

Lipstick on the Pig

Record profits may look good on press releases, but the banks are bankrupt, and so is the system.

The U.S. banking system is enjoying its most profitable era in history, with commercial banks reporting a record \$146 billion in profits in 2006, and the securities sector, which includes the investment banks, reporting a record \$33 billion in profits. These figures, from the FDIC and the Securities Industry and Financial Markets Association, respectively, are truly impressive, not because they reflect a strong financial system, but because they are complete frauds.

The U.S. economy has been operating below breakeven since the late 1960s, and our productive industrial base has been deliberately destroyed while the speculative and service sectors have grown dramatically. In physical economic terms, as opposed to the prevailing financial accounting, we have seen a precipitous decline in the productive side of our economy, and a dangerous increase in the overhead side. With less wealth being created—measured in physical economic terms—and overhead expenses soaring, the U.S. economy has been making up the difference by going ever deeper into debt. Government debt, corporate debt, and consumer debt have all soared, as we struggled to paper over our economic deterioration.

The official figures from the U.S. government, as bad as they are, show the collapse. In the 1960s, the total debt in the U.S. economy, as reported by the Federal Reserve, grew by \$1.53 for every \$1 increase in GDP. In the 1970s, that number increased to \$1.68, and jumped to \$2.93 in the go-go 1980s, when the U.S. economy blew

out with the stock market crash of 1987, the collapse of the savings and loans, and the bankruptcy of the big banks. In the 1990s, the economy went into debt by \$3.17 for every dollar increase in GDP, with the system nearly blowing out around the Russian GKO/LTCM crisis in late 1998. The response to that crisis, which included the “wall of money” and the Nasdaq bubble, led to a tremendous jump in debt, with the economy taking on \$4.88 in debt for every \$1 growth in GDP during the 2000-06 period.

Were we incurring all this debt to expand our productive base, to expand our infrastructure, to push back the frontiers of science and technology, that would have been useful. Instead, we took on increasing amounts of debt to feed the bubble, thereby weakening our economy.

Within such a dynamic, what is profit? To the financiers, the income stream from the growing debt is counted as profit, but all it really is, is a small dent in the losses which will ultimately occur when the debt is not repaid. Overall, the financial system is actually hemorrhaging money, and hiding it with accounting fictions and offshore, off-balance-sheet machinations. The profits they claim to be earning, do not really exist.

One place the losses are hidden is in the global derivatives market, which stood at \$486 trillion at the end of 2006, according to the Bank for International Settlements (BIS). *EIR* suspects that a more accurate figure would be in the range of \$1-2 quadrillion, but even the admitted level is so far be-

yond the pale that further quantification is pointless.

The derivatives market has no reason for existence beyond its role as a vehicle for providing the illusion of value and profits while the system disintegrates. It, like the system it supports, is a fiction. The purpose of the derivatives market, and the fake profits it generates, is to bolster the facade of solvency behind which a new political system, imperial in nature, can be constructed.

For the oligarchs, this means tearing down the nation-states and running the world through a collection of banker-run corporate cartels, in a manner designed to substantially reduce the world's population to what they consider to be more manageable levels. To them, the bubble is not something to be saved, but a weapon to be used against the nations, and the United States in particular.

The only way to stop the destruction of the United States is through sovereign action to put this financial system through formal bankruptcy proceedings, freezing the debts to stop home foreclosures and the demise of necessary economic activities, the working out over time of valid debts, and the writing off of the mass of derivatives and other speculative scams.

Ironically, this would allow the return to real banking, coupled with directed government credit to get the productive side of the economy moving again. Rather than having giant banks pulling money out of communities all across the country to feed their derivatives fix, banks could resume their proper role of funding genuine economic development in their areas, making *real* profits by helping their customers and service areas prosper. That would be a welcome change for the nation, for the public, and for the honest bankers caught in this destructive system.