forum for a lot of v. smart people (e.g., you, Barry Ritholtz at the Big Picture and many others) to seriously challenge the bought & compromised status quo.

In the end, isn't it all about extending America "Full Faith and Credit"??

Posted by John Badalian on December 23, 2007 6:27 PM

[Report this comment](#)

I believe that this is the most important quote from the article.

"Liquidity doesn't do anything in this situation," says Anna Schwartz, the doyenne of US monetarism and life-time student (with Milton Friedman) of the Great Depression.

"It cannot deal with the underlying fear that lots of firms are going bankrupt. The banks and the hedge funds have not fully acknowledged who is in trouble. That is the critical issue," she adds.

In my view, the fundamental problem is that corporate interests have successfully advocated policies that bankrupt the middle class, such as the H-1B visa program.

Between 1998 and 2000 Microsoft expended tens of millions of dollars to expand the H-1B visa program. As this 2 October 2000 article notes at its start, "As the 106th Congress winds to a conclusion this week, members of the House and Senate are poised to vote on the high-tech industry's most important lobbying issue of the year, an immigration bill that would expand the number of work visas available for skilled foreign workers.

If approved, it would mark the second time in less than two years that the computer industry has successfully argued for an increase in the six-year visas."

[link](#) Daily Telegraph readers should not be surprised to learn that corrupt barrister-lobbyist Jack Abramoff and his team played a central role in this corrupt legislative activity. (The author's investigative article on this topic is in press. It will be published soon in The Social Contract. Copies available on request - see my email address in the author's 2005 article: [link](#)

These special visa programs have become "bloated government subsidy programs" with over 25 million visa admissions in just five visa programs between 1975 and 2005 (details on request.) The cumulative economic impact of these destructive programs can no longer be ignored, even if further wealth accumulation by such "robber barons" as Bill Gates, III is imperiled, IMO.

Recall it was Milton Friedman who noted in a July 22, 2002 article that the H-1B visa program is a "government subsidy." [link](#)

Here is a Wikipedia article about Anna Schwartz to help you understand her clear understanding of the U.S. economy. (Anna was born in 1915)

[link](#)

It is a bit strange that we have to learn this news from a UK paper. I live in San Luis Obispo, California, USA...

Posted by Dr. Gene Nelson on December 23, 2007 6:19 PM

[Report this comment](#)

That is a very scary piece, but as always with this government whatever they do will be too little too late.

Posted by Mr Barnett on December 23, 2007 6:13 PM

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I hope this article is a contrarian indicator. If one truly looks at the likely losses from creditors of all types, it looks like this averages out to about a 10 to 15 percent haircut. Obviously some take a bigger haircut, some take less, but even 500 billion in losses is insignificant compared to global gdp. This is "animal spirits" working in reverse. This is purely a fear response. I sure hope that this article is the peak of the fear

Posted by dude in the usa on December 23, 2007 6:06 PM

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Don't worry. Be happy. And by the way, Brother, can you spare a dime?

Posted by bosco on December 23, 2007 6:04 PM

[Report this comment](#)

You seem to imply that it should be even easier to borrow money - surely this is the reason for the mess in the first place?

Moreover, why should those who are financially prudent get such a poor return on their savings? Do you want to encourage more savers or more spenders?

Posted by alex on December 23, 2007 6:01 PM

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MY question, is this a surprise? I was reading and hearing of this situation 3yrs ago. Its like a train wreck, even at 15mile per hour, seeing it coming, there was time to make moves. But is seemed as if the train driver accelerated even in the end. why?

When the axe finally falls, those with cash, will buy up everything for pennys on the dollar. Perhaps I answered my own question...

Posted by dresan on December 23, 2007 5:58 PM

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All of the coverage omits the central point. The securitisation process is so sloppy and the financial system is so corrupt that in about 40% of CMO's the holders of the paper cannot prove that they own the mortgage. Judges in the US are starting to throw out foreclosure suits. The Banksters are in real trouble and lawsuits will follow.

Posted by Bill Jones on December 23, 2007 5:47 PM

[Report this comment](#)

Gordon should be charged with treason for leaving this country's finances, and by extension the economy and all our defences and the police police and again by extension the National

Security in a perilously dangerous state.

Posted by Ken Hall on December 23, 2007 5:46 PM

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The solution to this credit crisis is very simple. The credit markets at the moment are like a lake full of radioactive waste, which is why the horses (read banks) are refusing to drink from it even with the additional liquidity being pumped into it. What should be done is a total cleansing of the lake by banks recognising and making provisions for their toxic loans. It is then and only then that the horses will start drinking and investor confidence will be restored.

Posted by anthony on December 23, 2007 5:41 PM

[Report this comment](#)

Ambrose, you are so right. Enjoy this Christams. 2008 could bring a Black Christams - unless you own gold.

Posted by oldasiahand on December 23, 2007 5:38 PM

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Finally someone has realised what will probably happen after western world has borrowed so much over the last decade. the new super powers in 2015 will be Russia, China and the middle east, after they buy up everything on the cheap. big financial upheaval will happen in 2008, I recon John

Posted by JOHNDONNALANE on December 23, 2007 5:36 PM

[Report this comment](#)

Brown will go down in history as the worst chancellor this country has ever had the misfortune of knowing.

It looks like his economic miracle has come to an abrupt end.

Posted by Ad on December 23, 2007 5:32 PM

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Wouldn't it be in the interest of banks for the interest rates to go sky high, to say 15%? This would allow them to rake in massive amounts of interest, like in Volker's 80s, on the back of the preceding loans splurge.

Isn't this what the interbank rate is telling us - banks want more interest?

And isn't this just as plausible as a UK housing crash seemed a year and a half ago?

[link.](#)

[html](#)

Posted by gordong156 on December 23, 2007 5:17 PM

[Report this comment](#)

Hmmm,

To deliberately crash the world economy.

For a premier developed nation to borrow enormously from a premier developing rival nation, and then default the debt.

The borrower is so large that the default effectively resets the world economy, the lender so dependant on the former to finance its development is totally pole-axed by the default.

It is painful to reset the clock for the developed nation, permanent damage is done to its international authority, but everyone takes the hit, and most importantly the rival developing nation previously set to overtake is now frozen in amber for a couple of generations at least.

Those that have infrastructure will pick up the pieces and move on, those that have chronic pollution, poor infrastructure and demographic time bomb a generation away will be permanently devastated.

It's a crackpot conspiracy theory, probably with no economic merit at all, but it is deliciously dark is it not?

Posted by Matthias Gris on December 23, 2007 4:34 PM

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Hysterical headline,
or oh!

what I will say to grab attention,

let time tell if you are as I feel you will be shown to be, well just hysterical.

Posted by John on December 23, 2007 4:28 PM

[Report this comment](#)

This is really worrying. It makes a mockery of wealth as defined by assets (namely property) and we may see wealth defined by total liquidity and by that I mean gold, not fiat currency.

Inflation is a cheat, looks like we will all lose unless we act now (convert assets to cash and convert cash to gold) UK is becoming a banana republic by the day.

Posted by Carlos Ponzi on December 23, 2007 4:16 PM

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To attempt to pin this problem on the government smacks of opportunism.

It is simply an Economic Cycle that has
ended..big style

Posted by shaun gibbs on December 23, 2007 4:05 PM

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Surprise! The piper is to be paid...since when did global financial markets think it could operate on the 'never never' principle?

Posted by N. Waters on December 23, 2007 4:00 PM

[Report this comment](#)

That is what happen,s when you put all your trust in so called experts and disengage your own thought process

Posted by Michael Elbourne on December 23, 2007 3:49 PM

[Report this comment](#)

If we work hard enough at talking ourselves into a recession, we will succeed.

Posted by Tom K on December 23, 2007 3:02 PM

[Report this comment](#)

editorialstaff net notes: Money sharks continue to bloody the waters, waiting patiently for "big meat". The potential for world calamity means nothing to greed crazed twenty something speculators, calmly waiting to buy assets at 5 to 12 percent of their value. With U.S. equities and banks on sale at "buy one, get one free" terms, the petro dollar Czars of Asia and the Levant are testing the waters, and Free World tolerance for hostile state ownership of serious national brands. Some ninety thousand callow youth, undoubtedly the brightest people in their hedge fund trading rooms, grind on, blithely unaware/unconcerned about the carnage in their wake, lusting for the profits that will flow to the quickest hands,in any global disasters their actions entail. Oddly enough, like the creative destruction done by earthworms keeping the planet alive, and human intestinal bacteria keeping humans alive, if one can get past the nasty processes involved, the end result from this potential gory financial creative destruction may weigh heavily in favor of a world that can survive some foul human traits. One doubts that the perpetrators of this bloody financial storm will learn any lasting lessons about the horrors that sharp lending and investment practices visit upon the least of us. The rest of us must inculcate our own survival lessons, in all our generations. While our major criminal classes, lawyers, bankers, and politicians are absolutely not, like our internal bacteria, and earthworms, necessary to life on Earth, they will greedily consume us, all unawares of our hopes, dreams, and freedoms. To survive, mankind must accept these criminal classes, for what they are proved be. They share the limitless appetites, the moral standards, and the intellectual depth of the the more necessary bacteria and earthworms that make our lives possible and they hunger after big meat. Ware!

Posted by Franklin D. Lomax on December 23, 2007 2:45 PM

[Report this comment](#)

This titanic Financial Whirlpool is barely begun. By the time it ends, it will drain out bonds, stocks, banks, and currencies. Maybe even entire countries.

Posted by Timon of Athens on December 23, 2007 2:44 PM

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You have left out the cynical and often stealth flooding of the labour markets with low skilled mass immigration.

Now the central banks and government seem to think rampant inflation caused through rampant double digit money supply/credit growth based on outright fraud can be ignored just because wages are not rising due to this unlimited mass immigration!!

The trouble with this is that one of the pillars of moneytarism (even Adam Smith) is that

wages rising are NOT the cause of inflation - any extra credit and money in the economy not matched by productivity is.

Swapping ever more expensive houses amongst a hugely growing low skilled population which doesn't leave people better off in terms of production per person (gdp per capita), which in the real world means low wages but dropping purchasing power also (inflation).

If the central banks ignore the very real inflation occurring in basic living costs, food prices, energy, utility bills to offset their credit and tax break focused unproductive housing inflation fraud deflating, this general rate cut stimulation will lead to more unproductive demand - the end result will be another credit boom - but not in house price inflation - this time in simply lending out money which is greatly *below the rate of real world inflation* to all sorts of people, growing the money supply very quickly, and this will end in hyperinflation.

As I see it there are 3 main possibilities:

1. Intervention and bail outs. Credit and liquidity with rate cuts is given to the banks to bail them out, ignoring inflation. End result the citizen/taxpayer pays through high prices and inflation or taxation socializing the losses while the profits are carried away by the banks.

2. Non intervention - The banks are left with deflating assets and have to raise capital to shore up their balance sheets.

If the housing market deflates, and instead of rewards for the sleazy lending excesses these reckless institutions go under. Credit and GDP will contract, as the unsound debt backing assets collapse. But this will affect the real productive base of the economy through debt deflation and very tight money conditions.

3. Intervention but no producer bailouts - a consumer bailout.

Just as the housing rise was not inflationary (not raising wages while housing got insane and debt got insanely cheap) specific subsidies in the form of government vouchers and tax breaks which give purchasing power over real estate can only be spent on real estate and are deductible from income for real estate for targeted groups - young buyers and homeowners first home buyers etc.. to help them raise families and produce longer term. This will neutralise some of the worse effects of the boom in assets going to the older generation, and young productive workers will have a chance to start their own families)

In reality this is much like Keynesian stimulation of government spending on long term projects - but applied at the consumer not bank producer level to bail out of a slump in demand and debt deflation through domestic production and redistribution.

This will offset debt deflation effects in the general economy and the total ceasing up of credit. They are the same as taxpayer subsidies, but are applied at the consumer level, not at the producer level, and thus will not give the bailout to banks, so they can carry on lending in credit excesses in another bubble, but to consumers and taxpaying citizens.

If prices are going to cost 15% more next year, while you can get credit at 6% in 2007 I see another way the money supply is going to rise.

Posted by Tony on December 23, 2007 2:23 PM

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so whats the answer for the proverbial man in the street. sell your assets and hoard cash or expect inflation and buy property?

Posted by George M Thomson on December 23, 2007 2:03 PM

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Isn't off balance sheet accounting and other dodgy practise simply "criminal deception" in the real world?

And how can central banks fix the present problem? In the BSE crisis the demand for beef collapsed until consumers were confident that meat supplies were not infected. As I recall, flooding the market with cheap beef didn't do the trick.

Or am I missing something here?

Posted by don on December 23, 2007 2:01 PM

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This second Great Depression, as they are calling it, has not happened accidentally. This is a manufactured depression, created by the global elite in order to destroy the middle class.

Posted by John Stang on December 23, 2007 1:45 PM

[Report this comment](#)

Based on Ambrose Evans-Pritchard sanguine comments on "oil, commodity, and food price spike", I assume he does not drive, buy things or eat. As an economic history lesson, forget Japan, this looks like early 20th century Germany prior to the hyperinflation. Don't we ever learn?

Posted by Andrew on December 23, 2007 1:25 PM

[Report this comment](#)

The Crash is inevitable, and it's going to be a biggie. The fault, as always, will lie with government driven credit expansion which the market will have to correct with a crash. The blame, as always, will be shifted onto evil capitalism by those who caused it- governments in bed with central banks.

The governments will try to do things to ameleoriate the effects of the crash, and will make it worse by doing so, just as the disastrous policies of the US New Deal turned the crash of 1929 into the Great Depression. The more they interfere, the worse things will be and, speaking just of the UK, we have a government who interfere, interfere and interfere again.

But I repeat myself in saying that the tragedy will be that the blame will be flung in the wrong direction- at free markets and capitalism, rather than the inherently flawed central banking system and belief that governments "run" the economy. They will use the crash to justify greater intervention. The lessons are never learned.

Until we can learn to take government out of the economy; until we can all realise that the basic problem is the central banking system and their addiction to flooding the market with inflationary fiat paper created out of thin air; until we can switch off the printing presses at the mint and return to stable currencies, these problems will occur again and again.

Times is gonna be hard from here on in.

Posted by Ian B on December 23, 2007 1:19 PM

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Why are we wasting billions of our government money bailing out a housing / mortgage market which is about to collapse shortly anyway?

The money is pouring out to line the pockets of the scamsters who caused all this!

Look carefully at what will replace the housing and financial market now the oil has gone and we are left with nothing!

The only UK industry left is Defence and even that is being sold off abroad.

Our supply chain-shipping, ports, has been sold abroad to non-UK interests.

Our manufacturing has gone - our utilities are being used as a prop to foreign interests who - looking further than the end of their noses -are looking at long term steady cashflow.

Its time to have a strategic think over where this country is to be in five, ten years and start ploughing in the cash to where it really matters-after all we are in competition with countries whose interest and markets are certainly hostile to the population of the UK-however, judging by the above the London moneyman are not much better.

Posted by graeme reaper on December 23, 2007 1:01 PM

[Report this comment](#)

Another excellent article. I assumed that we would hit a recession in 2008 and depression in 2010. The pound should hit \$1.78 in the near-future when the BoE cuts interest rates and the "carry trade" unwinds. The strength of the pound as kept inflation at bay so a falling pound will led to surging inflation later next year. Will the Boe raise rates and trigger a collapse? The falling pound should give Gordon the Moron some relief when our exports increase due to the falling pound, as per US recently. This is a false dawn due to the underlying weakness in the UK economy. Pity the poor Tories will face one hell of a mess when they win the next election.

Posted by ian jackson on December 23, 2007 1:00 PM

[Report this comment](#)

Close the banking system down and start again from scratch. If this is not done voluntarily it will have to be done involuntarily when the debt based pyramid scheme collapses.

Money should be issued interest free by independent government agencies who are responsible for controlling the money supply and inflation.

The issuing of bonds and gilts by governments and corporations where they pay interest to bankers to borrow money that does not even exist should be banned.

Posted by Alan Heaton on December 23, 2007 12:59 PM

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Good - maybe at last house prices will now decrease to a sensible level, which as the single most massive expense in anyone's life the Bank of England has disgustingly failed to address.

Market forces, boys, didn't you learn that at school?

I hope the B of E get bad dreams at night over their failure to raise interest rates quick enough, and substantially enough, despite the fact that over the last 5 years the price of an average house has almost doubled.

This is a heinous thing to happen and we now seem in a situation where because no one is naming and shaming it like they were in previous years, there's a real danger it will get

normalised and become an irreversible fact of British living.

Bring on the goddamn *so called* recession, bring it on, and blame it partly on the B of E.

Posted by Joe on December 23, 2007 12:43 PM

[Report this comment](#)

Those that have heeded the warnings and have socked away enough dry goods for a few years are ahead of the game those that still have not caught it is all going down to the bottom will be standing agape with their worthless fiat money.

There is another side of the coin on this issue that is not mentioned and that is that people are coming out of the Eddie Bernays haze and dropping consumerism all together a profound change is taking place it will be a new world by sept 2008.

Hope you all have been wise and paid attention.

Posted by dave on December 23, 2007 12:41 PM

[Report this comment](#)

A sobering read.

Well, it's taken a long time, but Mr Brown's image as "a man of prudence" is finally disappearing, together with the rest of the smoke and mirrors.

I've never understood how anyone could see him as prudent, when it was all so obviously built on mountains of debt.

Unfortunately, we will all now suffer as a consequence.

Hard choices are called for, but no politician (of any clour) will take them - denial & deferal is the name of the game - right up to the bitter end.

Posted by IanT, Berkshire on December 23, 2007 12:38 PM

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No control from central banks then things get out of control. Why did they let asset bubbles run wild?

Posted by Joe Sixpack on December 23, 2007 12:35 PM

[Report this comment](#)

Worse, changes pushed through by "Gordon Brown in 1998 have caused the de facto cash and liquid assets ratio to collapse from post-war levels above 30 per cent to near zero.

"Brown hadn't got a clue what he was doing," he says."

You must be wrong, Ambrose. "Prudence" never did anything wrong neither did he make a mistake. Ever.

Just ask him and he will tell you confidently, that it is not he but everyone else who is out of step.

Posted by Terry Harris on December 23, 2007 12:18 PM

[Report this comment](#)

Sounds like a pretty damning indictment of one Gordon Brown's management of our economy!

Of course, Nanny State knows it's really all that nasty (insert suitable scapegoat's name here)'s fault, not our Dear Leader's.

Posted by Andy on December 23, 2007 12:16 PM

[Report this comment](#)

These fears are now becoming too mainstream which makes them very unlikely.

Posted by kk on December 23, 2007 12:12 PM

[Report this comment](#)

Gordon Brown should be 'hung drawn and quartered' for the destruction he has done to this country as chancellor just so that he could buy votes to get Labour re-elected.

He and Labour should be held fully accountable for this mess whilst we have to suffer the medicine to correct it.

Tax cannot go up any further so spending must drastically be cut whatever the consequences, but like a gambler I am quite sure he will carry on throwing good money after bad till things collapse.

Posted by George on December 23, 2007 12:06 PM

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It is surely time to ask ourselves if the present financial system can survive.

As far as I am aware, all monetary systems which have not been linked to a physical commodity have eventually failed.

Why should we assume that it will be different this time?

As I understand it (and I would be grateful to be corrected by others who understand this subject better than I do) there is a fundamental difference between 1929 and 2007.

In 1929, despite the depression, the world remained on a gold exchange standard.

That is to say, although individual citizens could not exchange bank notes for gold, central banks could exchange dollars for gold.

When Nixon ended the link between the dollar and gold in the early 1970s, the entire world started using money backed not by an object which had a physical existence, but by debt.

The problem with debt, is that the banks only create the principal, never the interest owed, so that the world always owes the banks more money than actually exists at any one time.

Unless it is possible to generate more debt (money) to cover this shortfall, some market

participants are doomed to go bankrupt.

For this reason the money supply must be in a continual state of inflation.

If I understand the theory correctly, an unregulated chain reaction of bankruptcies and write offs within a debt currency system could cause the money supply of a debt currency to deflate very quickly to a small fraction of its pre-crisis size.

On the other hand, until this point is reached, there is no limit to how much debt/money can be generated.

This means that Central Banks can accept worthless collateral from financial institutions and replace it by legal tender with real purchasing power without limit.

In this context it is worth recalling that the global sum of interest rate derivatives as calculated by the Bank for International Settlements reached 346 trillion (000 000 000 000)dollars in June 2007.

In an interest rate derivatives crisis this is a lot of money that the banks might have to inject into the banking system in a very short space of time.

(Bear in mind that US 3rd quarter GDP was 13 trillion dollars).

Deflation is not the only danger we are facing, if central banks try to monetize our losses, hyperinflation is also a possibility (hopefully an unlikely one.)

Shouldn't we start asking what we should do if it turns out Central Banks cannot solve our monetary problems?

I should be grateful for comments from those who understand this matter better than I.

Posted by huw on December 23, 2007 11:48 AM

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Your comments, Ambrose, are spot on.

The true magnitude of the debt crisis is still unknown.

What is certain, though, is that the yawning gap between credit and reality will lead to global economic and political disaster unless a solution is found.

My new book, A House of Cards from fantasy finance to global crash, just out [link](#) analysis and concrete solutions instead of Cassandra-type gloom.

Posted by Paul on December 23, 2007 11:44 AM

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Thanks for having the clarity and honesty to tell it like it is.

If interest rates are dropped far and fast enough to restore capital flows, what happens next; another leg to the bubble economy followed by a greater misallocation of capital.

Will this not make the eventual correction more painful, and how will society react then?

Posted by Stephen on December 23, 2007 11:42 AM

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There is a significant difference between today and 1929.

In 1929, few consumers were up to their eye balls in debt. Unless all those who are in the black rush out and 'invest' in the economy - we really are in a pickle. It won't help if credit written shoppers rush out - that will only delay the inevitable!

We are about receive our comeuppance. Fasten the hatches.

Posted by Wonderkid on December 23, 2007 11:33 AM

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Before the general election in 2005, I was having a conversation with a Labour supporting colleague.

I said to him that I planned on voting Tory but I hoped that Labour would win.

He thought this was illogical even after I had explained to him that in the next four years, before 2009, the country's economy would hit the wall and Gordon Brown would have to carry the can.

This is not due to central bank incompetence.

It is the known result of the economic policies deliberately followed by the international banking cartel.

They wish to precipitate a depression.

This is their age old method for increasing their grip on power.

Everything else is a smokescreen.

They will use this coming worldwide depression to call for centralising monetary control.

Posted by David WA Robertson on December 23, 2007 11:15 AM

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Peter Spencer allegedly wrote in July:

The Item Club is an economic forecasting group which uses Treasury data and economic models in its research.

The MPC needs to rebalance the economy and cool the housing and financial markets, without jeopardizing exports

Peter Spencer

Item chief economist Peter Spencer says: "Everyone is getting worried about monetary growth and interest rates.

"But the economy is not going to take a tumble, particularly with the global picture so firm.

"The Bank has acted forcefully, but it now needs to be careful not to squeeze the UK economy too hard.

"The MPC needs to rebalance the economy and cool the housing and financial markets, without jeopardizing exports."

The club expects interest rates to move up to 6% and then stabilise, which, it says, should be enough to halt the excesses in the housing market.

Seems like he doesn't know what he's saying either.

Posted by Keith Langley on December 23, 2007 11:00 AM

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It is really a terrible picture to see.

Serious it is, but alarming to such an extent?

The credit bubble is deflating fast but rightfully so: the idea that any banker could have a free lunch and every Englishman a villa in Spain is finally proving to be untrue.

The bubble had to burst sooner or later and is is bursting now but apart from some bankers and buy-to-let artists I cannot see many casualties to be made.

Posted by m Van Egdome on December 23, 2007 10:38 AM

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Buy gold now. End.

Posted by Patrick Mockridge on December 23, 2007 10:36 AM

[Report this comment](#)

I fear you are right the additional deflationary effect which is so far really unmentioned is this.

Banks decide how much they can lend and how much activity they can undertake by a uniquely stupid measure called VAR (Value At Risk).

What has happened has made almost all of the assumptions which underlie this measure invalid.

All of the banks are battling with the fact that their risk management systems have turned out to be wrong and to drastically under price risk.

This means sadly that most of the worlds banks are now technically insolvent.

This is going to be very bad and very messy close to a trillion dollars has gone from the world economy and the leverage effect of banks taking diminished risk levels will multiply that many times over.

Posted by Cassandra Point Two on December 23, 2007 10:25 AM

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This obsession with low interest rates = inflation is the biggest psychosis of the 20th century.

Nearly all businesses borrow.

So high interest rates put up their costs, leading to inflation.

What is the biggest item of household expenditure? The mortgage.

High interest rates = higher cost of living to real people in the real world and more profits for banks.

How convenient that mortgage interest is not counted in the RPI.

And mortgages themselves are fraud, they should be calculated on the same basis as a bank loan - half the cost to the borrowers. Fraud.

Posted by Bonaparte on December 23, 2007 10:18 AM

[Report this comment](#)

A superb read sir.

I expect sentiment to 'about turn' part way into 2008 as the cracks in the dam worsen, and the real effects of high oil prices filter through.

As stated, Brown has nothing left in reserve - and if only people would realise that at this part of the cycle there should be at least 'something' in the pot.

Brown will be left borrowing on credit cards - to pay off credit cards

A dismal situation almost beyond belief.

Posted by Antony Graham on December 23, 2007 10:15 AM

[Report this comment](#)

Will someone please enlighten me as to why cuts in the interest rate will help the credit crunch (itself created by having interest rates too low for too long) and increase liquidity in the market..

Posted by cww on December 23, 2007 9:55 AM

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Obviously the Germans would prefer a D-mark but that is a done deal for Europe.

In fact a single currency has numerous advantages beyond interest rate policy.

The British POUND is now exposed (to George Soros and the desperados) because it needs 3% interest rates but STERLING would max-out in the ensuing crossfire.

Inflation may be the least of our problems as the banks wage war on each other with increasing venom.

The rats are in a sinking ship.....some may need to learn quickly how to swim backwards to shore. Standby for life-boat drill....

Posted by richard bond on December 23, 2007 9:46 AM

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The central bankers have only themselves to blame for this very unnecessary credit crisis.

They panicked post 9/11 by lowering interest rates too far and then leaving them there for far too long resulting in a colossal property and consumer boom.

Even within the MPC's remit there was no real need to do so.

Lessons to be learnt? No, they simply failed to learn from history.

Posted by cww on December 23, 2007 9:42 AM

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Yet more evidence that Gordon Brown's 10 years at the Treasury is about to be revealed as a sham built on debt & wasteful public spending.

The satisfaction of his unmasking is offset by the realisation that he is going to bring the country down in the process.

Posted by George S on December 23, 2007 9:38 AM

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How typical that:

A) a relatively simple case of American banks not keeping to their own quality-of-lending rules should spark such a large problem with other banks not keeping to their own safety rules and

B) we get the professional doomsayers telling us that "disaster" is on the way which sparks off all kinds of inappropriate actions, causing a crisis where none actually existed.

Posted by Robert Millar on December 23, 2007 9:24 AM

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When the world economy, is run for the benefit, of a few (private) American banks, what does one expect.

The Fed in private hands is the cause of the world's troubles.

Posted by Peter Barnes on December 23, 2007 9:19 AM

[Report this comment](#)

The Central Bank's choices are simple: let the banks fail or let the money fail. A US 1929 style depression or a German 1922 style hyperinflation.

Posted by George Weinbaum on December 23, 2007 9:07 AM

[Report this comment](#)

Yes I would like agree that the financial world is going to witness tough times ahead.

This is not being realised by the most fund managers .

Posted by kishore naik on December 23, 2007 8:47 AM

[Report this comment](#)

'Brown doesn't know what he is doing' - spot on

Telegraph.

Worryingly, Alistair Darling's hapless handling of Northern Wreck, the sale of our gold reserves at prices 3 times less than today, destruction of UK pension funding, changes to CGT and IHT has turned the pantomime into a gigantic farce.

The idiots at the heart of New Labour have systematically dismantled a goldilocks economy.

Borrowing at the time of Black Monday was £60bn and guess what? By April 2008 we will be back there again.

They have given away our assets then run up a monumental level of debt and the financial system has run out of cash.

What now Brown's fable of 'the end to boom and bust!' My prediction for the New Year - a collapse of the £ to parity with the dollar

Posted by mike donnellan on December 23, 2007 8:24 AM

[Report this comment](#)

What we are witnessing, in its early stages, is the collapse of the fiat currency experiment that started in 1971, when the US under Nixon decoupled the dollar from its gold peg.

Since then we have had raging inflation, market "innovation" that has involved piling paper claim on paper claim in ever more complicated ways, the massive overexpansion of the financial sector, and the creation of an enormous debt bubble which has far outstripped the underlying economic base.

We have become slaves, in the UK, to this monster, with personal and corporate debt at never-seen levels.

The central banks will fight this collapse in every way possible the only way they know - more paper and more debt - but the bubble was so vast that they are almost certain to lose; indeed, intervention will only delay the inevitable, as entities that ought to be put out of business (think Northern Rock) are allowed to carry on on life support, dragging down their healthier competitors.

You correctly point out that the collapse has so far only been felt in the corporate debt market - expect equities, government bonds and property to collapse in 2008.

Gold and silver will be the safe havens.

It is not all bad news - the crisis will be the catalyst for a long-overdue reform of our welfare system, and foreign wars will become unaffordable, forcing us to withdraw from Iraq and Afghanistan.

And bankers, hedge fund managers and estate agents will be forced to seek more productive work!

Posted by Paul Amery on December 23, 2007 7:55 AM

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Dear Ambrose,

How can you sleep at night?

...this, by the way, is not a derogatory comment.

I intend to inquire how anyone, especially with your keen insight, can sleep at night, knowing what's about to hit this planet.

Australia's "past" treasurer, Mr Peter Costillo, had shot a passing comment over the then oppositions bow warning all and sundry of a financial tsunami about to hit.

To which the then, to be disposed, Aus Governement and its press, white washed this statement as (in my words) the ranting of a desperate man.

As a poitical observer I noted with interest that this was one of the very few comments of Mr Peter Costello's I agreed with.

By the way my original question still stands.

Posted by Mark Thompson on December 23, 2007 6:44 AM

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It is my view that the action of the central banks in throwing bucketloads of money at anyone who wants it, is feeding into future inflation and creating an extremely dangerous situation.

The Commercial Bank's losses are not limited to the amount of debt defaults on subprime mortgages, because the losses include all the SIV's which have only a small subprime component.

Tainted investment vehicles need to be dismantled so that the taint is removed and value is restored to the remaining components. This will limit losses.

Once the losses have been limited as far as is possible, the Banks have to be left to sort out their own problems by whatever means are traditionally available.

At the moment we are heading for a financial apocalypse which can only be avoided by a change in the policy of central banks.

Posted by Nick W on December 23, 2007 6:24 AM

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Got to love that Tim Congdon, he's been banging on about this for years. The Tories should stick him on the MPC when they're in power.

Posted by John Wade on December 23, 2007 6:07 AM

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Hyperinflation is not going to save us from this mess.

"Gearing", the very name suggestive of the moral hazard that promotes outrageous risk as something to be desired, will swamp even the largest government efforts to bail out the troublemakers.

We desperately need some investors and banks to begin the failure process so that transparency returns and we can assess the damage and move forward.

It will be scary and difficult, but it must be done.

Let's legislate that level 2 and level 3 assets be marked correctly, and let the market correct as required.

If that means recession and or worse, then let's get on with it so that we can get it over earlier.

We don't want to worsen the problem with hyperinflation and/or more risk, or lengthen the amount of time necessary to recover.

Let's have some true leadership; not the phony imitation that's parading around our central banks debauching our currencies as if it won't matter.

Wake up everyone, we've got a real, serious problem.

If they say moral hazard isn't the issue anymore, you can bet that moral hazard's fingerprints are at the core of it.

Shame on all involved for this pathetic greedy mess we're in.

Greed has run totally amok. God bless the true victims (if there are any), and Godspeed some punishment to those who knew better but tried to take advantage while the getting was good. Let's get our collective act together early in 2008 before it's even worse later.

Shakespeare had it right.....the bankers need to go.

Posted by DougS on December 23, 2007 5:46 AM

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Wow! Hello Fed. Anybody home?

Posted by Thomas Davis on December 23, 2007 5:44 AM

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With the demographics of the world turning down it will be hard to avoid this crisis.

What is really scary is a book written in 1994 predicted the brown stuff would hit the fan in 2008-2009.

Posted by Joe Banks on December 23, 2007 5:37 AM

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The strange thing about all this is that it is just beginning. Let's name just a few items about to take place:

ARM reset rates will be arriving in force over the the next twelve months.

Forclosure rates will rise for both subprime and prime mortgages as a recession hits.

The commercial real estate problems are just getting going.

There is still much toxic ABS/CDO waste products that have high ratings because they are "insured."

Credit insurance kingpins, like MBIA, are going bust and when they do, ABS/CDOs will be downgraded and banks will have to take the toxic sludge onto their books destroying what's left of their capital ratios and then they will have more to hide from their peer banks and intra bank distrust will rise further.

Hedge funds, will be bringing their degraded securities back to their imbilically connected mother banks, capital ratios will....

Corporate junk has yet to take it's turn.

The world of Muni and State fund problems will follow California's lead and start a downward spiral of their own as city/state governments try to raise cash to replace losses.

These are just a few that come to mind. I would hate to see a complete list.

I wonder why no one wants to talk about nationalizing banks.

SPT

Posted by S Tomczak, Ph. D. on December 23, 2007 4:33 AM

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Why are the stockmarkets moving up 1%to2% one day, down 1% to 2% the next day, up the same amount the next day etc.,etc,- most odd considering the above scenario.

One must conclude this is an organised phenomena that allows shadowy figures to obtain a return of 1% PER DAY average.

Presumably this ritual will continue until the "fixers" have accumulated enough to protect themselves from the coming wreck.

Watch out the rest of us when "enough is enough" time is decided.

Posted by Stephen Vine on December 23, 2007 4:22 AM

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One of the few writers on financial matters who understands his subject and tells it how it is.

By the end of this, Britain will be an economic shambles presided over by the architect who created it.

Posted by Scott on December 23, 2007 4:14 AM

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Why not change the reserve ratio rules and seize physical assets from insolvent debtors?

The Great Depression was a direct cause of the Second World War.

Another depression could lead to the Third World War - with the possibility of major use of weapons of mass destruction.

We must avoid this possibility at any cost and through any policy.

This is the time for "Roosevelt in Reverse" I think.

Posted by Andre Carrington on December 23, 2007 4:06 AM

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I am always a sucker for informed doomsday writing.

But to say that unless rates are cut to zero immediately, we risk a hyperdepression, makes the Book of Revelation look Pollyannish by comparison.

Bankers should cut the promiscuous fearmongering. Yes Virginia, asset prices do decline.

Yes Virginia, when you are highly leveraged on inflated asset prices, you get screwed.

Capitalism involves risk as well as rewards. Monetizing asset price bubbles is an insanely dangerous and self-interested economic prescription.

Posted by E. Cartman on December 23, 2007 3:32 AM

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The best and brightest, the ones who went to Oxford and Cambridge, to Harvard and Yale, got us into this mess.

My Grandma has more economic sense than these 'financiers' and she's been dead 10 years. What a farce!

Posted by John Hargreaves on December 23, 2007 3:03 AM

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...and the BoE hasn't yet realised that any rate-cut simply feeds the BTL market, which is what has distorted house-prices even more than the housing undersupply of a voraciously immigrant-hungry economy in the cities - and we are now - doh! - an urban society.

Posted by jaytt on December 23, 2007 2:19 AM

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Thank you, Anna Schwartz: the banks know who's in trouble, but they won't say. Great!

This is good news only for non-houseowners, non-investors, non-taxpayers; bad news for the housebuyers/ professionals who want or need to stay in this country.

We've all been warned.

Posted by jaytt on December 23, 2007 2:13 AM

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The dodgy loans must be removed from the banks books.

This can be done by re-enacting the HOME OWNERS LOAN CORP. of 1933.

It purchased over 1 million loans in 1933/4. It some times reduced the principal of the loan by as much as 50%, and cut all the interest rates to ^6percent.
It used govt bonds to buy the mortgages.

The losses will be horrendous but we would know the truth and the crisis would end.

Posted by benman on December 23, 2007 1:28 AM

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As long as reserve banks are in the hands of vested interests, the public will be the primary victims of this financial debacle.

Western governments must have been aware of the problem long before the crisis surfaced and did nothing about it because our politicians have also become a vested interest group.

Posted by George Brouxhon on December 23, 2007 1:25 AM

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