

TABOO OPINIONS #45

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4-16-05 IT'S DOOM! DOOM, I SAY!

Slurp! I'm licking my bearish chops. THIS time I think the current stock markets swoon and bad economic news (worldwide and in our country) presage a staggering recession which will avalanche into a full-fledged worldwide depression with terrifying speed.

Well...it might take a year or two, all told.

"Why, grandfather Geis (retired with such poise but making too much noise) do you make this dire maledictive prediction?", sayeth you, probably.

I sayeth it [this piece is getting too cute for words---but I love words] because my worldview is this:

Since The Great Depression the USA has solved each recession with debt.

It took massive 'pump priming' and World War 2 to get us out of The Great Depression.

The 'pump priming' stimulus of govt., corporate and personal debt has worked till now because there was a stabilizing reserve of savings and assets to back the loans.

The price of this debt creation was a steady devaluation of the dollar and that's why a quart of milk (for instance) costs about \$2.00 now but cost 10 cents in 1935. They inflated the money supply beyond that required to match the creation of production and new services. The more "money" issued and borrowed, the more the value of each dollar and dollar-valued asset was diminished.

And somehow, due to mental laziness and desire to please the ruling class, the media now (for like thirty years or so) tells us 'inflation' means the rate of the increase of the cost of living, not the rate of increase in the creation of excess "money".

So now we are a nation finally in hock to our eyeballs. All we can see are record-breaking foreign debts, govt. budget deficits big enough to choke a Trojan horse, iconic corporations like GM and Ford teetering on the edge of bankruptcy, and personal indebtedness swamping the citizenry with usurious credit card debt, time payments

debt and mortgage debt.

And every year the interest payments on God-knows-how-many \$trillions of accumulated debts brings the Day of Reckoning closer and closer. The only way to put off the evil day of paying debts with equal-value dollars has been to devalue the dollar by creating ever more debt money.

To 'save' us from this most-recent crisis time, the Federal Reserve had to reduce its loans-to-banks rate to 1% and deposit humongous amounts of dollar reserves in the banking system, which forced the willing banks to pump out that credit (multiplied 30 times by the tiny fractional reserve requirement) to anyone for anything, all in a desperate attempt to save the debt system one more time!

But now... Now there is very little un-mortgaged, free-and-clear wealth remaining to use as real reserves against our mountain ranges of un-payable debts. And the Federal Reserve (an elite, government entitled *private* banking system, by the way, which has our country by the balls) is slowly ratcheting up its bank loan interest rate from 1% to now 2.75% in an attempt to keep "inflation" under control and induce a mild recession. That's the usual routine---create needed debt to stimulate the economy until it gets dangerous, then restrict credit until the resulting recession gets too dangerous.

Now, I sayeth, the current debt restrictions, with risen oil-gas prices, with the horrendous debts looming and eating us up with interest payments, has revealed a very fragile economy which cannot withstand any more tightening.

Any collapse of the inflated housing markets, the stock markets, the personal debt sink hole, or forced budget cuts by the states (which are required by law to balance their budgets) will (or have already?) trigger the inevitable black hole implosion of debt.

And now congress in its usual infinite, mistimed stupidity, has passed and sent to President Bush for signing a measure which tightens the bankruptcy laws, making it far more difficult for businesses and individuals to get free of crushing debts. Which means new spending will incrementally slow, stores will fail, hiring will slow... It adds another down-force to the failing economy.

Money nowadays is mostly created by loaning it into existence. Money is destroyed by paying off the loan or by defaulting on the loan. I believe we have reached the point of no return on our debts. The Law of Diminishing Returns exists and is invoking its consequences.

The current “tax” of risen energy prices, stock market losses, and increased debt payments has pushed enough people and corporations into bankruptcy to start the avalanche. The avalanche of disappearing money.

Killed money must be replaced and expanded, or the economy tanks.

But you cannot stimulate loan demand if too few people or businesses can qualify for a loan. Banks cannot make money on a bad loan. They LOSE money. They will now, more than ever, refuse to make bad and risky loans no matter how much money the Federal Reserve deposits with them and builds up their reserves.

People used to glory in their credit line, their ‘good credit rating’. But they’ve learned and are learning the hard way, that the other name for credit is DEBT. You got to pay it back!

I believe a sea change has occurred. I sense that the tide has turned, and the only way to significantly inflate the money supply now is for the federal government to run two-three trillion dollar deficits every year. And that cannot happen because there aren’t enough wealthy countries in the world who will buy our public debts. Already the biggest lenders (China, Japan, South Korea) have signaled that they will be more careful about accumulating our Treasury debt. They already own more of our T-bills, Notes and Bonds than they want.

Soon the word ‘deflation’ will be spoken with dread and horror by the financiers, their media and their employees who live off a debtor society. The cry will be raised to the rooftops, “Liquidity! Give us a flood of money again! Inflate, for the love of God, inflate!”

But the tools, the engines, of inflation will no longer work as they used to. How do you make a man borrow \$200,000 for a new house when he has just lost his former house because he couldn’t make the mortgage payments? He and his family will be scarred for life by debt. Businesses will fail for lack of money to pay debts, unemployment will climb, profits will shrink, stocks will crash, interest rates will climb because our country HAS TO finance its terrible debt load and will be forced to pay more and more to persuade other nations and its own people to buy its paper. High interest rates will further discourage borrowing.

The ugly future is in sight.

I see a collapse of the American overseas corporate empire; we will no longer be able to afford to wage wars for natural resources,

markets and populations of future “Americanized” indebted customers.

Radical social and cultural changes will occur amid mass unemployment and poverty. The ‘socialist’ Democrats will surge into office, the Republicans in disgrace will submerge for at least a decade or more.

Unless, in desperation to save the financial establishment---the Owners---Bush declares a National Emergency and rules by Executive Orders. He (and his masters) must somehow manage and manipulate voting and elections, big time. If he goes that route we will end up with a dictatorship and/or a civil war.

I think we’ll be lucky to get the depression and not a dictator, and/or revolution.

Gee, how frightful! How delightful!

Pray I’m wrong---as usual

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