Where has all the money gone, it's been a short time passing?

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> Money doesn't evaporate or disappear – it just changes hands!
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> The most amusing aspect of the 'credit crunch,' 'sub-prime crisis' – let's call a spade a spade, the massive losses incurred as a result of manipulation and appropriation of trillions in funds by very clever, fast-talking financial manipulators/rogues -- are the lame excuses offered by bank execs to a very angry, debt-burdened public.
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> It's time to face the music gentlemen and inform the public of the grim, compromising story of a failed economic model and the result of financial deregulation. If you are unable to clearly trace where all the money has gone, then accept responsibility for the losses and your incompetence and beg for mercy – your multi-million-dollar salaries now threaten to destroy you? It's time to speak up before some bright, angry, family person or shareholders group arranges a SIMULTANEOUS, nation-wide DEFAULT ON ALL LOANS! [In the present climate, not a difficult task!]

There is no doubt that major Western financial institutions have been 'done like dinners,' as we say down under, but shouldn't the focus be on how funds were lost, and where the larger portions of the money ended up, not on increasing debt burdens for the public? People are tired of listening to double-speak and financial jargon. The contorted facial expressions and cracking voices of bank execs straining to avoid LIABILITY and accusations of INCOMPETENCE is beginning to aggravate an already short on patience, debt-burdened public!

It's time to spill the beans or face the music, gentlemen, the public is not about to bear the cost for the ineptitudes of highly paid bank executives! The great plan of economic social management via crushing debt has just failed, 'we' can't thank you enough for your corruption, greed, criminality AND INCOMPETENCE. You and your corrupt system will go the same way as the former Soviet Union – the economy has begun to tail-spin and no amount of double-speak can save it from plummeting to ground.

What will we do with the drunken sailor economy of George W Bush and his irresponsible neo-cons? [Hold them accountable for economic mismanagement and the (illegal) war that broke the nation seems a good start!]

Following is a humorous appreciation of the American situation:

Bernanke Finds his Voice

by Mike Whitney

On Thursday, Fed chairman Ben Bernanke gave the keynote address on the state of the economy and financial markets at a luncheon in Washington, DC. The tone of the speech was decidedly somber and could have easily been accompanied by a funereal dirge and 8 black-suited pall bearers. Bernanke avoided the opaque, hieroglyphic-filled language of his predecessor, Alan Greenspan, and gave a clear presentation of the facts. Unfortunately, the facts are bleak. The economy is in very bad shape.

“Financial market conditions…have produced a volatile situation that has made forecasting the course of the economy even more difficult than usual. (We have seen) continued increases in the prices of energy (as well as) a sharp and protracted correction in the U.S. housing market. According to the most recent available data, housing starts and new home sales have both fallen by about 50 percent from their respective peaks.”

Bernanke made no effort to conceal the gloomy facts:

“Currently, about 21% of subprime ARMs are ninety days or more delinquent, and foreclosure rates are rising sharply …Fraud and abusive practices contributed to the high rates of delinquency that we are now seeing in the subprime ARM market, the more fundamental reason for the sharp deterioration in credit quality was the flawed premise on which much subprime ARM lending was based: that house prices would continue to rise rapidly. (This) will have adverse effects for communities and the broader economy as well as for the borrowers themselves.”

Bernanke was equally blunt about the credit crunch that resulted from the excesses in subprime lending:

“One of the many unfortunate consequences of these events, which may be with us for some time, is on the availability of credit for nonprime borrowers…The far-reaching financial impact of the subprime shock is that it has contributed to a considerable increase in investor uncertainty about the appropriate valuations of a broader range of financial assets, not just subprime mortgages. (As a result) the problems in the subprime mortgage market may lead overall economic growth to slow.”

Bernanke went on to give a very detailed account of how the banks “underwrote many of the loans and created many of the structured credit products (MBS, CDOs, ABCP) that were sold into the market. Banks also supported the various investment vehicles in many ways, for example, by serving as advisers and by providing standby liquidity facilities and various credit enhancements.”

As the problems in subprime have grown, the banks have been forced to take on more and more of their struggling “off balance” sheet operations which dramatically increases their debt-load and further impairs their capital base. This explains why the banks have been reporting huge losses from their deteriorating collateral while their market value has dropped sharply. Now banks have become more restrictive in their lending and credit has become more expensive and less available.

When the banks are unable to issue loans; the economy suffers.

Bernanke added ominously: “The market strains have been serious, and they continue to pose risks to the broader economy.”

Amen, to that. Since the troubles began in late summer, the Fed has slashed rates by a full percentage point to 4.25% and opened a Discount Window to provide billions of dollars directly to the banks. The Fed has also opened a Term Auction Facility (TAF) which has distributed $40 billion in 30-day repos to over 100 under-capitalized banks. The Fed is planning to loan another $60 billion in the next month. These repos are issued secretly (so depositors and shareholders don't know how bad things really are) and the Fed is accepting a “wide range of collateral”, which means that they are taking "structured investments" (MBSs, CDOs, ASCP) the same garbage that no one will buy on the open-market. In other words, the Fed has established a multi-billion emergency fund which features permanently-rotating loans for banks that made poor investments and are, for all purposes, already bankrupt. This is moral hazard at its absolute worst.

As Bernanke knows, 'permanent-rotating loans' is just a clever euphemism for nationalizing the banks and monetizing their debts at the taxpayers' expense. Many of these institutions are already insolvent. The Fed is just ensuring that there are no consequences for their leveraged bets and reckless speculation. Once again, it's socialism for the rich and capitalism for the poor.

But even these unprecedented measures do not really solve the basic problems of credit quality or the serious constraints on lending. For that, the Fed will have to aggressively slash rates hoping to revive the sagging economy.

Here's Bernanke's grim (but realistic) forecast:

“Financial conditions continue to pose a downside risk to the outlook for growth....The financial situation remains fragile, and many funding markets remain impaired. Adverse economic or financial news has the potential to increase financial strains and to lead to further constraints on the supply of credit to households and business...Incoming information has suggested that the baseline outlook for real activity in 2008 has worsened and the downside risks to growth have become more pronounced. Notably, the demand for housing seems to have weakened further, in part reflecting the ongoing problems in mortgage markets. In addition, a number of factors, including higher oil prices, lower equity prices, and softening home values, seem likely to weigh on consumer spending as we move into 2008.”

“The baseline outlook for real activity in 2008 has worsened and the downside risks to growth have become more pronounced.” That says it all. We're headed into recession and it's going to be a doozy.

Bernanke's assessment is only slightly different from the bleakest predictions of the doomsday web sites. Unemployment is on the rise which will continue to be a drag on consumer spending. Inflation is also likely to be a concern as the Fed slashes rates and food and energy prices go through the roof. Even so, the listless economy is so hobbled by the collapse in real estate and the subsequent meltdown in the financial markets, that the Fed will be forced to ease rate by at least 50 basis points at the next Board of Governors meeting followed by further cuts all the way down to 2.5%. (According to Goldman Sachs and Merrill Lynch) If that's the case, we can expect to pay 4 to 5 dollars for gas by the end of 2009.

Although Bernanke's candor is a welcome relief from Greenspan's circuitous “Fed-speak”, his dark prognosis does little to address the problems facing the markets. It's hard to tell whether we are entering a new era of Fed transparency or if Bernanke has simply taken the attitude that “When all else fails; tell the truth”. That's hardly a sign of personal virtue.

The bad economic news is now cascading-down from all sides. The dollar is steadily weakening which sent gold to a new-high of $900 on Friday. Hours earlier, the Commerce Department reported that the trade deficit had skyrocketed 9% to $63.1 billion in November. That puts more pressure on the greenback as foreign investors will continue to flee the US to markets with greater growth-potential.

Also, the nation's largest brokerage firm, Merrill Lynch is expected to report losses of $15 billion on soured mortgage-backed securities. The nation's largest bank, Citigroup, is expected to report even bigger losses of $25 billion on similar investments. The nation's largest mortgage-lender, Countrywide, will (allegedly) face bankruptcy if Bank of America's $4 billion bid for the ailing company is not accepted. And, the nation's largest bond insurer, MBIA Inc., may need to raise $10 billion in capital to keep its AAA credit rating. (said William Ackman, president of Pershing Square Capital Management)

Get the picture? The giants of the financial industry are either on the brink of annihilation or they have joined the long conga-line of haggard CFOs who are on their way to Beijing with begging bowl in hand. Battered banks and corporations are increasingly forced to get capital in the only place it is still available; China and the oil producing countries. Thus, the life's-blood of capitalism now surges through a communist artery. How's that for irony?

On Friday, the RBC Cash Index reported that consumer confidence had fallen to an all-time low. The US consumer is over-extended, underpaid, and worried about everything from his soaring energy bills, to diminishing job security, to the mass foreclosures. The report was released just hours before the Dow Jones Industrial Average took a 246 point swan-dive in heavy trading. The prevailing mood on Wall Street is gloomy and the feeling is that the worst is yet to come. Judging by the extraordinary steps taken by the Fed; we could be facing a Force 5 fiscal-hurricane.

Economic soothsayer Doug Noland summed it up like this:

“The Mortgage Finance Bubble is a bust, Wall Street finance is imploding, and foreign financial institutions are keen to cut and run from the business of providing U.S. Credit... Worse yet, the economy is quickly succumbing to recessionary forces. With a high degree of confidence we can proclaim that the Mortgage Crisis has now evolved into a Corporate Debt Crisis – and this crisis will not be resolved anytime soon – by rates, by helicopters, or by bailouts.” (Doug Noland “Mortgage Crisis to Corporate Debt Crisis”, Prudent Bear)

> Thanks for your honesty, Ben, but all the exits appear to be bolted-shut. We'll have to ride this storm out from inside the bunker.

http://www.informationclearinghouse.info/article19058.htm
