## Bernanke's Speech: "It's all China's fault!"

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> He's at it again. Bernanke, that is. Yesterday the Fed chief delivered a rambling 45 minute speech at the International Monetary Conference in Barcelona, laying out all the reasons why the Federal Reserve is NOT responsible for the present crisis in the financial markets. Here's what he said:

"In the financial sphere, the three longer-term developments I have identified are linked by the fact that a substantial increase in the net supply of saving in emerging market economies contributed to both the U.S. housing boom and the broader credit boom. The sources of this increase in net saving included rapid growth in high-saving East Asian countries and, outside of China, reduced investment rates in that region; large buildups in foreign exchange reserves in a number of emerging markets; and the enormous increases in the revenues received by exporters of oil and other commodities. The pressure of these net savings flows led to lower long-term real interest rates around the world, stimulated asset prices (including house prices), and pushed current accounts toward deficit in the industrial countries--notably the United States--that received these flows."

Phew! That's a pretty long-winded way of saying the Chinese are to blame for everything that's gone wrong in the markets for the past 10 months. But is it true?

Ask yourself this, dear reader; do "savings" cause massive equity bubbles or are bubbles the result of low interest rates and rotten monetary policy?

It is universally agreed that Greenspan created the housing bubble by dropping rates below the rate of inflation for 31 months following the dot.com bust. This sparked a multi-trillion dollar speculative frenzy in real estate. Artificially low interest rates distort the market; bubbles appear. "Savings" had nothing to do with it; Bernanke is just trying to dodge responsibility by blaming the Chinese. It's the old "dog ate my homework" routine.

The Fed is also responsible for the surge in oil prices. As Frank Shostak points out in his recent article "The Oil Price Bubble":

"There is a high likelihood that the massive increase in the price of oil that we are currently observing is the manifestation of a severe misallocation of resources — a large increase in nonproductive activities. It is these activities that have laid the foundation for the oil-market bubble, which has become manifest in the explosive increase in the price of oil. The root of the problem here is the Fed's very loose monetary policy between January 2001 and June 2004. (The federal funds rate was lowered from 6% to 1%.)"

As far as Bernanke's contention that the "unprecedented growth in developing and emerging market economies (China, again)...made the Fed's job of managing inflation easier"; that's true. But whose interests did that serve?

Certainly not the American people who've seen their factories closed and jobs outsourced by a handful of wealthy US industrialists who gutted their country for a pocketful of silver. Globalization is just the public relations mask that conceals the avarice of its main proponents; upper-class parasites. That is who Bernanke speaks for not the American people.

Besides, the Fed knew from the very beginning that the Chinese were manipulating their currency so they could offload their cheap manufactured goods onto the American market and crush US industry in the process. What's wrong with that? That's what America used to do when we had leaders who operated in the national interest rather than serving a global corporate oligarchy and their madcap scheme for a New World Order. It's called capitalism; and America used to be pretty good at it.

The Fed never cared that the game was being rigged. Why would Bernanke care? After all, China and Japan were reinvesting their massive trade surplus' in US Treasuries and equities which kept interest rates artificially low while providing Wall Street with a steady flow of cheap capital. It was a "win-win" situation for the investment moguls and their buddies at the hedge funds. They were busy getting rich while the nation was being handed over to foreign creditors lock, stock and barrel. Neither Greenspan or Bernanke ever made a peep of protest while the looting continued for more than a decade.

Bernanke doesn't even deny this. In his speech he says:

"These net savings flows led to lower long-term real interest rates around the world, stimulated asset prices (including house prices), and pushed current accounts toward deficit in the industrial countries--notably the United States--that received these flows."

Correct. The $800 billion current account deficit was recycled into US Treasuries and securities creating phony prosperity which the Fed knew was "unsustainable", but they refused to fulfill their regulatory role. Instead, Greenspan and his Fed-brothers rubber-stamped every hare-brain scheme that Wall Street cooked up including the myriad complex derivatives contracts which ballooned from less than $1 trillion in 2000 to over $580 trillion today; a monstorous bubble which is large enough to send the entire global economy into a decades-long tailspin.

Did anyone at the Fed speak up?

No way.

Bernanke's speech: "And, in preparation for the new Basel II capital regulations, supervisors required more-demanding standards for the measurement and management of risk."

More lies. Basel II allowed the banking giants to estimate their asset values according to their own internal models, in other words, by picking a number out of a hat. It's a joke. After Glass Steagall was repealed, the whole system was turned over to the crooks in pinstripe suits who quickly ran it into the ground.

Bernanke again: "The housing and credit booms were driven to some extent by global savings flows, but they also reflected domestic factors, such as weaknesses in risk management and lax standards in subprime lending. Higher commodity prices are for the most part a global phenomenon, but U.S. dependence on oil imports makes this country quite vulnerable on that score."

"Risk management? Lax lending standards"?!?

What risk management; what lending standards? Does he mean lending hundreds of billions of dollars to mortgage applicants with no job, no collateral, no down payment and bad credit? Those standards? The whole scam was engineered by the investment banks who thought they could peddle mortgage-backed slop to gullible investors without any risk to themselves. They never expected that Bear Stearns hedge funds would blow up (in July 2007) and leave them holding hundreds of billions in toxic "subprime" bonds.

As far as escalating commodities prices, that all started with the Fed, too. Zhou Xiaochuan, governor of the People's Bank of China, clarified this point earlier this week when he accused the Fed of triggering inflation around the world by "reducing interest rates" and forcing commodities to rise sharply. [Yes, China does understand the game the Fed is playing.] Bernanke pretends that he doesn't grasp why oil prices are rising even though he's pegged the Fed Funds rate below the rate of inflation. What's the mystery? When the dollar is traded below its "after inflation" value; how can oil do anything except go up? This isn't rocket science.

But the Fed doesn't give a hoot about inflation anyway. That's just another myth. The Wall Street Journal summed it up like this on Tuesday:

"*Inflation can't get entrenched without rising wages, which won't happen in a weak labor market.*" *That's what this is really all about;* ***making sure the average worker never gets another farthing for his labor.*** That's why the consumer price index (CPI) is the most "class oriented" of all the economic gages. It purposely factors out food, energy, housing (except rental value) so that the only time the inflation alarm blinks red is when salaries go up; then all hell breaks loose! It doesn't make a bit of difference to the Fed what working people are paying at the grocery store or the gas pump; just as long as THEY NEVER GET A RAISE!

The Fed also cares about "Capital flight" which is accelerating because of the Central Bank's mismanagement of the financial markets. Confidence in US markets is at its nadir and private investors are headed for the exits. That puts more strain on the battered dollar, which is likely to lose its position as the world's "reserve currency". That's why Henry Paulson was in the Middle East on Monday pleading with the oil producing countries not to break their peg with the dollar. If the dollar is delinked from petroleum; the Empire will wither overnight; the war will end, the troops will come home, and the United States will have to pay its bills like everyone else.

Is there a downside?

Paulson said, "I am committed to promoting policies that enhance the underlying competitiveness of the U.S. economy and ensure that the dollar remains the world's reserve currency. The dollar has been the world's reserve currency since World War II and there is a good reason for that. The U.S. has the largest, most open economy in the world, and our capital markets are the deepest and most liquid. The long-term health and strong underlying fundamentals of the U.S. economy will shine through and be reflected in currency values.

Paulson is a certifiable nutcase. The underlying US economy may be strong but the financial system is built on pure quicksand and is sinking fast. The only thing keeping the dollar afloat is the secret maneuvering of the G-7 and the loyalty of a few venal Arab sheiks who would rather see their people face 14 per cent inflation then cut the umbilical cord to Uncle Sam.

Earlier this year, author Bill Wilby explained the benefits of being the world's "reserve currency":

"If America were to lose its reserve currency status because of a continued loss of confidence in the dollar, the cost in terms of jobs and growth would be significant. The real economic benefit conveyed by the right to print the accepted global currency is called seignorage, which results in part from the lower capital cost we derive from foreigners' willingness to hold dollar cash. This country has taken for granted the benefits of our global seignorage for many years, and it is one of the reasons the U.S. has maintained a higher growth rate than the world's other mature economies." ("The Dollar and the Market Mess", Bill Wilby, Wall Street Journal)

Wilby's right, foreign investors and central banks would have no reason to keep their treasure-trove of $6 trillion in USD and dollar-backed assets if oil is no longer denominated in greenbacks. That means a flood of dollars would reenter the US causing an inflationary spiral that would make Wiemar, Germany look like a breezy day on the strand.

Thanks to the Fed's ham-fisted monetary policies, a Force-5 economic hurricane is presently looming right offshore and there's nothing Bernanke or Paulson can do to stop it from touching down. If Bernanke cuts rates; commodities (and oil) will skyrocket and foreign investors will ditch the dollar. If he raises rates, banks will fail and the housing crash will accelerate. There are no good options.

Economist Nouriel Roubini summed it up like this:

"A contracting economy, falling employment, the worst US housing recession since the Great Depression, collapsing home values, millions of households underwater with an incentive to walk away, a shopped out and saving-less and debt-burdened US consumer buffeted by falling home prices, falling HEW, falling stock prices, rising debt servicing ratios, oil at $130 a barrel and gasoline at $4 a gallon, collapsing consumer confidence and falling employment are taking the toll on the economy, on financial markets, on banks, on the shadow financial system and on money markets and credit markets. We were in the eye of the storm rather than past the storm; and the recent events and developments suggest that the worst is ahead of us, for the economy, for equity markets, for credit markets and for money markets."

That's right; doomsday, dead ahead.

You're doin' a "heck'uva job, Benny!"



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