CONTEMPORARY COUNTDOWN TO CHAOS - The Ten Years After 9/11

3. FINANCIAL FANTASY LAND

In the 50 years that followed World War 2 the U.S. established itself as the hub and engine of global industry and finance as well as the leading political and military power. New York became the headquarters of the United Nations, and also the International Monetary Fund and the World Bank. Eventually the twin towers of the World Trade Centre, the highest building of its day, came to dominate the New York skyline. The U.S. was the seemingly unassailable global economic giant.

9/11 -A Prophetic Pointer for the Economy

The total destruction of the World Trade Centre in Sept. 2001 by a handful of stateless terrorists was a staggering shock to the pride of this invincible America. The literal physical collapse of the towers has now proved to have been, however, an intensely accurate prophetic pointer to the collapse that was to overtake the very financial and economic structure of the U.S. of which the Towers were the iconic symbol. This collapse struck in 2008 when what has been called a "cardiac arrest" in the U.S. financial system shattered the credit worthiness of all the major banks and finance houses and caused a complete seizure in the money flow. That threatened the whole economy. It was comparable with the great crash of the 1930s. The decade has been one of great deterioration.

The Financial/Economic Crash of 2008

This "cardiac arrest" was in economic terms the collapse of a "super bubble" in the American housing market. To get the blood stream of finance moving again the Federal Government, after a period of helpless inertia, was forced to provide hundreds of billions of dollars in order to cover the huge losses sustained by the banks in the crash and to redeem their debts. This transfusion of capital produced something of a juddering re-start to the banks and the economy, but left great weaknesses. The most glaring weakness was a massive increase in an already overstretched national debt, a debt severely aggravated by the haemorrhaging effect of the heavy and ever increasing cost of the Afghan and Iraq wars. This ongoing weakness of debt became very evident in Aug 2011, when Congress had to raise the ceiling of the national debt to some $15 trillion in order to prevent the nation defaulting on its obligations and being declared bankrupt. As a consequence the U.S. national security bond has lost its high rating for the first time ever. In 2001 all of this would have been unthinkable – as unthinkable as the attack on the twin towers itself; but it has happened. The giant has taken a severe tumble and is still staggering to remain upright. And all this has happened in a decade when up to 2007 the only talk was of the free market, the upbeat economy and the great age of economic stability and plenty.

Ironically the scene for the 2008 collapse was already being set in 2001. President George Bush that year was actively encouraging the "American Dream" of each person owning their own home. He was doing so at a time when interest rates were very low, in other words at an ideal time for people to take on a mortgage. Moreover, those interest rates were to stay artificially low until 2004. In addition, this was a period in which the banks and finance houses had very large amounts of cash available and which they were only too keen to lend. The outcome was that they pushed very cheap mortgages as hard as possible, as well as giving large amounts of easy credit on credit cards etc. Thus the basic platform for a housing boom was in place; a great deal of cheap money and a national visionary housing dream. The public responded, and huge new building projects arose everywhere across the States. Alongside this, house prices were rising and large numbers of people invested in a second and third house, seeking to make an easy profit. Many more re-mortgaged their property to get ready cash which they spent on cheap luxuries flooding in from China. Personal debt rose enormously. It was a "spend easy" time, but, critically, based hugely on debt.

This of course could not go on indefinitely – the interest rate would not remain low for ever and the building programme would eventually outstrip the demand. There would be a crash. But the momentum was huge. The fact was that there were a lot of people who would make a lot of money out of the process and were anxious to push it forward, no matter what.

There was one particularly disturbing feature about the huge numbers of mortgages that were being taken out; more and more people who had no realistic way of repaying them were being pushed into buying them, people without jobs and without prospects. These were the very high risk "sub-prime" mortgages, and they were certain to become "bad debts". They also became very numerous. They were not the sort of mortgages that banks normally wanted on their books, at least not until clever financiers came up with a way which appeared to offload the risk element and make them into what seemed to be secure investments with a high credit rating. This led to all mortgages, good and bad, being mixed up together and sold on to banks as a form of security under the name of CDO – Collateral Debt Obligation. They were hugely popular and much in demand, even from Wall St., and gave a good return They penetrated the whole banking sector in huge numbers as banks and hedge funds bought heavily into them. They were not, of course, a secure investment at all, but a disaster waiting to happen. The bubble was now "toxic".

This toxic bubble kept growing, however for a number of other reasons, and all those reasons had a big element either of corruption or culpable ignorance. First, the mortgage agents were not at risk even when they sold sub-prime mortgages; they simply got commission on their sales, and consequently were happy to sell any mortgage, good or bad. Consequently they were grossly tempted to every malpractice in order to sell. Second, the rating agencies were pressured and bribed by financial houses into giving false security status to the toxic CODs which they knew simply did not deserve it. Third, the banks kept these vast numbers of COD transactions off their main balance sheets and hidden from scrutiny. Fourth, Hedge Funds were in effect gambling with them and making huge profits. Finally the prevailing anti-regulation philosophy led senior Federal financial officials to ignore the whole bubble process, even when tremors were evident and simply trust in the free market. Thus when the bubble burst a very great deal of money had been dishonestly made, but at the expense of thousands left disillusioned and often destitute. The words of Amos, "*They trample on the poor*", come to mind.

The Cult of Personal Greed

Thus the bubble was stimulated essentially by a mixture of greedy self-interest, dishonesty and ignorance, and this culture was to be found throughout the highest echelons of the political and financial world. Quite apart from the doubtful practices which surrounded the property market, the huge availability of capital led financial houses and Hedge Funds in particular to borrow enormous sums and to trade with them in the financial markets simply to make a profit. The most gifted mathematicians were employed to produce "financial models" which would give minimal risk in exploiting anomalies in the prices of stocks and shares. Thus commission and bonuses on financial deals rather than strategic economic investment was the guiding star of the high-flying financial traders. It was a world which was totally non productive in any real social sense; it was world of making money out of money. The financial arena had become a casino of enormous bets and enormous profits. Unrestricted personal gain not national interest was the motivator. Obscene profits were made by the few and the poor-to-rich gulf grew wider and wider. With regard to the housing market, a great many knew where it was all heading and said so. Many even made large sums by juggling their assets in order to cash in on an inevitable collapse. This was the culture that pervaded the world of U.S. finance. It was also a culture that leapt the Atlantic and transformed the nature of British banking and finance throughout the decade. This was the greedy culture Amos had looked on.

The housing bubble began to show signs of bursting in 2007 as interest rates moved up and searching questions about the real value of COD "securities" started to surface. By 2008 the CODs had become discredited and worthless, and the banks and financial houses were found holding billions of dollars worth of them on their hidden accounts. They could not be sold and the banks took huge losses as they were forced to "write off" these "toxic assets". They could not lend to each other since they did not know how bankrupt they each were. Hence credit seized up. Only the U.S. Government Federal Bank had the financial resources to stabilise the situation by providing good money to replace the losses. There followed days of chaos and confusion as the Federal Bank realised the enormity of this in terms of hundreds of millions of dollars, and its executives struggled to know how best this stabilisation might be done.

The Bubble Explodes in Britain and Mainland Europe.

These toxic American CODs were sold widely across international markets and were held by all types of western banks and corporations in large quantities. This meant that the crash was not confined to the U.S. but immediately spread across the Atlantic. The long established banks of each European nation began to post huge losses. Huge pressure came on the central banks of those countries to underwrite the system.

Not every central national bank, however, had the resources to stabilise their own nation's banks even when they were forced to recognise that they had to take the brunt and do this. Iceland was an immediate victim. Ireland followed on quickly. Appeals had to be made to the International Monetary Fund and elsewhere. The impact of debt was enormous.

Residual Long Term Problems

National Bankruptcy When a national central bank "bails out" High St. banks by putting money into them, it does so with public money, money that is raised with either taxation or borrowing. If taxation is not sufficient to allow a nation to balance its budget then the government has to borrow. That borrowing increases the national debt. It is here that a very severe problem arises for all western nations. The fact is that throughout this last decade government borrowing in all western nations has been very high, some would say is now out of control. The U.S. has in fact been fighting its wars with borrowed money. The "bail-outs" since 2008 have now sent that growing debt to unprecedented and dangerous levels. Any country's national debt has a ceiling simply because debt is costly and interest payments have to be paid on the debt. The ceiling is where interest payments cannot be afforded and that is the point of national bankruptcy.

This is what now faces the western nations; the possibility of bankruptcy. The U.S. has had to pass legislation to raise its acting ceiling to $15 trillions; the U.K., Germany and France are slightly below the ceiling, but all others are very close, including Spain, Italy and France. In the Euro-zone this has caused very serious problems with Greece, Portugal and Ireland tipping over and needing support from other Euro-zone nations. The problem is whether those nations can give it or will give it. Collapse of the Euro-zone would bring further huge convulsions. Confusion and indecision can be seen in government efforts of these nations to stem the tide. On the eve of the tenth anniversary of 9/11 no permanent solutions have been found.

This is how far the western nations have been brought down during this last decade. It is in stark contrast to other nations across the world. Oil rich Middle Eastern countries and China do not have a debt but huge surpluses invested in what have come to be called "Sovereign Wealth Trusts". These trusts are buying up all sorts of important commodities and global assets, one of which was actually the purchase of the Empire State Building in New York.

Economic Downturn This financial turmoil has had serious effects on the stock markets and the economy. The latter has inevitably become sluggish with dropped output. Serious recession threatens. This aggravates the national debt problems.

Social Fall-Out An alternative and necessary way to relieve national debt is to cut government expenditure. At the current levels of debt there is no choice. No western government can now continue to run up deficits; the debt must be reduced. This means simply that cuts have to be made in every area where government spends, and the government is the nation's major employer. Here is the social cost of the financial and economic chaos. Jobs, pensions, health, services of all kinds, investment in research and infrastructure, all these cannot remain at the current level. This is, of course, a highly explosive social prospect where various different interests will compete bitterly for their corner, and where statesmanlike choices will be very difficult.

Personal Debt The bankruptcy of the nations is mirrored in the huge level of personal debt that has accrued among the populations of the western nations. At the early part of this decade there was immense pressure on people to borrow to spend; there has been a massive personal debt bubble which has now burst. The buying and of selling luxuries of every kind has been at the bottom of an economic demand that has been cynically and wrongly based on debt and has now come home to roost. The people and nations of the west have lived way beyond their means, have failed to save, and now time has been called.

The whole scenario is deeply disturbing. We are deeply in trouble. One author, writing about the financial collapse, entitled his book, "The End of the Age of Greed". Unfortunately there is little evidence it is the end of greed! Luxuries and increasing profit still remain the major drives in our society, and once again chiefly among financial and business leadership..