Like Fed Before 2008 Crash

Yellen to Congress: Economy 'No Problem'

by Paul Gallagher

Feb. 15—In her testimony to the House Financial Services and Senate Banking Committees Feb. 11-13, Federal Reserve chief Janet Yellen performed an exact reprise of former chair Ben Bernanke's failure, just seven years earlier, to see the immediate future.

In late March of 2007, Bernanke told the same committees that asset-backed securities collapses in subprime debt markets were not a problem. "The impact on the broader economy and financial markets, of the problems in the subprime market, seems likely to be contained," Bernanke blundered then; only months later he suddenly panicked, and began a series of interest-rate cuts and bank bailout programs which failed to stave off global financial blowout and mass unemployment.

This time, Yellen repeatedly denied that the impact of the Fed's "tapering" of money-printing since December, was any problem at all. Asked about the steady slide of stock exchanges and currency devaluations in the so-called "emerging markets" since December, which strongly resembles the late-1990s "Asia Crisis" that went to the edge of global blowout then: Not a problem, not a concern to the Fed, said Yellen. The only thing that mattered, she implied, was her view that the U.S. economy is "picking up."

This also was denial of reality, both present and future.

Unpayable Debt, No Credit

Working with Wall Street, the Obama Administration, and other major central banks in Europe and Japan, the Federal Reserve has committed the financial "crime of the century," itself printing $3 trillion since 2009, almost exclusively to fill the "excess reserves" of big banks in the U.S. and Europe, with which those banks have speculated in securities and derivatives markets while starving businesses and households of credit. The six largest U.S. banks have ballooned nearly 40% larger in just five years, and now control two-thirds of deposits and financial assets in the U.S. economy. The 20 or so "too big to fail" banks in Europe have puffed up similarly, but to a lesser degree.

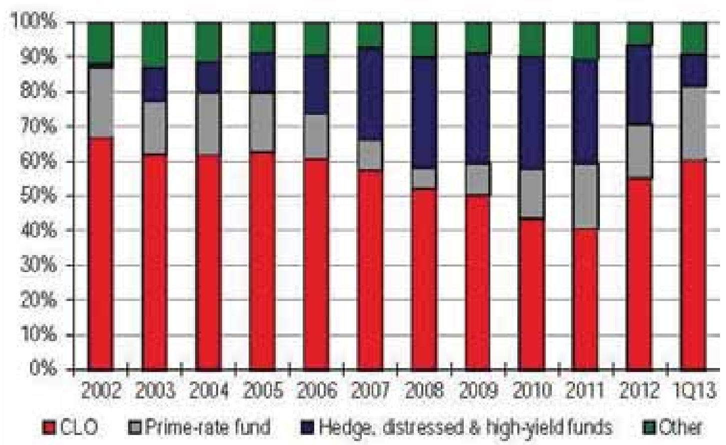
The Fed's attempt to "exit" from this hyperinflationary and criminal QE policy has so far produced crisis conditions primarily in stock markets and currency values of nations such as India, Brazil, Argentina, Turkey, and Hungary. But it is a trap the Fed can't "exit" from.

The total amount of debt outstanding in the OECD nations has risen in the same five years by 30%, even while false reports of "large-scale deleveraging" by businesses and households appear in all the financial media. Debt-to-GDP ratios are at their highest levels in more than 200 years in the trans-Atlantic world, according to necessarily rough estimates made recently by the IMF.

While debt has exploded, *credit*—lending by commercial banks to businesses, households, and municipal agencies—is everywhere unavailable. A U.S. banking system with $2.2 trillion more in deposits than it had in early 2009 (courtesy of Fed money printing) is more than half a trillion dollars *below* the early 2009 level of lending to households and businesses.

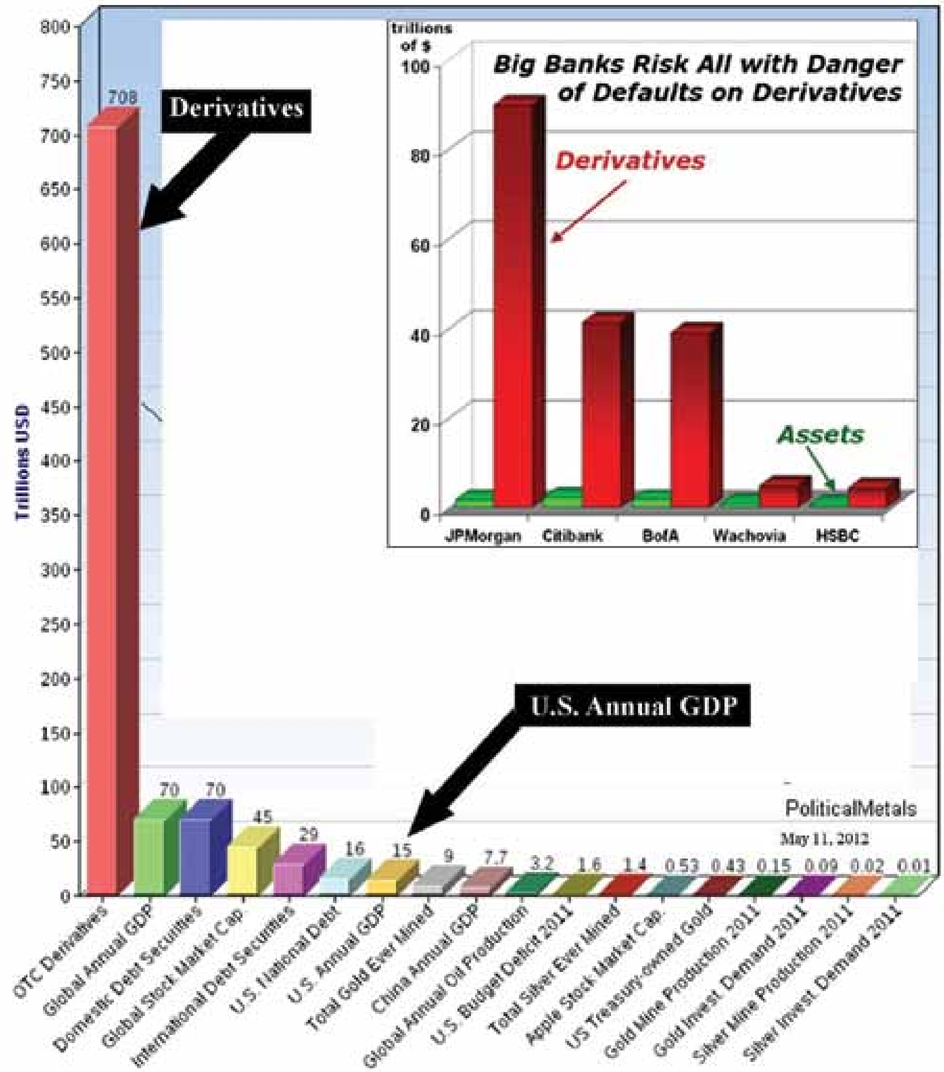
In the EU, the universal banks' starvation of the economies of credit is also drastic. Not only is lending to businesses and households—the function of banks under a Glass-Steagall system which must be re-

FIGURE 1
Share of New-Issue Institutional Loan Allocations by Investor Type



Source: S&P Capital IQ LCD

FIGURE 2
Derivatives



Source: Bank of International Settlements—The Future Tense, June 15, 2012.

stored—back down to the levels of the 2009 bank blowout, but it is now falling quite rapidly lower. The European Central Bank (ECB) put out figures Feb. 12 which showed total EU bank lending to businesses down in absolute terms by 3.9% in 2013 versus 2012. At the end of 2013, business loans were falling by $23 billion in November, and $20 billion more in December. Lending to households fell $4.1 billion in November, and another $5.2 billion in December. Taking bank lending to non-financial companies in 2011 as equal to 100 in an index, some major countries' lending levels at the end of 2013 were: Germany, 100; France, 98; Italy, 89; and Spain, 72.

The *in extremis* condition of the big London and European banks, loaded with bad debts, "subprime" losses, and unable to lend, had been signalled by two egregious developments. The global bank regulators have completely turned against imposing any form of bank separation, "ring-fencing," or even the bank capital standards which they had already decided on. And there has been a drumbeat of proposals from the IMF and European Commission (EC) to seize wealth from bank accounts and pension funds to support bank debt.

On Feb. 10, for the fourth time in four months, the "Troika" (EC, IMF, ECB) financial powers floated a trial balloon that chunks of Europeans' savings accounts could be confiscated to deal with bank failures. It was, specifically, the failure of the insolvent and collapse-prone Eurozone banks to lend, that was a dead weight on the sinking trans-Atlantic economies.

An EC planning document which found this to be yet another reason for "bailing in" the savings accounts/pensions of these households and businesses, was "leaked" to Reuters, which published it on Feb. 12. The document proposed that since the banks in the EU, "hampered by new capital standards and regulations"[!], were not lending, the EC could "mobilize" private savings accounts, pension funds, etc., into an EU-wide fund to lend to small business. "Mobilization" here is a polite word for seizure, or "bail-in" of savings; the IMF has repeatedly proposed it since October.

Once people's savings and pensions are thus "mobilized" into funds controlled by Troika bureaucrats, the chances of their being loaned to small business to aid them in expanding, are very small indeed. As with all of the other “trial balloons” for grabbing savings across Europe, which have been coming quicker and quicker from the IMF and EC, the lending target is insolvent major banks, or the debt of governments made insolvent by bailing those banks out.

Falling Consumption Under the Bubble

Wishful thinkers in Washington argue that private-sector, high-interest, securitized-debt bubbles like junk-bond markets, leveraged lending, collateralized loan obligations, subprime lending, etc., are not yet back to the immense size of the trans-Atlantic mortgage securities bubbles of 2007-08. But the levels of real economic consumption on which those bubbles feed—hence the ability to pay these debts—is drastically shrunken.

In Barack Obama’s United States, for example, the Labor Department reported Feb. 3 that Americans’ real disposable personal income fell by 2.7% in 2013. Consequently, total U.S. household savings dropped by more than $50 billion (about 10%) in 2013, as households tried to maintain their consumption of goods and services. What is that consumption level? It was recently reported in a study by Washington University, in St. Louis, that household consumption for 95% of American households is still at the collapsed level of 2009, when mass unemployment and loss of “credit” had pushed real consumption down by almost 15%. Only the top 5% of households have recovered the 2006 levels of real consumption.

And the U.S. real economy: a steady march of very bad reports showing economic contraction, for months, up through Yellen’s Feb. 11-13 testimony, in which she saw things “picking up.” This included employment, housing sales and prices, durable goods and capital goods orders, industrial production and manufacturing, consumer spending, and a great increase in homelessness during the Winter. Unemployment among minorities, particularly teenagers, grew so dramatically in December and January that parts of the Democratic Congressional Black Caucus have recently reacted sharply against Obama because of his complete indifference to the worsening problem.

These were the same type of reports of contraction which Ben Bernanke acknowledged and itemized in his March 28, 2007 testimony, when he infamously saw no financial breakdown coming. In this crisis, his successor, Janet Yellen, does not even acknowledge them.