

# CENTRAL BANKING

## WHY FIX WHAT DOESN'T WORK?

### *Time of the Vulture*

*In times of expansion, it is to the hare the prizes go. Quick, risk taking, and bold, his qualities are exactly suited to the times. In periods of contraction, the tortoise is favored. Slow and conservative, quick only to retract his vulnerable head and neck, his is the wisest bet when the slow and sure is preferable to the quick and easy.*

*Every so often, however, there comes a time when neither the hare nor the tortoise is the victor. This is when both the bear and the bull have been vanquished, when the pastures upon which the bull once grazed are long gone and the bear's lair itself lies buried deep beneath the rubble of economic collapse.*

*This is the time of the vulture, for the vulture feeds neither upon the pastures of the bull nor the stored up wealth of the bear. The vulture feeds instead upon the blind ignorance and denial of the ostrich. The time of the vulture is at hand.*

page 1, Topic I, *How to Survive the Crisis and Prosper In the Process*  
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Economics is not rocket science. Today's use of mathematical formulae to explain economics performs the same function as did the use of Latin during the Dark Ages for the Catholic Church.

*You don't need mathematics to explain economics*

Professor Antal E. Fekete

Expert on gold & the markets

Professor of Mathematics 1958-1993

To understand modern economics, however, it is necessary to understand credit. Prior to credit-based paper money, credit did not play the same role as today. Now, however, credit and its cancerous twin, debt, are the very foundation of all modern economies.

The relationship between credit and modern economies is similar to that between steroids and athletic performance. Before credit based money, markets were free and economies functioned according to existing supply and existing demand; but with the introduction of credit based money and central banks, that relationship changed dramatically.

Economies now respond primarily to the supply and cost of credit, not to the natural demand of free markets; and, today, the ability to absorb credit's consequent and

compounding debt is the single most important factor of market health in credit based modern economies.

While credit enhances economic expansion much as steroids enhance athletic performance, just like steroids, the enhancement is artificial and unless continued, is temporary. But, if continued, credit enhanced expansion will damage the economy just as continued steroid usage damages the physical body.

The experiment with credit based money and central banking began with the Bank of England in 1694. In my article *Christmas On Threadneedle Street & The Coming Depression*, <http://www.drschoon.com/articles%5CChristmasOnThreadneedleStreet.pdf>, I traced the history of credit based money and central banking from Victorian England to the present.

No experiment, no matter how long in existence, lasts forever. The world's experiment with credit-based "money" and central banking—and their bastard offspring, capital markets, is almost over; and, for those not in denial, the handwriting is clearly on the wall.

#### CHOKING ON CREDIT DROWNING IN DEBT

Capital is credit, not money, and although modern economists blur the distinction, that does not make it so. In the belief, however, lies the consequence. We have acted as if credit is money and have, as a consequence, become collectively indebted into perpetuity. Why this has happened is obvious.

Who profits from debt?  
Bankers  
Who runs our economies?  
Bankers

Prior to the 1700s, bankers played but a minor role in economies. Then called money-lenders—those whose livelihood was the charging interest on the lending of gold—their profession was held in low esteem, unlike today. At the time, the Catholic Church considered the charging of interest on the loaning of money to be a sin.

#### THE ALCHEMY OF CENTRAL BANKING THE SUBSTITUTION OF PAPER COUPONS FOR GOLD

Today, bankers profit not by charging interest on the loaning of gold, but by charging interest on the loaning of paper money from central banks. The creation of central banks allowed bankers to substitute paper coupons, *sic* paper money, printed by central banks for the gold they had previously loaned. Not bad—if you're a banker.

This is the true miracle of modern banking—the substitution of paper coupons for gold and the ability to loan the coupons and still charge interest. In truth, it is not a miracle at all. It is a monetary abomination for which we are about to pay.

The “miracle” or trick of substituting paper coupons for gold could not have been accomplished without the active aid and complicity of governments. The link joining private bankers and public government is central banks, a private institution that allegedly acts on behalf of the public interest—and if you believe that, well, unfortunately you’re among the majority that erroneously do.

It is through the device of central banking that governments have been able to indebt their citizenry into infinite debt. By allowing central banks to debase currencies and issue debt as money, governments have been able to indebt future generations and spend their revenues today, revenues that don’t really exist except through the “miracle” of central banking.

Central banks gave government what governments truly desired—the ability to spend more than what they have. They couldn’t do it with gold but they could do it with central bank coupons masquerading as money; and, in return for this extraordinary gift, governments turned over to private bankers one of the most important powers of government, the power to coin money.

With the power to coin money, bankers immediately substituted credit based paper coupons for the gold and silver which previously circulated as money. By this substitution, governments delivered their citizenry into bondage to the bankers forever. Today, the amount of our collective and individual debt and its compounding interest is incapable of ever being repaid.

For this sorry state of affairs, we can thank our elected representatives and our respective governments. The blame, however, must be reserved for ourselves. The US is a democracy and the power to prevent this was granted to us in the US Constitution. Unfortunately, that power was never exercised—and now it is too late.

## THE GAME IS OVER

*..the ability to absorb credit’s consequent and compounding debt is the single most important factor of market health in credit based modern economies.*

Debt markets are now collapsing much to the surprise of bankers and their government overseers, i.e. co-conspirators. The whole gambit of bankers—central, commercial, and investment—and their cohorts in government were caught off-guard by the sudden contraction of debt markets in August 2007, a contraction that is continuing today in spite of central banks and governments “best efforts” to supply more credit in the hopes of saving the markets responsible for filling their troughs.

## MORE CREDIT WON'T WORK WHEN THE PROBLEM IS DEBT

From Doug Noland's April 4, 2008 Credit Bubble Bulletin:

March 28 - Financial Times (Paul J Davies): "Global debt issuance collapsed in the first quarter as the credit crunch took its toll on new deals in all sectors... Total debt market volumes were \$1,030bn in the first quarter, a 48% drop compared with the same quarter a year ago, while total syndicated loan market volumes were \$599bn, a 47% drop versus the same period last year, according to Dealogic... The numbers illustrate how the withdrawal of liquidity from the world's debt markets in the wake of the turmoil that began in the US mortgage markets has affected everything from the safest corporate borrower to the most risky private equity backed leveraged buy-out deal. Structured finance markets, which cover mortgage-backed bonds and complex products such as collateralized debt obligations, unsurprisingly suffered the worst contractions. Globally, new deal volumes of just \$81.5bn were 89% less than the first quarter of 2007. This volume was the lowest since the first quarter of 1996.

March 31 - Reuters (Nancy Leinfuss): "U.S. issuance of asset-backed securities tumbled 83% in this year's first quarter as investors fled the risky subprime mortgage segment that fueled a global credit crisis in 2007. ABS issuance slumped to \$54.7 billion in this year's first quarter compared with the \$323.3 billion sold in the year-ago quarter, Thomson Financial said...

Doug Noland's article confirms in detail the continuing collapse and marked slowing of debt markets, a slowing that will lead to another Great Depression and the end of capital markets if it continues and it will. The end game is now in motion—albeit a very deadly slow motion.

*If capital expansion slows, like bicycles, capitalism doesn't do as well at slow speeds.*

Capital markets did not exist before credit based money was invented and central banking "appeared" in 1694. They will not exist in the future—at least not in their present form.

## THE LAST HAPPY CHRISTMAS

The collapse of the markets in summer 2007 was the first sign that credit based modern economies were unraveling. At the time, Martha and I were in Szombathely, Hungary, attending Session II of Gold Standard University Live; and, although far from the markets, the internet brought us daily updates of problems in London, New York, Shanghai, Tokyo etc.

On our return to the US, we stopped in London and booked a hotel in The City, the name given to London's financial district. The City was unusually quiet on Monday August 27<sup>th</sup> as it was an official Bank Holiday, nonetheless, the silence and lack of activity on a weekday in London was eerie, perhaps signaling a portent of what was to come.

But another disturbing portent was the US Christmas season. Usually, stores and malls are filled with increasingly frantic shoppers hoping to complete their quotas of presents before Christmas Eve.

This year, however, the Christmas shopping season was very different. The malls were half empty and the crowds were far less from what we had come to expect. It was then that it occurred to me—that in the future, Christmas 2007 was going to be remembered in America as *the last happy Christmas*.

Martha and I returned to London in December to celebrate our own Christmas. This time we stayed on Threadneedle Street almost directly across from the Bank of England. We wanted to see the Central Bank up close, where coupon money had been first printed and then passed on to an unwitting public; and, we had more than the usual interest in the Bank of England's museum which gives the Bank's sanitized version of the evolution, *sic* debasement, of money.



Of course, being the Christmas holidays, the financial district surrounding the Bank of England was quiet. But irrespective of the holidays, since our visit in August, financial activity in The City has lessened considerably.

Instead of record highs in the financial markets and commensurate bonuses, the closing down of hedge funds and the laying off of workers in the financial sector is now the normal news. It will not, however, be the same next Christmas. It will be worse.

Darryl Robert Schoon at The Bank of England on Threadneedle Street, Christmas Day 2007

## THE ONLY ROAD OUT

If you have faith and investments in gold and silver, you're going to need them both in the days ahead; and, of the two, faith will be the more valuable. The bill for our experiment with central banking and credit based money is now due and owing and is about to be paid by all of us. The settling of debts will not be pleasant.

The birth of credit based money and modern economies began in England at the Bank of England in 1694. It will not, however, end there. It will end wherever credit's long grasp has reached. It will end in your country, in your town and in your city. It will end in your bank and in your bank account. It's going to be ugly. The Time of the Vulture is at hand.

Note: I will be speaking at Professor Antal E. Fekete's Session IV of Gold Standard University Live (GSUL) July 3-6, 2008 in Szombathely, Hungary. If you are interested in monetary matters and gold, the opportunity to hear Professor Fekete should not be missed. A perusal of Professor Fekete's topics may induce you to attend (see <http://www.professorfekete.com/gsul.asp>). Professor Fekete, in my opinion, is a giant in a time of small men.

Darryl Robert Schoon  
[www.survivethecrisis.com](http://www.survivethecrisis.com)  
[www.drshoon.com](http://www.drshoon.com)