

National Birthright

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Chapter 1

The Real Root of Today's Energy and Financial Crisis (Unedited Version)

Although truth and reality have no substitute, most of the time people are not ready for the truth. In the 1992 movie "A Few Good Men," Col. Nathan R. Jessep (played by Jack Nicholson) said "You want the truth. You cannot handle the TRUTH!" – in reference to what the American people can or cannot accept as reality. However, I think the character was flawed and was probably wrong. In the final analysis, although Americans normally want to hear just good things, the American people will acknowledge the true blame and rise to the occasion. That is who we are and that is what America was built on.

Therefore, let me start out by stating that although my initial statements may seem far fetched, in the following pages you will quickly understand the reality of the statements.

The current world financial crisis is blamed on a variety of organizations and people. We are blaming Wall Street, we are blaming real estate brokers, appraisers, corporate executives, we are blaming the oil companies, short traders, Congress, we are blaming the OPEC nations. In reality all of these parties had a role but the true villain still lies beneath the radar.

Let us follow the domino effect backwards up line to see who started the first domino to topple. First of all, during the early years of the 21st century, property values around the United States began to appreciate and in some areas the appreciation was quite sudden. There are places in California where property values almost doubled overnight and some places where they even tripled. The

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economy was booming and everyone felt that there was no limit to our prosperity.

Everyone involved in the housing market had the same idea. The belief existed that even if the mortgages were given to home owners at up to 100% of the appraised value, and in some cases even over the appraised value, that it was okay because the housing market indicated that houses would appreciate substantially in the future and loans were safe because of the estimated future equity of the property. Therefore, the economy was strong, the housing market would fix itself and everybody would be covered.

Therefore, who is to blame? They all thought the same thing and they benefited from the immediate fruits of the money supply to the housing market. Greed and optimism prevailed and the economy was strong with the DOW approaching 14,000.

Now, we must go back in time to find out how our economy failed. History teaches us that civilizations rise and fall based on the availability of adequate energy to run their economy. I will not elaborate on this point as it is just a fact. The Industrial Revolution was primarily based on the availability of cheap energy that then sparked the innovation of the scientists and inventors to come up with new products that raised the standard of living.

In contrast, the U.S. will probably have negative growth in 2008, since we have shelled out \$700 billion dollars for our imported oil needs before oil prices declined in late 2008.

The basis of the start of our calamity was energy. Remember, the transportation industry employs directly or indirectly one tenth of the work force in the United States. If the price of oil would have stayed at forty dollars a barrel, our economy

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would have not declined at all and everything would have been fine including the housing market. But that didn't happen, the critical turning point really was the violent increase in oil prices which caused the beginning of the domino effect. Everything became more expensive. People and industry paid more for fuel and directly affected the airlines, automakers and the transportation industry. Hundreds of billion of dollars began to leave the United States. The dollar weakened to record levels. The largest change in wealth, unprecedented in the history of the world, began to change hands out of the U.S. into mostly unfriendly nations. Once the first domino had fallen and the chain reaction started, it was impossible to go back and correct the problem by an interim period of low oil prices. The U.S. was too far into a recession, which also circled around the world. Even this oil problem was the effect and not the cause of the real problem. For the real answer we must go back further.

There is an abundance of evidence (including much information on the author's website JosephLaStella.com) that substantiates the beginning of the domino effect. The story indicates problem began back fifteen years ago. It was quite evident for a long time that the United States was going to rely on foreign oil for the foreseeable future and nobody wanted to bite the bullet to solve this problem especially the American public. There is plenty of information that indicated we should have increased taxes on gasoline by one dollar a gallon prior to 1990. Even with this increase, the U.S. gas prices would have still been far below Europe. That one dollar per gallon income would be used solely for the purposes of establishing an energy independent economy. However, any legislator that would have introduced that bill or was even talking about it could not be elected to any office because the American people did not want to pay attention. If we would have done that, we would now have \$30 dollar per barrel oil, or lower, and we would be energy independent. All that money would have been spent to create a new industry, create new jobs and make this country the strongest nation in the

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world. But the American people were too busy buying their fat cars and worrying about where they would spend their next vacation and how to buy their next larger house. In fact, the average home in the U.S. was increasing in size by 500 square feet every 20 years. Congress was too busy fighting over a comprehensive Energy Bill for the past 15 years and later, in 2000, over whom was going to spend the U.S. surplus (not deficit) budget. Remember, when George W. Bush took office, he inherited a budget SURPLUS of \$128 billion dollars and a bright fiscal future. No one on Capitol Hill wanted to bite the energy bullet. Instead of using tax or surplus money to create a strong energy society, today we BOW to people who hate us and would like to see us dead.

Existing Federal Programs Could Have Saved The U.S. Economy

Also in those years, there were two federal research programs that could have bailed us out and could have given us the technology to be energy independent. In 1995, a 17-year study on cellulosic ethanol was completed at the Tennessee Valley Authority, a National Laboratory at that time. The 17-year study would have been the basis for the cellulosic ethanol industry that we very much need today to replace gasoline with ethanol from non-food waste material (municipal and agricultural waste products, wood waste, etc.) but this program was terminated in 1995.

In the same year, the second piece of our energy independence was killed. Under the U.S. Dept. of Energy a program called the Aquatic Species Program (ASP), which was also terminated after another 17-year period, incorporating 12 universities served as a basis for algae biodiesel, which would have replaced diesel permanently and would not impact food prices. Algae biodiesel is the only long term answer to replace diesel and this is not a matter of conjecture, this is a matter of quoting the statistics out of this important ASP report formulated by the

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National Renewable Energy Laboratory (NREL).

Both of these programs were ended under the Clinton Administration in 1995 because of the following statements made by the American Petroleum Institute (API):

- They believed that the price of oil would not exceed \$20 dollars a barrel for the next twenty years that is 2015. Obviously wrong.
- They quoted as a fact that imported oil was not a threat to the United States economy and security. Obviously wrong again.

The only two programs that could have been successful were terminated in 1995. When these programs ended and no additional government funding was collected through taxes on gasoline during this temporary available cheap oil period, nobody paid attention to our pending energy problems. The domino effect was put into motion and we are now at least ten years too late, it cannot be fixed in time to divert our present problems, there is no scenario to bail us out of this, we must now start from the 10 year delay. We need everything from cellulosic ethanol to algae biodiesel, to wind power, to solar energy, to coal gasification, biogas and nuclear energy, all needed immediately. The recent reductions in oil prices has only bought the U.S. a temporary reprieve from the inevitable. It has not closed the 10-year gap of time to bring on-line (nor the money to build) the giant infrastructures to offset the 70% imported oil, except one – energy conservation.

So, Americans have to tighten their belts. We have met the enemy and the enemy is ourselves. As history has also shown us, Americans always meet the challenge. The challenge is that we must conserve now, not tomorrow, TODAY. This requires little or no money, it can be done immediately and it can have

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enormous impacts even from the smallest conservation details.

One of the ways to immediately save 300,000 barrels of oil a day is contained on the one-minute video. Here is the transcript of the video: “[Announcer] Did you know that [driving at] 70 mph requires 65% of all the energy in your car just to push the air in front of your vehicle. [Enter Joseph LaStella] Hello, I am Joseph LaStella, President of Green Star Products, and I'm not here to sell you anything. I am here to give you valuable energy information that you need to know. [Announcer] A car traveling at 65 mph requires 22% more energy to increase its speed to 75 mph. If Americans would simply drive the posted speed limit we could save more than 300,000 barrels of oil per day, that is the equivalent of half the current production of the Alaskan pipeline. This requires no new legislation and no new investment. [Joseph LaStella] People in the United States are accustomed to driving well over the existing speed limits. [Announcer] This call to action would reduce global warming gases and bring the nation closer to energy independence.” -- Driving the speed limit equals less imported oil more energy independence --

During the campaign when Senator Obama stated that checking the air pressure in vehicle tires would save fuel, the press made a joke out of the suggestion. The truth is that if Obama had been correctly schooled by his assistants he could have turned this situation around almost immediately. The correct fact is that if all Americans would just check the air in their tires we could save well over 100,000 barrels of oil a day. By today's standards that is nearly \$150,000,000 dollars a month on fuel cost. Several other facts that could have also been suggested: that tire pressure safety has a direct relationship to the car's braking ability, which is related to saving lives on the roads. We could save many lives on the roads by keeping the tires inflated properly. Furthermore, people would save money on tires and fuel. Another fact that should have been brought up is that when tires

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are under-inflated they grind up quicker and produce microscopic particles smaller than 10 microns ($= < \text{PM}_{10}$) that float in the air and could end up in your lungs, where they may stay for your entire life. This is directly linked to lung cancer, heart disease and asthma. Tires pressure is linked to the environment, our health and well being. That is what Obama should have said.

Furthermore, there are other energy saving factors that could be brought up very simply to the American public to let them know how conservation is important. For example, if someone would just stand up and hold one of these new low intensity fluorescent light bulbs and tell the American public that if we all just substituted one of these lights, just one in each of our homes, we would save the equivalent in global warming gases of planting 50,000,000 trees. That's right, one light in every home is the equivalent of planting 50,000,000 trees and the energy savings would be directly connected to global warming reduction.

There are many other items that could be discussed. Another interesting example, without affecting our standard of living, we can conserve a tremendous amount of electrical energy to the point we don't need any more energy for quite a while including nuclear plants. I am not saying that we should not build power plants for the future, let me explain the above statements further.

California is usually looked upon by the other states as a high maintenance state where people drive around expensive cars, own expensive homes and the like. The truth is that the state of California, which is the eight largest economy in the World, uses forty percent less electricity per capita than all the rest of the United States, except for one other area, which is the Northeastern states, which also use much less energy than the rest of the United States.

So, we are not saying that we should be reducing our standard of living.

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Obviously, the Northeastern states and California have at least the same standard of living as the rest of the United States. If they can use 40% less energy so can the rest of us. If we just follow their energy conservation lead we would have excess electricity for a long time.

These are facts of life that need to be told to the American public. Americans are responsible for their own future. They did not elect officials that have guided our country to Energy Independence, they elected officials (both republicans and democrats) who told them what they wanted to hear (low taxes and more giveaways) and that is what they received. President Carter said the United States will never pay more than one dollar per gallon of gasoline. President Nixon said that the United States would never import more than 20% of its oil. The American people elected representatives in Washington that by-passed the truth to get elected.

How many more impossible promises are you going to demand from our presidential candidates before they get your vote?

Col. Nathan R. Jessep was definitively wrong, America CAN handle the truth. We just need leaders who will tell the American public that we all need is to cut back. We are AmerCANS not AmeriCAN'Ts.

The Fall of Dominoes Accelerates

The spiraling rise of oil prices which began in the Summer of 2007 started the economic turn down as previously explained, however, another paralleling silent event was also taking place in July of 2007 which greatly accelerated the fall of the economic and stock market dominoes. What was this event? On July 6, 2007, the SEC eliminated the Uptick Rule, which for over 60 years prevented

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unscrupulous Wall Street market makers, brokers and firms from massively short selling stocks.

During the credit meltdown, the SEC halted short selling and naked short selling in Freddie Mac and Fannie Mae stocks for a period of time. This catapulted this generally unknown practice into every home.

So, what is "naked short selling"? When you put your stock into a brokerage account, the stock goes into what is called a "street name" (not your name). You receive a statement each month that your stock (theoretically) is being held by your brokerage firm. This is what you are led to believe. Brokerage firms have the right and will rent out your stock to other firms or market makers who have sold stock in your company to their clients and are not required to actually buy the stock to put into their account. They collect the money from the sale and then rent your stock to cover the transaction at a minimal rental cost. Your brokerage firm makes extra free rental money on the thousands of company stocks they have in their customers accounts and the other brokerage that rented the stock never really has to buy stock. This in effect creates two shares of stock with only one real existing share. If all the brokers and market makers play the same game and cover each other (which they do) all make billions. Does this start to sound like the real estate game that is now destroying our economy?

Furthermore, in recent years market makers have decided that they don't need to even rent any stock, just sell stock and never cover the buy side, they just create the paperwork unless some incident forces them to buy the stocks. Some market makers and brokerages are shorting as many as 6,000 stocks. If a few stocks get away from them they have plenty of profit from the rest to cover a few losses.

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The most recent incident occurred on October 27 & 28, 2008, Volkswagen caught their market makers short and forced them to cover their positions in the stock, i.e. buy the stock at any price. This launched a huge increase in Volkswagen stock prices and made Volkswagen the most valuable company in the world, passing Exxon-Mobil, VW market worth in just two days, gained over \$200 billion dollars and attained a \$350 billion dollar market value.

This violent market reaction in just one stock, in a few hours was greater than the gross national product of 80% of the nations of the world. This is market manipulations caused by short selling.

However, this is only a phenomenon that has emerged in recent times, which was not possible prior to May 2007. The real question is, why not? For over a half a century there was an SEC rule in place called the "Uptick Rule," which, in essence, stated that a brokerage firm or market maker cannot short a stock unless the last trade in that stock was higher than the previous trade. The original rule was implemented by Joseph P. Kennedy, Sr., the first SEC commissioner. The SEC eliminated the Uptick Rule on July 6, 2007.

On August 27, 2007, the New York Times published an article on Muriel Siebert, former state banking superintendent of New York, "Wall Street veteran and financial sage", and, in 1967, the first woman to become a member of the New York Stock Exchange. In this article she expressed severe concerns about market volatility: "We've never seen volatility like this. We're watching history being made." Siebert pointed to the Uptick Rule, saying, "The S.E.C. took away the short-sale rule and when the markets were falling, institutional investors just pounded stocks because they didn't need an Uptick." On July 3, 2008 Wachtell, Lipton, Rosen & Katz, an adviser on mergers and acquisitions, said short-selling was at record levels and asked the SEC to take urgent action and reinstate the 70-

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year-old Uptick Rule. On November 20, 2008, they renewed their call stating "Decisive action cannot await ... a new S.E.C. Chairman. ... There is no tomorrow. The failure to reinstate the Uptick Rule is not acceptable." On October 17, 2008, the New York Stock Exchange reported a survey with 85% of its members being in favor of reinstating the Uptick Rule with the dominant reason to "help instill market confidence".

Hedge funds, banks and many other institutions after July 2007 started or expanded its divisions to take advantage of this easy money and began to blatantly short over 6,000 stocks. This is the single most important cause of present day turbulent market fluctuations. Present market instability has brought this practice into the legislature spotlight and (hopefully) will be corrected. The new administration will replace SEC chairman, Christopher Cox, on January 15, 2009, with Mary Schapiro, who understands financial markets and will hopefully restore market stability and reinstate the "Uptick Rule."

The naked short selling practice is rampant on all exchanges, except it is worse on lower exchanges.

This practice is crippling the U.S. companies and their shareholders because in effect its adding billions of shares (that do not exist) to the market and significantly lowering the real value of shareholder stock holdings. This is illegal, immoral and greed personified, and is destroying the R&D efforts of thousands of small companies which have always been the backbone of America's ingenuity.

In conclusion, there may be a silver lining to our economic woes. First of all the law of karma seems to be working i.e. the same Wall Street firms that profited by short selling began to turn on themselves and began short selling each other's stocks. The piranhas began to devour each other when the general market began

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to deteriorate. No one yet knows the amount of non-existent stock that sits in the accounts of trusting brokerage house clients.

However, the violent single day stock price loses in major corporations could not have occurred prior to July 7, 2007. The law of karma is also working for the United States. The U.S. must and will make the changes necessary for our future survival:

- 1) Fix Wall Street
- 2) Eliminate special interest on Capitol Hill
- 3) Conserve, re-use, re-cycle and renew
- 4) Expect less, give more
- 5) The U.S. must become energy independent - this will create new jobs and reduce global warming.