

The Only Viable Solution!

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a detailed account of the rise & fall of the US Economy
before and after the Great Depression

Both Europe and Japan have now formally admitted they are in a recession. The truth is, we are headed into the deepest economic depression perhaps in history. There are those who are trying desperately to compare current events to 1929 focusing on how unemployment went to 25% back then. We hear plans that we should re-establish the WPA.

It is time to set a few facts straight. It is true that unemployment hit 25% during the Great Depression. That is irrelevant. America was still about 40% agrarian back then so when the great dust storms hit and lasted for 7 years in true biblical fashion, there was no possible way to work. The bright silver lining to the Great Depression is that it forced unskilled labor to acquire skills. This is why the WPA made sense and it worked. But it is also why they wrongly say that war is good for the economy. It was World War II that absorbed excess labor and forced unskilled labor to become skilled. By 1980, the American work force was only about 3% agrarian.

The other misnomer is that the Great Depression was caused by the "greed" of Wall Street. True there was excessive leverage in stocks and there was a shortage of stocks also because of foreign investors. But the American history books were very parochial and ignored the real events overseas. The debt bubble burst in Europe and the contagion spread to the United States. Almost all of Europe defaulted on public debt. The proposal was to allow Germany and Austria to merge their economies. The French disagreed and began shorting the Austrian bonds. When Germany tried to support Austria, the French sold the German bonds short. Britain tried to aid Germany, the French turn on Britain. Most of Europe defaulted. Britain adopted a moratorium. This sent capital fleeing to America driving the dollar to record highs cutting off trade to which we then adopted protectionism with Smoot-Hawley Act. The crisis today is again rising from the leverage in debt, not stocks. We cannot ignore international events. We cannot create enough money to offset the contraction in leverage. We do not need more regulation of Wall Street, we need some regulation of leverage and banks. That has historically been the source of all major economic declines. A pure stock market crash does not alter the course of nations unless coupled with a banking crisis.

Our greatest danger is always ourselves. If our politicians once again down-play reality and misunderstand what is taking place, then you better fill up the car to make sure you have heat and a radio to camp-out in after you lose your home. What we need is courage, wisdom, and foresight based upon hard core facts. It is time to charge the paddles to maximum. We must understand the global economy, not just our own. It is the leverage created by the Investment Bankers that was at least 50:1 who now want to become commercial bankers to get longer-term deposits to play with. Combine their collapsing leverage with unfunded entitlements federal and state (as well as cities), even doubling the money supply or lowering interest rates to zero will not save the day.

It is the Investment Bankers that are to be blamed, not Wall Street in general nor corporate officers. It is not the salaries paid to a CEO any more than it the equally high paying salaries to a sports figure. If every CEO gave back every penny they earned, that would do nothing. It is the 50:1 leverage (or more) used by the Investment Bankers and their thirst to rig the markets to create that "riskless" trade. Orange County, Long-Term Capital

Management, and now the Great Financial Implosion of 2008, all have the same origin - leverage! When the system is built upon leverage that is 50 times the actual underlying value, it is like having a house worth \$100,000 but the banks lends you \$5 million. Even doubling the money supply to say \$200,000, will not stop the contraction of leverage. This is what we are really facing. The cost of this bailout is not \$700 billion, it will be measured in trillions. Add to this the domino effect that is also pushing over corporations like GM, and states as well as cities, the collapse in is spreading to all areas of the economy. The tsunami of entitlements is moving our way. Hoover said: "Prosperity is around the corner." There was no bounce because of the collapse of the debt-structure in 1930s. Unless we understand the true nature of the crisis, history will repeat.

We need the shock to the system that will reverse course. Let go of prejudices and Marxist theories. Eliminate federal income tax, monetize expenditure as per cent of GDP, those with the most will be naturally taxes through steady inflation. We need competitive labor that is exportable. Jobs will pouring into the nation. We will then eliminate the competition with the states for tax revenue forcing them to also compete with each other. The only way we can save the entitlements and pension plans public and private. Stop the nonsense and bring in "real" tort reform that is blocking health care. Once a national system is in place, we can save General Motors, cities, and all industries declining due to such costs.

The stock market did not cause this problem. It was not Wall Street. It was the investment banks with their models that they knew did not function in a real world as those created for AIG. We will destroy our economy if we regulate areas there were not the cause. We need to fold all agencies into one. It has been the turf-war between the SEC & CFTC that caused the creation of hedge funds offshore because if you obeyed the CFTC rules, you went to jail under the SEC. This was not a result of deregulation, it was the result of too much regulation by too many agencies that left gaps between them that were unregulated. The stock exchanges did not cause this problem. It was the unregulated derivative market created by the banks with no regulation. We need one agency, not many. We also need ethical rules that prevent the investment bankers and others from hiring government attorneys to gain inside protection from prosecution and regulation. This is not allowed in any other field. It has to stop among the regulators as well.

Enough is enough. We cannot fix the problem until we face the truth. Consumers want the lowest prices and labor wants the highest prices. Manufacturers leave for survival, not greed. We are also losing service jobs to India, Philippines and even Mexico. Why? The benefit costs on top of taxes are doubling wages. Eliminate the taxes, create real national health care, and we will recreate jobs in America when we need them really bad right now. Even John Maynard Keynes advocated fiscal policy to manipulate the economy during such contractions. He pointed out that both interest rates and taxes were tools. Interest rates do nothing. The decline in confidence will drive interest rates lower any way as does the flight to quality. We can lower interest rates to 0.1% like Japan and still watch grass grow faster than the economy. It is time to stop the Marxism. Our future depends upon this very point. Human nature cannot be changed. Marx was dead wrong. Politicians never seem to learn from history when it goes against their own self-interest. Only Confidence will alter this economic implosion. Without a restoration of Confidence urgently, keep the car gassed up!