

30 reasons for Great Depression 2 by 2011

New-New Deal, bailouts, trillions in debt, antitax mindset spell disaster

By [Paul B. Farrell](#), MarketWatch

ARROYO GRANDE, Calif. (MarketWatch) -- By 2011? No recovery? No new bull? "Hey Paul, why do you keep talking about a bigger crash coming by 2011?" Readers ask that often. So here's a sequel to my predictions of 2000 and 2004, with a look three years ahead:

First. Dot-com crash

We pinpointed the dot-com crash at its peak, in a March 20, 2000 column: "Next crash? Sorry, you won't see it coming." Bulls-eye: The dot-com bubble popped. The economy went into a 30-month recession. The stock market lost \$8 trillion. And today, over eight years later, the market is still roughly 40% below its 2000 peak. See previous Paul B. Farrell.

Factor in inflation and the average stock has lost well over 50% of its value. Stocks have proven to be a very big loser, a bad investment for Americans, thanks to Wall Street's selfish greed, plus the complicity and naiveté of politicians, press and public.

Second. Subprime meltdown

We reported on warnings of another crash coming as early as 2004, wrote a sequel, also titled "Next crash? Sorry, you won't see it coming." Yes, we were early, but in good company. We wrote many more warning columns. Few listened.

Subsequent events, notably former Fed Chairman Alan Greenspan's admission of his failures in congressional testimony, prove that if he and other Reaganomic ideologues weren't so myopic and intransigent about proving their free-market deregulation theories, they could have acted earlier and prevented today's colossal mess. Instead, their ideology kept the bubble blowing, delayed the pop, making matters worse.

So once again, as history proves over and over, ideology trumps common sense, reality and the facts. Greed drives ideologues to blow bubbles. They pop. Crashes happen. The public is collateral damage.

Third. Megabubble cycles

We also detailed the broader, accelerating macroeconomic sweep of cycles last summer in columns like ["20 reasons new megabubble pops in 2011."](#) We summarized a long list of major warnings from financial periodicals -- Forbes, Fortune, the Wall Street Journal, Economist -- and from the voices of Warren Buffett, Bill Gross, a sitting Fed governor and a former Commerce secretary. Multiple warnings "hiding in plain sight," beginning with a Fed governor warning Greenspan in 2000 about subprime risk.

But the big shocker came from the new Treasury secretary two years before the meltdown: Bloomberg News reports that shortly after leaving Wall Street as Goldman Sachs' CEO, Henry Paulson was at Camp David warning the president and his staff of "over-the-counter

derivatives as an example of financial innovation that could, under certain circumstances, blow up in Wall Street's face and affect the whole economy."

Yes, they knew. And still both Paulson, a Wall Street insider, and Greenspan's successor, Ben Bernanke, a Princeton scholar of the Great Depression, stayed trapped in denial and kept happy-talking the public for months after the meltdown began in mid-2007. Get it? While they could have put the brakes on this meltdown years ago, our leaders were prisoners of their distorted, inflexible views of conservative Reaganomics ideology.

As a result, once again the "best and the brightest" failed America and now they and their buddies in Washington and Corporate America are setting up the Crash of 2011.

Now it's time for my 2008 update, a look into the future where things will get far worse during the next presidential term. And given human behavior, especially in the deep recesses of Wall Street's "greed is good" DNA, it seems inevitable that no matter how well-intentioned the new president may be Wall Street and Washington's 41,000 special-interest lobbyists will drive America into the Great Depression 2.

30 'leading edge' indicators of the coming Great Depression 2

Every day there is more breaking news, proof Wall Street's greed is already back to "business as usual" and in denial, grabbing more and more from the new "Bailouts-R-Us" bonanza of free taxpayer cash and credits, like two-year-olds in a toy store at Christmas -- anything to boost earnings, profits and stock prices, and keep those bonuses and salaries flowing, anything to blow a new bubble.

Scan these 30 "leading indicators." Each problem has one or more possible solutions, but lacks unified political support. Time's running out. We're already at the edge. Add up the trillions in debt: Any collective solution will only compound our problems, because the cumulative debt will overwhelm us, make matters worse:

1. America's credit rating may soon be downgraded below AAA
2. Fed refusal to disclose \$2 trillion loans, now the new "shadow banking system"
3. Congress has no oversight of \$700 billion, and Paulson's Wall Street Trojan Horse
4. King Henry Paulson flip-flops on plan to buy toxic bank assets, confusing markets
5. Goldman, Morgan lost tens of billions, but planning over \$13 billion in bonuses this year
6. AIG bails big banks out of \$150 billion in credit swaps, protects shareholders before taxpayers
7. American Express joins Goldman, Morgan as bank holding firms, looking for Fed money
8. Treasury sneaks corporate tax credits into bailout giveaway, shifts costs to states
9. State revenues down, taxes and debt up; hiring, spending, borrowing add even more debt
10. State, municipal, corporate pensions lost hundreds of billions on derivative swaps

11. Hedge funds: 610 in 1990, almost 10,000 now. Returns down 15%, liquidations up
12. Consumer debt way up, now at \$2.5 trillion; next area for credit meltdowns
13. Fed also plans to provide billions to \$3.6 trillion money-market fund industry
14. Freddie Mac and Fannie Mae are bleeding cash, want to tap taxpayer dollars
15. Washington manipulating data: War not \$600 billion but estimates actually \$3 trillion
16. Hidden costs of \$700 billion bailout are likely \$5 trillion; plus \$1 trillion Street write-offs
17. Commodities down, resource exporters and currencies dropping, triggering a global meltdown
18. Big three automakers near bankruptcy; unions, workers, retirees will suffer
19. Corporate bond market, both junk and top-rated, slumps more than 25%
20. Retailers bankrupt: Circuit City, Sharper Image, Mervyns; mall sales in free fall
21. Unemployment heading toward 8% plus; more 1930's photos of soup lines
22. Government policy is dictated by 42,000 myopic, highly paid, greedy lobbyists
23. China's sees GDP growth drop, crates \$586 billion stimulus; deflation is now global, hitting even Dubai
24. Despite global recession, U.S. trade deficit continues, now at \$650 billion
25. The 800-pound gorillas: Social Security, Medicare with \$60 trillion in unfunded liabilities
26. Now 46 million uninsured as medical, drug costs explode
27. New-New Deal: U.S. planning billions for infrastructure, adding to unsustainable debt
28. Outgoing leaders handicapping new administration with huge liabilities
29. The "antitaxes" message is a new bubble, a new version of the American dream offering a free lunch, no sacrifices, exposing us to more false promises

Will the next meltdown, the third of the 21st Century, trigger a second Great Depression? Or will the 2007-08 crisis simply morph into a painful extension of today's mess to 2011 and beyond, with no new bull market, no economic recovery as our new president hopes? Perhaps some of the first 29 problems may be solved separately, but collectively, after building on a failed ideology, they spell disaster. So listen closely to "leading indicator" No. 30:

At a recent Reuters Global Finance Summit former Goldman Sachs chairman John Whitehead was interviewed. He was also Ronald Reagan's Deputy Secretary of State and a former chairman of the N.Y. Fed. He says America's problems will take years and will burn trillions. He sees "nothing but large increases in the deficit ... I think it would be worse than the depression. ... Before I go to sleep at night, I wonder if tomorrow is the day Moody's and S&P will announce a downgrade of U.S. government bonds." It'll get worse because "the public is

not prepared to increase taxes. Both parties were for reducing taxes, reducing income to government, and both parties favored a number of new programs, all very costly and all done by the government."

Reuters concludes: "Whitehead said he is speaking out on this topic because he is concerned no lawmakers are against these new spending programs and none will stand up and call for higher taxes. 'I just want to get people thinking about this, and to realize this is a road to disaster,' said Whitehead. 'I've always been a positive person and optimistic, but I don't see a solution here.'"

We see the Great Depression 2. Why? Wall Street's self-interested greed. They are their own worst enemy ... and America's too. ■