

This Time Is Different, It's Global!

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By Greg Hunter

The recently published book called **"This Time Is Different"** makes the case that this financial crisis has the same basic elements as every other financial crisis since the 1300's. Economists Kenneth Rogoff and Carmen Reinhart do a great job of researching various financial meltdowns in places like South America, Asia, Europe and the U.S. In every crisis, no matter where it took place in the last 8 centuries, people thought a big debt buildup could not end badly. The authors say **"arrogance and ignorance"** always pave the way to financial hell, no matter what country or what century.

But I wonder if this time really is **"different?"** Could this be the biggest financial crisis ever? Former Federal Reserve Chief Paul Volker called this financial meltdown the **"mother of all crises."** How could he say that? Well for one, the pool of unregulated over-the-counter derivatives is enormous. There are **\$600 trillion worth of derivative contracts worldwide** according to the Bank of International Settlements. In simple terms, derivatives are debt bets between two parties that are very hard to collect on. Most derivatives have no standards, no regulation and no guarantee; and there is no public market for them. They are popular because bankers make insane profits selling them. I wrote about this phenomenon in a post called **"Can The Financial System Really Be Fixed? Some Say No."** Warren Buffet called derivatives **"time bombs."** Buffet also said, **"...derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."** Today, the entire world is financially interconnected like never before because of derivatives.

One deficit record after another is being set on a regular basis in the U.S. The debt load now stands at about \$12 trillion. With the recently passed debt ceiling, it will be at least \$14.3 trillion by the end of the year. (There are also more than \$6.2 trillion in liabilities with failed mortgage giants Fannie and Freddie that are not accounted for in the U.S. budget) America's total debt and unfunded liabilities are in the neighborhood of \$63 trillion. Many experts say America will address this huge debt problem by printing money. This will continue to devalue the dollar which is the world's reserve currency. This could cause inflation and calamity on a global scale.

The news gets worse because just about every other industrialized country in the world is facing record deficits and liabilities. Those countries will also print money to pay off debt.

According to Yale Economics Professor Robert Shiller, we had the biggest housing **boom** in history in the first part of the new century. It was a first time **global** phenomenon. Now, the U.S. and much of the rest of the industrialized world are working through the biggest housing **meltdown** in history, and it's not yet at the bottom.

Commercial real estate is also in the process of a record setting meltdown.

Public pensions in the U.S. are a record \$2 trillion in the red.

Nearly every state in the U.S. is facing record budget shortfalls.

Sovereign debt is being called into question with talk of national defaults on a scale unheard of before. Just this week, economist Dr. Mark Faber said, **"...I am not interested in government or sovereign debt because all governments will eventually default, including the U.S."** Faber thinks governments will default, in part, by printing money to pay for their liabilities and debt. That prediction spells I-N-F-L-A-T-I-O-N on a global level. It is no surprise that Dr. Faber thinks gold will continue to outperform stocks.

So, the things that got us in this financial crisis are no different than the things that caused other financial meltdowns throughout history. I think what is different this time is the size of the debt buildup. It is on a scale never before seen in human history. Debt is overwhelming individuals, corporations and countries. This global debt will likely produce the biggest financial meltdown in history, deserving of the Volker expression **"mother of all financial crises."**

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