DAVOS DEBT & DENIAL

In an age of illusion, the guise of truth is often heresy

The gathering of the world's economic elites in Davos, Switzerland is a reflection of the reigning power dynamic of the modern world. Officially titled, the World Economic Forum, Davos is sponsored by the world's most powerful and wealthy corporations and presents itself as a "not-for-profit" entity.

However, if you believe the annual gathering in Davos is not-for-profit, you probably also believe that JFK died of natural causes while sightseeing in Dallas. Those who attend Davos—the *Davo'tees of Mammon*—are the winners in the game of capitalism, a game based on debt controlled by bankers through their issuance of credit.

Investment bankers by virtue of their privileged position at the spigots of credit have over the years garnered for themselves a disproportionate slice of the world's wealth. The best description of their wealth is from a banker himself, Sir Josiah Stamp, at the time in1927 the 2nd richest man in England and former head of The Bank of England:

Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money.

The fact that in 2008 bankers became victims in the game they created has profound implications for capitalism itself. Capitalism, which began in 1694 with the issuance of debt-based money from The Bank of England, has now over three hundred years later reached its last and final stage.

Capitalism is not ending because those enslaved by bankers revolted. Capitalism is ending because the bankers' insatiable greed destroyed the mechanism by which bankers indebted others. The sad truth is that those enslaved by debt still *wish to remain the slaves of bankers and pay the cost of* [their] *own slavery* [and] *let them* [the bankers] *continue to create money*.

Although debtors fervently hope the bankers' system of debt will continue, they will not have a say in the matter. Neither will the bankers. Davos will never again be the same.
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DAVOS & THE LAST GASP OF CAPITALISM

The World Economic Forum in Davos was founded in 1971, the same year in which all currencies became *fiat*, *sic* not backed by gold or silver. Perhaps this is coincidence. Perhaps not.

Nonetheless, Davos will be always associated with the end of capitalism where the charade of the banker’s paper money was revealed to be what it was, a confidence game where in the end everyone would lose everything—including the bankers.

The charade/con-game actually began in 1694 when the Bank of England was granted the right to issue England’s coinage in the form of paper money. This paper money was declared to be as good as gold or silver coins. Of course, it wasn’t; but in the beginning it was much better than it was to be later.

Previous to 1694 the bankers were known as goldsmiths who profited by charging interest on the loaning of gold and silver coins. After 1694, the goldsmiths, now called bankers, profited by charging interest on the loaning of paper money, and thus the true alchemy of modern finance was born.

The substitution of paper “money” for gold and the charging of interest on such “money” is the secret of the banker’s wealth. It is also the secret of capitalism as it is the process whereby bankers’ indebt others (businesses, consumers, governments, etc.) through the loaning of paper “money” created by central banks resulting in paper IOUs, IOUs which are then resold as investments to savers, savers being all who need to protect the value of their paper “money” from eroding because of the constant inflation of the paper money supply by bankers.

That such a system has lasted over three hundred years is extraordinary; but it was not until the 20th century when the linkage between paper money and gold began to fail that the problems inherent in paper money systems became more apparent.

England, the major recipient and beneficiary of the banker’s paper money for the previous two hundred years, had been very careful to maintain the fiction that paper money was as good as gold or silver. But in the next century, the 20th, the US the surrogate successor to England, was to be far less considerate of the considerable and questionable “gift” bequeathed to it by England’s bankers.

In 1933, the US government by executive order confiscated the gold of all Americans thus ending the belief that paper money was interchangeable with gold and silver and was therefore a trustworthy medium of exchange.

This confiscation of gold by the US was to be later repeated on an international level. But instead of only forcing Americans to abandon gold as it had in 1933, in 1971 the US would force the entire world to do so.

CONFIDENCE IN PAPER MONEY BECOMES A CON

By the end of WWII, the US had accumulated the largest amount of monetary gold reserves in history; and under the 1944 Bretton-Woods Agreement, the US dollar was to be convertible upon demand to gold and all currencies were to be tied to the US dollar.

Thus, through the gold-convertible US dollar, the international monetary system was stable and anchored to gold.

But by 1971, the US had overspent its entire hoard of gold. In 1958 alone, US gold reserves fell by 10 %. The reason is between 1949 and 1971 US overseas military expenditures and US overseas corporate expansion had left far more dollars in the hands of foreign nations than the US had gold to exchange.

In their book, *The Commanding Heights* (1997 ed., pp. 60-64), Daniel Yergin and Joseph Stanislaw explain what happened next:

But the growing U.S. balance-of-payments deficit meant that foreign governments were accumulating large amounts of dollars -- in aggregate volume far exceeding the U.S. government's stock of gold. These governments, or their central banks, could show up at any time at the "gold window" of the U.S. Treasury and insist on trading in their dollars for gold, which would precipitate a run. The issue was not theoretical. In the second week of August 1971, the British ambassador turned up at the Treasury Department to request that $3 billion be converted into gold.

…The gold window was to be closed. Arthur Burns argued vociferously against it, warning, "Pravda would write that this was a sign of the collapse of capitalism." Burns was overruled. The gold window would be closed. But this would accentuate the need to fight inflation; for shutting the gold window would weaken the dollar against other currencies, thus adding to inflation by driving up the price of imported goods. Going off the gold standard and giving up fixed exchange rates constituted a momentous step in the history of international economics.

The previous sentence bears repeating;
Going off the gold standard and giving up fixed exchange rates constituted a momentous step in the history of international economics.

Yergin and Stanislaw were right. It was to be a momentous—and ultimately fatal step—for as a result of the US default on its international gold obligations, all currencies in the world instantly became fiat.

The security that gold and silver afforded the use of paper money would be no more—and when a con game is being run, nothing, absolutely nothing is more important than confidence.

The last and most critical piece in the banker's carefully constructed charade was eliminated by the US when it overspent it entire gold reserves leaving the international monetary system bereft of any intrinsic value. Only monetary momentum and residual confidence has allowed paper-based capitalist economies to function since the last vestige of gold was removed in 1971.

Now, the postponed but inevitable destructive consequences of 1971 are about to make the demolition of the World Trade Center Twin Towers and Building 7 look like a spring day in Paris. A collapse of world economies caused by the default on trillions of dollars of paper debts and obligations has never before happened. Soon, it will.

The consequences will be as devastating as they will be widespread as personal savings will be wiped out. Personal savings entrusted to banks have been invested in the same paper IOUs, *sic* bonds, owned by pension funds, investment funds, and insurance companies all over the world.

Savers forced by the constant depreciation of paper money have given their savings to banks, pension funds, insurance companies and investment funds in the hopes of salvaging the value of those savings. But those hopes will prove to be false as the escalating financial collapse reveals such investments, *e.g.* corporate, government and consumer IOUs, to be increasingly worthless.

Governments that allowed this crisis to occur will then be forced to indemnify such losses in order to maintain civil and social order. But, when done, the indemnification of trillions of dollars of lost savings will cause what remains of the international monetary system to collapse.

Paper “money” is but a paper tiger in paper bag and when exposed to the twin disasters of economic deflation and central bank hyperinflation, fiat “money” will ultimately revert to its intrinsic value—zero.

PANDORA’S BOX AND THE RISE AND FALL OF DAVOS

Economies built on credit and debt are by nature unstable. Caught between cycles of expansion and contraction, they are also vulnerable to the vagaries of man and the dictates of nature, i.e. war, famine, greed, drought, etc.

When the backing of gold was finally removed from paper money, it was the final straw that was to bring down the bankers’ house of cards. But before the house of cards collapsed, capitalism was to erupt in one last display of shameless glory.

The 25 years between 1982 and 2007 was the longest expansion in capitalism’s history. It was, however, to be its last; for the expansion was built on misallocated and historically excessive amounts of credit—and Davos occupied center stage in the display of this excessive “achievement”.

It is natural that at the end of the banker’s system, bankers would have garnered the largest share of the spoils and so it was, at least for a short while. The greatest spectacle of Davos was in 2007, the momentary triumph of bankers standing atop the world of global commerce whose profits and productivity they had increasingly purloined as their own.

The triumph of the bankers, however, was to be as short as it was spectacular. The era of billion dollar bonuses paid to bankers was to occur at the apogee of their triumph, a triumph that was to be as short as it was lucrative, for soon after, both banks and the capital markets would collapse.

DAVOS THEN AND NOW

In January 2008 when I wrote *Davos, Debt & Systemic Failure,* the August credit contraction was but six months old. But that year, the escalating effects of the credit contraction were to sweep through Wall Street, the City, and the world's financial centers with the same destructive ferocity as the recent wildfires in Melbourne, Australia.

In the previous year, 2007, it had appeared the endless liquidity provided by central banks would ensure endless profits for investment bankers. How wrong they were. But, at the time, they didn't know it. Soon, they would.

This is an excerpt from my 2008 article *Davos, Debt & Systemic Failure* which explains why it would be only a matter of time before the foundations of capital markets would fail:

Davos, Debt & Systemic Failure
When West Meets East

The preferred diet of most Davos attendees is a fusion inspired composition of individual, government, and corporate debt combined with a free-market frisee of lax regulatory oversight held together by a roux of central bank credit that dissolves instantly when paired with matching counter-party risk.

The January 2008 gathering in Davos, Switzerland at the World Economic Forum is similar to the 1957 meeting in Palermo, Sicily of American and Sicilian Cosa Nostra crime families who met to discuss mutual problems and opportunities. The notable difference being that those in the Cosa Nostra live outside the law; while those at the World Economic Forum in Davos make them.

Those in Davos, however, share with the Cosa Nostra a common problem—the success of both depends on inherently unstable systems. The Cosa Nostra model is based on violence and greed which is both its strength and weakness. Capitalism, the source of wealth for those in Davos, is based on greed and leveraged debt, a combination as powerful and effective as the system of the Cosa Nostra—and just as unstable.

WHEN SYSTEMS FAIL

Unstable systems can function for years without serious problems. But over time, unstable systems will always break down. We are witness to such a systemic failure today. Global credit markets are slowing and contracting. The capitalist system responsible for economic expansion and wealth is in disarray.

Debt, in capitalist systems, is a wondrous device. That is, until it can't be paid back. Under capitalism, credit fuels expansion but it does so at a cost. As capitalism expands, credit becomes debt and the greater the expansion, the greater the debt.

EXPANSION BEGETS DEMISE

Capitalism's fatal flaw is apparent only in its later stages. As capitalism matures, its inherent systemic instability manifests. The very expansion of capitalism sets in motion its demise. The Achilles heel of capitalism is its perpetual need to expand.

Only perpetual capital expansion can create sufficient capital flows to service and retire previously created debts, the amounts of which are always increasing because of the accruing compound interest being charged. While any slowdown is cause for worry, a contraction bodes far worse.

FEAR IN DAVOS
WHAT A DIFFERENCE A YEAR MAKES

One year ago, the mood at Davos was one of quiet, almost smug, confidence. The on-going economic expansion appeared to be endless, the profits of investment bankers skimmed off the top of productive enterprise was greater than ever. Private equity, the investment banker's equivalent of flipping real estate, was the hottest game in town.

It is no longer. Today in Davos, the scent of Armani is now mixed with the acrid smell of anxiety produced by falling markets and uncertain futures. Concern has replaced confidence. The major phernome in Davos today is fear.

Davos will not be the same next year. If you're planning on going, be sure to take some air freshener.

That was then. Now, the major phernome in Davos is panic. Wall Street institutions such as Bear Stearns and Lehman Bros. have vanished into thin air (appropriately Davos is the highest city in Europe) and the financial sector, formerly the king of predators, is struggling to survive. Air freshener will be no more effective at Davos than central bank credit will be at reversing now deflating economies.

CENTRAL BANKS AND SYSTEMIC COLLAPSE

Central banks are now engaged in a life and death struggle, a struggle which they cannot win. When the US removed gold from the fictional foundation of central bank fiat currencies, the death warrant of fiat currencies was signed. The execution itself would be only a matter of time.

The central bank struggle to maintain the fiction that paper money is as good as gold is as doomed as the hope that more central bank credit will solve the problem that too much central bank credit created.

The last and only remaining hope of central banks is to prolong the value of paper money by the use of smoke and mirrors in order to hide their declining value. The strategy is to remove as much evidence of that decline as possible.

There is perhaps no better description of the central banks strategy than the following excerpt from Peter Warburton's April 2001 essay, *The Debasement Of World Currency--It Is Inflation But Not As We Know It:*

Central banks are engaged in a desperate battle on two fronts

What we see at present is a battle between the central banks and the collapse of the financial system fought on two fronts. On one front, the central banks preside over the creation of additional liquidity for the financial system in order to hold back the tide of debt defaults that would otherwise occur. On the other, they incite investment banks and other willing parties to bet against a rise in the prices of gold, oil, base metals, soft commodities or anything else that might be deemed an indicator of inherent value. Their objective is to deprive the independent observer of any reliable benchmark against which to measure the eroding value, not only of the US dollar, but of all fiat currencies. Equally, their actions seek to deny the investor the opportunity to hedge against the fragility of the financial system by switching into a freely traded market for non-financial assets.

[Note: Warburton's explanation of central bank strategy is important, *to wit*: "Their objective is to deprive the independent observer of any reliable benchmark against which to measure the eroding value, not only of the US dollar, but of all fiat currencies. Equally, their actions seek to deny the investor the opportunity to hedge against the fragility of the financial system by switching into a freely traded market for non-financial assets."]

It is important to recognize that the central banks have found the battle on the second front much easier to fight than the first. Last November, I estimated the size of the gross stock of global debt instruments at $90 trillion for mid-2000. How much capital would it take to control the combined gold, oil and commodity markets? Probably, no more than $200 billion, using derivatives. Moreover, it is not necessary for the central banks to fight the battle themselves, although central bank gold sales and gold leasing have certainly contributed to the cause. Most of the world's large investment banks have over-traded their capital so flagrantly that if the central banks were to lose the fight on the first front, then their stock would be worthless. Because their fate is intertwined with that of the central banks, investment banks are willing participants in the battle against rising gold, oil and commodity prices.

[Note: Here, Warburton has given us the motive underlying the investment bank role in keeping commodity prices low. This especially pertains to gold as gold is the traditional measure of monetary distress.]

Central banks, and particularly the US Federal Reserve, are deploying their heavy artillery in the battle against a systemic collapse. This has been their primary concern for at least seven years [since 1994]. *Their immediate objectives are to prevent the private sector bond market from closing its doors to new or refinancing borrowers and to forestall a technical break in the Dow Jones Industrials. Keeping the bond markets open is absolutely vital at a time when corporate profitability is on the ropes. Keeping the equity index on an even keel is essential to protect the wealth of the household sector and to maintain the expectation of future gains. For as long as these objectives can be achieved, the value of the US dollar can also be stabilized in relation to other currencies, despite the extraordinary imbalances in external trade.*

Again, in this instance, Warburton's last sentence bears repeating:
"For as long as these objectives can be achieved, the value of the US dollar can also be stabilized in relation to other currencies, despite the extraordinary imbalances in external trade."

Warburton wrote the above in April 2001 and the relevance of Warburton's commentary is even greater today than it was then. Then, the two central bank objectives were: (1) making sure bond investors continue to finance the private sector bond market, and (2) making sure a technical break in the Dow Jones did not occur.

Now, both have happened despite the best efforts of central banks. The 2007 credit contraction froze the corporate bond markets where the private sector obtains most of its financing and the second objective, to keep the Dow from breaking down, was violated in October and September of 2008. Systemic collapse as predicted by Warburton is now in the process of occurring.

Where does this leave the central bankers? In my opinion, they had better start looking for jobs. As long as people believe bankers can solve their problems, they will continue to be employed. But when people finally understand the role bankers played in the current crisis, they and their cohorts in government may very well be indicted for their unconscionable plundering at the public trough and, also now for the added insult of destroying the trough when done plundering.

When this era has ended, it is not known what bankers will do as bankers are notoriously bad businessmen. Bankers achieve their considerable success not by entrepreneurial talent but by their unique proximity to credit and their ability to leverage that proximity into excessive profit. Stripped of this advantage, bankers would be forced to earn a living on a level playing field—an ability which has never before been tested.

THE ASCENT OF GOLD

Professor Antal Fekete stated when the price of gold begins to move rapidly upwards towards its final highs, it will be a time of tragedy; for when gold explodes upwards, the economies built around paper money and paper assets will collapse. The human suffering then and afterwards will be immense.

The smoke and mirrors attempts of central bank to postpone the inevitable day of reckoning have failed. The smoke is now clearing from the central banks' purposive obfuscation of economic truths and their mirrors which previously reflected pure fiction are now broken and muddied.

It is now only a matter of time before people realize what has occurred in the absence of their understanding. The considerable bill is now due and owing for all debts incurred at the bankers' window. It will be paid.

Already, gold and silver coins have disappeared from the supplies of retail dealers as the public increasingly seeks to protect the declining value of what they have saved. Soon, the same will be true for the 1,000 ounce gold bullion bars being purchased by the very wealthy.

The day people realize that paper money is worthless is the day economic activity as we know it will come to a halt. What happens next has happened before. Barter begins the movement of goods and services until a trustworthy medium of exchange arises to take the place of the bankers' debased paper.

Currency collapse is a reoccurring story. Because we denied its reality does not mean it would not happen. Denial is very powerful but, in the end, it changes nothing except the ability to effectively respond.

Our wish that gold achieve its rightful price level in today's accelerating crisis is tempered by our realization that when that day is reached, the human carnage and suffering will be without precedence. It is best, then, to buy gold and silver whenever possible and to wait patiently for things to unfold as they will. And they shall.

ECONOMIC TRUTHS

In his wonderful and final and most readable book (at least for me), *Grunch of Giants*, (Design Science Press, 1983) Buckminster Fuller writes about the history of power and money in a way that explains our present economic system.

Bucky's word "Grunch" is an acronym for gross (GR) universal (UN) cash heist (CH) and the word Giant is a reference to modern corporations and those who control them. On page 18, Bucky recounts a conversation with one of the "giants", a friend of his who was a scion of the JP Morgan family.

He said to me, "Bucky, I am very fond of you, so I am sorry to have to tell you that you will never be a success. You go around explaining in simple terms that which people have not been comprehending, when the first law of success is, "never make things simple when you can make them complicated"

The roots of modern economics are intertwined with institutional deceit on a massive scale because the material rewards are so great. Therefore, the attempt to ascertain the truth about money is not an easy task; and it is not made easier by those who benefit by its deceit.

This is why the discussion of ideas antithetical to those in positions of power are now found only at the edges of society. Writers and readers alike must search for truth in books not easily found, such as Buckminster Fuller's *Grunch of Giants* (out of print, still available at www.bfi.org, Peter Warburton's *Debt & Delusion—Central Bank Follies That Threaten Economic Disaster* (reissued and currently available in a deluxe edition from WorldMetaView Press) and Bernard Lietaer's *The Future of Money*, published in 1999 by Random House and never made available in the US, currently out of print.

Those in power maintain their power because those without power do not understand the power dynamics operant in the world they live in. Thus, the economic control over the many for the benefit of the few has continued irrespective of the form the economy takes.

We are at the end of an extraordinary epoch, the end of the age of credit. In 1981, Bucky Fuller predicted the collapse of the present power structures in tandem with an unprecedented crisis that would transform humanity.

That time, the collapse of the power structures, has now arrived. Transformation comes next; and when the crisis finally passes—and it will—tomorrow will be a far better day. Awareness, community, faith and a bit of gold and silver will be invaluable in the days to come

On March 27-29, I will be in Szombathely, Hungary to listen to Professor Fekete discuss current economic issues only as he can do so. I will also be speaking. For information, contact **GSUL@t-online.hu**

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