

Bankers Bullsh*t & Bullion

The Sacking of America

Communism was a public relations gift to the bankers. By diverting the dialogue to “controlled versus free markets” it obscured the bankers’ real intent—to insert debt into every aspect of free markets. The bankers’ overwhelming success however would destroy both the bankers and the free markets on which they preyed.

Parasitoidism is the relationship between a host and parasite where the host is ultimately killed by the parasite. This is what is happening to the US. Once the most powerful and productive economy in the world, the US, indebted by bankers and government spending beyond its ability to repay, is headed towards sovereign bankruptcy.

The recent request by US Treasury Secretary—and more importantly former Chairman and CEO of investment bank Goldman Sachs— Henry Paulson to bail out Fannie Mae and Freddy Mac with US taxpayer dollars is but another indication of this destructive and parasitic relationship between bankers, government and the economy.

That a private banker from a large Wall Street investment bank is also Secretary of the US Treasury is no coincidence. It is also no coincidence that once again, public monies from the US Treasury are being used to rescue private bankers and to indemnify their losses.

THE FOX IS IN THE HENHOUSE GOLDMAN’S SACHING OF AMERICA

Receiving taxpayer dollars from the US Treasury for their private benefit is not new to Goldman Sachs. In 1990s, when the Mexican government defaulted on its bonds, investors at Goldman Sachs’ stood to lose billions of dollars. They didn’t.

Buried deep in the subsequent \$40 billion US bailout of Mexico was a \$4 billion payment to Goldman Sachs, *gratis* of the US Treasury indemnifying Goldman Sachs against any losses on their investment in Mexican bonds.

The fact that current US Treasury Secretary and former Goldman Sachs CEO Henry Paulson also recently used US funds to underwrite JP Morgan Chase’s private buyout of investment bank Bear Stearns and is now proposing to do the same with Fannie Mae and Freddie Mac is to be expected. For investment bankers, using public money to privately profit is business as usual.

They're ruining what has been one of the greatest economies in the world, [Bernanke and Paulson] are bailing out their friends on Wall Street but there are 300 million Americans that are going to have to pay for this.

Jim Rogers, Chairman of Rogers Holdings, July 14, 2008

THE TUMESCENCE OF CREDIT THE DETUMESENCE OF DEBT

It often happens that only in retrospect does the truth become apparent—at least to most. Seduced by the vain hope of eternal profits, investors blindly followed Alan Greenspan's prognostications when he was appointed chairman of the Federal Reserve in 1987; in the beginning, it appeared that Greenspan was right. Now, two decades later Greenspan's errors are apparent.

A former director at investment bank JP Morgan, Greenspan clearly understood the role of credit in today's economy. What he didn't understand were its limitations. Greenspan's reputation as a maestro of the markets was built on his continual feeding of cheap credit into the US economy thereby bolstering asset prices and the profits of investors.

Greenspan's reputation at the time was well deserved, much as BALCO the illegal steroid provider deserves credit for Barry Bond's astonishing achievements in baseball late in his career. Credit has the same affect on markets as does steroids on athletic performance. That is why both are so popular.

Greenspan's continual feeding of credit into America's economy fueled the greatest expansion of capital markets in history. This directly led to America's fatal misperception of credit as the cause of its wealth. It is now beginning to dawn on America that credit, in actuality, is the cause of its problems.

Credit is but debt in disguise and the American economy is now collapsing under the weight of that debt—the bankers' effluence, extraordinary and compounding levels of public, private and business debt that in only decades has completely drained America of its once immense productivity and wealth.

FANNIE MAE AND FREDDIE MAC WHO'S NEXT

US mortgage giants Fannie Mae and Freddie Mac own or guarantee \$5.2 trillion of US mortgages or nearly half of US mortgage debt. As of March 31st, however, the combined capital of the two insurers was only \$81 billion, 1.6 % of the total owned or guaranteed.

With US housing prices continuing to fall, it was evident, contrary to government assurances, that Fannie Mae and Freddie Mac did not have the requisite capital needed to meet future obligations. The sudden decline in the value of their shares forced US authorities to come to their rescue; but, it will not be the last time the US will be forced to act in such a manner.

The systemic distress set in motion by last August's credit contraction is still continuing and the recent collapse of Bear Stearns and now Fannie Mae and Freddie Mac are witness to that fact. We are only one year into the contraction and although the liquidity provided by central banks has gone beyond all previous levels, financial institutions are continuing to falter and collapse.

It is possible that the FDIC, the insurer of America's savings deposits, may be next. The capital of Fannie Mae and Freddie Mac equaled 1.6 % of the sums they guaranteed. Prior to last week, the FDIC had only 1.2 % of the funds necessary to cover the accounts they insure.

It is now estimated the bank failure of IndyMac last week cost the FDIC 10 % of its capital, leaving the FDIC with even less than its previous 1.2 % to cover additional bank defaults. As it is, \$1 billion approximately 5 % of IndyMac's deposits were not covered by the FDIC and it is estimated 37 % or \$7.07 trillion of US deposits are also similarly exposed to bank failures.

As financial institutions continue to fail, bank failures will increase. As usual, government regulators at the FDIC maintain there is no problem. Believe them and you might soon have problems of your own.

PARASITE HOST COLLAPSE

When central banking was introduced in England in 1694 and in the US in 1913, it could not have been foreseen that the spread of credit based money would lead to such levels of indebtedness that systemic collapse would be a possibility, let alone occur.

Only time would make that fact apparent and it now appears that sufficient time has passed. The economist Hyman Minsky described the three sequential steps of debt in capital markets in his Financial Instability Hypothesis.

Three distinct income-debt relations for economic units, which are labeled as hedge, speculative, and Ponzi finance, can be identified. Hedge financing units are those which can fulfill all of their contractual payment obligations by their cash flows: the greater the weight of equity financing in the liability structure, the greater the likelihood that the unit is a hedge financing unit. Speculative finance units are units that can meet their payment commitments on 'income account' on their liabilities, even as they cannot repay the principal out of income cash flows. Such units need to 'roll over' their liabilities – issue new debt to meet commitments on maturing debt. For Ponzi units, the cash flows from operations are not sufficient to fill either the repayment of principal or the interest on outstanding debts by their cash flows from operations. Such units can sell assets or borrow. Borrowing to pay interest or selling assets to pay interest (and even dividends) on common stocks lowers the equity of a unit, even as it increases liabilities and the prior commitment of future incomes.

It can be shown that if hedge financing dominates, then the economy may well be an equilibrium-seeking and containing system. In contrast, the greater the weight of speculative and Ponzi finance, the greater the likelihood that the economy is a deviation-amplifying system. The first theorem of the financial instability hypothesis is that the economy has financing regimes under which it is stable, and financing regimes in which it is unstable. The second theorem of the financial instability hypothesis is that over periods of prolonged prosperity, the economy

transits from financial relations that make for a stable system to financial relations that make for an unstable system.

In particular, over a protracted period of good times, capitalist economies tend to move to a financial structure in which there is a large weight to units engaged in speculative and Ponzi finance. Furthermore, if an economy is in an inflationary state, and the authorities attempt to exorcise inflation by monetary constraint, then speculative units will become Ponzi units and the net worth of previously Ponzi units will quickly evaporate. Consequently, units with cash flow shortfalls will be forced to try to make positions by selling out positions. This is likely to lead to a collapse of asset values.

As the US is now increasingly meeting its debt obligations by rolling over present debt and/or by borrowing, it is now according to Minsky's model, clearly in the Ponzi finance mode which can precede a collapse of asset values.

According to Minsky, capital markets over time become increasingly unstable. Asset values in real estate are now collapsing, equities will be next, bonds will follow. Almost one hundred years after the Federal Reserve introduced debt-based money to America in 1913, both host and parasite are now approaching the same end, *parcus nex, sic* economic death.

Not only is the host, the US economy, in imminent danger, so too are the parasites, the banks. Bridgewater Associates, the giant US hedge fund, has warned its clients that current bank losses may reach \$1.6 trillion, four times previous estimates.

The implications are discussed by financial journalist Ambrose Evans-Pritchard in The Telegraph.co.uk, July 8, 2008

Bank losses from credit crisis may run to \$1,600bn, warns Bridgewater
By Ambrose Evans-Pritchard

Bridgewater Associates has issued an apocalyptic warning to clients that bank losses from the worldwide credit crisis may reach \$1,600bn (£800bn), four times official estimates and enough to pose a grave risk to the financial system.

The giant US hedge fund said that it doubted whether lenders would be able to shoulder the full losses, disguised until now by "mark-to-model" methods of valuing structured credit.

"We are facing an avalanche of bad assets. We have big doubts as to whether financial institutions will be able to obtain enough new capital to cover their losses. The credit crisis is going to get worse," said the group in a confidential report, leaked to the Swiss newspaper SonntagsZeitung.

Bank losses on this scale would have far-reaching effects. Lenders would have to curtail loans by roughly 10-to-one to preserve their capital ratios. This would imply a further

contraction of credit by up to \$12,000bn worldwide unless banks could raise fresh capital.

It would be almost impossible to attract or even find such sums from investors. While sovereign wealth funds command roughly \$3,000bn in funds, this money is mostly committed already. The funds have grown extremely wary of Western banks with sub-prime exposure after burning their fingers so many times already.

Bridgewater said true losses would mushroom if the banks were compelled to use "mark-to-market", which foretells a much crueler haircut for investors in the outstanding pool of structured debt from mortgages, credit cards, car loans and such like, together worth \$26.6bn.

The International Monetary Fund has estimated bank losses of roughly \$400bn. A chunk has already been covered by fresh infusions of capital, allowing the lenders to continue lubricating the global financial system without having to squeeze credit too hard.

The great unknown is whether this is the end of the debacle. A number of hedge funds believe the alleged losses - typically measured by the ABX index - may overstate the likely level of defaults. They are buying the spurned securities for as little as eight cents on the dollar.

If Bridgewater is anywhere near correct, governments alone have the wherewithal to rescue the system. This would mean the de facto nationalization of the banking systems in the US, Britain and Europe.

We are at the end of an era. Capitalism, itself, is a misnomer. It should instead be called *creditism* or referred to by its subsequent state, *debtism*, for capital *de facto* is credit, not money. This does not mean credit is not important. Credit is an integral part of functioning economies but its use should be constrained within gold and silver based monetary systems in order to prevent its abuse.

But in its present form where credit-based money (fiat money) completely replaced gold and silver based currencies (savings-based money), central bank originated credit has led to today's unsustainable levels of debt.

Trillions of dollars of that debt are now beginning to default and, as a consequence, credit is being withdrawn by banks, the intermediaries of credit in today's system. It will soon begin to appear that money is becoming scarce. But that's an illusion. The money was never there in the first place. It was only credit.

Real money, gold and silver currencies, were the first victims of central banking in the US. The latest victims are those who are about to be affected by the collapse of the US and global economy. Central banking and its spawn, credit and debt, are now everywhere and, unfortunately, so are the consequences.

GOLD SILVER & FIAT MONEY

The truth about money has been pushed out of public discussion by the powerful forces closest to the spigots of credit and the trough of government largesse. Now, because the edifice of paper money is crumbling, the truth about money and gold and silver is finally being discussed—at least on the internet.

Gold and silver are money because gold and silver have intrinsic value and function as storehouses of value as well as mediums of exchange. Fiat money, paper money, has no intrinsic value. What fiat money does possess is the ability to masquerade as money.

This ability, however, is temporary for governments and bankers cannot resist the considerable temptation that paper money presents to them—for governments, to spend what they do not have and for bankers, to extend credit and debt beyond the limits gold and silver that would otherwise present.

Money is a most interesting topic and because of its current abuse, we are only now once again beginning to understand the monetary roles of gold and silver. Recently, at Session IV of Gold Standard University Live, in Hungary, I was fortunate to hear Professor Antal Fekete expound on the historic role of gold in monetary systems.

It is self-evident that gold and silver possess monetary qualities that fiat monies do not. What are less well-known are the virtues that such metals bring to economies that understand their correct usage and role.

It is a world quite unlike ours, a world where producers and savers, not speculators, are protected and rewarded, where the value of bonds are constant, where interest rates are stable because of market forces, not subject to the whims of politicians and bankers.. Such were the considerable thoughts and insights Professor Fekete provided on these critical matters.



On our return from Hungary, Martha and I again stopped at the Bank of England on Threadneedle Street in London, the fountainhead of central bank credit-based money. Over the Christmas holidays, I had worn my bespoke pin-striped suit made of fine English gabardine complete with vest and gold chain when I had my photo taken. This time, however, due to the accelerating decline in the fortunes of central bankers everywhere, I decided a more casual attire would be more appropriate.

Regarding fiat money, I cannot more highly recommend Ralph T. Foster's *Fiat Paper Money—The History And Evolution of our Currency*, a well researched and fascinating account of fiat currencies throughout history. Once read, you will never again believe that governments and bankers can resist the temptation to gain by the

debasement of currencies. Our present circumstances are a case in point. (\$28.50 by Ralph T. Foster, tfd@pacbell.net (510) 845-3015)

Money is a most important matter and we should seek to understand its history for our future depends upon it.

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