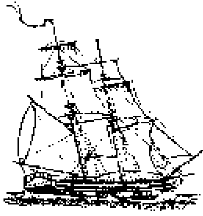

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GLOBAL REPORT

ZERO INTEREST - INFINITE DEBT

The economically imploding world is entering into the land of the surreal.

Central banks worldwide have reached (or are nearing) zero target rates of official interest. There is next to no room left to manoeuvre to try to reignite any new credit expansion. The alternative now sought by governments of all descriptions is to replace the borrowing the public is not doing with their own. Budget deficits are exploding all over the world.

A Mindless Spectre Is Stalking The World:

It is a spectre launched by Lord Keynes in 1936 when he warned that if the public lowered their consumption and increased their saving, there would be “insufficient demand”. According to Keynes, such a serious situation had to be promptly addressed by deficit spending and lower interest rates to increase demand through credit expansion. What he never understood was the role of savings as the real economic means with which to increase the capital tools of production and therefore, later consumption.

In all his writings, Keynes stated that savings could be replaced by credit expansion and government budget deficits as the means with which to keep demand up, factories humming and consumption at a height that ensured “full employment”. What Keynes never understood is the fact that any given structure of capital tools and infrastructure has a requirement for an ongoing stream of savings simply to maintain it. Such a structure requires an even greater stream of savings to improve and/or to expand it.

Today, with lowering interest rates no longer an option, governments are making a desperate play for the second Keynesian alternative - deficit spending. But deficit spending only consumes the capital!

Global Advance Warning - Another Downturn Straight Ahead:

Stock markets act to discount future economic conditions into present-day prices. Stock markets around the world are now flashing red. The *MSCI World Index* had three consecutive weeks of decline to the end of February. As of the end of February, the benchmark had fallen 22 percent since the year began. In 2008, the index fell 43 percent! The global deflationary effects of these huge falls are enormous and are spilling into the world’s real economies with startling speed. Corporations everywhere are cutting their dividends, wanting to hold on to the cash themselves. As a consequence, insurance companies, pension plans etc. can now look forward to a cut in their incomes from dividends. When the ownership of capital - which is what owning shares means - no longer pays a useful dividend, then the capital is worthless.

If the ownership of monetary savings no longer pays a useful rate of interest, then the money is worthless.

The World's Factories Are Falling Silent:

Former US Fed Chairman Paul Volcker has called attention to the unprecedented slowdown in the world's factories. He stated that the present slowdown in world factory production was happening faster than in 1930! *The Privateer* has called attention to this situation over several past issues. Factory output is collapsing at the fastest pace ever. Here is the global roundup. The annualised figures for February are as follows: Taiwan - 43 percent, Ukraine - 34 percent, Japan - 30 percent, Singapore - 29 percent, Hungary - 23 percent, Sweden - 20 percent, Korea - 19 percent, Turkey - 18 percent, Russia - 16 percent, Spain - 15 percent, Poland - 15 percent, Brazil - 15 percent, Italy - 14 percent, China - 12 percent, Germany - 12 percent, France - 11 percent, US - 10 percent and Britain - 9 percent. This is a catastrophe.

When "Just In Time" Runs Out Of Time:

Prior to the Japanese inventing "just in time" manufacturing in the mid-1950s, most factories held much larger in-house inventories of the necessary components for what they made. These inventories made it possible for factories to keep working in the event of a temporary disruption in their supplies. This is not so today, for the good economic reason that holding large inventories costs money. In today's world, most factories only hold an inventory of between three to five days of production - or even less.

This leads directly to the danger that the massive global slowdown in manufacturing will have the effect of ripping the links in the global production chain apart. A shutdown in one place can disable many other factories all around the world. If the main producer of one simple item common to many production processes suddenly closes its doors, the remaining producers do not have the capacity to fill the output gap. Real physical factory shutdowns follow as a matter of course in many other places until the item can be produced elsewhere. This is a real physical situation - and an unavoidable one.

Commercial Finance Too Has Gone "Just In Time":

Again back in the mid 1950s, most businesses held sufficient money in liquid or near cash form to meet all their expected payments for between forty to one hundred days into the future. That gave them an immense inherent financial resilience if some of their customers were late in making payments. Today, the "just in time" theory has taken over here too. Most businesses only hold in house what amounts to "cash in the till". Most borrow VERY short term, weekly or even daily. Most modern businesses are reliant on payment from customers to make their loan payments, even their short-term loan payments.

This is why the global credit crunch is so dangerous for business. It has progressed from a credit slowdown - to a credit contraction - to a global credit money deflation. This process has hit business HARD. Around the world today, there are numberless businesses which can no longer gain access to previously easily available "just in time" financing. Holding little if any cash with which to meet normal payments, most of these businesses have a forward time horizon of a week. Deprive them of short-term commercial credit and they have no other choice than to close their doors when all those who have supplied them with goods cannot wait any longer for payment. This has broken the "supply chain" just as the inventory situation has, but this time for financial reasons. Today, both of these two economic events are hitting home over the world. One affects physically real goods. The other event is financial but just as real in economic terms. Combined, these two features explain the crash in global output.

Before June This Year - There Will Be REAL Scarcity:

You can't get any if there ain't none! The global factory slowdown already reported here will have real and physical consequences - soon. There will suddenly be gaps on the shelves of stores which were normally filled with retail goods of certain kinds. When the store manager is asked why this has happened, he will likely answer that the supplier suddenly went out of business. Don't be surprised if that store has closed its doors when you come by the next time. The great deflation is hitting the ground.

The US Budget - Deficits With A Vengeance:

The proposed Obama federal budget is so extreme in its financial structure as to defy description. *The Privateer* is used to that, though. Revenues for 2009 are projected at $US 2.19 TRILLION, down 13 percent from a year ago due to the recession. With the bank bailouts and the $US 787 Billion economic recovery program, 2009 expenditures are estimated at $US 3.94 TRILLION - up 33 percent over 2008.

Note that the Bush bailouts contribute to the huge $US 3.94 TRILLION spending estimate.

US Budget Deficits As Far As The Eye Can See:

Revenues $US 2.19 TRILLION - expenditures $US 3.94 TRILLION. That leaves a gap or budget deficit of $US 1.75 TRILLION! And THAT leaves a US federal budget in which 44 percent of its expenditures must be borrowed. That is a 32 percent expenditure increase over the 2008 level, one of the biggest year to year increases in the past 50 years! It represents 27.7 percent of GDP, a serious hike from the 21 percent level reached in 2008. Borrowings are projected to be 79.9 percent higher than federal revenues, a situation well known to banana republics. Any fiscal sanity has gone completely out of the window.

Obama's First Budget:

The 2010 proposal that President Obama has sent to Congress is for a $US 3.55 TRILLION budget for the fiscal year which begins October 1 this year. The projected deficit for this 2010 budget is $US 1.17 TRILLION! With the current fiscal year now half over, the US is planning to borrow and spend $US 3.52 TRILLION over the next year and a half! President Obama's first full year budget also seeks standby authority for $US 750 Billion for bailing out US financial firms while planning for a health care system overhaul and almost $US 1 TRILLION in higher taxes from 2.6 million of the richest Americans.

It is worthwhile to understand here who are deemed to be the "rich" inside the United States. In Obama's case, it is any single person earning $US 200,000 in a year and any family earning $US 250,000!

In The Background - The Spectre Of SAVINGS:

The American public has turned its back on more debt. The personal savings rate has risen to 5 percent, the highest since March 1995. At an annual rate, US personal savings rose to a record $US 545.5 Billion. A year ago, the US personal savings rate was 0.1 percent. This is a massive turn by the American public.

US consumer spending dropped at a 4.3 percent annual rate last quarter, the most since 1980, after falling at a 3.8 percent pace over the previous three months. That marks the first time that consumer purchases have dropped by more than 3 percent in consecutive quarters since record keeping began in 1947. US GDP shrank at a 6.2 percent annual pace from October through December, the most since 1982, the Commerce Department reported. These are the reasons why the Obama Administration has increased its expenditures from 21 percent of GDP to 27.7 percent. If the American public refuses to borrow more (even at today's interest rates) to reignite a US credit expansion, then Obama will certainly try to do it for them, even if he has to borrow the US Treasury past the edge of oblivion. In the process of borrowing and spending these immense sums of money, Obama will increase over-consumption in the US economy. That will become obvious in time. But the worst economic mistake he is making is to increase taxes right in the middle of a deepening US recession while at the same time borrowing in order to increase consumption of the real economic goods which the US economy needs to rebuild itself.

The fiction that increased expenditures leading to increased consumption will make new factories and plants spring out of the ground as if by magic is fatally wrong. What must increase is SAVINGS, which leave unconsumed goods out in the economy. These are the economic means necessary to build factories and tools on factory floors. While Americans try to save, Obama cancels it with taxes and consumption.

Who Really Believes This?:

The US government has, on behalf of American taxpayers, pledged more than $US 11.6 TRILLION over the past 19 months to bail out banks and stimulate economic growth according to data compiled by *Bloomberg*. The blindingly obvious question is: Where is the money going to come from? The clue is in the fact that all this is being done by the government on behalf of the American taxpayer. That being so, the American taxpayer will have to pay for it all. The only problem is that nobody has asked a taxpayer.

Specific Signs Of Deflation:

Citigroup, which had a market value of $US 277 Billion at the end of 2006, has tumbled 97 percent since then, leaving it valued at $US 8.34 Billion. That is $US 269 Billion in purchasing power which has gone up in smoke and which all those still holding *Citigroup* shares will no longer be able to exercise.

General Motors Corp posted a loss of nearly $US 30.9 Billion for 2008. *Ford* lost $US 14.6 Billion and *Chrysler* lost $US 8 Billion. The US banks lost $US 26.2 Billion in the last three months of 2008. *AIG, American International Group Inc,* posted a record $US 61.7 Billion quarterly loss on March 2 and got a new government bailout of $US 30 Billion. For all of 2008, *AIG* lost $US 99.29 Billion. *AIG* shares have been as low as 42 cents! The shares have lost 99 percent of their value over the past year.

Fannie Mae asked the US Treasury for $US 15.2 Billion in capital and raised the possibility of requesting more aid after a sixth consecutive quarterly loss drove its net worth below zero! Below zero - it is broke! Fannie and Freddie’s combined books of business during December stood at $US 5.319 TRILLION.

Don’t Bank On It:

Two hundred and fifty-two US commercial banks and savings institutions with total assets of $US 159 Billion were termed problem banks at the end of last year by the *Federal Deposit Insurance Corp*. The FDIC insurance fund has fallen to $US 19 Billion from $US 52 Billion at the end of 2007. It too is broke.

US Capital Investment Collapses:

US business purchases of new equipment have plunged at a 29 percent pace, the most since 1958! This shows that the US stock of capital is not being renewed. This is de-industrialisation at an enormous rate.

Don’t Make Them - We Don’t Buy Them:

Orders for US durable goods fell for a record sixth consecutive month in January, signalling that companies are cutting back on spending as customers retrench. The 5.2 percent drop was more than twice the projected amount and followed a 4.6 percent decrease in the prior month, the Commerce Department said in Washington. Total US durable goods orders have plunged at an annual rate of 43 per cent over the last three months! Production of consumer durable goods including vehicles, furniture and electronics fell 10.5 percent in January, the biggest monthly drop since November 1959! *The Privateer* could go on and on. All this data is a look inside the US economy and what it shows is that there is a savage contraction in real, physical output taking place. When durable goods orders crash by 43 percent in three months and actual real production by 10.5 percent in a single month (December), one is looking at an economy which has been driven off a cliff and is now in free fall.

In the face of this, no amount of media skills and or skills in reading a teleprompter will suffice. Expanding the size and spending of government is the very last thing needed economically. What IS needed is a US marketplace free of regulatory interference where clearing prices which move goods can be found. What is also needed is an enormous and drastic sequence of cuts in federal, state and local government expenditures with mass layoffs if required - so that costs can be lowered for producers.

The Approaching GLOBAL Crescendo:

All over the world, governments worldwide have their backs to the wall. Their economic legitimacy is being tested before the eyes of their citizens and they have to be seen to be doing - "something". The problem is that they have done "something" for decades, they have been politically intervening in their own economies. That is the process which has placed their economies in their current predicament.

WHO Decides?:

Now, in a fast climbing crescendo, governments across the world are engaged in multi-pronged attempts to "fix" all the accumulated problems in their economies in an orgy of further interventions. This attempt is certain to fail, leaving the world to face a fundamental choice. Either governments decide what is to be produced and in what quantity and quality or that decision is made by private people in the civil economy simply by choosing what to buy and what not to buy. If the second choice is made, it will be the buyers in the private civil economy who decide what shall be produced and in what quantity and quality. Businesses which meet the requirements of these private buyers, or come close, will be rewarded by climbing sales and higher earnings. This will enable them to expand. Those which do not meet the buyers' requirements will have falling sales and then losses.

The private individual in his or her capacity as a producer will, under the division of labour in the free market, be able to see clearly where the best jobs are. These will be the businesses where wages and salaries are climbing and also have the best working conditions. It is the price mechanism which puts this information in full public view. And, living in freedom, people are free to change their jobs at will.

This economic combination, and no other, accounted for the vitality of the free market economies and the road they travelled towards ever higher living standards. Then - governments intervened.

When Governments Decide - Anti-Market Economies Are The Result:

If governments decide (directly or through rules and regulations) what shall be produced and in what quantity and quality, the nations so governed will end up with a welfare state. Inexorably, that will be followed by socialism, where all the productive tools have become public property solely owned by the government. At the end of that road is communism, where all human beings become public property, the slaves of government. The parallel track, to the same end destination, is the one in which government leaves the facade of a free market in place and in full public view. Meanwhile, by means of massive bureaucracies and a tidal wave of regulations, taxes, fiat money and credit money, subsidies, bailouts etc., the government decides what shall be produced and in what quantity and quality. This economic system was named "Corporatism". Its matching political system is called "Fascism". Both of these systems were once perfectly well understood. That is not the case today.

Mussolini, who instituted "Corporatism" in Italy, was quite clear. In a 1923 pamphlet titled *"The Doctrine of Fascism"* he wrote, *"If classical liberalism spells individualism, Fascism spells government. Fascism should more appropriately be called Corporatism because it is a merger of State and corporate power."* Mussolini's politics were also clear: *"All for the state, nothing outside the state, nothing against the state."* This is Totalitarianism, the goal being to make the individual subject to government.

Today, it is not the free market which has failed, but Interventionism. There has not been a genuinely free market in any western economy for generations. It is only the areas where a partial market was allowed to function for a period of time which have been responsible for the economic progress which has been made since the end of WWII. But today, even a partial market freedom is close to extinction.

Recognising a free market is easy. THERE IS NO INCOME TAX. Gold (and/or Silver) coin circulates as money. Private property and contracts are sacrosanct, as is the total separation of state and economics.

INSIDE THE UNITED STATES

THE NEW US - ONLY THE STATE MAKES PROGRESS

In order to grasp what is taking place inside the United States, it is vital to recognise fundamentals. In this process, one fact stands above all others. In President Obama's budget, the state's portion of US GDP climbs from 21 percent to 27.7 percent. What is the "state"? It is the sum total of government agencies and all their bureaucrats. Their "share" of the US economy has been expanded by 6.7 percent.

For productive Americans living and working in the fast contracting US civil economy, this burden is as severe as the one suffered by an overloaded camel having an extra sack of cement thrown up its back. The tide is climbing in Washington. Even though federal revenues have fallen by 13 percent from a year ago, federal spending will climb by 33 percent in fiscal 2009. For bureaucrats - spending is power.

A Reality Check:

A classical check used since Adam Smith's time in regard to government expenditures is to ask a simple question. Would the government dare to openly tax to fund this level of spending? If the answer is no, then what has been proposed has no genuine political backing. What the Obama Administration plans to spend over the next year and a half would, if raised by means of taxes, totally flatten the badly faltering US economy. Washington is not taxing for these expenditures, they are borrowing for them.

This cannot be stated too often - DEFICIT SPENDING IS DEFERRED TAXATION. Either the borrowed money has to be repaid in the future through higher taxes or, if subterfuge is used, through higher prices. These higher prices are the result of the borrowed money being "repaid" by means of "money" created out of thin air. But, the "authorities" tell us, the US economy will be "stimulated" by all this still to be borrowed money. If that were economically true, counterfeiters in any basement in any suburb of the US could claim that they wanted to give the local retail trade a boost. Deficit spending is not economically painless. It causes many present economic goods to be consumed, leaving less than there otherwise would be. It is not additional spending or more credit the US economy needs.

Economic Reality - As It Now Is:

What Americans in the civil economy are getting is higher taxes, increasing unemployment and a tragic closure rate of those factories which are still producing. The US economy is on the verge of imploding under this combined treatment of higher taxes and all the borrowed "stimulus" expenditures.

The Costs Of Buying US Debts:

Holding US government securities handed investors a 3.6 percent loss in the first two months of 2009, according to the *Merrill Lynch US Treasury Master Index*. These losses have come about because yields on Treasury paper have RISEN. And this is before the US Treasury enters into the greatest deficit borrowing program the world has ever seen. It will become increasingly difficult for the US Treasury to borrow at the present interest rates it offers the world. Rising US Treasury offer rates would spill right over into US commercial rates. And rising commercial rates would price most US corporate borrowers right out of both the capital and the money markets.

Global Warning:

The massive economic stimulus package being debated in the US Senate this week still has the dangerous "BUY AMERICAN" clauses attached. These clauses passed through the House of Representative with not an adverse comment. The White House has been silent on the matter. The "Buy American" clauses can and likely will push the world into mutually retaliatory tariff barriers. World trade is a grave risk.

INSIDE CHINA - AND - JAPAN

CHINA CRASHES - AND - JAPAN SINKS STILL FURTHER

The mainland Chinese economy was hit right between the eyeballs in January. The global deflation has washed over the Chinese coastline and caught up to the Chinese industrial machine. Railway freight in China's Shanghai region plunged 31 percent in January and industrial production there fell by 12 percent.

The rails are a gauge for the amount of resources and economic goods which are being moved around in any modern economy. This data on Chinese railway freight makes it crystal clear that the Chinese industrial machine is grinding to a total halt. This can also now be seen from the data concerning inter-Asian trade. A vital part of this trade is the HUGE amount of component pieces which are shipped to China for final assembly into finished goods. This trade has imploded.

Taiwan's exports to China fell 55 percent in January while Japan's fell by 45 percent. These exports are links in the supply chain for China's industry. The world is counting upon China's economic "growth" to save them. They can forget it. China is sliding into a recession with alarming speed.

Secondary Asian Fallout From China's Crash:

Japanese industrial production fell by 10 percent in January - multiply by twelve to get the annual rate. That was the biggest monthly drop since records began more than half a century ago. These latest figures come only a few days after the government said that exports plunged 45.7 percent in January compared with a year ago. South Korea's overseas shipments decreased 17.1 percent in February from a year earlier, following January's record 33.8 percent slump, the government reported on March 2. South Korea's economy shrank 5.6 percent last quarter, the steepest decline since 1998. Industrial production fell an unprecedented 18.6 percent in December. The Taiwanese economy contracted an unprecedented 8.36 percent in the fourth quarter from a year earlier. Singapore's exports shrank the most in at least 33 years while Hong Kong's exports plunged by the most in 50 years in January. This is catastrophic.

All Asian Hands To The Pumps:

The Chinese government announced a 4 TRILLION Yuan ($US 586 Billion) plan in November aimed at boosting domestic consumption to shield China from the global slowdown which is now battering Chinese exporters. Now, at the annual nine-day political farce in the Great Hall of the People, China's leaders have come forward with their own version of "stimulus" package number two. The details about this one are unclear, the conference is still going on, but the size is already rumoured to be massive.

China is trying with might and main to swing its own economy internal. It wants to swing production towards what the Chinese customers want to buy instead of sending finished products to the US. Americans can expect fewer Chinese goods in their retail outlets over the months ahead. Since China will sell less inside the US - and earn less - the US Treasury can expect fewer Chinese buyers of its debt.

Japan Sinks Below The Waves:

Japan's gross domestic product (GDP) shrank at an annual pace of 12.7 percent in the last quarter of 2008. The slide in January pushed the trade deficit to a record 952.6 Billion Yen ($US 9.9 Billion). Sales to the US fell 52.9 percent! Japan actually has a trade deficit. Japan's shipments to Europe slid 47.4 percent in January from a year earlier, the Finance Ministry said. Exports to China fell 45.1 percent while those to Asia dropped 46.7 percent. Japanese imports fell by 31.7 percent from a year earlier. These are historic and catastrophic numbers. Japan is reeling backwards with no idea where this will end.

The Chinese economy has gone into its own crash sequence. The situation is dire for Asia and the world.

INSIDE THE EUROPEAN UNION

RATE CUTS ON BOTH SIDES OF THE ENGLISH CHANNEL

The European Central Bank (ECB) has cut its primary lending rate by 0.50 percent to a record low of 1.50 percent as Europe too succumbs to fears over the lack of "growth". In the fourth quarter of 2008, Euro zone GDP contracted by 1.5 percent from the third quarter, the Luxembourg statistics office said on March 4. Euro zone investment spending fell 2.7 percent and household consumption contracted 0.9 percent. Both numbers were the worst since these statistics began in 1995. Exports dropped 7.3 percent and imports declined 5.5 percent. It is the export/import data of the Euro zone that matters here. It shows that Europe is not able to maintain its global exports. When they contract, Europe has to import less than before if it is not to slide into a deepening trade deficit. Further, Europe's slowing export results in contracting internal demands from the export industries for other European economic goods. When these two factors are combined, the economic result is climbing unemployment and economic recession.

In an attempt to "fix" this, the ECB has cut its controlling interest rate to 1.50 percent in an effort to take the financial load off those carrying loans and to try and increase internal European consumption.

Germany, one of the world's biggest exporters, had a 7.3 percent decline in exports in the fourth quarter of last year from the previous three months, according to the data released on February 25. Germany still stands quite strong in economic terms, even though it is in recession, mainly because it never had a housing bubble. The smaller nations in Europe which DID have housing bubbles are in real trouble.

There Is NO More Interest In Great Britain:

The Bank of England has embarked on quantitative easing, which means the outright printing of money. It has cut its near non-existent interest rates in half from 1.00 percent to 0.50 percent. It has also set off on a $US 106 Billion asset purchase program which mainly consists of buying up government debt paper.

When British Financial Houses Fall Down:

The spectre in the background is this. British house prices fell by the most in at least 26 years last month as the recession and rising unemployment killed the demand for homes. In the three months through February, house prices declined 17.7 percent from a year earlier, the most since the survey began in 1983. As the prices of British houses fall, placing the value of more and more of them below the mortgages leaning against them, the government's fear is that further losses will break many more of the British lenders. This raises the spectre that the entire British banking sector may have to be nationalised.

Industrial production in Britain dropped 4.5 percent in the quarter compared with a previous estimate of 3.9 percent. Manufacturing fell by 5.1 percent, down from an estimate of 4.6 percent, the statistics office said. Unemployment is expected to climb at a faster rate from here as the recession deepens.

The Upcoming Economic Super Summit:

The political leaders of the G-20 nations are to meet in London on April 2. President Obama will be present. This summit will be the most likely occasion where the world blows apart economically in huge tariff, currency and trade wars as in the 1930s. The alternative is for global political and economic sanity to prevail with world trade and financial flows kept open. The central point of this summit will be the global role of the US Dollar, whether the United States likes it or not. Russia, China and the European Union stand ready with a new global design for a four-reserve currency world with the United State's Dollar being one of the four, no more than a co-equal with any of the other three.

There can be scant doubt that if the US fails to agree to this, the world will blow apart economically.

AUSTRALIAN REPORT

THE AUSSIE RESERVE BANK STOOD PAT

The Australian Reserve Bank (RBA) has set itself apart from the most recent global wave of interest rate cuts. On March 4, it maintained its current official rate of 3.25 percent. It has done this in the face of the latest data from the Australian Bureau of Statistics which shows that the economy contracted by 0.5 per cent in the December quarter. That puts GDP growth for the year to December 2008 at 0.3 percent.

The RBA is supporting something else though, and that is Australia's continuing access to international funding. Australia is one of the world's serial offenders in international trade, having run current account deficits for more than a decade. To do that takes international funding and preserving that flow of funds means maintaining an attractive rate for the lenders. That is why the RBA did not cut.

The Background Facts:

Australia posted a current account deficit of $A 6.5 Billion in the December quarter, a pace of running into debt to the rest of the world of $A 26 Billion annually. Australia's net foreign debt increased by $A 20.1 Billion to a liability of $A 678.3 Billion. With net external debts closing in on $A 700 Billion, Australia must maintain an attractive rate of interest for foreign lenders. If Australia does not, the rest of the world will, at best, stop lending any more money. At worst, they will demand repayment.

We Borrow - You Spend:

The Rudd Labor government has not noticed any of this, including the latest quarterly current account deficit. It can't have, since it responded with a $A 10.4 Billion stimulus package which was brought in before Christmas so that everybody could go shopping. They followed that up with another $A 42 Billion stimulus plan aimed at sustaining demand and consumption which it expects to limit the rise in unemployment. In total, the government has borrowed the not inconsiderable sum of $A 52.4 Billion.

Who will pay for all this public spending? The Aussie public, of course. But that comes later.

The Aussie Economy As It Really Is:

Australian manufacturing contracted at a record pace last month as companies received fewer orders, fired workers and cut production. The manufacturing index fell 4.9 points to 31.7, the lowest level since the series began in 1992. The Aussie manufacturing sector is simply in free fall.

All Alone In A Cold, Cold World:

The Asian economies to the north are in deepening economic nosedives. Already, the amount which they buy from Australia is contracting. Australia's international terms of trade are being thrashed on both the volume and the price side. But the Rudd Labor government is dead set on borrowing and spending the Aussie economy back to "health".

Public Servants Are Brimming With "Happiness":

This really does belong in a "believe it or not" article. It has been revealed that the Rudd government spent almost $A 1 million on three "happiness conferences" for public servants and teachers last month.

The Department of Education, Employment and Workplace Relations treated 100 of its officials to a week-long seminar on "well being" held at Geelong Grammar School, in Victoria. It cost $A 642,000, which comes to $A 6400 per person. Nothing like a little taxpayer-funded "recreation" to keep people "happy".

THE GLOBAL MARKET REPORT

WHO IS RIGHT - THE SAVERS OR THE SPENDERS?

As the serial investment bubbles rolled across the world in the quarter of a century between 1982 and 2007, one of the most often mentioned features attendant on all these market booms was a steady fall in personal savings. This particular feature was not a global phenomenon. Asian savings rates did not fall substantially and western European rates, while they did fall, did not fall by much. The “withering away” of personal savings was most reported in the US, but it was a common feature of all the “Anglo-Saxon” nations. Indeed, by the early years of the present decade, savings rates in the US, Canada, Britain, Australia etc were either negligible, non-existent or even in the “minus” column.

Not any more. In not much more than a year, the measured “savings rate” in the US has gone from a level of below “zero” to five percent. In Australia, the savings jump has been even more remarkable. Anecdotal evidence, unbacked as yet by “official” numbers, shows that the Aussie savings rate has gone from not much more than zero to eight percent over the past year to eighteen months.

It would seem that few in any of the nations where the savings rate has leaped upward have noticed the simple fact that governments and those that they govern are going in diametrically opposite directions in their reaction to the economic collapse which is gathering momentum with each passing week.

The British Experience:

On March 5, the Bank of England (BoE) announced that it was cutting its controlling interest rates in half, from 1.0 percent to 0.5 percent. In essence, this step erases official British rates altogether with the British central bank joining its counterparts in the US and Japan in all but eliminating the discount charged commercial banks wanting to borrow “excess reserves” from the central bank. The move was almost universally expected and did not rate much “ink” in the media reporting of the event.

What DID rate the “ink”, oceans of it in fact, was the announcement made by the BoE Governor Melvyn King that the bank had decided to directly inject new money into the economy by printing it and using it to buy debt paper issued by the British government. This “decision” was made after permission had been secured by the British Chancellor of the Exchequer, Alistair Darling. As Mr Darling’s equivalent on the opposition benches, the Shadow Chancellor, pointed out: *“It’s effectively printing money, but because all the other government policies haven’t worked, I don’t think the Bank of England was left with any other choice.”* In essence, as you can see from this quote, the decision was bi-partisan.

Remember that Britain was the first of the Anglo-Saxon nations to begin the process of effectively nationalising its banking system with the takeover of *Northern Rock* in February 2008. Now, fast forward a year to February 2009 when the BoE announced its last rate cut, bringing controlling rates from 1.5 percent to 1.0 percent. A signal feature, hugely under-reported, of this particular rate cut was the storm of protest it ignited amongst the British public. The protest was by no means confined to those from whom it could have been expected, pensioners and people on fixed income, it cut across the entire nation. Small businesses were against it, so were wage and salary earners. Even a large number of mortgage holders were against it, perceiving quite correctly that any small savings they might make on their mortgage payments would be more than eaten up in the potential fall in the resale values of their properties.

In late February, it was reported that in January, UK savers had withdrawn a record 2.3 Billion Pounds from their bank accounts. This was the largest monthly withdrawal amount in the twelve year history of the survey, beating the previous record month by 800 million Pounds or over 53 percent. It was pointed out that since the middle of 2008, the BoE had cut rates from 5.0 percent to 1.0 percent. That meant that a saver with 100,000 Pounds on deposit in a bank had seen their annual net return fall from 3700 to 290 Pounds. Despite the “government guarantees”, it was simply not worth keeping money in the bank.

The Gordon Brown Show:

Gordon Brown is the Prime Minister of Great Britain. On March 4, the day before the BoE announced its decision to start printing money, he delivered an oration to the US Congress. The assembled politicians loved it, affording him 19 standing ovations in the course of his speech. His remarks consisted of the repeated claim that the world would soon rise from the ashes of the current financial crisis by the means of the *"bold economic plan to restore prosperity"* which he in Britain and Mr Obama in the US were so heroically concocting. *"... this is not blind optimism or synthetic confidence to console people*," said Mr Brown, *"it is the practical affirmation for our times of our faith in a better future."*

Is it? *The Privateer* has spent years analysing and explaining the "practical" steps which governments and the central and commercial banking system they oversee have taken. We present an overview in this issue in the last part of the *Global Report* - beginning with the headline ***"Who Decides?".***

Ten years ago, Gordon Brown was Chancellor of the Exchequer under Prime Minister Tony Blair. In May 1999, he gave permission for the Bank of England to announce the commencement of Gold auctions. Between July 1999 and March 2002, the BoE held seventeen Gold auctions over the course of which they divested themselves of a total of about 400 Tonnes of Gold. The average "price" received for the Gold over those auctions was about $US 275 per ounce. Please note also that the period over which the auctions were held - July 1999 to March 2002 - almost perfectly encompasses the "bottom" from which the current global Gold bull market emerged.

Ten years later, Mr Brown has "decided" again. This time, the BoE is printing "money". This is a last gasp effort to preserve a system whose fate was sealed, in Great Britain in particular, when the BoE began to openly sell Gold and use the proceeds to buy up US Treasury debt paper almost a decade ago.

The Frantic Obama Administration:

As already reported in this issue, President Obama has announced a PLANNED deficit for the fiscal year ending on September 30, 2009 of $US 1.75 TRILLION. This planned deficit to be borrowed over one year is equal to the ENTIRE funded debt of the US Treasury as it stood in early 1985. Please note that in early 1985, the US became an international NET debtor nation for the first time since before WWI.

The projection for the next US fiscal year looks forward to a smaller budget expenditure and, of course, a small deficit. Mr Obama has even claimed that current deficits would halve by the end of his (first?) term in office. Newly elected Presidents and their staffs in the Treasury always make such predictions. Mr Clinton was fond of boasting about his (bogus) budget "surpluses" while his Treasury talked about eliminating US debt entirely. In Mr Bush's first budget in 2001, the US Treasury projected a budget SURPLUS of $US 5.6 TRILLION over the next ten years. Of course, since then, the funded debt of that same US Treasury has DOUBLED. Eight years after that "rosy scenario" was announced in 2001, the discrepancy between "projection" and FACT comes to well over $US 11 TRILLION.

And now we have the ridiculous "projections" of a new President and a new budget. Yet even with the staggering amounts of "money" already thrown into the breach to stem the banking and financial implosion, the cries swell to a crescendo that it is "not enough". Mr Geithner's ongoing bank bailout program "may need more". The financial corpses which were once *Citigroup, Bank of America, AIG, General Motors, Chrysler* et al certainly "will need more". The FDIC has just been given permission to borrow another $US 500 Billion to maintain a *"strong deposit insurance fund"*.

Ask any US official about alternatives and you will get this answer, the answer which has been the same for decades. ***"There are no alternatives!"*** Mr Bernanke never tires of telling us that the Fed had no alternative but to cut rates to zero, force mergers of failing investment institutions, bail out banks and insurance companies. *"We really had no choice"*, he said, *"bankruptcy is just not a good option."*

Bankruptcy Is Not A Good Option:

First, and to belabour the obvious, tell that to all the individuals and businesses who have no choice in the matter since they do NOT possess the ability to create the means to service/repay their debt out of thin air.

A corpse is a corpse, It is a bundle of inanimate matter from which life has fled. In the financial realm, an entity which consumes more than it produces becomes a corpse when it can no longer find a "host" to provide the real goods and services it needs to survive. Governments in Britain, in the US and in most of the rest of the world are making a desperate and doomed attempt to revive the corpse of their financial systems by means of "blood transfusions" from the dwindling number of still viable financial entities. They will not revive the system, they will simply create more (financial) corpses.

The answer to the question - *"who is right - the savers or the spenders?"* - is obvious if we take ourselves away from the realm of money and the government's ability to create it and force it into circulation. In the REAL world, there can be no spending without first SAVING. To put it more bluntly - NOBODY GETS ANY IF THERE AIN'T NONE! The recognition of bankruptcy - in ideas, in methods and in finance - is actually a very good option. The longer and more desperately it is staved off, the more damage it does when it inevitably occurs. The first nation or group of nations to recognise the bankruptcy of present government policies and to act to change them will be the first to stop bleeding themselves dry.

Recent Events:

Two weeks ago in our previous issue, we talked about *"four critical levels on US markets"*. These were on the Dow, the US Gold price, the US Dollar Index (USDX) and longer-term Treasury debt yields. The Dow has decisively broken below its critical level - its 2002 low of 7286. The $US Gold price has done an abrupt about-face from the $US 1000 level, falling all the way back to just above the $US 900 level before rebounding late this week. As Gold fell, the USDX rose, breaking above its resistance level of 88.50 and going on to close above 89.00 for the first time in nearly three years on a continued "flight to safety" before falling back as Gold rebounded. US Treasury yields are down slightly as the bloodbath in US stock markets sees money flow to the perceived greater "safety" of US government debt instruments.

Increasingly, US and world investors are grasping at ever more fragile straws. The downward spiral on US and world stock markets was reversed this week on stated "hopes" that the Chinese Communist Party meeting presently taking place in Beijing might announce another "stimulus package". The Dow even managed to rise marginally on March 6 despite the announcement of a February unemployment rate of 8.1 percent. The number was at the high end of, but within, "market expectations".

Gold:

For MUCH more on Gold - please see Gold This Week (GTW):
http://www.the-privateer.com/subs/goldcomm/gold.html

What's Next?:

Most world stock markets have now fallen well over 50 percent from their highs, most of these highs (Japan excepted) having been set within the past eighteen months. Critical support levels have been smashed through everywhere. Since stock markets "discount" future economic conditions into present prices far more accurately than governments do, fear of the future is on the rise despite the by now almost manic variations on the theme that we *"have nothing to fear but fear itself"*.

The world is now in financial "limbo" in the lead up to the G-20 Summit in London on April 2.