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The Last Dead Bull on Wall Street

By Mike Whitney

11/11/07 "ICH" --- - Whew! What a week for the stock market. On Wednesday the market took a 360 point nosedive followed, two days later, by a 220 point belly-flop. By the time it was over, the trading pits looked more like a sausage-packing plant than the world's financial epicenter. After the bell, downcast traders could be seen tiptoeing through the carnage on their way to the local liquor store to load up on "Stoly" and boxes of Franzia---anything that would steady their nerves and put the week behind them.

Everyone could see it coming; the train-wreck. It was mostly carry-over from the night before when Asian stocks took a thumping on reports of slower growth in the US and growing troubles in the credit markets. That put the first domino in motion. Fed chief Bernanke's announcement that the economy will face "a sharp slowdown from the housing market's contraction" and an "inflationary surge from sharply higher oil prices and the weaker dollar", didn't help either. His remarks triggered a blow-off in the currency markets while equities were frog-marched to the chopping-block.

The Shanghai market took the worst hit dropping nearly 5% before the trading-day ended. Taiwan and Hong Kong followed suit, sliding 3.9% and 3.2% respectively. Share prices in Japan fell 2%. The next morning, Wall Street crashed.

It was a massacre.

This is a bear market now. The last bull was dragged from the Street on Friday with a harpoon in its chest.

The subprime contagion has now spread beyond the US and Europe to markets in the Far East. No one is fooled by Bernanke's sunny predictions that the economy will bounce back next year with a strong showing in the first quarter. That's baloney and everyone knows it. The economy has stumbled down the elevator shaft and is just waiting to hit bottom. Consumer confidence is flagging, housing is falling, foreign capital is fleeing, and the greenback is one flush away from the sewage-treatment plant. Bernanke's soothing bromides are meaningless.

"I don't see any significant change in the broad holdings of dollars around the world. Dollars remain the dominant reserve asset and I expect that to continue to be the case," Bernanke said to the Congressional Economic Committee.

Really? So why is the greenback plummeting if people aren't dumping it, Ben? What an absurd comment. The dollar has lost 63% against the euro and dropped to record lows against a basket of world currencies. Foreign central banks and investors have been ditching it as fast as they can before it loses more value. The dollar's tumble has been the most dazzling currency-flameout in modern times and Bernanke is acting like he's still asleep at the switch. It's madness.

The greenback is getting clobbered by the Fed's "low-interest" snake oil and the gargantuan current account deficit. If Bernanke clips rates again to bail out the stock market, the dollar will slip into irreversible respiratory failure. Food and oil prices will shoot to the moon overnight and the remains of the greenback will be carted off to the nearest boneyard.

September's trade deficit was another blow to the waning dollar. The Census Bureau reported on Friday that the deficit clocked in at \$56.5 billion. That's \$684 billion per annum! Bush has been crowing about the "shrinking deficit", but the numbers are nothing to boast about. We're still borrowing more than we're producing. We're still living beyond our means. The lower numbers just reflect the decline in home construction which is import-intensive. The fact is, we're addicted to debt-fueled consumption and forgotten that, eventually, the trillions that we've borrowed from foreign creditors, will have to be repaid. If the dollar is replaced as the world's reserve currency, then we'll have to pay back \$9 trillion of outstanding debt. We might as well hang out the "Foreclosed" sign right now and get fitted for Chinese workers-suits.

This is from Bloomberg News:

"As the dollar tumbles, concern is growing that its weakness may augur the end of the U.S. currency's 62-year reign as the world's specie of choice for trade, financial transactions and central-bank reserves.....The dollar owes its position as the world's premier international currency to its status as a haven during times of turmoil, the absence of a suitable rival, weak domestic demand in other countries and plain old inertia. Geopolitics also play a role."

Nonsense. Who believes this rubbish? The dollar is the so-called "international currency" because the Federal Reserve and its well-heeled patrons are the directors of the US-Euro-Japan banking cabal which is at the center of the global Fiat money scam. There's nothing more to it than that. Notice the recent "unilateral" clamp-down on Iran by the US-led banking syndicate. The action was initiated without UN approval for the simple reason that the UN, the World Bank, the IMF, the WTO and thousands of NGOs are just more of the Central Banks' prime properties. Don't expect the father to ask the child for permission to punish one of his errant children. The banks are the one's who really call the shots and—behind the curtain of feigned respectability---they are the driving force behind the endless wars.

The Fed's plan to "devalue" our way to prosperity appears to have hit a few ill-placed speed-bumps. The stock market is hanging by a thread and consumer confidence is at its lowest ebb since the start of the Iraq War. The falling dollar is expected to put a damper on Christmas spending and knock equities for a loop. That can't be good for economy---especially when 72% of GDP comes from consumer spending.

We've already begun to see the telltale signs that the consumer is loosing ground and about to slip into a debt-induced coma.

According to data from the University of Michigan:

"Consumer confidence reached its lowest level in more than two years this month amid concerns over record-high oil prices, continued trouble in the housing market and higher inflation...Although consumer attitudes deteriorated across the board, the substantial drop in expectations contributed heavily to the sizeable decline in the overall index."

The average working stiff doesn't put any stock in Bernanke's palavering. He sees what's going on for himself every time he pulls up to the gas pump or goes the grocery store. He doesn't need the University of Michigan to tell him he's getting screwed; he knows it! The economy is sinking, inflation is skyrocketing, and the country is adrift. Every farthing in the public till has been shoveled into a black hole in the Middle East. Does Bernanke really think working people don't know that? Everyone knows that. Everyone knows the economy is on life-support; just like everyone knows the country is collapsing from mismanagement. Even the flag-waving, war-mongering maniacs on the Wall Street Journal's op-ed page are starting to shutter from the avalanche of bad news. They see what's going on and

they're scared---scared sh**less.

Unfortunately, the sudden shift in consumer sentiment is hurting retailers who depend on Christmas to carry them through the year. We've already seen the sluggishness in housing and auto sales. Now it's showing up in retail. Abercrombie, American Eagle, Ann Taylor, Chico's, Dillard's, The Gap and Nordstrom are all reporting sagging sales. Walmart, Lowe's and the other big-box stores are lowering their projections as well. It's going to be a lean Christmas.

The poor US consumer is finally maxed-out and can't tap into his home equity anymore for presto-credit. He's mortgaged "to the hilt" and he's already run up 6 or 7 credit cards to their limit. In fact, credit card debt is a growing concern for the banks, too.

The commercial banks are the victims' of their own success. After years of seductive promotions and saturation mailings the credit card industry is at its zenith leaving consumers with a staggering bill of nearly \$1 trillion. (\$915 billion) More and more customers are finding themselves unable to make even minimum payments on their balances and defaults are piling up at a record pace. This is the next phase of the subprime fiasco and it has the potential to be nearly as disruptive as the housing meltdown. The problem is complex, too. After all, most credit card debt in the last 6 years has been "securitized" and passed on to investors in the secondary market. (pension funds, hedge funds etc.) That means we can expect more tremors in the stock market as corporate earnings go south after credit card-backed bonds are downgraded. It's just more of the same "structured finance" chicanery; debt stacked on debt, until the whole edifice caves in.

It's looking more and more like Reagan's "shining city on the hill" was erected on a mountain of toxic debt. It's a wonder it hasn't sunk already.

The country is headed for recession and there's nothing that Bernanke can do to stop it. The only question is whether we'll be facing a colossal economy-busting meltdown like 1929 or a milder 5 or 6-year slump. That's up to the Federal Reserve. If the Fed chief decides to pit himself against the falling markets by slashing rates and destroying the currency; then we are likely to be digging-out for years. But if Bernanke steps aside, and lets the chips fall where they may, then the pace of recovery will be quicker.

Whatever choice he makes, there's no avoiding the inevitable downturn. The hammer is poised to strike the anvil. The stock market will fall, the over-extended banks and hedge funds will collapse, and the country will go into a protracted, economic tailspin. That much is certain. Economic fundamentals can only be shrugged off for so long. When markets correct it's like a tidal-surge that sweeps-away the deadwood of bad bets and over-levered investments leaving behind a broad-expanse of empty beach.

Recession is a normal part of the business cycle. It can't be avoided. The economy needs to unwind so debts can get written off and businesses can retool for the future. The upcoming recession is shaping up to be worse than its predecessors---a real doozy. The damage caused by the Fed's excessive credit has been considerable. It'll take years to mop up the red ink and set the house aright. The markets are in a shambles, investors have been battered and confidence is gone.

Structured finance has been an unmitigated disaster. It needs to be scrapped. We need a new financial system for a new epoch; a system that is heavily regulated and supervised to discourage the crooks and con-artists; a system that it maintains its essential link to the real, productive underlying economy and avoids the galaxy of complex derivatives, "securitized" liabilities, and opaque debt-instruments that have brought on the present crisis; a system that responds to the needs of working people and takes into consideration the looming problems of environmental degradation, resource scarcity, and climate change; a system that reinvests in

communities, education and health-care rather than fattening the bottom-line of corporate racketeers and brandy-drooling elites. It's time to remove the rotten scaffolding and rebuild the whole contraption brick by brick.

The system is broken. Maybe Greenspan did us all a favor by blowing it up with his "low interest" dynamite. Good riddance.

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