

# Making Sense

Issue 11  
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“News to use & amuse”



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## Crisis unfolds

Another week of zany headlines...market on its knees – market rebounds – interest rate surprise – market firestorm – every day a different headline describing the same thing - chaos.

There are many causes for these problems, most of them systemic or dogma based. The causes include the absurdity of connecting economic growth to debt, the dizzy idea that we can keep increasing debt without limit, and the notion that a system component can be self-regulating without regard to the needs of the system itself(deregulation). Also the idea that governments can declare what their currency is worth (fiat) without reference to the real economy.

The underlying cause is the fiat monetary system. Fiat currency is paper money that is not backed by anything other than a promise to pay by the central government. In effect it is an IOU from the Treasury. [Colin Twiggs](#)

We might recognise that putting lawyers, accountants and shopkeepers in charge of large, complex systems like Health and Treasury is just asking for trouble.

What we are facing is no mere speed bump in the road to prosperity. The looming threat of credit expansion has been ignored by regulators for the past three decades and we now face a crisis of confidence in the financial system. Unfortunately the only tool that central banks have available is to lower interest rates to artificially low levels in an attempt to support falling asset prices. If they succeed, and demand for credit again expands, we are being set up for another financial collapse in the not too distant future. If they fail, we face the mother of all credit contractions and a global recession that will be remembered in a similar light to the 1930s. [Colin Twiggs](#)

In nature, systems are born, grow and die to be replaced by new systems. When a system is dying, we need to replace it with a new system relevant to the needs of the new circumstances.

Our 'globalised' financial system is falling apart due to severe design deficiencies. What we need to do is to reconceive the entire system and replace it with something that works. Since we appear to have neither the expertise nor the understanding to do this successfully at the global scale, we might consider dumping the 'globalised' system and reverting to national systems that actually work.

We know that transporting goods around the globe is probably unsustainable so we need to reconceive our social and commercial institutions to incorporate local supply and delivery. Dealing with the financial crisis is an opportunity to redesign our way of life, our urban layouts, our distribution systems, our ways of saving, our governance and so on.

On the 7:30 report on Thurs evening, Kevin Rudd stated that his government was ready to make the 'hard decisions' and that their responsibility was assuring economic growth, as opposed to house prices and affordability. It's also ominous that he describes a +ve rating by the IMF as an 'outcome'. It isn't - it's an assertion.

It's also interesting that the action on the stock markets is now [being described](#) as 'irrational'. What about the claims that we should leave everything to the markets? Are we supposed to rely on 'irrational' markets or not?

I don't believe that decisions are 'hard'. I suggest that's code for 'Your suffering is OK because I'm suffering by making the decision' to help excuse the decision makers lack of suffering as they're cushioned by a tax funded cocoon. Whether Rudd's new 29 y.o. [Chief of Staff](#) has the experience and expertise to provide real help is an open question.

And now our fat, lazy and incompetent State governments are [demanding more](#) money to improve.

Our State governments are monuments to waste and misdirected priorities. Their blundering, mismanagement and failures have led to the collapse of the Murray Darling catchment. Their failures to inspect unsafe gas pipelines led to the WA gas disaster that cost us more billions. Everywhere we turn, we see the misguided actions of government adding to our costs.

Taxpayers pay for government who then create major problems (e.g. quarantine) that cost us even more, then we have to pay extra to fix everything, all the while paying benefits, superannuation and payroll to those who are creating the problems.

According to our calculations we could save Australia \$50 - \$100 billion per year by eliminating government waste, duplication and rework. What's needed is leadership.

Australians cannot afford to keep paying ever higher taxes and charges to wasteful government departments that create severe problems while producing nothing of real value.

Whether the same people that brought us the financial crisis can now 'work together' to create new and useful systems that actually work remains to be seen. Remember, we were told the bailout would work.

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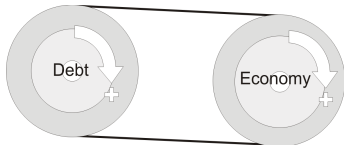
# 'Crisis' dynamics

## Dynamic visualisation

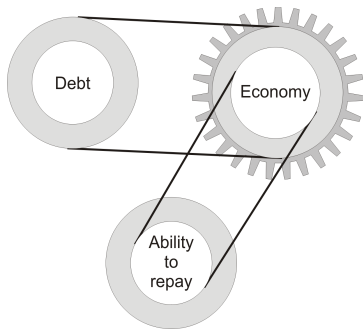
While many of our descriptions are about static concepts and ideas, organisations are dynamic, they keep changing and as they do, so their outputs change.

In systems work, it's useful to visualise organisational dynamics, and it is helpful in the case of economic outputs. In this example I've used the idea of gears and belt wheels to show crisis dynamics on a static page.

Connecting debt to the economy, as our monetary system does, means that they both drive each other, like two drive wheels connected by a belt.

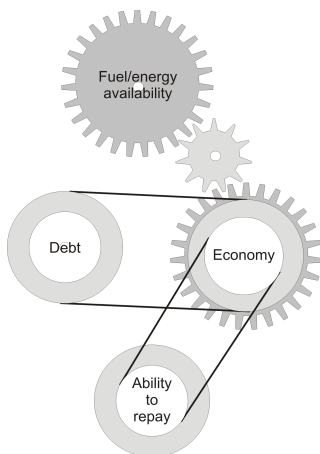


When we add the ability to repay, we have 3 drive wheels all turning in the same direction (clockwise for growth).



These systems of interconnection (interdependent variables) also mean that when anything stops, everything stops - when anything reverses, everything reverses. Such dynamics indicate risk and normally would require close attention, unless you are dedicated to deregulation - i.e. avoiding control of the system.

When we add fuel availability into the mix we get an even more dependent system, with the economy depending on, debt, ability to repay and fuel availability.



In this diagram, everything increases when everything is going clockwise, when anything stops every component is stressed or stopped, and reversals of anything reverse everything.

These ideas, while relatively obvious from the diagrams, are often not understood by politicians and bureaucrats, who tend to have no dynamic representations of the systems that they control, instead breaking control into 'portfolios' and other pieces that impede an understanding of the whole system.

Looking at ability to repay, or take on debt, we find [Prof Keen from UWS](#) saying...

Australian households were unable to borrow further to buy more property.

The causes of our current crisis include the false assumptions that;

- debt can keep increasing (think Peak Debt)
- debt is a useful way to drive economic growth

coupled with fundamental system design errors including

- allowing economic growth to depend on a finite resource (fossil) and failing to develop alternatives
- creating systems with too many uncontrollable interdependent variables
- failure to control critical systems (deregulation)

Having created a dynamic system that is inherently unstable, we then amplified the instability by allowing the system to be driven without brakes by people who could enrich themselves at our expense.

These are serious difficulties that cannot be solved with 'bailouts', although they will please those bailed, it will also devalue the currency and do nothing to correct the basic flaws in design.

## Possibilities

Because energy is a critical component of life and development, Howard [Odum](#), the systems ecologist, has put forward a strong case for using energy as the underpinning for currency. If we could use his ideas instead of relying on debt to stimulate growth, we might be a lot better off.

Energy would be total energy, solar area & intensity, fossil fuels, nuclear, forests and so on. It is then possible to increase the value of currency by saving, or finding new ways to create, energy. To succeed we'd have to understand what we were doing.

We need to decouple debt and oil from the economy, so that we can live viable economic lives without depleting fossil reserves. We also need to decouple speculative trading from the real economy, so that speculators aren't driving primary producers broke.

Such initiatives are unlikely in the current climate where politicians appear to have a cartoon understanding of the problems that we face, and many of them are enriching themselves & friends courtesy of our failing systems.

Why believe Odum and others against the various claims made in the mainstream media?

**Our answer:** logic applied to available evidence.

The CIA uses a system called [Analysis of Competing Hypotheses](#) (ACH) to analyse intelligence in which various evidence is placed in a table and optional explanations (hypotheses) for that evidence are recorded. The explanation that has the most evidence to support it can be taken as the most likely. We'll check that out in later issues.

## In case you missed it

### Financial mess

Finance crisis in graphics [BBC](#)

Global credit crunch timeline [BBC](#)

US coup video Naomi Wolf [Youtube](#)

Capitalism in crisis [The Age](#)

An unprecedented crisis [The Age](#)

Uncle Sam is waste deep in the big muddy [NewMatilda](#)

Pakistan facing bankruptcy [Telegraph](#)

A solution? [ICH](#)

Latin leftists gloat over Comrade Bush [CommonDreams](#)

Bank implode-o-meter [here](#)

### Governance, fear, economy

Lack of trust a telling poll issue [Mercury](#)

Joint house sittings rejected [Mercury](#)

Journalist reveals herself as police target [The Australian](#)

Economic collapse and global ecology [Countercurrents](#)

States need to lift their game [The Australian](#)

States demand more money to reform [The Australian](#)

Rudd tough talk won't cure pension crisis [Telegraph](#)

### Education revolution & housing

Students selling sex to survive [HeraldSun](#)

Diddly squat [The Age](#)

Needy students denied funds [The Age](#)

### Forestry

MIS Forestry a growing concern [Northern Star](#)

### Climate & environment

Methane time bomb & Wall St meltdown [Crikey](#)

Climate experts hardline on greenhouse pollution [The Australian](#)

These economists are making me thirsty [New Matilda](#)

### Food/water

Irrigation schemes threaten fishery [Fishing Tasmania](#)

### Health

NSW hospital statistics 'worth nothing' [The Australian](#)

“Let me issue and control a nation's money and I care not who writes the laws.” ~Amshall Rothschild.

Thnx to [Jo McRae](#), Paul de Burgh Day & Rod Hutchins for ideas

## Methane time bomb + Wall St meltdown

© Crikey 10 Oct 08 *ANU earth and Paleo-climate scientist Dr Andrew Glikson writes:*

Recent reports of enhanced methane (CH<sub>4</sub>) leaks off the eastern Siberian coast (about 100 times the background level of about 1780 parts per billion CH<sub>4</sub>) and off Svalbard, Norway have been overshadowed in the media by the collapse of the global credit bubble.

At the root of both is a common thread, deregulation, including open-ended permits to pollute the atmosphere and the oceans, little-regulated financial systems and economic globalisation, representing failure by governments to protect the life and welfare of their hapless populations.

For some time now climate scientists warned that melting of subpolar permafrost and warming of the Arctic Sea (up to four degrees C during 2005–2008 relative to 1951–1980) are likely to result in the dissociation of methane hydrates and the release of this powerful greenhouse gas into the atmosphere (methane: X62 times the infrared warming effect of CO<sub>2</sub> over 20 years and X21 times over 100 years).

The amount of carbon stored in Arctic sediments and permafrost is estimated as 500–2500 Gigaton Carbon (GtC), as compared with the world's total fossil fuel reserves estimated as 5000 GtC. Compare with the 700 GtC of the atmosphere, which regulates CO<sub>2</sub> levels in the range of 180–300 parts per million and land temperatures in a range of about – 50 to + 50 degrees C, which allowed the evolution of warm-blooded mammals.

The continuing use of the atmosphere as an open sewer for industrial pollution has already added some 305 GtC to the atmosphere together with land clearing and animal-emitted methane. This raised CO<sub>2</sub> levels to 387 ppm CO<sub>2</sub> to date, leading toward conditions which existed on Earth about 3 million years (Ma) ago (mid-Pliocene), when CO<sub>2</sub> levels rose to about 400 ppm, temperatures to about 2–3 degrees C and sea levels by about 25 +/- 12 metres.

There is little evidence for a extinction at 3 Ma. However, by crossing above a CO<sub>2</sub> level of 400 ppm the atmosphere is moving into uncharted territory. At this stage enhanced methane leaks threaten climate events such as the massive methane release and fauna extinction 55 million years ago, marked by rise of CO<sub>2</sub> to near-1000 ppm.

There is little evidence in Garnaut's Final Report that this possibility was taken seriously into account. Nor do the consequences of metres-scale sea level rise for a civilization hinged along deltas, low river valleys and coastlines, appear to prevent governments and business from "business-as-usual" behavior. The \$700 billion donated by the US Congress to save corrupt financial dealers could have been better spent on the planet.

## Slower/better thinking

As a trained facilitator of human learning & change, I've made it my business to find out what works and why. It's clear that most of our actions (apart from reflex) are driven by our mental descriptions of the world. Change the mental descriptions and you can change the actions.

I also believe that our brains need practice – fun and creative ways to think – particularly when we're surrounded by doom and gloom courtesy of elected psychopaths and their sycophantic apparatchiks.

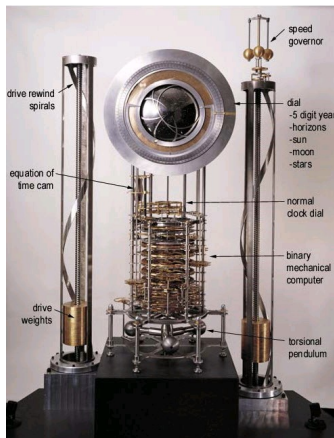
In this issue, I offer some ideas to help engage your brain in new and interesting ways.

Years ago I studied various means of stimulating our ability to think usefully about the longer term, to create more useful options for us in the present.

One of the key ideas (e.g. Peter Schwartz [The Art of the Long View](#)) was to develop realistic scenarios of possible futures. The purpose was to enable us to prepare for such futures.

In my readings I had also come across [Neil Stephenson](#), particularly his brilliant [Cryonomicon](#), a fictionalised history of code, cyphers and outrageous human schemes.

In reading his latest work, [Anathem](#) ([trailer](#)), I came across the link between these two authors. The [10,000 year clock!](#)



The clock was designed to meet the following principles:

### Longevity

With occasional maintenance, the clock should reasonably be expected to display the correct time for the next 10,000 years.

### Maintainability

The clock should be maintainable with bronze-age technology.

### Transparency

It should be possible to determine operational principles of the clock by close inspection.

### Evolvability

It should be possible to improve the clock with time.

### Scalability

It should be possible to build working models of the clock from table-top to monumental size using the same design.

The designer [Danny Hillis](#) said

“I want to build a clock that ticks once a year. The century hand advances once every one hundred years, and the cuckoo comes out on the millennium. I want the cuckoo to

come out every millennium for the next 10,000 years. If I hurry I should finish the clock in time to see the cuckoo come out for the first time.”

I recommend you take a little while to imagine how such a project might be approached...consider 10,000 years and what it means in clock terms. What kinds of issues does it raise?

The photo & CAD drawing I sent earlier were of the chimes for the first prototype. There are 10 different chimes which can ring a different sequence every day for 10,000 years. There are 3.6 million days in 10,000 years.

$10! = 10 \times 9 \times 8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1 = 3,628,800$  possibilities

The clock itself is based on an [orrery](#) - a mechanical device for working out the positions of the planets.

Schwartz is a director of Long Now Foundation whose goal is to provide counterpoint to today's "faster/cheaper" mind set and promote "slower/better" thinking. Stephenson used the ideas of the 10,000 year clock as a part of his new book.

Long Now studies how we can live and think in the long term. Ways in which we, as a race, can develop ourselves and remain stable (like the clock) over extended periods.

For example we know that if we all participate in actions and decisions, then we are most likely to survive as a group (democracy) because all of our needs will be considered. We also know that failing to treat everyone equally leads us into crisis and disaster (TAS TIMES).

Those who advocate we take a long view, argue that to serve the long view (and the long viewer) we need to:-

- Foster responsibility
- Reward patience
- Mind mythic depth
- Ally with competition
- Take no sides
- Leverage longevity

Other people have differing views, some preferring a short term view.

There are no rights and wrongs here, just differing perspectives that produce different worldviews and different feelings about how we relate to our futures, families and existence.

## Debt clock runs out of digits

Speaking of long term thinking, the clock in New York showing America's national debt has run out of digits.

The National Debt Clock was designed to show figures of up to 10 trillion U-S dollars.

When the figure rose above that amount at the end of last month the clock failed to cope.

As a short-term fix, the dollar sign on the digital display has been changed to a number, so the full figure of about ten-point-two-trillion dollars can be displayed. - [BBC](#)

## No easy way to say it: Aussie market tanking

© Crikey Glenn Dyer writes:

Panic and fear are horrible things when seen in the raw. Ugly, basic human emotions and when overlain by money and greed, it's even uglier, as we saw on Wall Street this morning where short sellers had a field day in the last hour of trading, and here and in Asia where markets took their lead from the US and sold, sold, sold.

But it must be said that for every punter and supposedly long term investor selling and heading for the exits, there's someone buying, and so it was on Wall Street, though in many cases it was the short covering themselves to complete the profitable deal.

With shorting banned, it didn't matter.

The lemmings assembled at 10am and proceeded to run right over the cliff. The market here fell by almost 8% (around 336 points), taking the value of the ASX 200 stocks below \$A1 trillion and the amount wiped off the overall market to around \$A600 billion this year (all off our super and the fortunes of the likes of James Packer, twiggy Forest and Frank Lowy!)

It was bloody as the market saw the steepest falls in what is already a rotten year. Just after Midday the selling pressure has eased a touch and the market was trading just under 6% or around 250 points.

In Tokyo it was a more miserable story: a 9.9% plunge in early trading on top of that 9.8% drop on Wednesday.

Our market might be off 14% for the week by midday today. Tokyo's is off closer to 20% (which is a correction and a new bear market in itself).

The previous biggest fall was on January 22 when the market dropped by 7.1%. We were under that just after noon, but there's four hours of trading to go and Hong Kong, China and other Asian markets to start trading.

The dollar was back well under 70 US cents at the devil's number 66.66 cents at 12.15pm, oil was down to \$US84, copper was off a sharp 7% at \$US2.23 a pound and gold was up \$US43 an ounce at \$US929 an ounce in Asian trading.

And the Reserve Bank is maintaining to keep markets well cashed up. It added \$2.63 billion into the system this morning in its daily operations.

That was well above the system deficit estimated at \$1.84 billion. The banks maintained cash balances at the RBA overnight Wednesday of \$8.4 billion, down around \$1 billion on the level a few nights earlier in the week.

But apart from the gains by gold, the only other gainer around the world seems to be a special prayer for these times from the Church of England in the UK.

London media reports said that the Church of England's website is carrying a "Prayer for the Current Financial Situation" which has been viewed nearly 8000 times since it was published online in September, that lifted traffic to the "prayers for today" section of the website by 28% -- Is Gold long or short today?.

## The world is at severe risk of a global systemic financial meltdown and a severe global depression

[Nouriel Roubini](#) | Oct 9, 2008

The US and advanced economies' financial system is now headed towards [a near-term systemic financial meltdown](#) as day after day stock markets are in free fall, money markets have shut down while their spreads are skyrocketing, and credit spreads are surging through the roof. There is now the beginning of a generalized run on the banking system of these economies; a collapse of the shadow banking system, i.e. those non-banks (broker dealers, non-bank mortgage lenders, SIV and conduits, hedge funds, money market funds, private equity firms) that, like banks, borrow short and liquid, are highly leveraged and lend and invest long and illiquid and are thus at risk of a run on their short-term liabilities; and now a roll-off of the short term liabilities of the corporate sectors that may lead to widespread bankruptcies of solvent but illiquid financial and non-financial firms.

On the real economic side all the advanced economies representing 55% of global GDP (US, Eurozone, UK, other smaller European countries, Canada, Japan, Australia, New Zealand, Japan) entered a recession even before the massive financial shocks that started in the late summer made the liquidity and credit crunch even more virulent and will thus cause an even more severe recession than the one that started in the spring. So we have a severe recession, a severe financial crisis and a severe banking crisis in advanced economies.

There was no decoupling among advanced economies and there is no decoupling but rather recoupling of the emerging market economies with the severe crisis of the advanced economies. By the third quarter of this year global economic growth will be in negative territory signaling a global recession. The recoupling of emerging markets was initially limited to stock markets that fell even more than those of advanced economies as foreign investors pulled out of these markets; but then it spread to credit markets and money markets and currency markets bringing to the surface the vulnerabilities of many financial systems and corporate sectors that had experienced credit booms and that had borrowed short and in foreign currencies. Countries with large current account deficit and/or large fiscal deficits and with large short term foreign currency liabilities and borrowings have been the most fragile. But even the better performing ones – like the BRICs club of Brazil, Russia, India and China – are now at risk of a hard landing. Trade and financial and currency and confidence channels are now leading to a massive slowdown of growth in emerging markets with many of them now at risk not only of a recession but also of a severe financial crisis.

The crisis was caused by the largest leveraged asset bubble and credit bubble in the history of humanity were excessive leveraging and bubbles were not limited to housing in the US but also to housing in many other countries and excessive borrowing by financial institutions and some segments of the corporate sector and of the public sector in many and different economies: an housing bubble, a mortgage bubble, an equity bubble, a bond bubble, a credit bubble, a commodity bubble, a private equity bubble, a hedge funds bubble are all now bursting at once in the biggest real sector and financial sector deleveraging since the Great Depression.

At this point the recession train has left the station; the financial and banking crisis train has left the station. The delusion that the US and advanced economies contraction would be short and shallow – a V-shaped six month recession – has been replaced by the certainty that this will be a long and protracted U-shaped recession that may last at least two years in the US and close to two years in most of the rest of the world. And given the rising risk of a global systemic financial meltdown the probability that the outcome could become a decade long L-shaped recession – like the one experienced by Japan after the bursting of its real estate and equity bubble – cannot be ruled out.

And in a world where there is a glut and excess capacity of goods while aggregate demand is falling soon enough we will start to worry about deflation, debt deflation, liquidity traps and what monetary policy makers should do to fight deflation when policy rates get dangerously close to zero.

At this point the risk of an imminent stock market crash – like the one-day collapse of 20% plus in US stock prices in 1987 – cannot be ruled out as the financial system is breaking down, panic and lack of confidence in any counterparty is sharply rising and the investors have totally lost faith in the ability of policy authorities to control this meltdown.

This disconnect between more and more aggressive policy actions and easings and greater and greater strains in financial market is scary. When Bear Stearns' creditors were bailed out to the tune of \$30 bn in March the rally in equity, money and credit markets lasted eight weeks; when in July the US Treasury announced legislation to bail out the mortgage giants Fannie and Freddie the rally lasted four weeks; when the actual \$200 billion rescue of these firms was undertaken and their \$6 trillion liabilities taken over by the US government the rally lasted one day and by the next day the panic has moved to Lehman's collapse; when AIG was bailed out to the tune of \$85 billion the market did not even rally for a day and instead fell 5%. Next when the \$700 billion US rescue package was passed by the US Senate and House markets fell another 7% in two days as there was no confidence in this flawed plan and the authorities. Next as authorities in the US and abroad took even more radical policy actions between October 6<sup>th</sup> and October 9<sup>th</sup> (payment of interest on reserves, doubling of the liquidity support of banks, extension of credit to the seized corporate sector, guarantees of bank deposits, plans to recapitalize banks, coordinated monetary policy easing, etc.) the stock markets and the credit markets and the money markets fell further and further and at an accelerated rates day after day all week including another 7% fall in U.S. equities today.

When in markets that are clearly way oversold even the most radical policy actions don't provide rallies or relief to market participants you know that you are one step away from a market crack and a systemic financial sector and corporate sector collapse. A vicious circle of deleveraging, asset collapses, margin calls, cascading falls in asset prices well below falling fundamentals and panic is now underway.

At this point severe damage is done and one cannot rule out [a systemic collapse and a global depression](#). It will take a significant change in leadership of economic policy and very radical, coordinated policy actions among all advanced and emerging market economies to avoid this economic and financial disaster. Urgent and immediate necessary actions that need to be done globally (with some variants across countries depending on the severity of the problem and the overall resources available to the sovereigns) include:

- another rapid round of policy rate cuts of the order of at least

150 basis points on average globally;

- a temporary blanket guarantee of all deposits while a triage between insolvent financial institutions that need to be shut down and distressed but solvent institutions that need to be partially nationalized with injections of public capital is made;

- a rapid reduction of the debt burden of insolvent households preceded by a temporary freeze on all foreclosures;

- massive and unlimited provision of liquidity to solvent financial institutions;

- public provision of credit to the solvent parts of the corporate sector to avoid a short-term debt refinancing crisis for solvent but illiquid corporations and small businesses;

- a massive direct government fiscal stimulus packages that includes public works, infrastructure spending, unemployment benefits, tax rebates to lower income households and provision of grants to strapped and crunched state and local government;

- a rapid resolution of the banking problems via triage, public recapitalization of financial institutions and reduction of the debt burden of distressed households and borrowers;

- an agreement between lender and creditor countries running current account surpluses and borrowing and debtor countries running current account deficits to maintain an orderly financing of deficits and a recycling of the surpluses of creditors to avoid a disorderly adjustment of such imbalances.

At this point anything short of these radical and coordinated actions may lead to [a market crash, a global systemic financial meltdown and to a global depression](#). At this stage central banks that are usually supposed to be the "lenders of last resort" need to become the "lenders of first and only resort" as, under conditions of panic and total loss of confidence, no one in the private sector is lending to anyone else since counterparty risk is extreme. And fiscal authorities that usually are spenders and insurers of last resort need to temporarily become the spenders and insurers of first resort. The fiscal costs of these actions will be large but the economic and fiscal costs of inaction would be of a much larger and severe magnitude. Thus, the time to act is now as all the policy officials of the world are meeting this weekend in Washington at the IMF and World Bank annual meetings.

**Thursday midnite update:** A few hours after I had written this note the market crash that I warned about is underway in Asia: the Nikkei index in Japan is down 11% and all other Asian markets are sharply down. This reinforces the urgency of credible and rapid policy actions by the G7 financial officials who are meeting in a few hours in Washington and the need to also involve in such global policy coordination the systemically important emergent market economies.

## FEMA sources confirm coming martial law

by Wayne Madsen © [Global Research](#), October 9, 2008

WMR has learned from knowledgeable Federal Emergency Management Agency (FEMA) sources that the Bush administration is putting the final touches on a plan that would see martial law declared in the United States with various scenarios anticipated as triggers. The triggers include a continuing economic collapse with massive social unrest, bank closures resulting in violence against financial institutions, and another fraudulent presidential election that would result in rioting in major cities and campuses around the country.

In addition, Army Corps of Engineer sources report that the assignment of the 3rd Infantry Division's 1st Brigade Combat Team (BCT) to the Northern Command's U.S. Army North is to augment FEMA and federal law enforcement in the imposition of traffic controls, crowd control, curfews, enhanced border and port security, and neighborhood patrols in the event a national emergency being declared. The BCT was assigned to duties in Iraq before being assigned to the Northern Command.

On April 3, 2008, WMR reported on a highly-classified document regarding the martial law scenario:

*WMR has learned from knowledgeable sources within the US financial community that an alarming confidential and limited distribution document is circulating among senior members of Congress and their senior staff members that is warning of a bleak future for the United States if it does not quickly get its financial house in order. House Speaker Nancy Pelosi is among those who have reportedly read the document.*

*The document is being called the "C & R" document because it reportedly states that if the United States defaults on loans and debt underwriting from China, Japan, and Russia, all of which are propping up the United States government financially, and the United States unilaterally cancels the debts, America can expect a war that will have disastrous results for the United States and the world. "Conflict" is the "C word" in the document.*

*The other scenario is that the federal government will be forced to drastically raise taxes in order to pay off debts to foreign countries to the point that the American people will react with a popular revolution against the government. "Revolution" is the document's "R word."*

## The current financial crisis is only the beginning

By James Saft – © Reuters Oct 9 2008 [Int'l Herald Tribune](#)

**CHARLESTON, South Carolina:** Yes, Virginia, the banking crisis will one day end, but what comes after promises to be even more arduous.

With the solvency of the Western banking system seriously in question, there is a temptation to hope that if only the latest bold, last-ditch rescue plan will work, we can go back to the good old days of 2006.

One could argue that the banking crisis is just the cold sweat, not the flu that follows it.

The problem is not just that the banking system has been broken by an orgy of foolish lending but moreover that huge swaths of the global economy are predicated on that foolish lending and the consumption it allowed.

The bubble wasn't just in real estate, leaving the financial system holding the bag; the bubble was in consumption.

That is not to say that the current scrambling to save the system is pointless. There is a very big difference in the damage that would be done by a disorderly deleveraging compared with a slightly slower, more controlled one.

The banking crisis will have very serious negative effects on the real economy, and the cost will grow. This is true even if ATM machines continue working, our deposits stay safe, and gold, bullets, canned goods and bottled water don't become the best asset allocation choices for 2008.

The core of the issue isn't even solvency. It's the way in which the debt causing the banking insolvency distorted, distended and hollowed out economies around the world.

It caused a huge misallocation in the English-speaking economies into real estate, and into consumption that could only seem to make sense to people drunk on the appreciation of property prices. It caused a less huge but still significant misallocation elsewhere; I think we will see that a lot of what was being produced by Europe and Asia's vibrant export industries were products that the United States and Britain will find they can do without, or with much less of.

Don't get me wrong: The banking crisis is extraordinarily dangerous. But the changes in the global economy that are needed are even more profound. Savings rates are going to need to rise in the developed economies of the English-speaking world, and consumption fall. Those economies are also going to have to place a higher priority on producing goods and services they can sell abroad.

There are lots of parts of the "service economy" that very likely won't exist in two years time, or only in a very feeble way. Take for example the U.S. and British phenomenon of late-middle-aged people setting up small service businesses after they have been laid off from their jobs. Very often they use a combination of their severance package plus equity extracted from their houses to provide themselves with working capital, and often to supplement their earnings.

So, someone who - for the purposes of argument - used to work for IBM in the Hudson Valley in New York State starts a business installing marble countertops. For four of the last six years that has been a good business, but the people paying for it

were only able and willing to do it so long as the illusion that consumption-is-investment could be maintained.

That is over, and significant parts of the U.S. economy will need to be repurposed, and will need to do so at a time when we are suffering from asset-price deflation and may well get deflation. The recession will be long and probably ugly.

Just think about your own lives and the people you know: How many of them do jobs that didn't exist 15 years ago but have nothing, really, to do with new technology? Many of those jobs are enjoyable and worthwhile offshoots of a credit bubble and will have a very difficult time surviving its demise.

Similarly, it will be tough for those English-speaking economies' global enablers. China will need to find somewhere else to sell many of its goods. The grand bargain of China buying U.S. Treasury bonds to finance consumption in the United States will come under enormous and dangerous strain.

Europe, too, as well as other exporters, will hit difficulties - not just in their banking systems, which helped finance the binge, but also in their auto and consumer electronic industries, just to name two.

There is no doubt that the needed changes can happen and that these innovative and creative economies can re-balance. But it is going to be very painful.