

Information For Our Times

WATSON'S WEB



The Coming Economic Depression – September 2005 Update

This is the latest update to a series. Earlier sections appear [here](#).

This month's update will cover a couple of major issues with an extended Random Thoughts section. Things are moving quickly and rather than spend a great deal of time rehashing the events of the last month, I decided to give a little perspective and commentary to some broader issues that may affect many of us before long. I know many of you prefer the hard facts, charts and graphs but this month I feel strongly that other issues need to be looked at without delay.

Hedge Funds

(Financial Nitro)

Two stories that may not be getting a great deal of attention are Hedge funds and derivatives. Many stories are actually transpiring under the radar. US and global Regulators now are probing hedge funds. While the story deals mostly with the sales practices of these funds it shows a renewed interest in these large investment vehicles.

The (NASD) regulator, which polices 5,200 brokerages, sent letters in June to about 10 firms, including Citigroup Inc., Merrill Lynch & Co. Inc., and UBS AG, people familiar with the probe said. NASD asked the firms what warnings they gave investors when selling hedge fund products with minimum investments of \$50,000 or less and whether they paid brokers sales incentives. – [Philly.com](#)

Hedge funds now are one of the primary methods this author believes the US will attempt to hide its purchases of its own Treasuries. The budgetary deficit estimates for next year hovering around \$800 Billion, it seems clear that this much capital will probably not be available to the US to borrow. Hopes are high now with the reintroduction of the 30 Treasury note, historically being one of the most popular and historically solid of investments. The hope is that the US will be able to attract the needed capital to fund this monstrosity of indebtedness. This remains to be seen. While it is clear that the dollar has risen due to hedge fund demand from these shadowy investment vehicles, it is never quite clear who *actually* is doing the buying. Sadly, hedge funds are a money launderers delight because of their loose regulation. The number of them has grown significantly since the beginning of the year, especially in the Cayman Islands, traditionally known as a place for illicit financial transactions. It is the perfect place if you want to hide the purchaser's identity of large swaths of US Treasuries from the curious.

According to published reports, about 80 percent of the global hedge funds are registered with the Cayman Islands Monetary Authority. During the first half of 2005, the number of Cayman Island's registered hedge fund operators rose from 5,932 to 6,527. - [Hedgeco](#)

The increase in the number of these funds signals that perhaps some of these may have been created for the express propose of propping up the dollar and surreptitiously buying US Treasuries in the face of our unsustainable deficits. Admittedly there is no hard evidence for this nor will there be as long as regulation of these entities is as loose as it is today. Thus, when one reads stories about Hedge funds and derivatives, one is forced to read between the lines and draw his or her own conclusions.

Capital will be needed and needed badly in the US come October. One can see the hint of quiet desperation in moves by the treasury to crack down on companies who shift their profits to 'low tax' jurisdictions. Rather than making a cosmetic and PR type change a recent change is one that appears to have some substance

"This is not a small correction to the existing regulations," said

William Dantzler, an international tax lawyer with White and Case, according to the FT. "It is a big deal and is intended to be." - [CFO](#)

This could be a big blow to corporate balance sheets and the fact that the Administration would consider such action against those who have funded him and his political party so generously shows there may be a view that soon there will be a genuine need for the additional capital.

Derivatives

(Financial Glycerin)

But the financial casino that these hedge funds are dependent upon contains a large percentage of derivatives. It is in this arena where there are some rather ominous things transpiring. Pimco, the world's premier bond traders demanded settlement of a contract in an actual delivery of bonds. This is almost unheard of in futures contracts, but demand it they did and this caused a squeeze on the 10 year note in order to settle the contract. Typically large investors do not demand the actual delivery of the underlying bond in such a contract. This transaction has led to some problems and will lead to more up ahead if more decide to do the same.

The introduction of the 30 year bond could reduce the amount of 10 year bonds that traders assumed would come into existence in the future. Because of their 'certainty' that these bonds would come into existence, contracts for 10 year bonds that do not even exist yet have already been written.

The 10-year futures contract is based on a theoretical Treasury note that doesn't exist. Then the CBOT have formulas to convert the value of existing Treasuries into the theoretical ones. For example, the cheapest bond to deliver to settle the current September contract is the August 2012 bond. So you are really getting delivery of, and contracts are priced from, the seven-year stuff rather than 10-year stuff. - [FT](#)

So goes the crazy world of derivatives. They're essentially selling people 'Brooklyn Bridges' that may or may not be built. The author of the above piece notes with crystal clarity that the US economy is too

leveraged and we are living in a fool's paradise if we think that we can use these sophisticated instruments to reduce interest rate risk.

The Derivatives problem obviously has the Fed's full and undivided attention. In a letter dated August 12th, the Fed 'invited' 14 major banks to discuss an 8.4 **trillion** dollar industry that is 'rife with unconfirmed trades'. The specific industry under scrutiny? [Credit Derivatives](#).

These derivatives have grown by almost a trillion dollars over the past three years. Essentially, credit derivatives are 'bets' as to the ability of companies to pay back their debts to creditors. The Fed, SEC and Comptroller of the Currency and the NY State Banking Department are slated to attend the Fed's special meeting. This is a global problem and several European bank representatives have also been invited. This could be a serious problem in the future as a little noticed story surfaced on the 24th of August stating that GM and Ford **Debt Divisions** have also been cut to Junk status. Yet the Fed's actions were to be expected. In July, an esteemed 'Blue Ribbon' panel of experts looked at this issue and issued an important report. The Report called [Toward Greater Financial Stability: Private Sector Perspective is a report of the Counterparty Risk Management Policy Group II](#).

Most of the recommendations and guiding principles relate to measures that are within the control and reach of individual institutions. Others entail collective actions by institutions and their so-called "trade groups." In that latter category, I want to call your particular attention to Recommendations 12, 21 and 22, which call for urgent industry-wide efforts (1) to cope with serious "back-office" and potential settlement problems in the credit default swap market and (2) to stop the practice whereby some market participants "assign" their side of a trade to another institution without the consent of the original counterparty to the trade. Among other things, this practice has the potential to distort the ability of individual institutions to effectively monitor and control their counterparty credit exposures. - [CPRMG](#)

Interestingly, the report offers some rather puzzling recommendations. One seems to run counter the transparency needed in today's financial

institutions to avoid fraud and abuse that has occurred in the past.

CRMPG II recommends that trade associations, such as the Global Documentation Steering Committee, continue efforts to attract widespread acceptance of documentation standards for the treatment of confidential information. Individual firms should also continue to independently develop and refine their internal policies and procedures for managing sensitive client data and endeavor to address confidentiality issues raised by counterparties by disclosing and following such policies and procedures with regard to confidential materials. (page 32)

This is a fascinating statement. A reader such as myself finds such statements extremely interesting in light of the fact that this document largely deals with derivatives. In these 'sensitive transactions' they want to be careful of sensitive client data. Now let us get this straight; they are not talking about the average Joe's checking or savings account information. They are talking about large accounts that belong to the very rich, very powerful, and at times very [criminal organizations](#) that do not want what they are doing generally known. To the uninitiated this would seem to indicate that they may perhaps be concerned with identity theft of their customers. Be assured, your bank has probably already SOLD your personal data to a myriad of data collection centers that warehouse large amounts of data on just about every American for a tidy sum. This document is talking about sensitive transactions. This is almost certainly a euphemism for barely, quasi, semi and outright illegal transactions that they do not want anyone to know about.

Well, the good news is that at least someone has recognized there is a problem. I suspect there may be a major problem brewing under the surface of the Global economy. Three major institutions have probably triggered it; Ford, GM and Fannie Mae. As most of you know, [Fannie keeps on putting off its financial reporting](#). Moody's is considering [downgrading some of its debt](#). We are told not to expect a [restatement from Fannie until 2006](#). 2006!? Yes that is right another year and it will need to hire 1500 consultants to do the job. Yes, you heard the number right, enough consultants to populate a small, rural town. In addition, if they keep missing the deadlines, they may get de-listed from the NYSE. What kind of restatement are we talking about? It could total as much as

\$10.8 Billion. The last time Fannie Mae provided quarterly results was back in July 2004. So while many would say I am crying wolf when I say there may be something ugly brewing under the surface of the global economy, well publicized news items tend to support it. Whether or not the mainstream media and other financial pundits wish to put all of these things in perspective is, of course up to them (and their banking/financial institution advertisers). I will report it as I see it and I see something very wrong here.

More here

<http://www.narconews.com/petras1.html>

<http://news.bbc.co.uk/1/hi/world/americas/197773.stm>

http://www.thirdworldtraveler.com/Banks/Dirty_Laundry.html

But the Fed meeting that is slated to take place on September 15th is probably mostly going to deal with recommendation #12 (Page 37) as this appears to be a major problems; no proof of a position held in these instruments.

Market participants recognize the immediate need to address the backlog of unsigned confirmations on an industry-wide basis and are currently committing substantial resources to its resolution. CRMPG II recommends that, as a matter of urgency, market participants apply additional resources to this task, take part in and strongly encourage the development of electronic trade matching and confirmation generation systems and work together as well as cooperatively with trade associations to identify and implement solutions. In addition, market participants should make use of one or more of the following: using master confirmations, circulating drafts of structured confirmations pre-trade, pre-negotiating short form confirmations pre-trade, signing or initialing term sheets pre-trade and orally verifying material trade terms promptly after trade date. Moreover, individual institutions should periodically inform senior management and their primary regulator about progress being made in reducing confirmation backlogs. In extreme cases, senior management should be prepared to consider whether trading volumes need to be reduced

until the backlog is normalized. CRMPG II endorses the convening of an industry-wide roundtable in the near term to focus on aggressively reducing confirmation backlogs by working toward further technological and operational enhancements, and by strengthening backoffice operations. (page 37)

So there is a risk and the FED has seen that it is necessary to get the major players in credit derivatives on the same page because the potential for a serious problem is real, much more real than the banal, technical and somewhat boring report referenced indicates. Once again, one gets the impression that there is something big simmering underneath the entire global financial system.

Housing

The housing markets are still red hot but there are increasing signs that things are beginning to cool. First of all houses are becoming increasingly unaffordable. One has come to expect this in such markets as California where the median price is over half a million dollars. In places like In Santa Clara County it has fallen to the small fortune of \$700,000. However, affordability problems also exist in such [places as Alabama](#), one of the less economically vibrant states in the nation.

As mentioned in last month's update the time that houses are staying in the market is increasing and prices in some markets are showing signs of either slowing their rate of increase or actually dropping. I look for prices to stabilize but when higher mortgage payments hit many homeowners because Adjustable Rate Mortgages begin to take effect, I expect many houses to come onto the market and/or a flurry of refinance activity to take place to lock in rates. I do not see the bubble bursting just yet. But as I outlined in last month's update I expect the real spoiler in the housing market to be Jobs, the lack of, poor pay and the existential problems of the jobs that are being 'created' by Bush and BLS statistics.

Paul Krugman the esteemed economist sees trouble too. He sees it bursting in 2006. While admitting that he could be wrong he does see problems ahead.

"I'll give you a forecast which might very well be wrong, but I think it will burst in the spring of next year," he said at a derivatives conference in Brazil's winter resort of Campos do Jordao. -

[Reuters](#)

These predictions were echoed by Greenspan who said that there were dangers from an overheated housing market.

"The housing boom will inevitably simmer down. As part of that process, house turnover will decline from currently historic levels while home price increases will slow and prices could even decrease." - Greenspan

This is not good news for the banks and financial institutions that are in have a large part of their portfolio's in real estate. Those values will come tumbling down. Banks already are beginning to feel a pinch. As this [reuters article shows](#).

Margins are now the lowest since the third quarter of 1990, when the U.S. economy was in recession. Overall second-quarter profit at the 8,868 institutions insured by the FDIC fell 3.3 percent from the first quarter to \$33.1 billion. - [Reuters](#)

While this is hardly horrible news, it is telling. The banks are feeling the pinch as well and as the article goes on to point out that if treasury yields flatten out things could get dicey.

What does all of this mean? Well it would take a real economist to tell you, which I am not, but I can tell you that if the housing markets head south and people start losing homes and jobs due to recession and can no longer borrow against their homes to make purchases, a vicious spiral could get out of control and this is what Greenspan warned about to his unnamed successor. He warned of asset price rises in general in relation to rather static income trends and he said that these issues, if housing prices deflate would complicate policy decisions.

According to John Mauldin in his excellent news letter, it means that [Greenspan is targeting your home](#). And Greenspan's statements portend changes in the housing markets in the near future.

In a generally sanguine outlook at a Fed symposium in Jackson Hole this weekend, Greenspan said both the excesses of the housing market and the nation's unprecedented dependence on foreign borrowing were likely to correct themselves through the normal function of market forces. - [SF Gate](#)

He must walk a fine line and not precipitate a crash but he must bring

these outrageous prices under control and he has the means to do it with. But be assured Greenspan has clearly stated that he is targeting asset prices and your house is a key asset that has appreciated 'exuberantly' over the past few years.

Immigration/Border/Drugs

Yes there is a real drug war going on south and even north of the border and it is no joke. The drug traffickers and illegal immigrants have taken off the gloves and are now targeting federal agents. They are shooting them, downing helicopters, and the narco-traffickers have gone on a killing spree in the border states. Yet I believe that the courts are also a real problem as they are now [giving away the property of Americans to criminals who trespass, steal and who are here illegally](#). The government does not want to do anything and now the courts are threatening ordinary Americans who try to protect their land with property seizure if they attempt to do what the Government should have been doing for years. While the ranchers in question in this seizure obviously had other issues (illegal gun possession and allegedly pistol whipping the illegals) the Courts message was clear; the illegal immigrants have the right to terrorize Americans, and Americans have no right to do the same. If you have property on the border and illegal aliens use sections of it for drug running without your knowledge, you may even lose your property to the government, because that is the law of the land today when it comes to drug cases. The rancher will have to prove his innocence. Yes, that is right, in these kinds of cases you (or rather your property) are **guilty until proven innocent**. The nine black robed thieves in DC have so ruled regarding property in drug related cases. Folks, I just do not see the people on the border putting up with this kind of abuse from their leaders and courts for much longer.

Anywhere from [70 to 90% of south American cocaine comes in from the Mexican border](#) much of it via human mules, but other more sophisticated methods are also employed. How does this relate to economics? Well an earlier link should have tipped you off but here it is again. The US and its Banks launder hundreds of [billions of illicit dollars a year](#).

Also you may find this of interest

[A Drug Empire](#)

As well as this

[Secret Border Wars](#)

And listen to this two minute clip.

[Audio Interview with former DEA agent.](#)

Once you do that perhaps you will get a different perspective on why Bush and Clinton did so little along the US border and why they each resist it with such determination.

This does not mean that the US won't do something about it soon. I think it will and what it does will stand the hairs on the back of your neck straight up. The Department of Homeland Security has a plan. A plan that may sound good at first but given current legal tendencies by the administration and the High Court, it could truly be a horror story that will come true to both illegal immigrants and US citizens alike. I highly recommend you take a look at [this link](#).

<http://www.ice.gov/graphics/dro/endgame.pdf>

Granted it seems that this operational plan would be a good idea to many as the immigration problem and the real possibility of terrorism are not phantom threats. But when one considers that today there are [Americans in detention that have not been charged or tried](#), a far more frightening [possibility emerges](#).

Random Thoughts on South America, Bush and our Courts.

The US is working hard to demonize Hugo Chavez. Pat Robertson, showing his true imperial colors played the Bush/Rumsfeld game and threw out a 'tester' for the administration by calling for the murder of Chavez. His rant included calling Chavez a 'dictator'. This is a 'Bush-esque' kind of lie, but what do you expect from a neo-con? Chavez was democratically elected, several times by the way and has a 70% approval rating at home. He answers to an elected body in his nation and a legislative branch of government. He is not a dictator. Those who say he is are liars and cannot be trusted. Chavez is doing what he can to assist the poor of his nation and this is putting a squeeze on US oil companies and corporations. Throughout South America a major political shift is occurring. In Ecuador there is a revolution underway.

Protesters were able to shut down Ecuador's oil industry and much of the anger is directed at the US and its corporate elite. The people of South America are tired of foreign 'aid' that leaves them with massive debts and puts the aid money in the pockets of companies like Bechtel, Halliburton and Exxon. The US administration has called Chavez a 'negative' influence in the region. Not because he starves his people, or puts them in concentration camps or invades nations thousands of miles away, but because he opposes America's Free Trade of the America's (FTAA) and the takeover of Latin America by what is viewed by many as controlled 'corporate fascism'. How one views the influence of America and its activities in the region determines whether one supports Chavez and men like him or not. The people of South America surely understand these basic issues as they have suffered under the weight of poverty and injustice under previous US supported leadership. The people have voted for change and they mean to get it. With the price of oil on the rise, it gives Chavez more capital to improve living conditions for the poor in his country and export his own 'peoples' revolution' throughout Latin America. This is what Washington is very much afraid of. When oil prices were low things were different for Chavez, while still popular, his economic programs faltered because of the lack of capital. Now Chavez will ride high as long as prices stay high, and that may be for a very long time. The higher the price of oil, the louder the cries to oust him will be from Rice, Cheney and Bush.

So why do they hate him so much? It can't be just his political philosophy. The answer to that is a little more complex.

On July 14 in the western city of Maracaibo, Venezuelan government tax auditors and a prosecutor went to the offices of Chevron Corp., the second-largest U.S. oil company. They seized boxes of records to build a case that San Ramon, California-based Chevron and 21 other energy companies owe Venezuela \$3 billion in back taxes - [Bloomberg](#)

The article goes on to explain that Chavez wants to use the money to help the poor of his nation. This is not something that the oil companies or many of the leaders Religious Right in America want to see happen. You see those people in Latin America are not 'true red, white and blue Americans', they have dark skin and don't speak English. These are cardinal sins, in their eyes. So to these apostles of poverty and murder,

this makes them ineligible for such things as food, shelter, clothing and a livable wage.

This is why you have folks like Pat Robertson going on TV to speak to a predominantly white suburban audience to stir up hate with half truths and outright lies about what is really happening in Venezuela and why it is happening. Granted he apologized but the cat is now 'out of the bag' so to speak, but the empire has spoken, 'Chavez must go'.

Another reason the US establishment does not like him is that he is an impediment to the economic ambitions that are enshrined in the FTAA agreement. South America already has a free trade Zone called Mercosur. While there are problems with the trading bloc it is seen as a threat to US trading interests and globalist plans for the region which essentially include making it subservient to Western (US) Corporate interests.

Now as much as the West likes to blast Chavez his economy and oil sector are open to foreign investment, which is different than most of our oil trading partners who do not allow it. Yet Chavez will not allow foreign control of his nation and this is the real sticking point between Washington and Chavez. Perhaps now you can better understand what is really happening in Venezuela and why they hate him so. Washington is going to have to come to terms with the revolution going on in South America and make peace with it and understand that if there is anti-Americanism there it is well deserved. Consequently, constructive engagement in the region is better than official statements that say Chavez is a 'negative influence'. The real negative influence in the region and the world is a nation that attacks, starves and invades nations who have never had any aggressive tendencies against them. You know... nations like America.

I know that sounds unpatriotic. I have served my country in peace and war and I will not listen to any person on these issues praise what we are doing in Iraq, (and south America) who has not done so themselves. Those who extol the virtues of American aggression and greed while they get fat with a remote control in their hands are beneath contempt, for it is they, not I who have betrayed America and our uniquely American ideals. I cared once deeply for our nation and its ideals but I know that America I once loved is gone. It is as dead as John Kennedy and will never come back again.

Americans need to understand what has been done in their names the past 50 years. They need to understand why the world is turning against us. Most do not. They are obsessed with getting a new SUV or a big screen TV or trying to bed their neighbor's wife. Yet, increasingly one is hearing more and more of [families struggling just to make ends meet](#). They also do not understand it. They know that we have given foreign 'aid' to these nations but don't understand the mechanics of the aid and the fact that it almost never reaches the people but enriches American Campaign donors instead. The tricks we have played on the poor are old and now the people are beginning to get wise to them. The empire has no recourse but violence. This is why Chavez has cozied up to the Chinese. He knows that he can eventually shift his primary customer of his oil from America to China if the need arises, as China is another oil hungry nation. China will then have a vested interest in giving him diplomatic cover in any row with Washington. Here is a key that needs to be understood as well. The US needs the oil from Venezuela. Venezuela does not need the US as a customer. The US can probably get more from other nations such as Nigeria, but it may not be enough to fill the shortfall. This means that the US and the South American revolution are on a clear collision course and that is why Pat Robertson's call for the murder of Chavez (quickly repented of) is so important. Many in the administration want Chavez dead or at least removed from power. An outright invasion contemplated by some would send the entire region into an anti-American frenzy and our adventure in Iraq's lack of success is no encouragement to such a plan. If America were to invade or Assassinate Chavez, America's empire would suddenly come to an end. Our borders are wide open and do not think for a minute that saboteurs and what are now euphemistically called 'terrorists' (better known as dark-skinned victims of American foreign policy) are not here in America and could not enter with lightning speed to retaliate for any act of terrorism America might perpetrate on a Latin American country. What kinds of Terrorism could the US commit?

- The US shelling from a warship 'rebels' (read democratic forces) inside Venezuela
- A 'surgical' air strike,
- The insertion of 'Special Operations' forces into the region to terrorize Latin Americans, as we have done so many times in

the past in other Latin American nations.

- The assassination of a democratically elected leader
- The funding of an overthrow of a democratically elected leader.

Let us note here without any equivocation that when America commits acts of terrorism and it is called foreign policy.

But the rhetoric coming out of GOP think tanks, TV commentaries and web tabloids shows that they are preparing to take some kind of action against Chavez in the near to medium term. These think tanks and TV shows are funded directly or indirectly by the very interests that have abused Latin America since the 1950's. By saying that Chavez is 'in bed' with drug dealers' they hope to use the same tactic used against Noriega, who was a US stooge for years before he began to part with US policy. Chavez may be peripherally involved with drug dealers in the region, [but not nearly so much as American Banks and US administrations](#) past and present who have sent emissaries to Latin America to beg them to invest their ill gotten gains in US banks and use these same dealers in their proxy wars.

So where in which South American 'tent' will the 'Corporate Camel' stick its nose? [A good guess is Paraguay](#), which looks to boost defense cooperation with the US. The US denies building a base in Paraguay but its denials seem rather weak,

The Pentagon used this same rhetoric when describing its actions in Manta, Ecuador, now the home of an \$80 million U.S. military base. First they said the facility was an archaic "dirt strip" which would be used for weather monitoring and would not permanently house U.S. personnel. Days later, the Pentagon stated that Manta was to serve as a major military base tasked with a variety of security-related missions. Human rights groups have linked the U.S. base in Manta to the 2002 coup against Venezuelan President Hugo Chavez. - [Toward Freedom](#)

The US obviously wants to commit some kinds of crimes and atrocities in South America as it is wants all of its [troops immunized from the International Criminal Court's Jurisdiction](#). Natural Gas is the prize in the region and the US administration will scare suburban housewives with

mythical tales of Al Qaeda training camps to get them to support yet another ill advised military action to secure energy resources. Will it work, in a nation full of nitwits? You betcha!

The US is afraid of Chavez's center left doctrine, which is business friendly for small and medium sized enterprises but refuses to allow large US based corporations a free reign in his nation to undermine competition and monopolize key sectors of the economy (telecommunications/ Powergrids/ Water/ agriculture). This is why they hate him and hate him to the death. They have made every attempt to discredit him, his policies and his nation. The real reason is an age old struggle between rich and poor. You see, the US administration is working from economic models that can no longer work. It is debt-consumption based and requires a large military, massive capital inflows and quasi-legal apparatus to enforce and perpetuate its continued existence. Recognizing the inherent problems with its model, it is trying to destroy the middle class in its own nation with free trade agreements. A vibrant and informed middle class is a very good 'check' against imperial tendencies from going too far. One look around the nation and one can see clear and present changes occurring on the American economic and educational scene. There is a new model that America's elite are working from. They know that consumption of the world's goods cannot continue at the present rate and rather than planning prudently for such inevitable phenomena such as peak oil, it is going to use the crisis and other economic methods to destroy the middle class. The new economic model they are working on for our future harkens back to the days of the dark-ages when there were the rich-men/nobles and the serfs. In those days the torture chambers and dungeons were usually full with those who could not afford nor legally obtain legal counsel. It is an utterly different economic and political model that they are working from than the one we Americans have been accustomed to. I have long firmly believed that the past US administrations since the days of John Kennedy have had as their primary goal the destruction of our American ideals enshrined on the Constitution. One of the most powerful and important results of the American experiment was a vibrant, informed and basically moral middle class and this has been the target of those who have held the reigns of power for the past 45 years in America. They have succeeded. The Middle Class in America is now just a debt collectors lawsuit away from poverty.

This is why you see Supreme Court decisions giving power to the rich and well endowed to steal property from those who paid for it. These are EXACTLY the kinds of abuses that the old European Monarchs committed that caused revolutions. Protections against these abuses were neatly and clearly enshrined in the US constitution to protect ordinary people from these abuses. This was the beauty and success of the American experiment. It allowed a man to keep his wealth and provided a powerful incentive for work, inventions, various forms of artistic and industrial creation, business innovations and personal freedom. The Supreme Court obviously is not reading the Constitution. It appears to be reading from something else and given the advanced age of many of its members, they may not know the difference between the Constitution and the latest copy of the National Enquirer.

*But let his disposition have that scope that dotage gives it. - Shakespeare
(King Lear)*

The 'Public Use' clause of the constitution has now been expanded to mean rich, private corporate use. What readers must understand is this; the ideals of the American Revolution and the American Constitution have been under attack since the America won its revolutionary war. Those ideals are now called 'terrorism' by those who want to destroy the American experiment. If a man believes that he has a right to a fair trial, should not be subjected to cruel and unusual punishment (torture) has a right NOT to sell his property to a private developer or that he has a right to peacefully assemble, or to keep his land from draconian drug laws, he is now a 'terrorist' or a 'terrorist sympathizer' under the current (and future) American administrations whether they be Democratic or Republican. This is the new political model our elite are working from and if you think the Democrats are any better, go look and see who voted for the Patriot Act.

The bile of GOP TV and radio pundits keeps the fear factor up in suburbia to keep them supporting the destruction of their freedoms. The greatest enemy of the Constitution is not just the Bush administration. They are just a symptom of a much larger problem, like a hand or foot that falls off, it isn't the loss of limbs that is the problem but the leprosy that underlies it that is the real cause for concern. In short it is the American-Corporate Model of government that is destroying our freedoms, nation and eventually will extinguish many of our lives. The

two biggest culprits in this are the People and the Supreme Court. While others such as the Media can also be blamed, court decisions could have easily freed up the airwaves for other views than those with the most wealth and power. The Court is what needs to be reformed and in short order with a complete review of major decisions made since the 60's. This could be accomplished by a constitutional amendment and the comfortable retirement of every sitting Supreme Court justice. But once again you have the media as a primary problem because most Americans are still dependent on corporate news reporting and could easily have their minds poisoned by our elite to stifle real reform.

The Formula

A couple of weeks ago I saw a flick that was one of the most interesting movies I had ever seen. Not because of a great story though it was good, or great acting, though the actors were exceptional (Brando and Scott). No, the reason why I found it so interesting was the theme. It dealt with a formula a formula that was developed in Nazi Germany and smuggled to the US and held by US oil companies.

A little known fact which I covered in a book I wrote back in 1999 is that the Nazi's were forced to synthetically make much of its gasoline from coal in the closing years of the war. The movie was about that formula and the power struggle to obtain it and make it public. The movie is out of print now and very difficult to find but they did run on *Turner Classic Movies* a couple of weeks ago and I watched it. Why do I bring this up? Well here is why; [Montana's Governor has said that he can produce gasoline from Coal](#) for about a dollar a gallon.

"I am leading this country in this desire and demand to convert coal into gasoline, diesel and aviation fuel. We can do it in Montana for \$1 per gallon," he said. "We can do it cheaper than importing oil from the sheiks, dictators, rats and crooks that we're bringing it from right now." - Reuters

We will see if this works or if a myriad of administrative and legal hurdles are not put in his way as he attempts to do what the Fed's should have been doing years ago; working on alternatives. But there is little profit to be made in making smooth transitions in such a fundamental economic issue. There is however billions of dollars to be made in creating a crisis that should never have occurred in the first place.

Something's Amiss

What is going on with the President? Who ever heard of a commander in Chief taking a six-week vacation in a time of war? Who ever heard of a commander in chief that announces that we are going to stay in Iraq 'as long as he is President' and the following day a top commander announces troop withdrawals? Who ever heard of firing a four star general for having an affair with a woman not his wife while that general is legally separated? Now this is Four Star General was once a key member of the Joint Staff. Who ever heard of a President defending a man who appears to have exposed one of our security people to the nation's enemies? Who ever heard of these things? I have come to the conclusion that it could be (remotely) possible that he is no longer really in charge. I have wondered what is going on because I will tell you under no uncertain terms that there is complete inertia in some government agencies inside the beltway. No major decisions are being made; policy decisions that affect very important programs have not been written. This sounds like a little thing but if, for example Customs needs money based on policy guidance, that guidance is essential before money is disbursed. No policy, no money; no money, no border control. This goes across many key government agencies and it is no laughing matter. The National Security apparatus is *especially dependent on this kind of policy guidance*. While the chatter on the net has died down about a possible coup against Bush, I can tell you that there is something very unusual about what is going on with the President. What it is, I do not know but my guess is that they are very concerned about Fitzgerald's investigation and where it might lead. Their poll numbers and our disaster in Iraq also are far from comforting to the Administration. I also think that there is a growing and very real move by some powerful people to marginalize Bush and make him politically impotent or remove the President from office. You can call this kind of talk what you want, but observe where they take the President on his moves, small carefully scripted gatherings usually at military installations. I also want to add that the talk of the Presidents dependence on anti-depressants is more than idle speculation. Members of his own party can't be pleased because they are running for reelection in 2006 and Bush's poll numbers are abysmal. For America this is a crisis point in its existence, with **annual**

deficits running at close to a trillion dollars, this too is a cause of great concern. The alarm has been rung by some key establishment economists and news pundits. This is a time when the President needs to build bridges with the rest of the world, yet in his typical arrogance, he puts a man like John Bolton into the UN over the objections of the Senate (via a recess appointment) and most of the rest of the world. Now he has put the UN into an uproar because key aid programs that would benefit the poor are under his scrutiny and may not survive. Sadly, people still wonder why they hate America's foreign policy. Now I personally have never been a fan of the UN, not for a minute. But they have admittedly done some good and it is those programs that Bolton seems intent upon destroying. In summary, all I can tell you is this; **Something is not right with our National Security Chain of Command.**

To my usual readers I apologize if my dissertation is somewhat troubling long and rambling, but I would feel remiss if I did not outline some of my deep concerns as they touch on both the political and the economic. I see several crisis coming to a head late this year and early next year that could bring in some unwelcome changes to America's lavish lifestyle. I honestly do not think those changes are far off at all. Having said that a [political crisis or 'security' crisis](#) could very well be a mask for the real one and that being an economic crisis as America finds that it cannot meet its current fiscal obligations. If you think that is far fetched then you can tell me where we can get \$800 billion this year while we already pay interest on nearly [\\$8 trillion](#) (it will be \$8 trillion by the time many of you read this) in debt with a nation of temp workers and unemployment line-standers.

Finally, It is not a time to panic. That is the last thing in the world I want to see anyone do nor should they make any rash decisions. But as the scriptures say:

A prudent man foreseeth the evil, and hideth himself: but the simple pass on, and are punished.

(Proverbs 22:3)

Wise words from a wise man.

I will try to cover the economic impact of Katrina, Oil and Insurance next month because I think the storms impact could be quite substantial and long lasting. I may put up an interim update if time allows.

By.

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