

# Economic Woes: A Looming Crisis

*“Neither their silver nor their gold shall be able to deliver them in the day of the LORD’S wrath; but the whole land shall be devoured by the fire of his jealousy: for he shall make even a speedy riddance of all them that dwell in the land.”*

—*Zephaniah 1:18*

## **THE PROPHETIC WORDS OF**

Zephaniah speak of a fiery time that would occur during the closing years of this present Gospel Age, when the wealth and heaped-up treasures of men and nations will no longer have value to save them from the impending destruction. The mighty judgments of the Heavenly Father have been forecast to come upon the world to cleanse it from all sin and unrighteousness. It will result in the ultimate and final overthrow of all social, political, ecclesiastical, and financial elements of earth’s ruling power and order.

In recent months, there has been increasing perplexity among powerful Wall Street financiers and the Federal Reserve Bank’s officials in connection with the growing crisis that is taking place within the economic sector of America, as well as in Europe,

Asia and other parts of the world. One particular aspect of this disaster, and one that has drawn a great deal of attention, has affected thousands of families throughout America who have been forced to vacate their family homes because of greedy and unwise lending practices among certain mortgage companies and financial institutions that have foreclosed on them. As the condition worsens, it is also extending into the commercial sectors of the economy as well, and with even more serious consequences.

## **THE REALITY**

At the time of this writing, it is reported by the National Association of Realtors that housing prices have now dropped in two-thirds of American cities. The median price for a single-family home fell by 7.75% in the first quarter of 2008, the largest decline in nearly thirty years. Home prices are falling as foreclosed properties reduce the value of other real estate in a particular locality. Foreclosure filings have more than doubled in the first quarter from that of the previous year.

This situation has put more supply on the housing market and accelerates the price decline that has already taken place. Homeowners who may live near repossessed homes are powerless to prevent their own property values from dropping. It is estimated that, nationally, overall foreclosures will result in well over \$200 billion of lost real estate value. Prices have fallen in neighborhoods where there is a wide prevalence of subprime loans, because more foreclosed properties are being sold at discounted prices. One of the largest declines in the country

was in the Sacramento, California area that experienced a 30% drop, followed by the metropolitan areas around Riverside and San Bernadino. Lansing, Michigan also saw a 27% drop in home prices. The Federal Reserve's latest loan survey shows that lending institutions are now holding back on their loans to private citizens, as well as corporations who are requesting them. Defaults are on the rise and better banking practices point to smaller margins of error and leave less room for maneuver.

## **SPREADING CONCERNS**

As the fallout from the credit crunch and the subprime mortgage crisis continues, many analysts are now carefully watching to recognize any potential spillover into other vulnerable segments of the economy. One area of particular concern involves the record levels of accumulated debt that is now owed by credit cardholders.

According to the latest Federal Reserve Consumer Credit report, the total revolving debt now owed by United States consumers—which is mostly from credit cards—is at its highest level ever recorded at \$947.4 billion. Americans are more in debt today than they have ever been, and there is increasing concern that the credit card industry could be the next domino to fall if consumers don't take charge of their personal finances quickly.

## **MASSIVE DEBT**

Credit card debt has been described by financial advisors as the greatest obstacle to achieving financial freedom. It is an enormous problem and no matter what level of income a family may be in, it is essential that they learn to manage their debt

level carefully. Accumulating such huge debt leads to increasing levels of interest that has to be paid. As credit card debt continues to spiral, it also brings higher levels of stress and anxiety along with it. It is first necessary to recognize and acknowledge that there is indeed a problem, and that it needs to be resolved as quickly as possible.

The mounting debt problem in American households is occurring at the same time that property values are decreasing all over the country. Homeowners are no longer able to tap into their home equity lines of credit, and many are turning to their credit cards and other sources of revolving credit to obtain short-term cash. Analysts point out that families that are already experiencing economic hardship should be seeking ways to lessen their debt levels rather than adding to it.

A meltdown in the credit card industry would have very serious consequences on the broader economic climate by creating difficulties for lending institutions as well as the average consumer. Americans can help avoid a more serious situation by managing their personal and household expenses more wisely.

## **THE DECLINING DOLLAR**

The United States dollar has been the world's symbol of stability for the past century, but now many analysts fear that its power is beginning to wane. The recent turmoil in money markets, the emergency bailout of Bear Stearns Investment Bank and the widespread lack of confidence with Wall Street and the Federal Reserve has caused increasing numbers of international traders to begin

transferring their wealth to other currencies that appear to be stronger, such as the Euro dollar or the Japanese yen. Many dealers will no longer accept United States dollars and are not willing to hold on to them for any period of time and wait for a possible turnaround in value.

The collapse of the subprime mortgage market in the United States is a key factor in the dollar's decline in value, and it has contributed to serious problems with banks in Great Britain, such as The Northern Rock Bank and other international banks that were forced to declare huge losses. This reflects the reason why the United States dollar has reached its lowest recorded level against the Euro. It has also fallen to its lowest level against the Canadian dollar since 1950, British sterling since 1981, and the Swiss franc since 1995. China's vice-chairman of the Standing Committee of the National People's Congress said his country favored stronger currencies over weaker ones, and that they would be readjusting their holdings accordingly. The Chinese central bank vice-director said that the United States dollar was losing its status as the world's currency. The central bank of Iraq has stated that it wished to diversify its reserves of American dollars. Korea's central bank has urged shipbuilders to issue invoices in the local currency and to take other measures as a precaution against the weakened dollar. While this has been taking place, some of the world's largest exporters of oil, such as Iran, Venezuela, and Russia, are demanding payment in Euro currency instead of dollars. Iran demanded Japan to make its payments for oil in yen, rather than United States dollars.

## **THE POWER OF GOLD**

The everincreasing price of gold reflects the general state of the United States economy. Gold is perceived by most investors and traders as a safer place to put their money. When the United States investment market is strong, there are fewer people buying gold, but when the market becomes unsettled many turn to gold and other precious metals as insurance against the instability that has been generated.

As investors leave the stock market to buy gold, they also sell their American dollars in favor of stronger currencies such as the Euro dollar or Japanese yen. This tends to weaken the dollar even further as the value cycle continues. Gold is traded in United States currency and the price rises accordingly. As foreign economies grow, the demand for gold also rises, as it has many modern industrial and technological uses. There is a great demand for this commodity in India.

## **RISING OIL PRICES**

The rapidly escalating price of gasoline at the pump, and oil for household heating and other purposes, has aroused a great deal of anguish and concern among American homeowners all over the country. Since they require these commodities on an everyday basis, they must find workable solutions or viable alternatives.

The basis for price increases in any sector of the economy results from the simple law of supply and demand; that is, that either the supply of a certain product is lower or the demand is higher. In the case of oil production the increasing demands may

occur because of natural forces, or through artificial manipulation by a few dominant players in the industry. Huge oil companies, suppliers and politicians may employ manipulative action for political purposes and to greatly increase their profits.

The demand among major developing economies such as China, India, and other countries in recent years has had an enormous impact on the factor of supply and demand. For example, it is estimated that by the year 2010 India will have 36 times more vehicles on their roads than they did as recently as 1990, while during that same time period China will have increased their vehicular traffic by 90 times. According to the Energy Research Institute of Beijing, more than 4.5 million new vehicles are added to the roads of China every year, and by the year 2030, China will have more cars and trucks on their highways than those in the United States. Other emerging economies in Southeast Asia are also growing rapidly, and along with it their need for oil. As the consumption of oil grows in these areas their lifestyles also tend to be more energy intensive.

These are staggering statistics that help us understand why the law of supply and demand is relative to this industry in our modern industrial and technological world. Furthermore, disruptions to oil supplies have occurred because of terrorist activities in oil-producing countries. Oil prices are bound to escalate with these many factors at hand, and the effects on the American economy as well as other nations around the world will be significant. The impact is of major concern in the airline, trucking, agriculture, and other basic sectors of the country's economy.

## INFLATION WORRIES

An interesting news item that points to some of the momentous events that would mark the end of the present Gospel Age was submitted by John Schoen, Senior Producer of *MSNBC* (April 15, 2008) under the heading “Surge in Energy Prices Stokes Inflation.” His subheading is also quite revealing, “Economic Slowdown Normally Tames Prices, But These Aren’t Normal Times.” We quote in part what Schoen said. “When the economy slows down, the resulting drop in demand normally takes some of the pressure off inflation. But these are not normal times: Even as the economy is slumping, oil prices are rising and food prices are jumping. All of which could spell more trouble for consumers in the coming months. Tax filers can look forward to some relief from the massive government rebate program. But that one-time shot in the arm won’t help consumers—or the economy—if energy and food prices keep rising. Food and energy prices tend to move up and down more quickly than other goods, but lately they’ve only been moving in one direction. In the last three months, gasoline prices are up by a third and food prices are up 10%.

“There are multiple causes to the current rise in prices. A falling dollar increases the cost of the steady stream of imported consumer goods made overseas. As the dollar falls, it takes more of them to buy goods priced in stronger currencies. Developing economies around the world are bringing increased demand for raw materials. Rapid expansion of ethanol production in the United States has diverted supplies of corn from grocery stores to

gasoline pumps. Underlying all of these is the rising cost of energy.”

Schoen further pointed out, “We’re seeing global problems on inflation, particularly on the food front in countries where their subsistence level (income) doesn’t give them any room for leeway. Indonesia became the latest country to clamp down on food shipments out of the country to try to maintain supplies. Rising global prices prompted more farmers to sell their crops at export prices that are nearly double local rates. The list of other countries that have placed restrictions on food exports in a bid to secure supplies and limit inflation includes Russia, Vietnam, India, Cambodia and Argentina—the latter is the world’s fourth largest wheat exporter. In Bangladesh, economists estimate 30 million of the country’s 150 million people could be going hungry. Haiti’s prime minister was ousted following food riots there.

“United States households spend a smaller part of their budgets on foods than any other country—some 7.2% in 2006, according to the USDA. But food costs in the United States are rising faster than they have in 17 years. It’s eating into a lot of people’s budgets, and we’re beginning to see it already in the retail sales numbers. All of which leaves policymakers at the Federal Reserve between a big rock and a very hard place. After the housing slump and mortgage mess threw sand in the gears of the credit markets last summer, the Fed began flooding the financial system with money to get things moving again. But it’s a risky move: too much money can also feed inflation. But if higher energy prices are the underlying cause of higher

prices, the Fed has a lot less room to maneuver. Raising interest rates now to fight inflation runs the risk of further damaging the financial system and global economy.”

## **RECESSION OR DEPRESSION**

There has been considerable discussion taking place recently on Wall Street and with analysts in the United States Federal Reserve as to whether or not this country is entering a recession, or possibly a depression. The standard definition of a recession is when the Gross Domestic Product (GDP) is in a decline for two or more consecutive quarters. However, this definition does not take into account changes in other variables such as unemployment statistics or consumer confidence. Also, by using quarterly data, this definition makes it difficult to determine when a recession may begin or end.

The Business Cycle Dating Committee at the National Bureau of Economic Research (NBER) has set forth more reliable guidelines concerning what a recession really is. The committee includes employment, industrial production, real income, and wholesale retail sales. They define a recession as the time when business activity has reached its peak and starts to fall until the time when business activity bottoms out. They say that when business activity starts to rise again it is called an expansionary period, and by this definition the average recession thus lasts about a year.

The simple definition of a depression is that it lasts longer than a recession and has a greater loss in overall business activity. During a depression, the Gross Domestic Product declines by more than

10%. Using this as a standard reference point, the GDP declined by nearly 33% during the great depression that lasted from August 1929 until March 1933. A second downturn occurred during the years 1937-38, but was less severe.

## **CORPORATE LOOP HOLES**

A revealing article addressing the loopholes by which the super wealthy are able to place their financial burdens upon the average citizen was published by the *Los Angeles Times* (April 13, 2000) under the heading, "Are you Paying for Corporate Fat Cats?" It was contributed by Gary Weiss from which we quote in part. He writes, "As you file your tax return, you may think you're paying off the tax obligations for just your household. But you're also footing the bill for American companies that are dodging billions of dollars in taxes. 'Most major corporations have a tax department not just to comply with the tax code but also as a profit center,' says Charles Cray of the Center for Corporate Policy, a nonprofit watchdog group.

"A 2004 United States Government Accountability Office (GAO) study found that 61% of American corporations, including 39% of large companies, paid no corporate taxes between 1996 and 2000. Last year, corporations shouldered just 14% of the total United States tax burden, compared with about 50% in 1940. While companies are getting off easy, thanks to loopholes, ordinary wage earners are getting stuck with the tab. The tax burden on individuals is expected to climb from \$1.16 trillion in 2007 to \$1.21 trillion this year, according to the Congressional Budget Office (CBO), while corporate

tax receipts are expected to decline from \$370 billion to \$364 billion. By 2013, the CBO estimates, ordinary taxpayers' bills may climb to \$1.86 trillion while corporate tax bills drop to \$327 billion.

"One strategy of corporations is to create 'shell companies' in places like Bermuda, Gibraltar, and the Caribbean to avoid federal taxes. Corporations 'set up an offshore division that has nothing more than a post office box,' says Rep. Richard E. Neal (D., Mass), the chairman of a House subcommittee probing tax breaks. Experts estimate that the United States Treasury may be losing up to \$100 billion a year due to shell corporations. In one recent case, KBR—a former Hailliburton subsidiary and the largest Iraq war contractor—admitted to 'reducing tax obligations' through two Cayman Islands divisions, reportedly avoiding hundreds of millions of dollars in Medicare and Social Security taxes. A 2004 study by the GAO found that 24 of the largest federal contractors use Cayman Islands units to shave their tax bills."

Weiss brought further attention to corporate loopholes by explaining, "Oil and other multinational companies also benefit from tax breaks, some specially written for them. Most are perfectly legitimate but companies sometimes push the envelope too far. Pharmaceutical giant Merck paid \$2.3 billion to the government last year for profits relating to a Bermuda partnership. A study from the nonprofit group Citizens for Tax Justice found that, because of loopholes, the corporate tax burden in the United States is actually the world's third lowest when measured as a percentage of gross domestic product."

## COMING JUDGMENT

When the prophet Zephaniah wrote the words of our featured text, he spoke of man's accumulated riches that would ultimately be destroyed in the day of the LORD'S wrath. Other prophets including Isaiah wrote, "In that day every man shall cast away his idols of silver, and his idols of gold, which your own hands have made unto you for a sin." (Isa. 31:7) Hosea also said, "They have set up kings, but not by me: they have made princes, and I knew it not: of their silver and their gold have they made them idols, that they may be cut off."—Hos. 8:4

Later, the prophet Ezekiel wrote concerning the judgments that would come upon those who hoarded and put their trust in accumulated riches at the end of this present age. "They shall cast their silver in the streets, and their gold shall be removed [for a separation, or uncleanness, *Marginal Translation*]: their silver and their gold shall not be able to deliver them in the day of the wrath of the LORD: they shall not satisfy their souls, neither fill their bowels: because it is the stumblingblock of their iniquity."—Ezek. 7:19

## THE CORRUPTION OF RICHES

In the New Testament, James also points to God's judgments and identifies the underlying effects of corruption that are associated with the never-ending quest for wealth and power. He says, "Go to now, ye rich men, weep and howl for your miseries that shall come upon you." (James 5:1) The wealthy and powerful have plundered the poorer classes to seek their own advantage. "Your riches are corrupted, and your garments are moth-eaten.

Your gold and silver is cankered; and the rust of them shall be a witness against you, and shall eat your flesh as it were fire. Ye have heaped treasure together for the last days.”—vss. 2,3

During this time of judgment, the superrich will be the special targets of the people, as James says. “Behold, the hire of the labourers 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.”—vss. 4-6

## **THE PROMISES OF GOD**

It was prophesied centuries ago that our loving Heavenly Father will execute his vengeance and righteous judgments upon those who, by fraudulent practices, unjust legislation and loopholes, have lived in luxury while depriving the poor groaning masses of earth’s working population an honest day’s wage. All such unrighteousness will ultimately be destroyed. We continue to pray for the long-promised kingdom of Christ to soon be established over the affairs of the human family to bring peace, justice, and blessings to all who are obedient to the Divine law. ■