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The Economic Meltdown; Who Pays and Who Doesn't
Left Margin
By Carl Bloice
Black**C**ommentator.com **Editorial Board**

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One of them is on the lam having apparently crudely faked his suicide. Thus, Samuel Israel III has, as of this writing, avoided being part of the perp walk dramas of last week. His woman friend however, was arrested and charged with helping him arrange the ruse. That same day in Brooklyn, hedge fund executives Ralph R. Cioffi and Matthew Tannin were cuffed and led away, accused by the Federal Bureau of Investigation of "premeditated lies to investors and lenders." The two were executives at the Bears Sterns investment bank that was recently bailed out with a $29 billion federal loan guarantee backed up with taxpayer money that made possible a takeover of the firm by JP Morgan.

Cioffi and Tannin have denied the charges against them. Both were fired months before their indictment. While there are young people on Rikers Island on lesser charges that cannot make a few hundred dollar bail, the two men had no trouble positing bond of $4 million and $1.5 million respectively, secured by their apartments, vacation homes and retirement funds.

While all this was going on the feds revealed that under the banner "Operation Malicious Mortgage" they had already this year secured indictments against 406 people on charges related to individual mortgage transactions. Sixty of them were arrested June 18. They were accused of such tings as lending fraud, foreclosure and bankruptcy schemes that bilked people to the combined tune of $1 billion.

This is the ugly underbelly of the home mortgage crisis. Much has been written about the new structures of capitalist finance that contributed to the debacle or of the absence of statutory regulations that could have been applied to arrest the situation before it got out of hand or of the failure of will on the part of federal officials to employ the regulations that are on the books. However, over the past two years, it has become increasing clear that the collapse of the housing and mortgage markets also involved a lot of plain old criminal activity.

It was not to be unexpected. In periods of major economic and technological change, risky speculation increases and with it come the bottom feeders, people with larceny on their minds and their hands reaching into other peoples' pockets. Fraud was not the cause of the situation in which over two million people were placed in danger of losing their homes and communities have seen much of their net worth go down the drain. But it played a role.

One financial executive has famously said that although the key actors could see that there was something fundamentally wrong with the housing loan market, as long as the music played they had no choice but to go on dancing. It has become clear that as long as the money was rolling in they - willfully or not - didn't pay much attention the machinations of the flim-flam people they had hired to play the instruments.

The irony here is that much of the public will suspect that the perp walk in Brooklyn was showboating, the feds trying to make it look like they are doing something by grabbing a few minnow while the big fish swim away.

There is some somber news coming in from across the pond.

According to news reports, the Royal Bank of Scotland has advised clients to brace for a full-fledged crash in global stock and credit markets over the next three months as inflation paralyses the major central banks.

> "A very nasty period is soon to be upon us - be prepared," Bob Janjuah, the bank's credit strategist told the *Telegraph* (UK). The bank's research team has warned that the S&P 500 index of Wall Street equities is likely to fall by more than 300 points to around 1050 by September as "all the chickens come home to roost" from the excesses of the global boom, "with contagion spreading across Europe and emerging markets."

Such a decline on world stock markets "would amount to one of the worst bear markets over the last century," wrote the *Telegraph*'s international business editor Ambrose Evans-Pritchard. The bank says it expects Wall Street to rally a little further into early July before short-lived momentum from the U.S stimulus fiscal boost begins to fizzle out, and the delayed effects of the oil spike inflict their damage.

> "Globalization was always going to risk putting G7 bankers into a dangerous corner at some point. We have got to that point," the bank's credit strategist said. He described the U.S. Federal Reserve as "in a panic mode."

Meanwhile, the British people are being warned to expect tough times ahead. Mervyn King, the governor of the Bank of England told a meeting of high financial mucky mucks that the country's families will see their standard of living stagnate this year while the value of their homes will fall further.

The coming months represent the biggest challenge for the economy for two decades, King said, adding that some households will find them difficult "This year our real take-home pay will rise at a slower pace than national productivity. Rising fuel, gas, electricity and food prices, mean that average real take-home pay will stagnate this year," he said. "It will not be an easy time, and I know that some families will find it particularly difficult."

There is a critical subplot lurking behind the story of the precarious economy. As per usual, when inflation increases the official explanation it is increases in workers' pay in response to rising prices that causes it. Ostensibly unable to do anything about the cost of things people need (don't even mention controls), the demand from those in authority is for "wage restraint." Never mind that while corporate profits are steady and prices for gasoline, food and airfares are soaring, wages have been mostly stagnant, and for many of the lowest paid have actually decreased when adjusted for inflation. It's been quite a while since the AFL-CIO declared: "America Needs a Raise." It has happened and in the weeks and months ahead expect to hear calls from the already comfortable for working people to grin and bear the rising cost of living.

It's already begun in earnest in Britain where economic trends closely mirror developments here. Last week, Chancellor of the Exchequer Alistair Darling joined Bank of England's King in calling for wage restraint, saying, "inflationary pay rises would be disastrous not just for the country but for each and every one of us.

> "We have got to be vigilant to all pay, public and private alike, because if we get into that spiral it will take years to get out of it," said Darling, "We don't want to do anything to exacerbate the situation."

"There are fears that a pay deal agreed overnight with striking Shell tanker drivers could set a benchmark for pay settlements this year and encourage more industrial action among workers," reported *The Times* (UK). Following a four day strike, the Shell oil drivers secured a 14 percent wage increase over the next two years and other unions have promised hard bargaining ahead and threatened strikes to protect their member's incomes. Of course, no one has threatened Shell's profits or the prices of its products on the market.

The drivers are represented by Unite, a union representing over than two million British workers in the transportation, energy and public sectors, and others. Last month the union announced a merger agreement with the United Steelworkers of America (USWA), which represents nearly 850,000 members in the United States, Canada and the Caribbean.

Last year, Shell topped the all-time British company profit record with earnings of $27.5 billion As of January the oil giant was talking in $75million a day – a profit rate Unite head Tony Woodley termed "obscene." "Shell shareholders are doing very nicely while the rest of us are paying the price and struggling," said Woodley.

(One source of Royal Dutch Shell's enormous profits is operations in Africa where it is running into stiff resistance. Last Thursday, production was shut down at an offshore Nigerian facility after an armed attack by a formidable rebel group, the Movement for the Emancipation of the Niger Delta, or MEND, which said it conducted the attack and seized a U.S. oil worker. The group is demanding a larger share of oil wealth for people in the Niger Delta, where most of Nigeria's reserves are but where more than 70 percent of the population lives on less than a dollar a day.)

Not all observers are taking government appeals for British wage restraint seriously. *Financial Times* economics editor Chris Giles wrote last week that Darling and others risk sounding silly. Instead, Giles wrote that "the new labor market, open immigration and household's desire to avoid unemployment will be enough to ensure real wages fall or at least grow more slowly than productivity." Karl Marx couldn't have put it more clearly.

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