Financial Crisis: December 5, 2008

W M 1466

"The work of the people of God is to prepare for the events of the future, which will soon come upon them with blinding force. In the world gigantic monopolies will be formed. Men will bind themselves together in unions that will wrap them in the folds of the enemy. A few men will combine to grasp all the means to be obtained in certain lines of business."—*Letter 26, 1903; Country Living, 10.*

"God is looking on. His purposes in regard to His rebellious subjects will be fulfilled. The world has not been given into the hands of men, though God is permitting the elements of confusion and disorder to bear sway for a season. A power from beneath is working to bring about the last great scenes in the drama—Satan coming as Christ, and working with all deceivableness of unrighteousness in those who are binding themselves together in secret societies. Those who are yielding to the passion for confederation are working out the plans of the enemy. The cause will be followed by the effect.

"Transgression has almost reached its limit. Confusion fills the world, and a great terror is soon to come upon human beings. The end is very near. We who know the truth should be preparing for what is soon to break upon the world as an overwhelming surprise."—*8 Testimonies, 27-28 (1904).*

A SURVEY OF THE PRESENT CRISIS

The worst financial crisis since the Great Depression, probably in U.S. history, surfaced in August 2007 with the beginning of the subprime mortgage crisis, especially as related to the real estate market.

My previous report, released in September before the crash, anticipated what was coming. You will want to carefully read it or listen to the CD we prepared, for it fully explains the causes of this present global crisis (*The Deepening Financial Crisis [WM–1449-1450]* and CD. Also available: *Financial Crisis Update: October 2008 [WM–1456]* and CD).

History's greatest-ever credit bubble has been punctured and, tragically, nothing is likely to stop the difficulties that will follow.

Recognizing what was coming, and not wanting the crash to come while he was head of the Federal Reserve, **Alan Greenspan told lenders to supply a lot of credit, no matter how weak the offered collateral. But, in 2004, they started running out of buyers; so they increased the subprime lending and hedge funds to keep the economy going**. Many bought into this, with investments in 401K's (retirement funds), pensions, etc. Foreign governments invested heavily in U.S. funds.

In late 2005, things started collapsing, with huge losses everywhere. Ultimately, it would amount to a figure far in excess of $800 trillion.

AUDIO CD—This present two-part, complete report is also available in audio format on a CD for $4.00 + $2.50 shipping. Ask for it by name.

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In 2006, governments awoke to what was happening, and hired experts to try to find solutions. They have not been able to.

Then in 2007, the credit crunch hit. Financial institutions, including local banks, no longer trusted one another. Not knowing which bank would crash next, they would not lend to one another. And they would not lend to businesses, small and large, or to individuals who walked in the door for a loan, so they could buy a car or house.

The crisis gradually spread to other nations. In August 2007, the Northern Rock Bank in Britain went bankrupt. In February 2008, Britain nationalized its banks in the hope of keeping them from going under.

Then the G-7 countries (the seven largest economic nations) met, and decided that the world is in a crisis. But they did not know what to do to solve it.

Then, in 2008, having lived happily for several years leveraging funds as much as possible and then loaning them, **Bear Stearns, one of the four largest investment firms in the U.S., crashed** and was merged out of existence.

Countrywide, the largest mortgage company in America, was merged into Bank of America. Soon after, **IndyMac Bank, one of the largest banks in southern California, totally collapsed** following a run on the bank as depositors rushed to get their money out. **This was the biggest American bank failure since the Great Depression**,—but still worse bankruptcies of banks were to follow.

By late August, Donald Trump said the banks had no money to lend. Housing and commercial projects were freezing up. By October 12, $14 trillion had been lost on the stock market and mortgages. As the fall progressed, the money market was becoming so tight that no loans were being made to any except those with a record of being totally out of debt and no past borrowing. **By November 7, hardly any large amounts of money were changing hands.**

The federal government then gave $950 billion to U.S. cities and states, to help keep them afloat. **There are 2,000 companies asking for financial help**, and saying that they are faced with laying off 40% of their employees. Large commercial companies were told by Paulson to come directly to him for money.

Then came the takeover (that is, nationalization) **of Freddie Mac and Fannie Mae**, which made the government responsible for about half of our nation's $12 trillion in residential real estate mortgages. This was, to that date, the biggest single bailout ever *(i.e.,* **$200 billion)—yet if just 10% of those loans go bad, the cost will be $500 billion**. A more realistic total of 20% mortgage failures (given today's accelerating defaults and foreclosures) will ultimately cost the federal government $1 trillion for Freddie and Fannie alone.

Then Lehman Brothers went bankrupt. This became the biggest bankruptcy, of any kind, in U.S. history.

In response to Wall Street panic, **the Fed** (Federal Reserve) **began pouring hundreds of billions of dollars into the banking system**. But it would not and could not solve the massive problem.

Then the government took over AIG (American International Group), **America's largest insurance company.** The Fed did this by injecting $85 billion into that company in order to avoid the worst collapse in U.S. history. (It celebrated a week later by spending $443,000 on a massive party for 100 executives at the St. Regis Resort in southern California.)

Shortly after that, a $65 billion money market fund crashed—and a $250 billion run on money market funds began. ("Money markets" is the business of lending money, which is primarily done by banks and investment houses.) **As the money market fund panic accelerated, the Fed pledged $400 billion in guarantees to banks to meet money market withdrawals**. **In just one week in September, the Fed spent over $1 trillion** in a frenzied effort to stabilize the system.

Then **Washington Mutual, America's largest S&L (Savings & Loan) failed**. It followed a few weeks after the previous "largest bank failure in history,"—but this one was even bigger.

While all this was taking place, Henry Paulson at the Treasury Department, Ben Bernanke at the Fed, and George Bush in the White House **proposed a $700 billion bailout package**. They were desperate to avoid a total financial meltdown. But time would reveal that this would not be even a band-aid applied to the problem. For **the hemorrhage in the derivatives pyramid had, by that time, reached $800 trillion.**

In order to gain massive wealth for themselves, greedy financiers had heavily leveraged money and loaned derivatives. Our earlier predictive report (*The Deepening Financial Crisis [WM–1449-1450]*, and CD) explains in detail how they did this. You will recall that I there explained the meaning of "leverage" and "derivatives." Here is what I wrote:

> "**A person, business, or bank is taking a big risk with a loan or investment, when that loan or investment is derived from (based on) another that is risky and may not continue to do well.**
>
> "***Leverage* is like borrowing $10, and using it as the basis for obtaining a $100 loan.**
>
> "**A *derivative* is like loaning $10 which may never be repaid, and then using that as the basis for issuing a $100 loan.** Can you see the danger in doing such things?
>
> "Those men did it because they hoped the $10 would continue to maintain a high value, during the time that they made money on the $100 loan. It was actually a high-tech form of gambling.
>
> "During that five-year period, which was 2000 to 2004, the global derivatives pyramid had highly leveraged 100-to-1 and up to 1,000-to-1 bets on the future direction of interest rates, currencies, debt markets, etc. **The result was an explosion of almost 700% in derivatives—from $100 trillion to just under $700 trillion today."—***The Deepening Financial Crisis, September 2008, WM–1449-1450.*

The leverage was 100:1 ($100 debt to $1 assets). The greater the leverage, the greater the immediate profit for those doing the leverage. But it was all empty, like a great hot-air balloon being gradually filled. **Heavily doctored reports were made to stock market investors about total assets which did not exist. Loans, with nothing to back them up, were made to people who would never be able to repay them.** At some point, the house of cards had to fall down. And so it did, and most wondered what had happened. **But the investment houses which did the leveraging knew exactly what they had done. Yet they were the first ones to whom Bernanke, at the Fed, and Paulson, at the Treasury, gave billions for their rescue.** News reports told of how some celebrated with raises for their top officials, and parties at expensive hotels for their managers.

The present financial collapse is not primarily about the crash of stock and real estate markets; or the struggling banks and brokerage firms fearing they will go under; or a stricken economy, resulting from skyrocketing unemployment and bankruptcies, sharply declining retail sales, and increasing chain store closures—even though all these are terrible in themselves.

The underlying cause of our present financial crisis is the meltdown of the highly leveraged global derivatives market—which amounts to somewhere between $800 trillion and $1.2 quadrillion. Now can you see why the Fed's $700 billion "bailout package" amounts to little more than a bucket of sand on a beach which extends for miles?

Adding to the problem is the fact that the $700 billion was meant to "stimulate the economy," so that credit and lending would start again. **But the money, taken from the government, is being used for other things** (including executive pay raises) **instead of its intended purpose. Loans are still not being made** to businesses or individuals. The credit crunch remains frozen.

The ongoing crash of one firm after another is unstoppable. Every default triggers dozens—even hundreds—of cascading defaults in other financial institutions all over the world. This is because they were all interlinked on those highly leveraged derivative loans.

For example, Lehman Brothers alone had 1.5 million invested in very complex derivatives transactions with 8,000 other financial institutions! The total for this was in the trillions of dollars.

As I write these words, over 200 accountants are trying to understand all that was involved in these highly complex derivatives transactions.

We do not have space here to discuss what happened to Goldman Sachs, Morgan Stanley, Bear Stearns, Merrill Lynch, WaMu, and Wachovia Bank. But it all was terrible. Citigroup, one of the very largest banks of all, is now on the verge of collapse.

And now we are faced with "bailout packages" for General Motors and Crysler, and an immense line of credit for Ford. Yet close questioning reveals that the $34 million they want—immediately—will only care for their needs for a few months, and then they will return to Congress for still more.

All these bailout packages are a bottomless pit which cannot succeed. **No one knows how much it will take to bail out an $800 trillion derivatives pyramid, plus a $13.4 trillion U.S. banking system.**

The FDIC (Federal Deposit Insurance Corporation) insures bank deposits. **But the FDIC is broke. It only has a few billion to insure $13.4 trillion in deposits in 8,400 U.S. banks.** The FDIC fund dropped from $53 billion in reserves to a few billion as a result of coming to the aid of only 15 failing banks (including Wachovia and WaMu) in recent months.

Then, to convince Americans not to panic and make a run on all the banks, the government raised FDIC insurance from $100,000 to $250,000 per individual bank account. But, of course, that did not solve the lack of money in the FDIC!

In reality, America (which includes corporations, governments on all levels, small businesses, and individuals)—has over $53 trillion in debt (not counting hundreds of trillions in derivatives). Much of this is on the brink of default. There is no possible way the government could guarantee payment on all that debt! The seeds of hyperinflation and total destruction of the dollar are involved here. The situation is very grave.

From August 2007 to the end of September 2008, trillions of dollars have evaporated.

The "stimulus package" sent to American taxpayers last summer—amounted to $153 billion in checks. Everyone got a few hundred dollars, but that did not solve any problems. Not even ten times that amount ($1.5 trillion) would solve it.

Some economists believe that the U.S. government is choosing hyperinflation over a deflationary credit collapse—because government leaders believe their own jobs are more secure if they keep the country in high inflation rather than in a deflationary credit collapse.

Thomas Jefferson gave this prediction:

> "The central bank is an institution of the most deadly hostility existing against the Principles and form of our Constitution . . Bankers are more dangerous than standing armies . . [and] if the American People allow private banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the People of all their property until their Children will wake up homeless on the continent their Fathers conquered."—*Thomas Jefferson.*

Here are three other significant quotations:

> "Legally, the devaluation of the dollar is not called a 'default,' but that is what it is."—*Reuven Brenner, Nobel Laureate in Economics.*

> "Everything that you see being done in this bailout is more of exactly the same thing that caused this problem. It certainly is coddling the real Wall Street criminals that caused all this."—*James Sinclair, October 1, 2008.*

> "Intensifying solvency concerns about a number of the largest U.S.-based and European financial institutions have pushed the global financial system to the brink of systemic meltdown."—*Dominique Strass-Kahn, Managing Director of the International Monetary Fund, October 11, 2008.*

Meanwhile, as the meltdown spread global, the nation of Iceland went bankrupt. China called for a new world currency in August 2008, and devalued its own, when the U.S. Congress first delayed on the $750 billion bailout package. Thousands of factories in China have been shut down.

Stock and money markets in some countries are only open part of the time. **Worldwide shipping is down 47%.** Many ships are sitting idle in the ports. Railroads and trucks are running less frequently in some places. Both the G-7 and G-20 nations keep holding meetings, but no one knows how to reverse the slide. World leaders are frightened.

Nations all over the world are being threatened with financial collapse. Here is what they are faced with: **All the world's debt far exceeds all the assets in the world. There is $1,400 trillion in world debt, but only $53 trillion in world GNP** (Gross National Product; that is, total yearly product).

Here in America, **General Motors car and truck sales are down 45%. Volvo trucks are down 96%. The number of people looking for work is 11.8%.** This is expected to double. Restaurant business is down 50%, and dry cleaners down 45%.

In November, 106,000 businesses and individuals filed for bankruptcy—the highest for one month in history.

People have lived on credit, and must now learn to live simply. Many will lose their homes. **As of late November, in the Nashville area alone, there were 24,000 homes up for sale.** Entire, new subdivisions are empty; this is because the houses cannot be sold or the new occupants have had their mortgages foreclosed. This depression is expected to last 10 to 15 years.

Here is a prophetic statement from *9 Testimonies, 13-14:*

> "**Those who hold the reins of government are not able to solve the problem** of moral corruption, poverty, pauperism, and increasing crime. They are struggling in vain to place business operations on a more secure basis. If men would give more heed to the teaching of God's Word, they would find a solution of the problems that perplex them.
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> "**The Scriptures describe the condition of the world just before Christ's second coming.** Of the men who by robbery and extortion are amassing great riches, it is written: 'Ye have heaped treasure together for the last days. Behold, the hire of the laborers who have reaped down your fields, which is of you kept back by fraud, crieth: and the cries of them which have reaped are entered into the ears of the Lord of Sabaoth. Ye have lived in pleasure on the earth, and been wanton; ye have nourished your hearts, as in a day of slaughter. Ye have condemned and killed the just; and he doth not resist you.' James 5:3-6.
>
> "**But who reads the warnings given by the fast-fulfilling signs of the times?** What impression is made upon worldlings? What change is seen in their attitude? No more than was seen in the attitude of the inhabitants of the Noachian world. Absorbed in worldly business and pleasure, the antediluvians 'knew not until the Flood came, and took them all away.' Matthew 24:39. They had heaven-sent warnings, but they refused to listen. **And today the world, utterly regardless of the warning voice of God, is hurrying on to eternal ruin**."*—9 Testimonies, 13-14.*

The U.S. government, its paper money, and the dollar could lose credibility all over the world during the next year as the world sees the U.S. trying to solve the problem by printing lots more money and handing it out to big business (but not to average Americans), while running annual budget deficits in the $1 to $2.5 trillion range.

Frankly, Obama's plan to rebuild U.S. infrastructure (buildings, schools, roads, and bridges) and develop alternative energy sources (solar, wind, and wave) are steps in a better direction. But they cannot solve the problem.

Unfortunately, **throughout the world, these U.S. deficits and the bailout of failing debt and debtors is damaging confidence in the dollar** and U.S. dollar denominated assets—including government treasuries and bonds. This concern is being temporarily masked by a global flight to the perceived security of U.S. Treasury bills.

In spite of the vast bailout efforts now in progress, the solvency crisis continues to intensify. **U.S. government intervention in the free market will unfortunately deepen and extend this financial crisis**—just as the Roosevelt New Deal socialism (including interest rates at ½%) deepened and extended the Great Depression by another eight years. It was only World War II that ended a financial crisis that began in 1929.

The central bank in the Japanese government intervened in the free market (including interest rates down to 0%)**—and resulted in extending and deepening the Japanese depression for 15 years**, from 1989 to 2004. That depression saw an 80% decline in Japanese stocks (and they are still falling), and a 75% decline (totalling $12 trillion) in Japanese real estate.

GETTING LOANS JUST NOW

Mortgage loans: The interest rate for a housing loan keeps dropping, but you still may not get approved for one. You have to have a very high 650 credit score, and at least 15% down. Large loans (above $400,000) are extremely difficult to obtain.

Auto loans: The average 60-month new-car loan is priced at 7.10%, not much different than at the beginning of 2008. Some 0% financing still exists. But, if you obtain one at all, you will not get a loan unless your credit score is above 700. Even people with good credit are having trouble obtaining loans.

At the December 5 Congressional hearings, it was mentioned that, for example, one car dealer in Connecticut lost thirty new car sales—because the banks would not loan people with good credit history the money.

Student loans: A full 137 lenders have stopped funding federal student loans, and 33 have dropped private programs. Students at community, technical, and for-profit schools have been the hardest hit. Since May, the U.S. Department of Education has spent $5 billion, buying loans in an effort to restart private lending.

INDICATIONS OF A RECESSION

In spite of government efforts to stabilize the economy, **there are several strong indicators that a recession has arrived**. Indeed, the reality that it has arrived is now officially admitted. A few days ago, a research organization announced that we have been in one for over a year. Unemployment, inflation, and bankruptcies have been greatly understated by the government. At the same time, retail sales, industrial production, and Gross

PART TWO IS COMING IN THE NEXT MAILING

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PART TWO OF TWO

Continued from the preceding tract in this series

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Domestic Product have been overstated. Both the government and media frequently suggest that the slide into recession is just about over, or will be within a few months. But it is highly unlikely that anyone will be able to reverse the deepening bear market in stocks and real estate, improve the economy, or reverse the long-term downward value of the U.S. dollar.

1 - Layoffs and unemployment steadily increasing. On December 5, it was announced that 574,000 workers lost their jobs in November. This is the greatest one-month job loss since 1974.

Unemployment is already over 15% (although the government officially says the figure is only 5.5%).

2 - In spite of the 50% drop in oil prices, **inflation is now close to 15%** (not the official 4.5-5% rate).

3 - **Gross Domestic Product (GDP) is negative** and probably has been for 18 months or more.

4 - **Personal bankruptcies,** which were running at 1.6 million before the recession, are now at 2 million annually and are increasing.

5 - Although **U.S. inflation** is reported to be only 4.94%, using the proper method of estimating it (the 1980 method), it is over 13%—even after the sharp drop of commodity and energy prices. In spite of the deepening recession, wholesale prices are rising at 8.7%. Effects of the full impact of the Fed's multi-trillion dollar money expansion should be felt within a year, and even official inflation rates should be in the double digits.

6 - **Federal debt and deficits** are running wild. In September, officials predicted a $389 billion, official federal deficit for the month. But it turned out to be $454.8 billion—up from $161.5 billion for the same month in 2007.

Total **U.S. debt** is expected to rise 13.8% in 2008 to $10.3 trillion. This is a real world (not "official") deficit increase of $1,250 trillion in just one year! It jumped $650 billion (8.8%) just since September.

7 - **Retail sales**. Actual (not official) retail sales are now at 5.69%. Dozens of retail stores (many of them part of chains) are closing across the nation. Go into any shopping mall and you will generally find it two-thirds empty. Department stores are downsizing staff, so it is becoming difficult to find someone to ring up your merchandise. Four of America's ten largest Mercedes dealers have gone bankrupt. Parts supply companies are in trouble.

8 - **Industrial production**. This is now dropping at an annual rate of 6%.

9 - **Stock market drops**. It is significant that very steep drops in the stock market continued to occur after the various bailouts and "stimulus packages." The Dow Jones reached a high of 14,164 in 2007. Since then, it has dropped over 40%. Every week day, it usually drops more. The NASDAQ is down 55% since 2007. Stocks have lost $8.6 trillion in value since September 2007, over $8 billion in 2008, and over $5 trillion over the past two months.

10 - **Drop funds, pension funds,** including 401K's (retirement funds). Officially, they are down $2 trillion, but in reality over $4 trillion. Most stock investors have already lost 40%-60% of their retirement funds over the past eight years.

11 - Lastly, there is the **real estate market**. We all know what has happened to that. Low interest rates and millions of homes for sale at bargain prices will not recover it, because banks refuse to lend the long-term loans needed to purchase them. It took the Japanese real estate market 15 years to reach its bottom.

WHAT MAY OCCUR IN COMING MONTHS

What may be coming in the months ahead? Various economists suggest that a number of the following 12 unfortunate events may occur:

1 - **Massive credit crunch:** To date, U.S. banks have admitted to $334 billion in losses and write-downs, and the final total will almost certainly be much higher. In order to compensate for this, they have managed to raise $235 billion in new capital. The problem is that the net loss of $99 billion means that they will have to shrink their balance sheets by ten times that figure—that is, almost a trillion dollars—in order to maintain a constant ratio between their assets and their capital.

This will require them to make a drastic reduction of credit. The reason for this is that a bank's assets are its loans. Fewer loans mean tighter business conditions all across America. Larger local business firms, such as a new car dealer, will not be able to obtain the credit he needs to maintain an adequate inventory of automobiles. This means that he will have to lay off some employees. So we will see higher unemployment in the months ahead.

2 - **Bank holidays** may occur in the U.S. and overseas. (More on this at the end of this report.) A global bank holiday has been seriously discussed in high circles in recent weeks.

3 - As we face into the future, **U.S. securities exchanges** may close for days or weeks. Other exchanges throughout the world may also close.

4 - Many **retirement programs** will default on payments to retirees. For years now, most retirement funds (including our own church funds) have been dipped into to pay for other things. As a result, they are already nearly insolvent. The only thing that enables them to keep paying retirees is the money coming in from employees. But as workers are laid off, this source of retirement checks will dry up.

5 - Large numbers of **money market and hedge funds** will experience failures. Both are loaded with derivative loans, which cannot be repaid. Some very large investors will go broke.

6 - Many **local banks** may collapse because of the ripple effect from large money center bank troubles. For example, small banks that regularly borrow from J.P. Morgan Chase may crash when the latter's $90 trillion in derivatives topples.

7 - **Banks and investment houses** will try to pull their funds out of foreign financial houses and markets.

8 - Large portions of most **401K retirement funds** may be lost to individual investors, unless they have had them under their own direct control. An increasing number of **retirees or future retirees** have already lost 50%-75% of their 401K retirement funds. Many may ultimately lose 80%-95%. Many retirees will return to work, if they can find employment.

9 - The insolvency of **medicare and medicaid** will become more prominent. As a result, sharp cuts in medical payments may occur.

10 - **Credit card companies** may arrive on the steps of the Capital, to ask Congress for money to keep them solvent also. Millions of Americans living on credit cards will default on payments. This will send default rates to 20% or higher.

11 - **General Motors, Chrysler, and Ford** will return to Congress for additional money this spring, and later after that.

12 - Collapsing share prices, plunging earnings and sales, huge debt and derivatives involvement, high costs will force many **large corporations** into bankruptcy. Many **medium and smaller business** will also go under. **13** - GE Capital, a subsidiary of General Electric, has been a heavy derivatives dealer. This is causing General Electric serious trouble, and may lead to nationalization of GE Capital.

14 - Tragically, within the next one to three years, **unemployment** may rise to more than 15%-20%, although the federal government never officially admits to more than 10%.

LESSONS FROM THE GREAT DEPRESSION

Describing our situation today, one financial expert says, "This is the big one—the biggest financial crisis since the Great Depression."

Unfortunately, banking crises almost always come at a high cost to economic growth, and government bailouts and rescue plans usually mark the end of the beginning rather than the beginning of the end. A good example of this is what happened in the nation of Japan in the 1990s. **They also had a housing crisis, when real estate prices went through the ceiling. Then, when the bubble burst, everything collapsed—and they have had an economic stagnation ever since.** The truth is that **banking crises have negative long-term impact on the economy, such as slow growth, high interest rates, and lower living standards.**

Actually, the Great Depression was not triggered by the stock-market crash of October 24, 1929, even though it is generally said that on that day, "Black Thursday," everything collapsed as the Dow Jones industrial average declined 2%. But, in reality, the market had been slipping since early September. On "Black Monday," October 28, it plunged 13%. The next day it went down an additional 12%.

Over the next three years, the U.S. stock market dropped a staggering 89%, and finally hit bottom in July 1932. The Dow index did not return to its 1929 peak until 1954.

A number of mistakes were made back then, which it is believed may not happen again.

One error was the *Smoot-Hawley Tarriff Act*, enacted by the U.S. Senate in **1930**, not long after the October 1929 stock market crash. **This raised tariff duties** on about 20,000 imported goods. It was thought at the time that this would help the U.S. economy. But, in reaction, overseas nations did the same to us—and the whole world flattened out financially.

Another underlying cause of the 1930's depression was **the immense contraction of credit resulting from a large number of bank failures**, which began several months before the October 1929 crash. Commercial banks, with combined deposits of more than $80 million (equal to trillions today), suspended payments. The first wave of bank failures hit in 1930, with the failure of 608 banks.

The federal government could have lessened the crisis by cutting rates, making loans, and buying bank bonds. But, instead, **its decision to reduce its credit to the banking system made the situation worse.** This forced more banks to sell assets in a frantic effort to obtain liquidity. But this drove down bond prices and made balance sheets look worse.

Between February and August **1931, the second wave of bank failures occurred**, as commercial-bank deposits fell by $2.7 billion, which was 9% of the total. By January 1932, 1,860 banks had failed.

All that time, the federal government did nothing. This was because President Herbert Hoover firmly believed in doing nothing. He thought that the nation could solve its own problems if he sat on the sidelines.

Finally, **in April 1932, the government tried to make some bank purchases; but the bank failures continued** to the end of the year. By that time, some states had started "bank holidays"—temporary statewide closure of banks, so depositors and creditors could not keep demanding money.

When Franklin D. Roosevelt took office on March 4, 1933, he immediately set to work to solve the problem. Two days later, he **made a national "bank holiday," from which 2,500 banks never returned.**

It is now believed that, back then, the federal government believed it should run a balanced budget, even if it meant cutting welfare spending and raising taxes. This caused problems for thousands of more people, already so close to the edge of financial disaster.

Another major problem back then was the fact that

it was a global crisis (which it also is today). The combined output of the world's seven largest economies dropped nearly 20% from 1929 to 1932. **The unemployment rate soared** in the U.S. and Germany to a peak above 33%. World trade collapsed by two-thirds, not least because of retaliation to the Smoot-Hawley tariff.

There are parallels between then and now, and there are also differences. Now as then, **Americans borrowed heavily.** Before the crisis, in the 1920s, borrowing was for cars, radios, and appliances; in the past decade it has been for homes and a multitude of other things.

Now, as then, **the crisis caught everyone by surprise and became global in scope**. **But unlike then, the federal government is now a huge part of the economy** (20% now vs. 3% in 1929).

Economic slumps normally are not lengthy. Since the late 1940s, the U.S. has had 10 recessions. On average, they have lasted 10 months and involved peak monthly unemployment of 7.6%. The worst (in 1973-1975 and 1981-1982) lasted 16 months and had peak unemployment of 9.0% and 10.8%, respectively.

It is said that the $700 billion bailout, given by Congress, will rescue banks and other financial institutions by having the Treasury buy their suspect mortgage-backed securities. **In reality, the Treasury is bailing out the Fed, which has already—through various channels—lent financial institutions roughly $1 trillion** against myriad securities.

Before concluding this comparison between the 1930s and today, let us view the household crisis and the financial institution crisis we now have:

First, let us consider ***the crisis in households across America:*** Debt rose from about 50% of Gross Domestic Product (GDP) in 1980 to a peak of 100% in 2006. In other words, **households now owe as much as the entire U.S. economy can produce in a single year!**

Much of the increase in debt—was used to invest in real estate! That produced housing prices to rise 20% a year. When that bubble burst, everything began dropping. House prices in 20 cities have been falling since February 2007. The decline is now accelerating. **By June 2008, prices were down 16% from what they were a year ago.** Some cities (such as Las Vegas, Miami and Phoenix, have fallen by as much as 33% of their earlier peaks. **Nothing like this has happened to the housing market since the Great Depression.** Credit Suisse predicts 13% of U.S. homeowners with mortgages could eventually lose their homes. (Yet, in order to please the lobbyists, the U.S. Congress earlier enacted a law that required that house mortgages not be included in bankruptcy!)

Next, let us view ***the situation in banks and financial institutions:*** Both are in an even worse situation. **Unbelievably, their debts are piling up faster than those of individual Americans.** By the year 2007, financial institutions had a total of 116% of GDP, compared with only 21% in 1980. This is an immense increase! To make the situation worse, **the assets which the banks loaded up on have fallen even further in value than the average home—by as much as 55%** in the case of BBB-rated mortgage-backed securities.

Herbert Hoover was president of a nation without hardly any federal debt in 1929, yet he refused to go into debt to save the nation. **Today, the federal government is loaded with massive debt, and it will take massive amounts of more debt to bail out America. Can you see where we are headed?**

All it would take is for the Evangelicals, working with the Catholics, to use their new super-Ecumenical powerhouse, *Christian Churches Together,* to demand that Congress enact a National Sunday Law in order to appease the wrath of God and save the nation. People are becoming panicked enough that they would go along with this.

BANK HOLIDAY AND OUR CHURCH

When Franklin Roosevelt started his first term in the White House in 1933, he inherited a nation in the depths of the Depression. A record **13 million Americans were unemployed** and businesses were drowning in red ink. Perhaps even more pressing was the head-spinning string of **bank failures which had triggered a frantic run on those banks**. The wave of withdrawals by panic-stricken depositors further dried up the banks' already-depleted supply of liquid assets and pushed the nation's banking system to the brink of disaster. **On March 5—the day after being sworn into office—Roosevelt stepped into the breach and declared a "bank holiday. All the banks in America suddenly had their doors closed.**

Over thirty years ago, the *Adventist Review* printed a remarkable story of how God protected our people at that time. Here are the principal events as I recall them:

Several days earlier, one of the assistant treasurers at our General Conference in Takoma Park was strongly impressed that he must do something very unusual.

Normally, he took the train to New York City once every month and sent GC funds to mission stations all over the world. But late Thursday night, March 9, he was convicted that he must leave the next day by train for New York—and send enough money to last our overseas mission work for three months!

The next day, without telling anyone, he went to New York and carried out that transaction. **Arriving back home in Takoma Park, he felt sure that he would be fired** when the church leaders learned what he had done.

On Sabbath morning, he was so deeply depressed that he decided to sleep in and not go to church. He did not want to see anyone. **But then he heard the newsboy outside calling as he sold newspapers.**

Running outside and obtaining a copy, he learned that news had leaked out that Roosevelt was going to close the banks on Monday.

The next day, Sunday morning, the General Conference leadership met in an emergency session to dis-

cuss this terrible calamity. What were they to do? How would the overseas missions be supplied with funds? Elder C.H. Watson, a successful businessman prior to being providentially elected to the presidency of the General Conference in 1930, fully recognized the enormity of the situation.

After everyone else had spoken, this undertreasurer spoke up and told what God had convicted him to do. All recognized the hand of God in what had happened. The banks did not fully open until three months later. This story was published in the *Review* in the 1970s. It concluded by saying that this particular undertreasurer was faithful to his post of duty, and never did anything else unusual prior to his eventual retirement. Our church was in a much purer condition in early 1933, and God was able to protect it far better than He may do today.

SPIRIT OF PROPHECY STATEMENTS

"**We are living in the time of the end. The fast-fulfilling signs of the times declare that the coming of Christ is near at hand.** The days in which we live are solemn and important. **The Spirit of God is gradually but surely being withdrawn from the earth.** Plagues and judgments are already falling upon the despisers of the grace of God. **The calamities by land and sea, the unsettled state of society, the alarms of war, are portentous. They forecast approaching events of the greatest magnitude.**

"**The agencies of evil are combining their forces and consolidating. They are strengthening for the last great crisis. Great changes are soon to take place in our world, and the final movements will be rapid ones.**

"The condition of things in the world shows that troublous times are right upon us. The daily papers are full of indications of a terrible conflict in the near future. Bold robberies are of frequent occurrence. Strikes are common. Thefts and murders are committed on every hand. Men possessed of demons are taking the lives of men, women, and little children. Men have become infatuated with vice, and every species of evil prevails.

"The enemy has succeeded in perverting justice and in filling men's hearts with the desire for selfish gain. 'Justice standeth afar off: for truth is fallen in the street, and equity cannot enter.' Isaiah 59:14. In the great cities there are multitudes living in poverty and wretchedness, well-nigh destitute of food, shelter, and clothing; **while in the same cities are those who have more than heart could wish, who live luxuriously**, spending their money on richly furnished houses, on personal adornment, or worse still, upon the gratification of sensual appetites, upon liquor, tobacco, and other things that destroy the powers of the brain, unbalance the mind, and debase the soul. **The cries of starving humanity are coming up before God, while by every species of oppression and extortion men are piling up colossal fortunes.**

"On one occasion, when in New York City, I was in the night season called upon to behold buildings rising story after story toward heaven. These buildings were warranted to be fireproof, and they were erected to glorify the owners and builders. Higher and still higher these buildings rose, and in them the most costly material was used. Those to whom these buildings belonged were not asking themselves: 'How can we best glorify God?' The Lord was not in their thoughts.

"I thought: 'Oh, that those who are thus investing their means could see their course as God sees it! They are piling up magnificent buildings, but **how foolish in the sight of the Ruler of the universe is their planning and devising. They are not studying with all the powers of heart and mind how they may glorify God.** They have lost sight of this, the first duty of man.'

"As these lofty buildings went up, the owners rejoiced with ambitious pride that they had money to use in gratifying self and provoking the envy of their neighbors. **Much of the money that they thus invested had been obtained through exaction, through grinding down the poor.** They forgot that in heaven an account of every business transaction is kept; every unjust deal, every fraudulent act, is there recorded. **The time is coming when in their fraud and insolence men will reach a point that the Lord will not permit them to pass, and they will learn that there is a limit to the forbearance of Jehovah**."—*9 Testimonies, 11-13.*

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