The Future of Pessimism Has Never Looked Brighter

Marc Faber

> "The whole history of civilization is strewn with creeds and institutions which were invaluable at first, and deadly afterwards".
>
> Walter Bagehot

I hope that all our readers found some inner peace and enjoyed being with their loved ones over the festive season. I also sincerely wish all our readers a Happy New Year. However, nobody should equate happiness with capital gains and profits: as Saint Augustine (born 354 AD) observed, "indeed, man wishes to be happy even when he so lives as to make happiness impossible" and according to Bertrand Russell, "to be without some of the things you want is an indispensable part of happiness." My concern about 2009 and the next few years is less about the performance of the economy and of asset markets but has more to do with dangerous developments in western democracies and in geopolitics. As Ed Crane observed, "the history of mankind is a history of the subjugation and exploitation of a great majority of people by an elite few by what has been appropriately termed the 'ruling class.' The ruling class has many manifestations. It can take the form of a religious orthodoxy, a monarchy, a dictatorship of the proletariat, outright fascism, or, in the case of the United States, corporate statism. In each instance the ruling class relies on academics, scholars and 'experts' to legitimize and provide moral authority for its hegemony over the masses." Clearly, 2008 was a year during which "the US ruling class" relied on "experts" at the Fed and at the Treasury and on academic scholars to indoctrinate the public that highly expansionary monetary and fiscal policies were necessary to save the US economy when, in fact, "doing nothing" may have been the far better option for the economy as a whole. What was also not disclosed to the public is that the very interventions by the Fed and by various government agencies and Congress between the early 1990s and 2007 were responsible for the current mess in the first place. For our readers who believe that Mr. Obama will bring about the promised "changes" I am publishing below a report by Stephen Lendman (lendmanstephen@sbcglobal.net) who is a retiree but a keen observer of political and economic trends.

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In terms of geopolitics I am deeply concerned about the situation in Afghanistan, Pakistan and India (see article below by Madhav Nalapat at the end of this report). I do not necessarily wish to live up to my reputation of Dr. Doom but my sense is that aside from economic conditions, geopolitical events will increasingly have an impact on asset markets.

Around the turn of each year forecasts are made for the following year. I find making predictions amidst so much government interventions to be particularly difficult. In addition, we so called “experts” have a horrendous forecasting record. Just as a reminder: in late December 2007 Barron’s published an article titled “A bullish call — Wall Street’s seers forecast more gains for stocks next year” (see Barron’s Online, December 17, 2007) in which 12 well-known strategists listed their 2008 earnings estimates and year-end 2008 price targets for the S&P 500. The estimates were as follows:
Richard Bernstein, Merrill Lynch: 1525, Thomas Lee, JP Morgan: 1590, Tom McManus, Bank of America: 1625, Ian Scott, Lehman Brothers: 1630, Larry Adam, Deutsche Bank: 1640, Abhijit Chakrabortti, Morgan Stanley: 1650, Jonathan Morton, Credit Suisse: 1650, Abby Cohen, Goldman Sachs:
1675, Tobias Levkovich, Citigroup: 1675, David Bianco, UBS Securities: 1700, Jonathan Golub, Bear Stearns: 1700, Francois Trahan, ISI Group: 1750. Their 2008 S&P earnings estimates ranged from US$85.30 to US$101.21 per share (the average forecast predicted a climb of 4% to US$92 per share). None of the strategists predicted a recession and Tobias Levkovich believed that stocks were “screamingly cheap relative to bonds” (at the time the S&P 500 was at 1464). Similarly, Abby Cohen noted that the S&P 500 was trading at just 15.6 times average 2008 estimated earnings - well below the average P/E of 18.6 times earnings during periods over the past 57 years when inflation was at similarly muted levels. For 2009, these “experts” now expect the S&P to increase to around 1100.

I need to confess that I have no idea where the S&P 500 will be in a year’s time, but given the catastrophic economic conditions we find ourselves in, I am convinced that governments around the world will increase the intensity with which they will attempt to save the world with monetary and fiscal measures. As pointed out in last month’s report, this will increase volatility and should be “gold friendly” (see also below).

I do not wish to add much to what our subscribers can read every day in the press about the present dire economic situation, but I want to share

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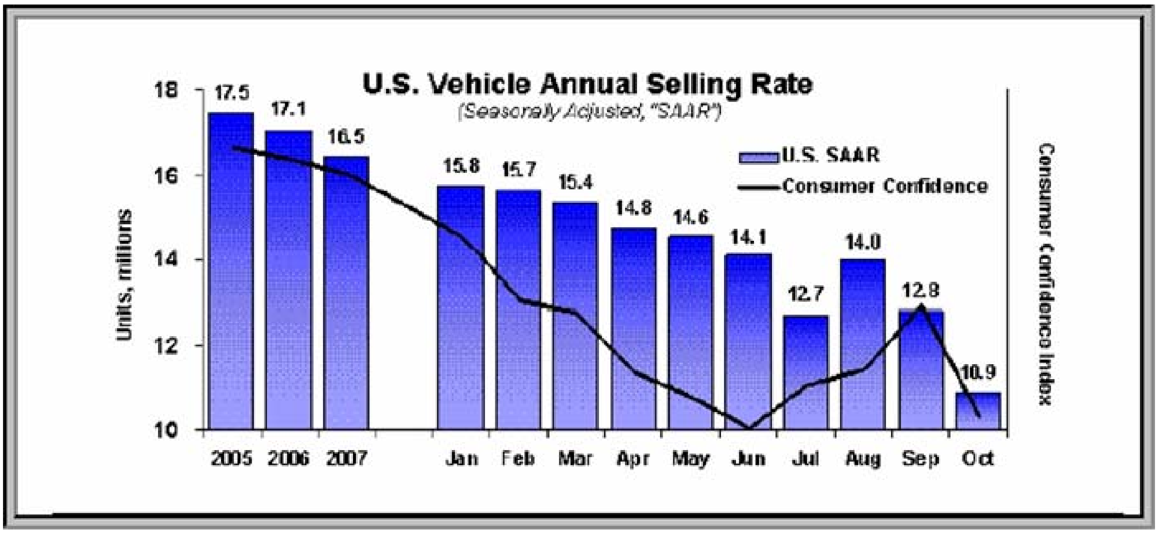
just a few items, which are rather disturbing. Since October 2008 the global economy has imploded. US car sales have plunged (see Figure 1). According to General Motors, "October U.S. auto sales fell to levels not seen in more than 25 years and, after adjusting for population, the lowest level since World War II".

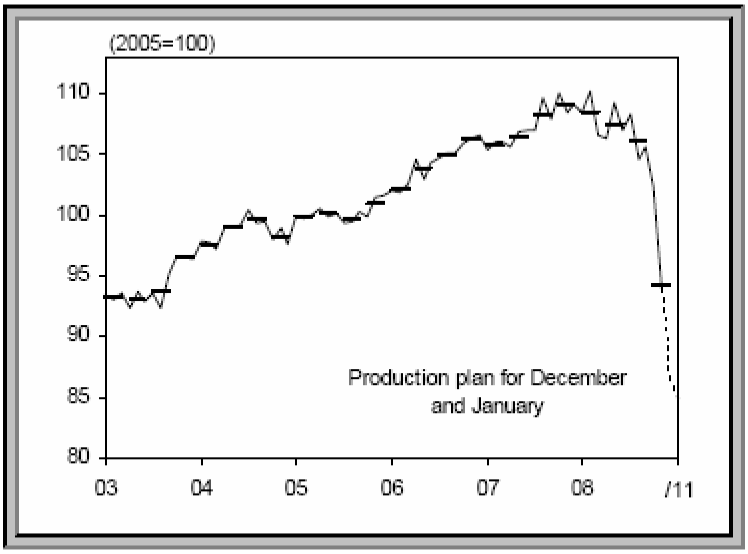
Figure 1: US Vehicle Annual Sales Rate, 2005 - 2008



Source: General Motors

In the meantime, Japan's industrial production collapsed in November by 8.1% m-o-m and by 16.2% y-o-y (see Figure 2).

Figure 2: Japan Industrial Production Index, 2003 - 2008



Source: Goldman Sachs

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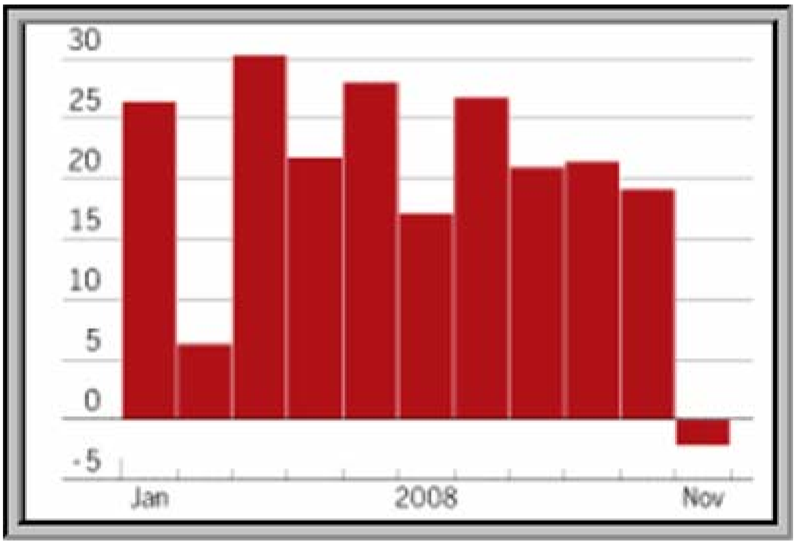
According to Goldman Sachs, “this is the sharpest-ever fall recorded against the 2005 base year and reflects November’s sharp decline in the value of exports, which are strongly correlated with production trends” (in the electronic components and device industry, shipments dropped 29.1% year-on-year). Goldman Sachs now expects industrial production to contract for at least four quarters and capital spending to remain sluggish for several quarters (capex was down 21.4% in November).

It has been for some time my view that the Chinese economy was already contracting (the government will, however, publish statistics that show 8% growth, which will be bought by the analyst community that lacks any skepticism toward government and corporate lies). Well, Chinese exports imploded in November and fell by over 2% (see Figure 3).

Figure 3: Chinese Exports (Year on Year Percentage Change)



Financial Times

Now, by itself a 2% drop in exports is not disastrous. However, coming after export growth rates of around 20% it is a clear indication of the severity of the Chinese economic contraction.

As I have maintained in the past, in a global economic contraction, emerging economies and in particular natural resource producers, which are far more cyclical than the post-industrial western economies, suffer the most. This is partly reflected in emerging economies’ losses of foreign exchange reserves. These losses are partly responsible for weakness in most emerging economies’ currencies, and in the case of

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some countries for exploding credit default swap rates (see Figure 4 and Figure 5).

Figure 4: Change in Foreign Exchange Reserves (End of November Compared to 2008 Peak).

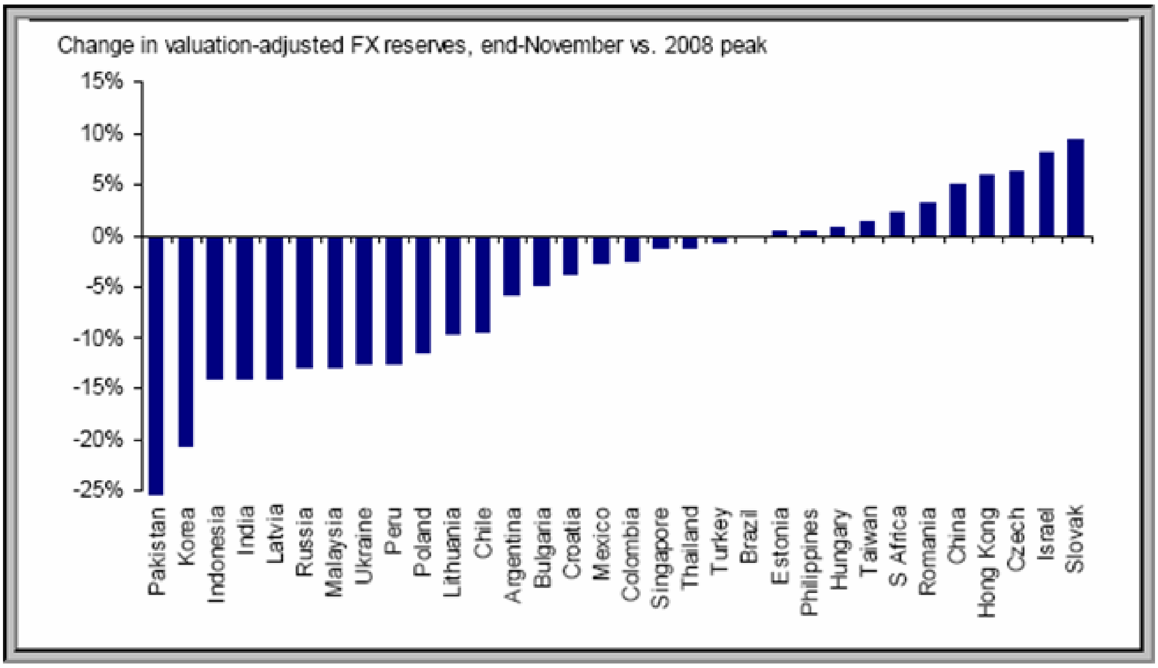
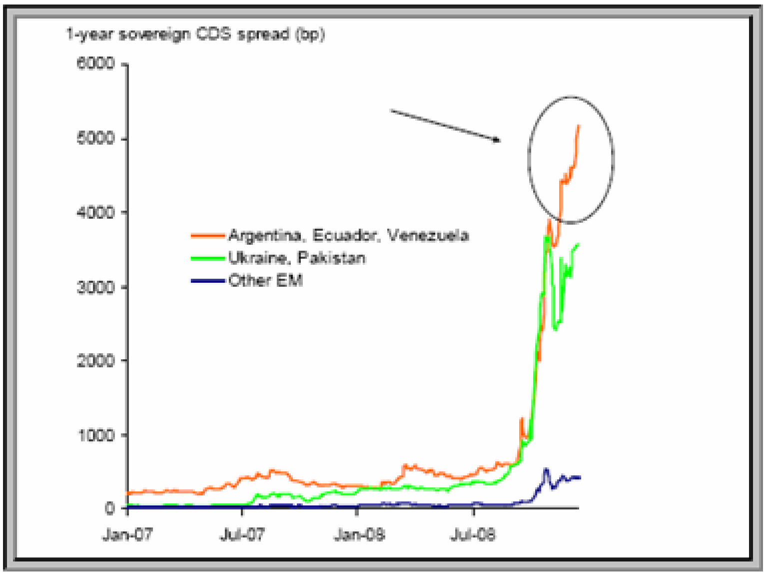


Figure 5: One-Year Sovereign CDS Spreads



Source: Jonathan Anderson, UBS

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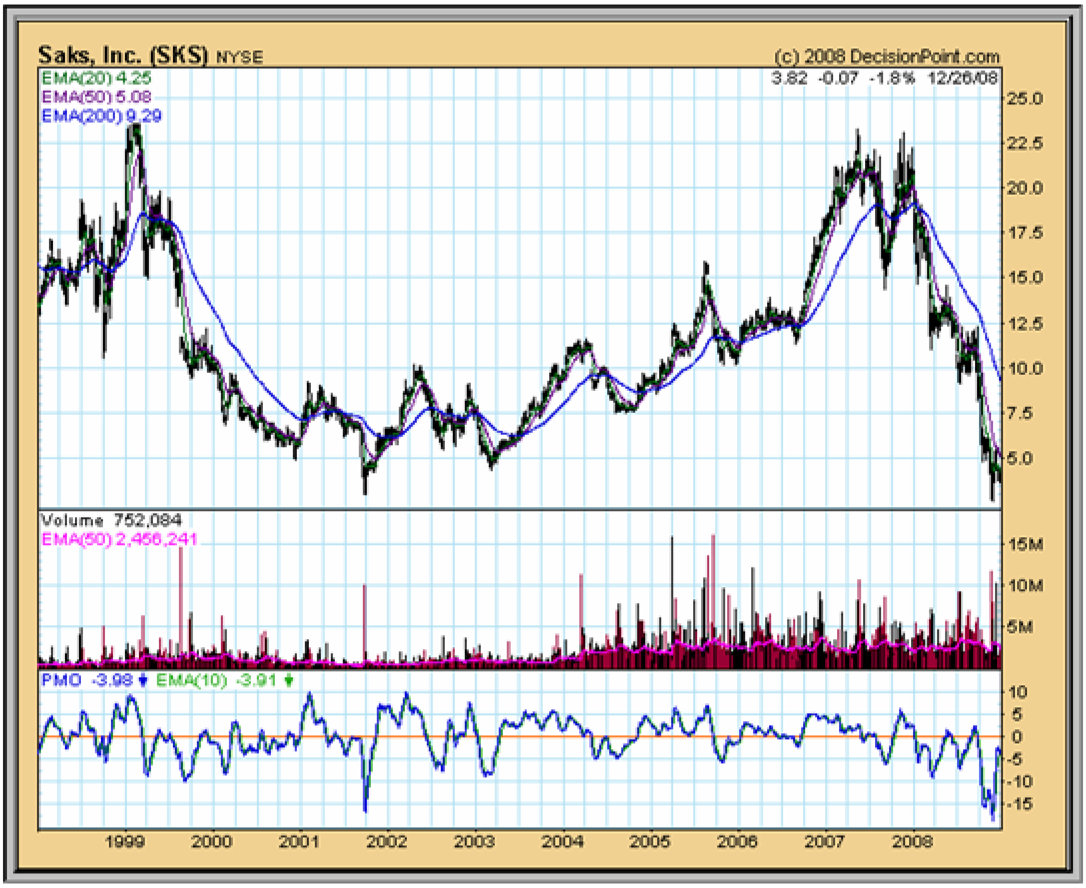
This is not to say that the US economy is problem free but that some countries, which are more dependent on exports of manufactured goods and commodities, are in even more trouble. In particular, most emerging economies face very substantial external debt payments in 2009. For Argentina, Brazil and Russia these external debt payments will amount in 2009 to $64 billion, $205 billion and $605 billion respectively. Surely, interest rates in these countries will have to increase in order to attract investors.

Meanwhile back in the US, retail sales over the Christmas period were a disaster. Excluding automobiles and gasoline sales, overall November and December through Christmas Eve retail sales fell 2.5% and 4% respectively. Hardest hit were luxury good sales, which dropped including jewelry sales by 34.5% year-on-year (see Figure 6).

Figure 6: Sales of Luxuries Collapse!



Source: www.decisionpoint.com

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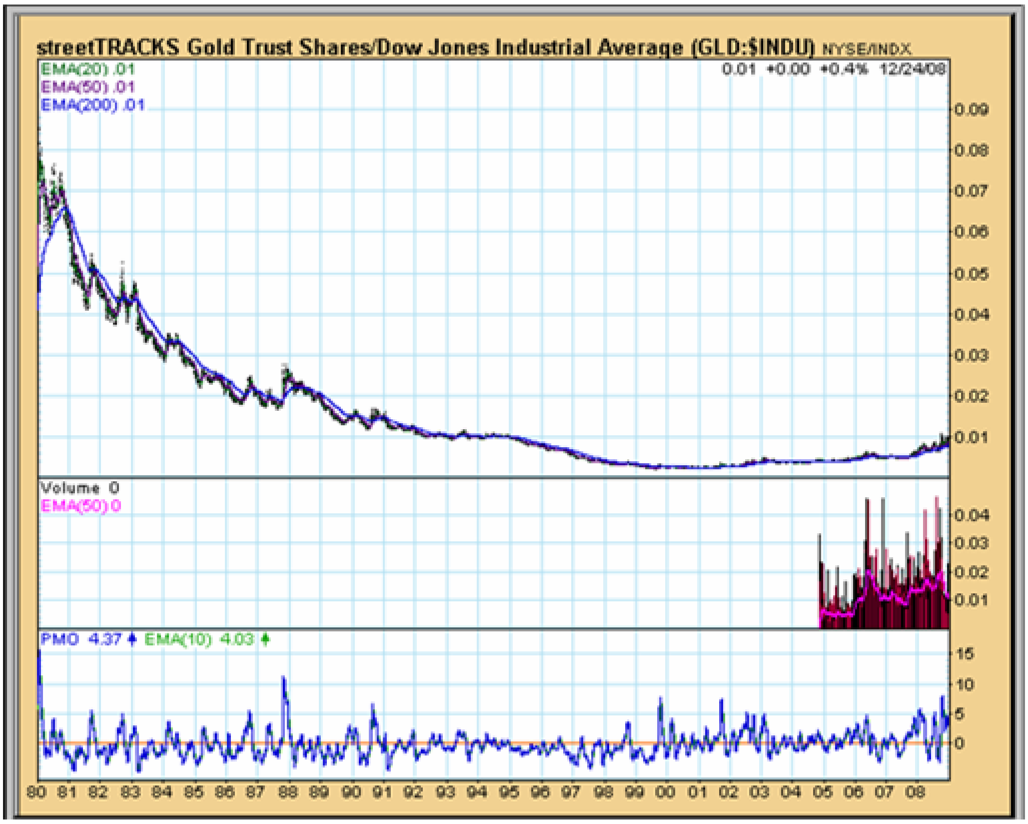
I should add that a year ago when wealthy people still suffered under the "illusion of wealth," luxury sales jumped 7.5%! It is therefore not surprising that the National Retail Federation asked Mr. Obama to add three periods of sales tax-free shopping that would last 10 days each in March, July and October 2009. It seems that every imaginable interest group is asking for a bailout of some sorts and, in my opinion, they will get it everywhere in the world because the current crisis has hit the wealthy people the most since they suffered from across the board asset deflation and since they are closely linked to economic policy makers. As Ed Crane pointed out, "the ruling class relies on academics, scholars and 'experts' to legitimize and provide moral authority for its hegemony over the masses."

So, what does it mean for investment markets in 2009? Simply put, it means more and more money printing everywhere in the world and higher and higher fiscal imbalances. It also means a further outperformance of gold, silver and platinum compared to paper assets such as equities and bonds (see Figure 7).

Figure 7: Relative Performance of Gold versus Dow Jones, 1980 - 2008



Source: www.decisionpoint.com

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Several points: I mentioned above that retailers are now also asking for some concessions in terms of reduced sales taxes. This comes of course at a very inopportune time since at least 41 US states faced or are facing shortfalls in their budgets. Over half the states have already cut spending, used reserves or raised revenues in order to balance their budgets for the current fiscal year, which began July 1, 2008 for most states. But for the 29 states that have estimated the size of the deficit, the mid year gap will be at least $24 billion as of November 30, 2008 and is likely to increase in 2009 as revenues fall short of estimates. But do not worry! The federal government will almost certainly bail out the states by having Mr. Bernanke print some more confetti money or by having the Treasury issue some more Treasury bills. In either case a dilution of paper money's value is taking place, which benefits hard assets whose supplies cannot be increased at the same pace as new money is printed (see Figure 8).

Figure 8: Oil Stocks Likely to Rebound, Oil ETF, 2001 - 2008

Source: www.decisionpoint.com

What economic policy makers are doing is nothing else than a company issuing additional shares. The additional shares dilute the existing

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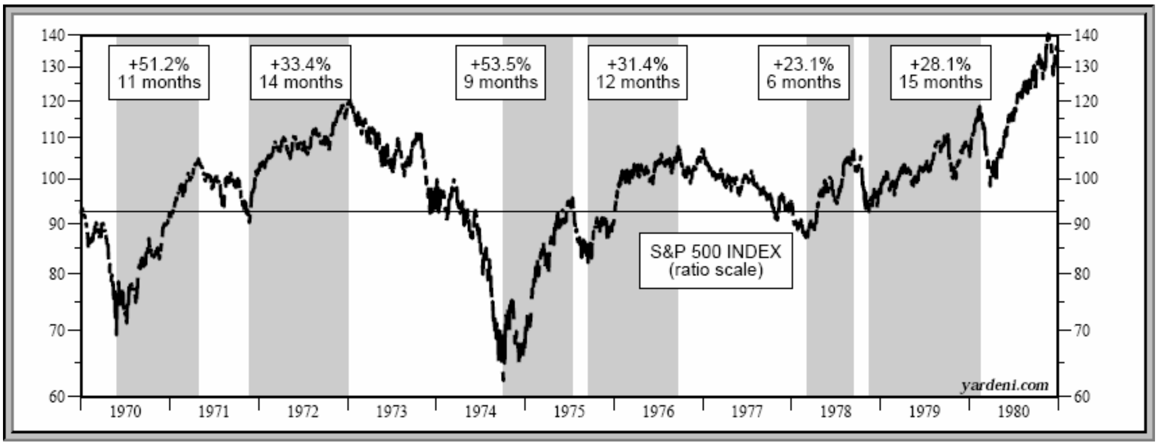
shareholders except that companies unlike the government occasionally use the proceeds from share placements productively (seldom nowadays), which then benefits all shareholders. The point is, however, that the value of hard assets such as precious metals and oil, which cannot be multiplied at the same rate as paper money, increases as the value of paper money continues to diminish.

A reader recently asked what actually happened in the 1970s. I need to point out that the current situation is in as many ways different from what the conditions were in the seventies as it is similar. The stock market fluctuated widely in the seventies but was by 1982 no higher than it had been in 1964 (see Figure 9). A powerful rebound occurred from the December 1974 low and new highs were finally reached at the end of 1980 when the market was driven by energy and mining related issues. At the 1980 peak, oil and oil related stocks accounted for more than 30% of the S&P 500 market capitalization! Simply put, the 1970s were for equity investors frustrating because nothing worked except for the energy and energy related sectors as well as mining stocks.

Figure 9: S&P 500, 1970 - 1980



Source: Ed Yardeni, www.yardeni.com

Bond investors got killed in the seventies as the yield on ten-year government bonds increased from 6% in 1970 to more than 15% in October 1981. The US dollar was weak throughout the period while gold, silver and oil soared. The bull market in gold was interrupted by a severe correction between the end of 1974 and August 1976 when its price fell from $196 to $103. Please note that this correction coincided with the recovery in equity prices between December 1974 and the end of 1976 (see Figure 9). However, even if an investor bought at the time gold at its

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1974 peak, by 1980, he would still have made a four-fold capital gain. I am mentioning this because it is conceivable that if stocks were now to rebound strongly from still oversold conditions, gold could come under temporary selling pressure. But, I would not necessarily bet on such a sharp correction for the simple reason that currently the intensity of governments' interventions with monetary and fiscal measures is unprecedented. Therefore, should these measures succeed in lifting asset prices (they are not likely to succeed in reviving economic growth) it is probable that those assets that are in relatively tight supplies (precious metals and oil) would increase in value the most (as was the case toward the end of the seventies). Another point about the seventies: in real terms and compared to gold, US stocks were trending down until the early 1980s (see Figure 10).

Figure 10: Dow Jones Industrial Average in Real Terms, 1949 - 2008

Source: Ron Griess, www.thechartstore.com

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So, whereas one Dow Jones bought at the beginning of the 1970s almost 30 ounces of gold, by 1980 one Dow Jones bought just one ounce of gold! I would expect this ratio to again reach at least one in the future. Whether this will be reached with the Dow at 100,000 and gold at $100,000 or with the Dow at 4,000 and gold at $4,000 I do not know. But my take is that money printing by all the world's central banks will lead to a continuous precious metals outperformance compared to financial assets.

I should also like to point out that with all the talk of US equities being so "cheap" the following fact remains: even after an approximately 50% decline from the October 2007 peak at 1576 of the S&P 500, US equities in real terms are more expensive than at any time before except for the 1996 to 2008 time frame (US equities in real terms are still more expensive than they were at the 1929 and 1966 peak – see Figure 10).

In the meantime, the CRB Index has totally imploded since its July 2008 peak at 473 and is barely above its 2001 low (see Figure 11).

Figure 11: CRB Index (in USD), 1999 – 2008

Source: Bloomberg

In addition, in Euros - a somewhat harder currency than the US dollar - the CRB is now even lower than at the 2001 low (see Figure 12).

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Figure 12: CRB Index (in Euros), 1999 – 2008

Source: Bloomberg

If an investor is keen to play a rebound in asset markets, it would seem – at least to me – that commodities and commodity related stocks offer the best near term appreciation potential. This is not to say that gold is unattractive in a phase of rebounding asset markets, which would be driven by central banks' liquidity injections, but that other assets, including gold mining companies should temporary outperform physical gold. We saw above how depressed commodities have once again become – probably for good reasons since industrial production and capital spending around the world is collapsing. As a result, the CRB has also massively underperformed gold since 2001, which has increasingly taken a life of its own as the ultimate sound currency – especially in an environment of close to zero interest rates (see Figure 13).

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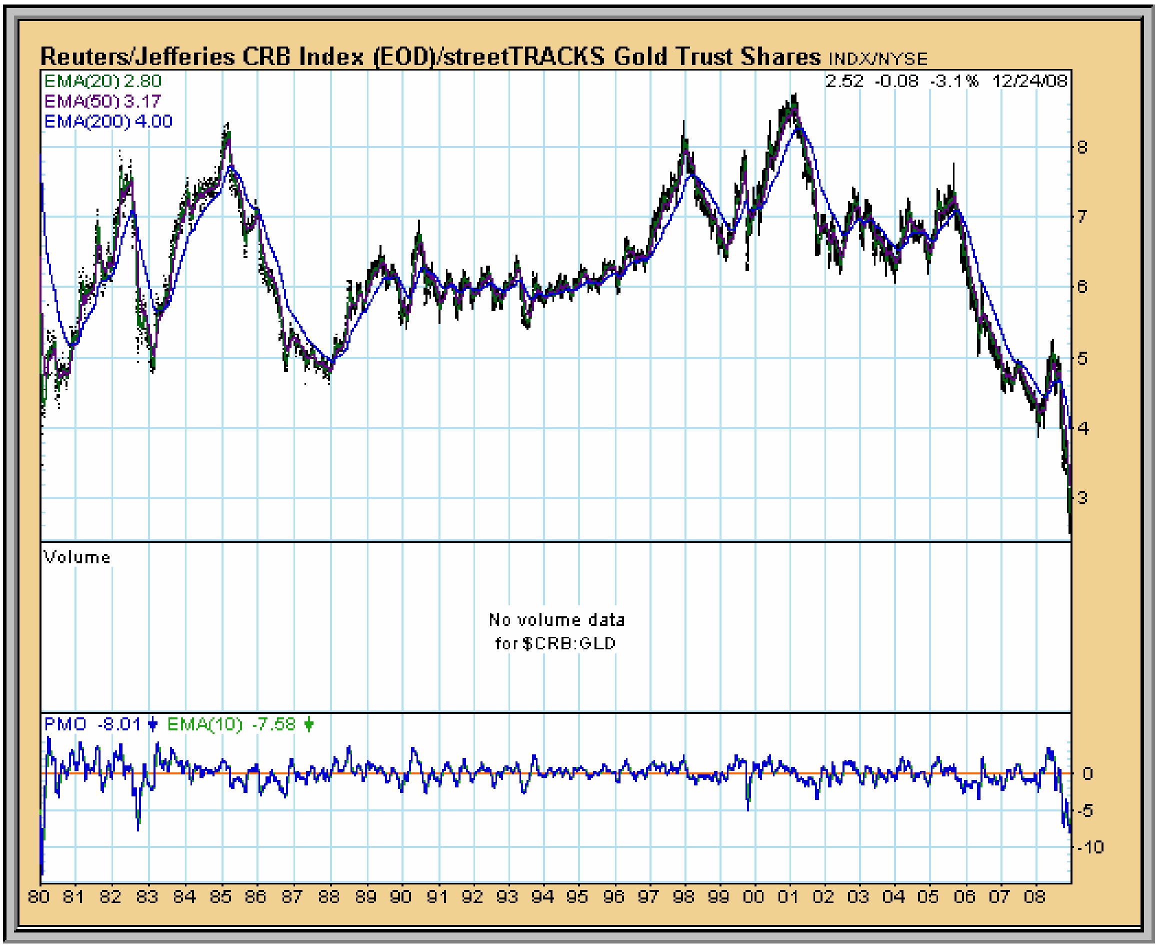
Figure 13: CRB Index Relative to Gold Price, 1980 – 2008



Source: www.decisionpoint.com

I should like to emphasize that I doubt that commodities (as well as other assets) will immediately resume their up-trends. However, as can be seen from Figure 11, Figure 12 and Figure 13, commodities are far more oversold than US equities (see Figure 10). In addition, commodity related stocks and in particular gold mining exploration companies would also seem to have significant near term rebound potential (see Figure 14 and Figure 15).

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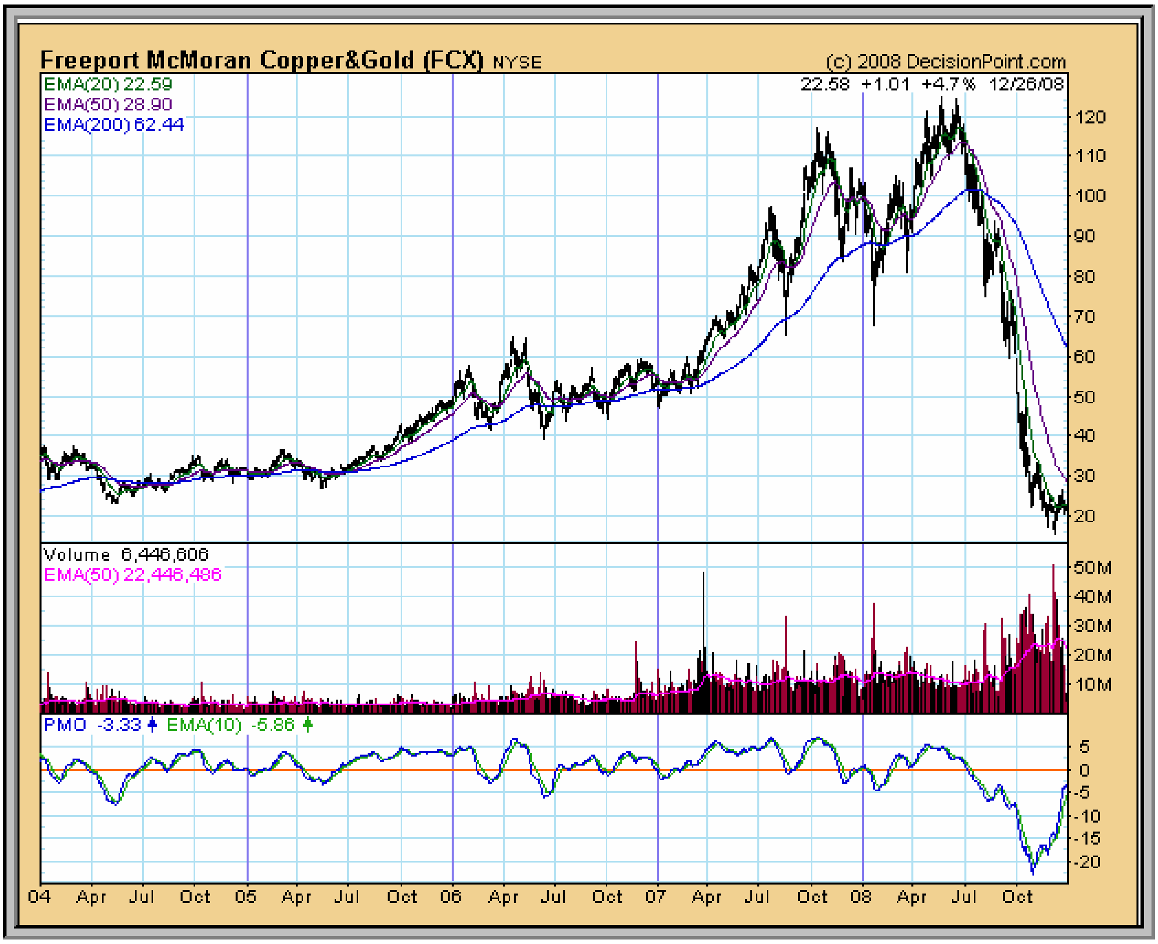
Figure 14: Freeport McMoran: a Rebound Potential of at Least 50%!



Source: www.decisionpoint.com

I should add that because of the current high volatility a strategy of buying a basket of resource companies such as CVRD (RIO), Freeport McMoran (FCX), Newmont Mining (NEM), BHP (BHP), Rio Tinto (RTP), Oil Service Holders (OIH) and United States Oil Fund (USO) and the simultaneous selling of out of the money call options could be considered. I am mentioning this strategy because call premiums are now relatively high and because - following a rebound - I would expect the recent lows of industrial commodities to be retested. For option players some gold mining exploration companies are selling at such depressed prices as to make them as if they were long term options (see Figure 15 – please note that I am a director of Ivanhoe and that the mentioning of this company does not represent a buy recommendation). Either some of these “options” will expire worthless or rebound in the near term or appreciate several fold in the next economic expansion whenever it comes.

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Figure 15: Ivanhoe Mines, 2004 - 2008

Source: www.decisionpoint.com

Finally, since some of my readers constantly ask about currencies, let me be very clear. There is nothing positive about the US dollar, but the same can also be said of most other paper currencies. But along with a rebound in commodity prices, some commodity related currencies (Canadian, Australian dollar and Norwegian Kroner) could rebound while currencies of countries that are experiencing losses in their foreign exchange reserves or are likely to default could weaken further (see Figure 4 and Figure 5). For the longer term my favorite currency remains gold.

As explained in last month's report, volatility is likely to remain high. Currently, the most likely outcome is for asset markets to rebound further until the month of March or so. But renewed weakness should follow, given the dismal sate of the global economy.

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Please find below Stephen Lendman's view on the Obama economic dream team (I do not share his views on Paul Volcker). Also make sure you read Madhav Napalat's very disturbing report on Pakistan.

Stephen Lendman (lendmanstephen@sbcglobal.net)

Obama's Economic "Dream Team"?

Dream on if you believe it, and something must be up if Karl Rove says it. In a November 28 Wall Street Journal op-ed, he called it "a first-rate economic team" while at the same time objecting to possible (not yet announced) stimulus package elements not entirely to be the kinds "conservatives" prefer like tax cuts for the rich. He nonetheless called Obama's team "reassuring" and hopes it will leave a "market-oriented imprint."

Not to worry, as that's what it's there for - the privileged elite and not the other 90% or more who at best will be very stingerly aided, and as economist Michael Hudson points out to let them repay their bank debts.

On November 24, Obama made his long-awaited announcement - his economic team to lead the nation out of its worst ever economic crisis, a task perhaps more than even Houdini could handle according to economist and author F. William Engdahl.

Nonetheless and with fanfare, the major media highlighted them with commentaries ranging from cautious to enthusiastic. The Wall Street Journal for example as follows:

"The advisors Mr. Obama named on Monday hail from the centrist part of the Democratic Party. During the Clinton years they played an important role in turning a budget deficit into a surplus. Now they argue the worsening economy requires steep deficit spending."

The New York Times stressed the ailing economy, prospective measures to help jump-start it, and efforts to "inject confidence into the trembling

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financial markets" that for the moment at least were reassured, or so it seemed.

Not for long according to Merrill Lynch economist David Rosenberg in a recent commentary. In January, he was the first Wall Street economist to predict recession, called it an "epic event," and said it will be long and painful as a result of at least three major shocks - credit, housing and oil.

He now sees the S & P 500 bottoming at around 660 or a 61.8% reversal from its high. Others see it even lower given a policy response "to get people to (spend more,) add to their debt burdens," and exacerbate the very problem that created the crisis. Rosenberg says it's "like giving an alcoholic another drink for his cure. We have a situation where Congress (and the Obama administration) want more credit created, even though it was excess (debt and) leverage that got us into this mess." In other words, the cure may be worse than the disease if the Obama team continues the same failed Bush administration policies, and it looks like they will.

In earlier comments, Rosenberg offered a different prescription in saying for the US economy to expand, savings must rise to the pre-bubble 8% level, housing stocks must come way down, and the household interest coverage ratio must fall to 10.5%. The future he sees is "frugality" with households having to make very different sorts of spending decisions than the kinds they've been used to for years. Those days are over.

So is world stability according to UK Telegraph writer Ambrose Evans-Pritchard in his latest November 30 commentary. He sees the "political bubble bursting (with) spreads on geo-strategic risk now widening as dramatically as the spreads on financial risk at the onset of the credit crunch."

From Mumbai to worker unrest in China to Eastern Europe and Russia at a time when it's "too early in this crisis to conclude whether Europe's monetary union is a source of stability, or is itself a doomsday machine" given the growing rift between "North and South" countries and Germany's reluctance "to unpin the system with a fiscal blitz."

He compares today to the 1930s. After the crash, stocks rallied sharply for months as though the worst was over. It was just beginning but who could know at the time. "The crisis came in pulses, each followed by months of normality - like today. The global system did not snap until September 1931," after which one event led to another and they were all bad, both political and economic. Who knows what's ahead today at a

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time debt excesses are far greater than then, and this is what Obama's team will confront.

According to Paul Krugman on December 1:

-- Today's economic indicators are worse than at any point during Japan's 1990s contraction;

-- All conventional policy tools aren't working;

-- Consumer spending is in free fall;

-- Investment spending is plunging;

-- Unemployment may top 10%; and

-- Recovery won't occur before 2011.

According to Oppenheimer & Co. analyst Meredith Whitney, US credit card lenders may withdraw over $2 trillion of lines (or about 45%) over the next 18 months because of regulatory changes and to minimize risk. She calls credit cards the key source of consumer liquidity after jobs. As a result, she expects sharp consumer spending declines.

Millions of accounts will be closed, credit lines cut, and interest rates raised to minimize a tsunami of expected defaults. Whitney also said that "the entire mortgage market hit a wall, and we believe it will, for the first time ever, show actual shrinkage over the next few months." The credit card market is 18 months behind mortgages and will begin contracting in 2010. She also expects a further 20% drop in home prices, earlier called Citigroup a goner, said it can't remain in its current form, and believes it's in such a mess that even (distinguished mathematician and physicist) "Stephen Hawking couldn't turn this company around."

She didn't say but may feel the same about most other major banks. In early November she called the economy and financials "so far off the tracks it's hard to see anything helping right now." Securitization isn't coming back, the entire mortgage market is contracting, banks aren't lending, loan balances are getting smaller, and bank earnings going forward will be up to 70% less than consensus forecasts, and she calls this conservative. Banks are in big trouble, and none are immune.

"Dream Team" Selections

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Timothy Geithner

Currently the New York Federal Reserve Bank president and vice-chairman of the Fed Open Market Committee (FOMC), he'll head the team as Treasury Secretary along with current Fed chairman Bernanke whose term runs until January 31, 2010.

After his education, he joined (international consultants) Kissinger Associates for three years and then the US Treasury's International Affairs division in 1988. He remained at Treasury in various posts until 2002 when he left for the Council on Foreign Relations as a Senior Fellow in the international economics department. He also served at the International Monetary Fund as director of Policy Development and Review from 2001 - 2003 after which he was named New York Fed president.

With these credentials, he's an insider's insider and hardly a surprising pick. Wall Street approved with a sharp rally that continued through Thanksgiving week as others on the economic team were also praised. And why not, elitists all and assembled for a common purpose that hardly needs explaining.

Geithner's been partnered with Paulson and Bernanke in their Treasury-looting scheme. His appointment signals more of the same which is why Wall Street approves. It's also reported that he was the principal architect behind the Bear Stearns bailout, and various other deals, including Fannie and Freddie, Merrill Lynch, Washington Mutual, Wachovia, the demise of Lehman Bros., Citigroup, and AIG.

It's gotten $150 billion so far (and counting) to buy some of its collateralized debt obligations (CDOs) to clean out its credit default swap (CDS) insurance on them. But the effort only deals with a small part of AIG's CDSs, and its woes are similar to what ails all of Wall Street. If Geithner won't address them any differently, he's the wrong man at the wrong time for a vital task to cure a very sick economy.

Take the $55 trillion CDS problem alone. If enough of them default in the coming months, no amount of bailing will save things. Yet Paulson and Geithner believe these levered bets should be paid in full.

With what, short of reckless amounts of currency debasing? The alternative apparently is off the table - the fiscal sanity of letting

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bankruptcy be the price for financial imprudence. In other words, take the pain upfront and not let this monster of a problem drag out for a decade or longer, leave much greater wreckage in its wake, and threaten world economies with it. Geithner will apparently risk it, and even by Las Vegas standards it's a very bad bet.

It affects the entire financial industry as well as companies with high-risk debt like the auto giants. Even Warren Buffett's Berkshire Hathaway who's warned repeatedly about the problem, and this is only one among others that would challenge the most dedicated and talented of policy makers. Based on what he'll likely do, Geithner isn't one of them, but try hearing that through the din of praise for him.

It remains to be seen but he'll likely continue the same failed bailout policies, pile more debt on the current unsustainable amount, and add lots of (real estate) infrastructure fiscal stimulus for the rich. As economist Michael Hudson explains:

"To a mortgage banker, a commercial developer or real estate company is a prime customer, the bulwark of bank balance sheets. It is hard to imagine a new American infrastructure program not turning into a new well of real estate gains for the FIRE (finance, insurance and real estate) sector. Real estate owners on favorably situated sites will sell out to buyers-on-credit, creating a vast new profitable loan market for banks. The debt spiral will continue upward" and make a monster of a problem even greater.

Given how strapped state and city budgets are, "privatiz(ation) from the outset" is planned and Geithner got the job to do it. He's not for "change you can believe in" or what people voted for from Obama.

Hudson again: "The change that Mr. Obama is talking about is largely marginal to (the top 1%'s) wealth, not touching its economic substance - or its direction." He may give wage earners some relief (to pay off their bank debts), but top earners "prefer not to earn income" and rely heavily on capital gains. They try to avoid losses and when can't get the government to bail them out. Obama supports it, so expect billions more for the rich, crumbs for the many, and torrents of high-sounding platitudes to soothe them.

Hudson compares Obama to Boris Yeltsin - a giver who kept on giving "for the kleptocrats to whom the public domain and decades of wealth were given with no quid pro quo." And he's assembled the same ("anti-

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labor, pro-financial team") that empowered Russia's kleptocrats, let them loot the country, and for the most part keep it.

His key economic advisor, Robert Rubin, was Clinton's Treasury Secretary. After leaving, he helped manage Citigroup close to collapse where it may end up anyway since its problems are so huge perhaps no amount of billions may save it. Now he's manipulated his protege team into top posts (including Geithner) with the rest of them profiled below.

Even the Wall Street Journal criticizes Rubin for defending his role and taking no responsibility for Citigroup's problems. The Journal asks:

"Why are Robert Rubin and other directors still employed? Another Sunday night, another ad hoc bank rescue" with taxpayers footing the bill. "Such a record of persistent failure suggests a larger, (perhaps) systemic management problem. If taxpayers have to risk so much to save Citigroup, then regulators should at least exert the discipline to break up this behemoth so it is never again too big to succeed, much less fail."

What the Journal didn't say is that any bank or business too big to fail is too big to exist, and anti-trust laws should never let them get this big in the first place.

As for Rubin, are his choices right for high Obama administration posts? Might they not wreck the economy the way Rubin & company hurt Citi. Worse still, were picked to do it - to suck all possible trillions out of it, then leave behind an empty hulk and mass human wreckage when they're done. Under Bush, we're well along toward it, so maybe Wall Street chose Obama to finish the job.

Lawrence Summers

Seeing how Wall Street loves him is reason enough to worry as he's slated to be Obama's chief economic advisor as head of the National Economic Council (NEC). This writer's November 10 Obama Mania article said this about him:

"From 1982 - 1983, he served on the Reagan administration's Council of Economic Advisors. Then he served in 1993 in the Clinton administration as Under-Treasury secretary for International Affairs and as Treasury Secretary from 1999 - 2001. Earlier from 1991 - 1993, he was chief economist for the World Bank where he authored a controversial memo stating that "the economic logic behind dumping a load of toxic waste in

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the lowest wage country is impeccable and we should face up to that."

"Summers became later president of Harvard University from 2001 - 2006 where controversy again dogged him. For his contentious relations with faculty members and for suggesting that the presence of few women in upper-level science and math positions was because of innate differences between men and women. The combination led to his 2006 resignation."

"He now teaches at Harvard's Kennedy School of Government, and is a consultant to Goldman Sachs, and is a managing director of the DE Shaw & Company hedge fund. His name is being floated as the leading candidate for Treasury secretary, and as Michel Chossudovsky states: "Putting a Hedge Fund manager (with links to the Wall Street financial establishment) in charge of the Treasury is tantamount to putting the fox in charge of the chicken coup," and more evidence that Obama plans the kind of business as usual that he pledged to get rid of."

Treasury no, NEC yes where along with Geithner and Bernanke he'll be foxy indeed, and look at his record. In the 1990s, he helped deregulate financial markets with among other measures the 1999 Gramm-Leach-Bliley Act that repealed (1933 enacted) Glass-Steagall. It let commercial and investment banks and insurance companies combine and opened the door to the kinds of rampant speculation, fraud and abuse that created today's mess.

In 2000, the Commodity Futures Modernization Act (CFMA) came next. It was so odious it had to be tucked undebated into an appropriations bill near the end of Clinton's tenure. It legitimized "swap agreement" and other "hybrid instruments" at the core of today's problems. It prevented regulatory oversight of derivatives and leveraging and turned Wall Street sharks loose on unsuspecting investors.

It also contained the "Enron Loophole" for its "Enron On-Line" - the first internet-based commodities transaction system, unregulated to let Enron do as it pleased, and the rest, as they say, is history.

After his World Bank tenure, Summers joined the Clinton administration in 1993 where he served as Treasury Under-Secretary for International Affairs and later as Secretary. As a result, he played a major role in a decade Professor James Petras calls "the golden age of pillage." Summers was involved in all economic policy decisions ranging from fiscal ones to NAFTA, WTO, and various neoliberal responses to the decade's financial

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crises:

-- In 1995, the destruction of Mexico's economy by raising interest rates to unmanageable levels and all of NAFTA's wreckage ;

-- Pillaging Russia that began before his tenure, continued throughout the decade, and exploded during the country's 1998 financial crisis; and

-- The 1997 Asian crisis; manufactured in Washington; debt bondage and open markets became the solution, and human wreckage the price for resolution.

At the end of his tenure, Summers was awarded the Alexander Hamilton Medal, the Treasury department's highest honor.

Bill Richardson

He'll become Commerce Secretary, is currently New Mexico's governor, and served earlier in the Clinton administration as Energy Secretary and UN Ambassador. He's a former congressman, was Democratic National Convention chairman in 2004, and Democratic Governors Association chairman in 2005 and 2006. He also earlier worked for Kissinger Associates and sat on various energy company boards of directors.

Peter Orszag

Another Rubin protege, he'll become Office of Management and Budget director. He earlier was on the Council of Economics Advisors under Clinton and has been Congressional Budget Office director since 2007. In 2004, he co-authored a book titled "Saving Social Security" in which he predicts its insolvency and advocates a revamping by a combination of payroll and "benefits adjustments" - meaning slow destruction by cutting retiree payouts.

Jason Furman

Reportedly to become a senior economic adviser, he also wants Social Security benefits cut and the System privatized for Wall Street. Under the Clinton administration, he served as a special assistant to the President for Economic Policy and on the Council of Economic Advisors staff. He also headed the Brookings Institution's Hamilton Project, a Robert Rubin-founded economic think tank advocating the policies he supported as Treasury Secretary that left human wreckage everywhere.

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Christina Romer

A University of California Berkeley economist, she's been a career academic thus far and will become Council of Economic Advisors (CEA) chairperson. She's a student of the Great Depression, a monetarist, reportedly centrist, and according to UC Berkeley Professor Brad DeLong she's receptive to short-run fiscal stimulus but believes that large deficits are harmful.

Paul Volker

Now age 81, he's a Trilateralist, corporatist, former (Rockefeller) Chase Manhattan Bank executive, and ideologically far to the right of center. He earlier served as Fed chairman from 1979 under Jimmy Carter and Ronald Reagan until Alan Greenspan replaced him in 1987. He's been a key Obama economic advisor and will head a special Economic Recovery Advisory Board to oversea financial markets stabilization policies.

He's no friend of working people and proved it during his tenure as Fed chairman. In fighting high 1970s inflation, he engineered the 1981 - 82 recession by raising the Fed funds rate to 20% in June 1981 (compared to 1% currently and nominally near zero).

In fact, his role was far more than fighting inflation. It was to destroy family farms, crush labor, reduce wages, lower living standards, send unemployment soaring, rev up deindustrialization, and supercharge the early years of financialization and casino capitalism. In August 1981, he openly praised Reagan's firing of 11,000 striking PATCO air traffic controllers, an act that told business that the day of worker demands was over and corporate
interests above all others would be served.

Volker's been out of Washington for a while, and as one observer puts it: He's "like a criminal returning to the scene of the crime." He'll continue bailing out bankers, the auto giants as well, aggressively serve business interests overall, and do it at the expense of working people who'll end up worse off than ever under him and the entire Obama economic team. It's not "change to believe in" unless you're a Wall Street banker assured of getting no other kind.

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Mumbai Aftermath

http://www.organiser.org/dynamic/modules.php?name=Content&pa=showpage&pid=268&page=7

Building war hysteria to cover up failure on home front
By Madhav D Nalapat

That an attack on Mumbai was being planned within the highest echelons of the Pakistan military was no secret to the US, Saudi Arabian and Chinese secret services. The Saudi state has traditionally valued the interests of the Pakistan army above those of the 156 million Muslims of India, while the PLA has since 1958 been in favour of any action by any source that it sees as weakening India.

Indeed, even these days, it is mainly affluent Saudis who fund the opulent lifestyles of jehadi terrorists such as those belonging to the LeT. Even in the case of Mumbai, the Chinese and the Saudi secret services kept this information of an impending attack on India to themselves. As for the US, it acted in a half-hearted manner, passing on not the full situation report but a confusing and non-actionable collage of bits and pieces of intelligence on what its sources within Pakistan had learnt about the impending attack.

As in the past, the prime consideration of the CIA was not the saving of Indian lives, but the protection of their friends in Pakistan from exposure as terrorist supporters. However, this time around, the CIA made a mistake that cost several American lives. It assumed that the attacks would once again be carried out in locations frequented only by Indian vegetable sellers, unemployed youth and junior staff in nearby offices. The ISI-friendly intelligence agency of the US did not forecast that the

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Pakistan army's targets would this time be the business elite of India, the very societal group that has driven forward the India-US alliance forged during the latter phase of the Bush presidency. That in the process of killing large numbers of the Indian elite, the Pakistani terrorists would also identify, isolate and kill nationals of the US, the UK and Israel, for the first time in India (outside Kashmir).

Why did the Pakistan army make its terrorist ancillaries go this far? Clearly, the generals were determined to punish Washington for continously prodding the Pakistan army to take action against its ally, the Taliban. Angered by the constant US pressure to act in less than the present deliberately ineffective way in FATA, senior generals within the Pakistan services led by (the US-approved) Ashfaq Parvez Kayani decided to take revenge on the US and its closest European ally, the UK, by choosing locations where nationals of both countries congregated, the Taj and Trident hotels on Mumbai's waterfront. The training of the "terror commandos", their equipping and the entire logistics of the operation was handled by the Pakistan army, acting through officers "on leave".

The expectation within the Pakistan military was that such a show of vulnerability of their own nations would divert the attention of the US away from its focus on the western border of Pakistan to fight the Taliban towards the traditional Pakistan army project of creating a Talibanised state in Kashmir with US-EU help. In other words, towards a repeat of Kosovo. The Mumbai attacks would be used by the Pakistan establishment to illustrate "the cost of not solving the Kashmir issue" to the advantage of the Pakistan army, and would thus assist policymakers in the US receptive to the Pakistan army in making President-elect Barack Obama keep his promise of pressuring India to change the status quo in Kashmir.

A statement that must rank as one of the most unwise ever made by this otherwise brilliant and charismatic leader, in the context of stability in South Asia. Indeed, a plausible case can be made out that Obama's Kashmir-centric musings on India-Pakistan relations may have served as a strand in the matrix of reasons for launching such a direct attack on the West and friends of the West in India.

Unfortunately for the future trajectory of the battle against terrorism in the region, President-elect Obama (with inputs from Pakistan Army backer Shirin Taher-Kheli and pro-army academics such as Stephen Cohen and Teresita Shaffer) injected himself into the Kashmir cauldron to the satisfaction of the backers of jehad. Neither he nor his principal

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foreign policy advisor Susan Rice seems to have studied the purport of the numerous and consistent statements and literature of those active in what is clearly a pan-Indian jehad. The jehadi groups operating within Kashmir and now within the whole of India are transparent and consistent in conveying their message: that Kashmir is but the appetizer. The main course will be the rest of India, the population of which will have the option of either converting to Wahabbism or surviving as serfs, as they did during the reign of kings as enlightened and secular as Aurangzeb Alamgir.

As part of their objective of diverting international attention away from their own refusal to take on and help defeat the Taliban, the Pakistan army expected that the Mumbai strike would ensure that Prime Minister Manmohan Singh go the emotional way of Atal Behari Vajpayee in 2002 by responding to the November 26-28 Mumbai attack by another sham mobilisation of troops on India's western frontier. Not only did the 2002 military mobilisation by India have zero impact on the Pakistan army's determination to bleed India to extinction by multiple terrorist cuts, it created an excuse for Robert Blackwill (the US envoy to Delhi at the time) to demonise the country before the international business community as an unsafe investment destination. Although he, as did most other diplomats, were aware that Shri Vajpayee was bluffing and that war was never an option, Blackwill engineered a pell-mell evacutation of tens of thousands of US nationals from India, a step that was duplicated even by the otherwise cool Israelis. By this single act of advertising India as a likely theatre of nuclear conflict, Blackwill did yet another favour to his friends in Beijing, through substantially weakening India's case as a stable alternative investment destination to the PRC. Yet another war scare this time around would have put the finishing touches to the destruction of India's economic capability since 2005 that has been carried out by Sonia Maino's men in the Finance Ministry, SEBI and the RBI.

Fortunately for the country, Manmohan Singh's pacifist nature (which renders him unable to respond with force even if faced with a nuclear attack) for once proved to the correct medicine, as his spokespersons made it repeatedly known that war was not on the table. A mobilisation of troops towards the Pakistan border would have played into the hands of the Pakistan army, which is eager for an excuse to move away from the Afghan to the India border, aware that its policy of talking tough against the Taliban while secretly helping them prevail in the field has become visible even to the most moonstruck admirers in the US and the EU-and these are many-of "Jehad" Kayani and his merry men. Given the

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propensity of these self-proclaimed "pious Muslims" towards the hedonistic lifestyle, had the US made the UN impose sanctions on the pro-jehad generals in the Pakistan army, most would have abandoned the path of terror rather than forsake the comforts of London and New York. Sadly, rather than be reviled and shunned, "Jehad" Kayani and his team are feted by their very victims.

Kayani wanted an Indian mobilisation. He should not get it. War is not the option, at least for the present. And it is surprising that Senator John McCain sought to generate the sort of hysteria that the Pakistan army was seeking by claiming that the Manmohan Singh government was very close to such a course, when no such impression was conveyed to him. On the contrary, India needs to give upto 36 months (or 24, depending on the frequency and scale of future attacks) to Washington in that ally's efforts to steer the Pakistan military away from its policy of helping jehadis attack India. Should the US fail to achieve such a result during this timeframe, India should launch a war against the Pakistan army. This can be initially confined to Pakistan-occupied Kashmir in the first instance, and against military targets only, including of course terrorist infrastructure. Should Pakistan respond by retaliating against India beyond military targets in Kashmir, our counter-attack should be expanded to cover the whole country, again initially with only military targets being selected. Should the Pakistan military at any stage respond with an attack on civilian areas, an all-out offensive should be launched, designed to ensure the shutting down of rail, road, sea and air traffic in Pakistan, to demonstrate the costs of nurturing terrorists. In the unlikely event that a nuclear device will be deployed against an Indian target, the top 10 cities in Pakistan should be automatically and repeatedly bombed with nuclear weapons. Massive nuclear retaliation is the only sane response to such an escalation of aggression by the generals in Pakistan. While India needs to hold its military fire now, the entire country must begin preparations immediately for war with Pakistan within 36 months, should US effiorts fail.

Should Washington fail to defang the jehadi beast that it still believes to be its ally rather than the single biggest present threat to international security, there would be no other option other than war for India, if the country is to avoid the deadly bleed caused by jehadist violence that has been the country's fate since the 1980s, and which has accelerated since Sonia Maino took over its fortunes (in some senses, literally) in 2004. The public in India needs to be prepared for the prospect of a war that could see the end of Pakistan, possibly at the cost of significant destruction in India. However painful this may be, it is nevertheless

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preferable to suffering jehadi terror indefinitely, and this time, the war needs to end only with the dismantling of the terror camps (in the scenario where the Pakistan army responds rationally to the limited Indian offensive and conducts only a limited response) or the destruction of Pakistan as a viable country (in the event that a nuclear device get used by Pakistan). This has to be the final India-Pakistan war.

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