Global Research

The Root Causes of the Global Financial Crisis

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Every professional has their own method of analyzing markets, finance and economies, and some do well coming up with the direction of social and political issues as well. The other 97% miss one-half to two-thirds of the time. That is not very good and one asks why? The answer is simple they really haven't studied history as well as they should have.

Some believe that the crisis in Europe is the heart of today's problems. It certainly is a strong integral part, but not the primary causation. The 3-year old finance bubble was created by the Federal Reserve, which began the situation starting in 1993. We saw the dotcom boom, which they could have stopped in its tracks. All they had to do is raise margin requirements from 50% to 60% temporarily. After that collapse in mid-March 2000, they decided rather than purge the systems, as they as well should have done in 1990-92, they created another bubble in real estate. They have been trying to recover from that bubble and other layover problems since we'd say 2000.

Yes you can blame Europe for its part, but the blame lies with the Bank of England, the European Central Bank, and the banks and personages, who control those entities. Those in England, Europe and in the US, who control business, finance and economics from behind the scenes, have played the parts they have in order to bring about world government. If you can perceive and accept that from an historical perspective, they you can understand what is really going on.

European banks are struggling with their fundings and credit is drying up. This is what happened in 2008. As a result Europe is a disaster waiting to happen. Europe is finally realizing this is all about debt. The socialists want it go away, just disappear but it does not happen that way. Debt and credit default swaps will in the end rule the day.

Few reflect back to 12 years ago when the Maastricht Treaty was being approved. The cornerstone was public debt that was not supposed to be more than 3% of GP. That did not last long. Then Italy and Greece, with the help of Goldman Sachs and JPMorgan helped these two basket cases qualify for the euro and euro zone by Mickey Mousing their balance sheets. We saw one interest rate fits all and we knew the euro was doomed before it got started. The condition of the euro zone and Europe is certainly terrible, but so are US debt problems. Policy decisions are bad, but not any worse than they are in the US.

We see pundits trying to separate sovereign debt from bank debt. They are one in the same, because the banks control the governments, and tell them what to do. Europe particularly France, was very upset last week when SoGen was rumored to be insolvent. The answer from those accused was rubbish. SoGen has a history of one of the most criminal banks in the world, so what is new. Just more criminality. SopGen and France are under pressure because they own loads of PIIG debt and are being asked to supply more funds to bail out their neighbors, a role they cannot fulfill without going under themselves. The situation France is in is three times worse what it was in 2008. Everyone expects France and Germany to bail out the bankrupts and that cannot happen. Neither the banks nor the governments can continue to do what they have been doing and at the same time control their financial systems and economies. Now you can understand why CDS credit default swaps trade above 180, when they traded at 80 in 2008. We feel that if the six countries in trouble are not allowed to default it will take the other nations under as well. There is much at stake here. Not only the insolvency but also the breakup of the euro zone and the euro and the dream of using them as a template for a new world order.

In addition it is very significant CDS for Brazil jumped from 35 to 152 as did Mexico, which is an indirect result of what is going on in Europe, UK and the mortgage bond market and by cutting back 30% on loans to small and medium sized businesses. Although they are very leveraged in their other operations, such trading and global leveraged speculation include great counterparty risk. This time exposure is somewhat different but the exposure in the theatre could be just as bad risk wise as it was in 2008. Generally speaking they are not long gold and silver bullion and shares, they are for the most part short. The venue that could be very dangerous is derivatives. The way these major banks and countries have become interconnected the danger always persists and once a fallout begins it could bring down all major banks and countries. Don't let that fact escape you. They dodged the bullet in 2008, but they might not the next time. The carry trade is as large as it has ever been and the cost of borrowing is close to zero, again, encouraging taking on too much risk.

This past two weeks currency markets have seen large swings, especially in second and third tier countries. No one knows the size of carry trades affecting these countries. We have seen a number of countries quickly give up almost all of their dollar gains of the past several months and the Swiss and Japanese have spent billions of dollars trying to push down the value of their currencies, but to no avail. The euro and the dollar have stayed about the same, but we see the euro weaker due to ongoing financial problems, which contrary to conventional wisdom have not been solved. Throughout Europe not only has money been lent at very low rates, but also much of it is uncollectible. This broken European bubble will deflate for some time to some. It will affect all other sovereign debt negatively as well. These are the borrowers of part of that $16.1 trillion that was lent by the Fed over the last few years, which has never been paid back. European banks are buried in debt and the politicians, whom they own, will do their best to protect them. Unfortunately, there is no painless solution. The contagion is underway and the latest meeting to solve these problems was a failure. The latest European version of the issuance of quantitative easing to buy Italian and Spanish bonds will prove to be futile, just another attempt with taxpayer funds to bail out the banks. This possible "Black hole of Calcutta" at this point puts Europe in a worse position compared to the US, which is no piece of cake, and probably won't far any better in the future. The working out of US problems will just take longer. As each day passes and in spite of the disinformation, confidence in Europe and the US falters and rightly so. The US has no periphery to support essentially Europe does and that is in favor of the US, but ultimately US problems are far more overwhelming.

The recent commitment of the Fed for zero interest rates for the next two years showed great weakness and will in time come back to haunt them. This was another reward for Wall Street speculators and another moldy bone thrown to the nations savers and elderly. There is no question Wall Street and banking, which own the Fed are desperate, to make such a commitment. The decision for QE 3 was made 15-months ago when we predicted it. We could see it coming and we know the decisions of the last 11 years and the pressure being exerted on the Fed will ultimately bring about its demise, and its days of looting the American public will be over. What the Fed and the ECB have done in greed and for their dream of world government is over. We are closing in on payback time, as desperate measures become more noticeable and a solution remains out of their reach. They will pay for what they have done to us.

Even though we expect at least a few more years of unrestrained leveraged speculation, it will then come to an end. It has become a crucial factor for monetary policy championed by both Sir Alan Greenspan and Ben Bernanke. Wall Street and baking love it, because their positions allow them to create inside information, which allows them to make money consistently with little or no risk. We also have the SEC and the CFTC perpetually looking the other way aiding and abetting their criminal behavior. If you add in that there are no limits to what they can do you essentially have an ongoing free for all. This is unrestrained finance via a policy of zero interest rates. This gives Wall Street and banking a license to steal.

All this has caused a bubble and that bubble is in the process of bursting, a product of fiscal and monetary stimulus. That is not only in the US, UK and Europe, but worldwide As a result confidence in the global system is being lost. De-leveraging of bullish bets in markets of bonds and stocks is underway. Ironically these speculators are short gold and silver and the shares. Short covering is in process with some even switching to the long side in the gold and silver bullion and share markets. How any economist could believe that leveraged speculation reduces risk is beyond us. Fortunately the other shoe has dropped and such theory has been disproved.

The result of all this is that we have an escalating debt crisis worldwide and now the experts in and out of government do not have any solutions as to how to rectify the situation. The sovereign debt crisis has been underway since the early 1970s. This experience shows you how long bad things can last. Before this is over trillions of dollars will be defaulted upon. The days of overwhelming stimulus to gain traction in the economy or economies is in the process of being ineffective. We like to call it the law of diminishing returns. The $2.3 to $2.5 trillion we project that the Fed will have to create in the coming fiscal year will at best produce GDP growth of zero. The minute the Fed and Congress stop feeding the system we will be looking at negative growth of 5%. We are headed toward crunch time and there is no avoiding it. Uncertainty and instability are America's and the world's next challenge. Currencies are going to react widely. Gold and silver will fly along with the gold and silver shares as a result of debt and falling economies accompanied by inflation. The big problem will not only be de-leveraging, but also the opaque derivative markets and the Exchange Traded Funds, many of which are leveraged. Yes, it will be a very rough ride, so you had best get ready for it. We never had a recovery and the trappings of growth are quickly falling away.

Extending the time line for all these problems is coming to an end, but it probably will not be abrupt. There will be all kinds of terrible events, but it looks like the elitists are going to play this out over an extended time frame before they attempt to pull the plug. That means these problems could be extended out five or even ten more years on a degenerating basis. That also means we will continue to have limited wars for financial gain and distraction. The strategy has been and will continue to be to keep creating money and credit and allow inflow to reduce the size of the debt. These comments regarding debt quoting Bernanke and throwing money from helicopters and Greenspan's admission that the US cannot be downgraded, because it can always print money are flippant and very unprofessional. What they have both done rather than allow the US government to default is to perpetually create money and credit to paper over the economy's failure.

This process increases inflation that quietly steals the value of purchasing power like a thief in the night. Both men can be classified as thieves for having done to the American people and others by stealing the fruits of their labor. This trick used by money masters and politicians for centuries is little understood by the public and most cannot understand how it works and the ultimate ramifications. These characters and others create additional debt, which is followed by other nation's central banks, which has created a race to the bottom and eventually all nations cannot pay their debts and default. Eventually in order to prevent a collapse in the financial system a meeting is held such as was held at the Smithsonian talks in the early 1970s, or the Plaza Accord in 1985 and the Louvre Accord in 1987. All currencies are revalued and devalued and there is multilateral debt settlement. We believe that is how all this will come about.

Evidentially a deal has been made from behind the scenes to relieve the Fed of having to produce $850 billion in stimulus and that task has been delegated to Mr. Obama. The President, while calling for budget cuts, is calling for $850 billion for stimulus 3. Observing recent actions by Congress some idiotic excuse will be made up and like magic stimulus 3 will appear. We also suggest that the President will use the London rioting as a cause for such stimulus. Remember never let a crisis go to waste. It is sure to be sold in the behalf of preservation of order. We do not believe the powers behind government will get the desired results.

Admittedly, Ben Bernanke inherited a can of worms from Sir Alan Greenspan. Ben has been able to accumulate $3 trillion worth of an assortment of Treasuries, Agencies and CDS, and

MBS's, also known as toxic waste, over the past few years. Those moves decidedly have been negative for the rating of US government debt. The rating really should have been lowered five years ago during the Greenspan years and perhaps even sooner than that. Due to massive increases since 2006 by the Fed we now already are in a bubble.

The 12 person congressional debt commission, we like to refer to as the Obama Enabling Act, patterned after Adolph Hitler's legislation of 1933, which allowed him to become dictator of Germany, supposedly will produce moderate spending cuts. Knowing that Standard and Poor's has warned this "Star Chamber" proceeding, which bypasses Congress, that there are not substantial cuts in Social Security and Medicare, that S&P will again lower the US debt rating. Everyone seems to overlook that fact. That means that if there is not large Social Security and Medicare cuts and an increase in taxes, S&P will strike again, and the bond market will burst, and Mr. Bernanke's house of cards will collapse. As we explained previously the debt extension could have been passed in 15 minutes, but it wasn't because the powers behind government the Council on Foreign Relations, wanted to chop up SS and Medicare, and to put this panel in place. All is never what it seems to be.