

# THE COLLAPSE OF CAPITALISM AND THE SAFETY NET OF GOLD

*For Ponzi schemes to succeed, they must expand faster than the request for redemptions. If they do not, they will collapse. This is what happened to Bernard L Madoff Investment Services, the largest Ponzi scheme in history. The same is about to happen to capitalism.*

Although capitalism is not a Ponzi scheme, credit-based economies, *sic* capitalism, and Ponzi schemes share the same fatal flaw. Both must constantly expand or they are in danger of collapse. Today, because capitalist economies are no longer expanding, but contracting, their continued contraction will lead to collapse.

## PUNDITS PUNDIDIOTS & PREDICTIONS

Dr. Philip Tetlock, author of *Expert Political Judgment* (Princeton University Press, 2005), has done remarkable work regarding the ability to accurately predict future events. In a highly disciplined scientific study, Dr. Tetlock had asked experts to predict future events and over 20 years analyzed their predictive accuracy and methodology of thinking.

Tetlock's study concluded that experts are no better in predicting the future than anyone else; in fact, the better known the expert, often the lower the ability to accurately predict. Louis Menand's review of Tetlock's *Expert Political Judgment* in *The New Yorker* perhaps says it best:

*..Tetlock claims that the better known and more frequently quoted they [experts] are, the less reliable their guesses about the future are likely to be. The accuracy of an expert's predictions actually has an inverse relationship to his or her self-confidence, renown, and, beyond a certain point, depth of knowledge.*

On March 2, 2007, Dr. Tetlock spoke to the Positive Deviant Network by speaker phone as he was unable to attend in person. Martha and I were in the audience along with other members of the PDN.

The previous day we had distributed my 148 page analysis of the US and global economy to the PDN. In *How To Survive The Crisis And Prosper In The Process, The Time of the Vulture*, I had predicted prices of US and global real estate would fall 40 to 70 % and the stock market 70 to 90 %, plunging the US and perhaps the world into another Great Depression.

At the time in the early spring of 2007, there was no evidence of an impending economic disaster. The next day when the feedback came back from the PDN, it was neither pleasant nor positive. Perhaps it was a variant of the "shoot the messenger" syndrome, but there was loud and vocal opposition to the dire economic predictions I had made.

Later that day, again by speaker phone, when PDN members were given the opportunity to engage in a dialogue with Dr. Tetlock, PDN member Dr. James Hardt, a neuroscientist and researcher on the effect of brain waves on human consciousness took the opportunity to say that he had read my economic analysis and found it remarkable.

The comment by Dr. Hardt was especially meaningful as Dr. Hardt had scored far higher than all other PDN members in both knowledge-based and predictive tests. The PDN experience underscored the fact that the truth—when unpleasant and predicted—is rarely welcome in any venue.

The reason why pundits are popular is not because they tell the truth. Pundits are popular because they tell people what they want to hear, the truth notwithstanding. The unpleasant truth is that the truth when unpleasant has never been popular.

In the past, I would have laid the cause of America's ignorance of economic issues at the foot of corporate and government interests who gain the most in today's corrupt environment. But the truth is the present state of ignorance and corruption could not have occurred without the abiding and willing denial of the American people.

Americans themselves have chosen denial, sound bites and slogans over substantive discourse and understanding. While in the short term it has been easier to do than the alternative, i.e. to think, in the long term it will prove fatal.

The bill for collective denial and ignorance is coming due in America; and, when it is paid—as it will be—America will never be the same. Nor, will the world

#### THE LAST STAGE OF CAPITALISM AND PONZI FINANCE

Like Ponzi schemes, capitalist economies must constantly expand or they will collapse. This is because capitalism is a system wherein credit-based money has been substituted for real money, i.e. savings-based money such as gold and silver; and credit-based money soon turns into compounding debt.

The end of such systems has always been bankruptcy. When credit-based economies contract, governments, businesses and families are no longer able to pay the principal and compounding interest on their debt and economic collapse results.

The current system began when the Bank of England, England's central bank, started issuing credit-based paper banknotes in place of gold and silver in 1694. This system was transferred by private bankers to America in 1913 in the form of the Federal Reserve Bank, the US central bank equivalent of the Bank of England.

The credit-based central bank system then spread after WWII to the rest of the world. As the credit-based system spread, so too did the resultant compounding debt and now, the day of reckoning for everyone has arrived.

## WHY IS EVERYONE SURPRISED?

When credit-based capitalist economies contract, they are unable to pay and service previously incurred debt. This is now happening in the US, the UK, the EU and Japan. After economic contraction, corporate, individual and government bankruptcy comes next. After sustained economic contraction, systemic collapse occurs.

Alan Greenspan, the pundit's pundit for much of the last three decades, presided over much of the expansion of global credit during and after the 1980s, an expansion that led to extraordinary and unsustainable levels of global debt.

The truth is levels of US debt have been untenable for much longer than we believe. Buckminster Fuller stated that the US was actually bankrupt in the 1930s, and that we have only postponed the realization of such and the inevitable day of reckoning by various forms of ledger sheet cheating.

While Alan Greenspan reigned as chief pundit for those who believed his economic prognostications to be true, the man who really understood our credit-based economy was Hyman Minsky, a little-known economist who, unlike Greenspan, happened to be right.

Hyman Minsky's perhaps greatest contribution to the current economic dialogue is his "financial instability hypothesis", which postulates that when capitalist systems mature, they became increasingly unstable.

Minsky's theory did not sit well with those in government and Wall Street who presided over increasingly mature capitalist markets. They instead much preferred the more positive outlook of Alan Greenspan, "the thinking man's Abby Joseph Cohen", who publicly saw only a "bit of froth" as the greatest financial storm of the century, the next Great Depression, was brewing.

## IF ALAN GREENSPAN WAS A CARDIOLOGIST ALL HIS PATIENTS WOULD BE DEAD

In Minsky's "financial instability hypothesis", the ability to pay the principal and interest on debt is the critical marker. There are three types of "units" in Minsky's financial instability model, each type/unit more unstable than the previous.

The first type, *hedge financing units*, possess the ability to pay both principal and interest payments from existing cash flow. This is the optimal mode. The second type, *speculative finance units*, cannot repay principal payments but can meet their existing obligations by "rolling over" their debt.

The third type in Minsky's model are *Ponzi units* which can only pay down debt by selling assets or by borrowing. This is the most common form of debt repayment today. This is because as per Minsky's model, capitalist markets are now mature—perhaps

overly mature and somewhat incontinent and beginning to smell—and have thus made the progression from hedge to speculative to Ponzi finance.

### BERNARD MADOFF’S BROTHER SAM

In 1960, from the very beginning when Bernard Madoff first began soliciting money, the end of his scheme was destined. But because Bernard Madoff was unusually bright and capable, his Ponzi scheme lasted far longer and was far more successful than any such previous scam.

The same can be also said for the Ponzi scheme of Bernie’s brother, Sam, aka “Uncle Sam”. But unlike Bernie, Uncle Sam did not think up his scheme on his own. He was acting as the agent of the original schemers in England who realized that England’s economy was no longer expanding as it had previously in the 18<sup>th</sup> and 19<sup>th</sup> centuries.

So, in the early 20<sup>th</sup> century, in 1913, the original schemers convinced Uncle Sam to run the same scheme in America that had been so profitable to them in England. The scheme was capitalism, *def. commerce in combination with capital markets founded on credit-based paper money issued from a central bank.*

The scheme was to profit by indebting businesses, entrepreneurs, workers and savers and government and, as bankers, the schemers would get rich off the hard work, savings and productivity of others; and, in the US, their scheme worked as well as it had in England.

As the economy expanded and the nation became increasingly indebted, bankers became increasingly wealthy. It is no coincidence that the “financial services sector, *sic* the paradigm of parasites” recently comprised the largest share of both the UK and US economies, economies which correspondingly had the lowest rate of savings in the world.

It is also no coincidence that as the indebtedness of each nation grew the share of economic activity and the exorbitant salaries and bonuses of bankers grew as well. Unfortunately for the host and parasite in capitalist economies, there is a limit to how much a parasite can safely take from the host before the host dies, a limit only discovered after the process has gone too far.

In December 2008, the end came for Bernie’s Bernard L Madoff Investment Services. In 2009, the same will happen to his brother, Sam who is now using Ponzi finance to pay for US borrowing. In 2009 or some time shortly thereafter, the credit-based paper money scheme of bankers, *sic* capitalism, will bring down what but a few decades ago was the most powerful economy in the world, the United States of America. Uncle Sam, just like his brother Bernie, is toast.

*“Look, they’re circling the wagons.”*

*“But we’re not in the circle.”*

*“Thought you would be?”*

When wagon trains would come under attack, the wagon masters would “circle the wagons” for protection. Such is happening today as capitalism itself is now under attack.

What Americans are finding out, however, is that only the bankers are currently inside the circle—bankers are now the only ones being protected, the very ones responsible for the crisis in the first place. Observers and especially Americans might believe that something is wrong with this picture.

What they do not understand is that the picture is a perfect reflection of the power dynamic underlying capitalism. Bankers could not have accomplished their nefarious ends had they not first secured the full cooperation and protection of government.

This they did in England when they promised King William they would extend all the credit he wanted to wage his wars. This was replicated in the US when private bankers staged a midnight coup by passage of the Federal Reserve Act in 1913 which illegally transferred the right to issue money from government into the hands of private bankers.

This is the reason the US government has first protected the bankers, not the public, in this crisis. Bankers give government the unlimited credit that governments overspend, thereby indebting the nation and future generations into perpetuity. The US government bailout of bankers, TARP, is “owe-back” time.

The rest is history, or is about to become so. When people have their eyes shut and their minds closed, they will not see nor understand what is happening to them. Trust me on this, although many will not understand what is about to happen, it will not prevent it from happening.

What we are about to experience is an economic tragedy in personal terms that will exceed anything in recent memory. Even the Great Depression of the 1930s will not equal what is now about to be; and those who thought their adherence to a belief system about God was faith are now about to find out the difference.

#### IGNORANCE DENIAL CONSEQUENCES

Uncle Sam is now engaged in the same activity that caused Bernie’s investors so much trouble, the use of Ponzi finance to pay bills. It is estimated that the US deficit may increase this year by two trillion dollars. As recently as 1980, the total US debt after 200 years was only \$980 billion dollars.

Now, 28 years later, US indebtedness will probably exceed \$12 trillion, a very, very large sum—unless of course it is not going to be paid back. The truth is all countries are now running deficits and all major economies have determined that extraordinary levels of fiscal stimulus are needed to avert a global deflationary collapse.

Where is all the money going to come from? While some economic answers are difficult to come by, the answer to that question is very simple. The currencies of all countries are now fiat, meaning they are but paper coupons printed at will by their governments.

The answer is: Governments will print the money they need.

It is said that Fed Chairman Ben Bernanke studied the Great Depression and concluded the road not taken was the correct answer to what would have prevented the Great Depression, that infinite liquidity could have prevented the deflationary collapse if made available in time.

Ben Bernanke's answer closely resembles that which would be given by a focus group of New York heroin addicts, that only an unlimited and immediate supply of heroin would offset the irreparable pain and harm that would otherwise result if nothing is done.



HELICOPTER BEN IS AFFECTIONATELY KNOWN AS  
NEEDLE BEN TO THE CREDIT JUNKIES ON WALL STREET

THE EXPIRATION DATE WRITTEN IN INVISIBLE INK  
ON PAPER MONEY WILL BE DETERMINED BY  
THE SPEED OF THE PRINTING PRESSES

When will the yen go to zero?  
When will the dollar disintegrate?  
When will the pound become worthless?  
When will the time be too late?

Listen to the speed of the presses  
As money is made overnight  
The faster the presses are running  
The closer the time will be for flight

But no one can tell the hour  
When money will lose its worth  
For the future is still too cloudy  
And tomorrow's yet to be birthed.

But the day is coming so trust me  
Don't trust the money they print  
Whether a dollar a euro or peso  
It ain't comin' out of a mint

It's printed with ink on some paper  
But it used to be silver or gold  
When money was more than a promise  
Not a fraud that we've been sold

## THE PRINTING PRESSES ARE RUNNING

This process has already begun. M1, the measure of “narrow money aggregates”, the amount of cash and coins in circulation and in overnight deposits has been rising in the past six months.

M-3, the broadest measure of monetary aggregates is no longer made public by the US government. But M-3 will explode upwards as governments seek to provide even more credit to deflating markets, a fact the US government does not want known.

### M-1, NARROW MONEY AGGREGATES 13 WEEK RATE-OF-CHANGE. US FEDERAL RESERVE

Week ending June 9, 2008 - 0.1 %  
Week ending July 28, 2008 + 2.9 %  
Week ending Aug 25, 2008 + 6.2 %  
Week ending Sept 29, 2008 + 8.8 %  
Week ending Oct 27, 2008 +14.8 %  
Week ending Nov 24, 2008 +22.6 %  
Week ending Dec 29, 2008 +32.2 %

Ben Bernanke's antidote to a US deflationary depression may well result in hyperinflation. Hyperinflation will spell the end of the US currency because hyperinflation removes all remaining vestiges of confidence in paper money.



Confidence is the essential ingredient in the global con game called capitalism now being run by bankers and their unwitting co-conspirators in government, a game that is now about to end.

In the near future, paper money will become increasingly worthless as all governments increase the printing of their respective currencies hoping to prevent deflationary forces from progressing. Governments will be helpless to do so but this will only cause more money to be printed in the futile hope of containing that which cannot be contained.

No experiment with paper money has every worked. The primary intent has always been to spend what does not exist. This underlying intent will in the end destroy whatever paper money has built in the interim.

Were it not for the safety concerns about the ink used in the printing of paper money, in the future the best use for paper money would be as toilet paper—of course, the quality of the paper would have to be much improved in order to gain wider acceptance.

## **Official Federal Reserve Issue Tissue**



### **FREEDOM VERSUS FRAUD A CRASH COURSE IN THE AUSTRIAN SCHOOL OF ECONOMICS**

Bernard Madoff's fraud lasted 48 years and took in \$50 billion. However, the monetary fraud perpetrated by bankers in collusion with government has lasted far longer and has taken in far more than Bernie's home grown Ponzi scheme—and the pain and losses will be commensurately greater as well.

Ludwig von Mises, Carl Menger, Eugen von Böhm-Bawerk, and Friedrich Hayek are the best known proponents of the Austrian School of Economics. Like Hyman Minsky, they are not as well known as John Maynard Keynes, Milton Friedman and Alan Greenspan. The reason being is that they served the truth whereas Keynes, Friedman and Greenspan served power.

From Wikipedia:

*Austrian School economists advocate the strict enforcement of voluntary contractual agreements between economic agents, the smallest possible imposition of coercive (especially government-imposed) commercial transactions and the maximum openness to individual choice (including free choice as to the voluntary means of exchange).*

What most do not understand is that today's markets are not free. Believing they are free and being told it is so is not the same as being so. Government intervention occurs no less in today's capitalist markets than it did in yesterday's communist markets. The only difference being method and subtlety.

The manipulation of the gold price, intervention in foreign exchange markets, the raising and lowering of interest rates, the use of tax incentives to promote/distort economic activity are all signs of government intervention. Compared to communism, capitalist markets indeed appear free. Compared to free markets, capitalism is a rigged game.

### GOLD MODERN ECONOMICS AND THE TRUTH

We are now approaching the end-game, the resolution of past economic sins that cannot be banished by government intervention. Indeed, it is government intervention at the direction of bankers that caused today's problems. More of the same will only result in more of the same.

The bankers' scam could not have happened had not King William allowed England's bankers to replace England's gold and silver coins with paper bank notes in 1694. Capitalism's resultant empire known first as imperialism and later as globalization lasted 315 years. It is now about to end.

As paper currencies increasingly lose value, the price of gold and silver will rise. As those in government know all too well, gold and silver move inversely to the value of paper assets in fiat systems.

Economics is not rocket science and neither is fraud. But "modern economics" is a misnomer, modern economics is a monetary fraud clothed in the guise of free markets. If you truly want to be free, this is something you might want to think about—that is, if you want to think.

### PROFESSOR FEKETE AND THE AUSTRIANS

Professor Fekete was responsible for bringing the major figures of the Austrian School of Economics to my attention. When this era is over, when the excessive debt created by excessive credit has swept away the hubris of Keynes and Friedman, the Austrians will have been vindicated by history.

The theories of the Austrian School were dismissed in the universities that taught that gold and the gold standard were relics of a bygone era, relics which had no relevance to the financially sophisticated markets of today.

Recent events have proved the universities wrong and the Austrian School of Economics right. I am forever indebted to Professor Fekete for his introduction to these theories, theories which clearly explain the events of today.

I still remember the article in which Professor Antal Fekete pointed that bank access to cheap credit would not prevent systemic deflationary collapse in these times. That such a policy would result in bankers borrowing freely at the trough of government credit but the credit would not be passed on. Instead, it would be used by banks to invest in bonds and other "safer" financial assets.

This is exactly what is happening today and I can do no more than to suggest that those seriously interested in this crisis to further acquaint themselves with Professor Fekete's writings, and if possible, to attend his upcoming lectures March 27-29 in Szombathely, Hungary. I will also be giving a talk. For information, contact [GSUL@t-online.hu](mailto:GSUL@t-online.hu).

Lies will seek you out, but the truth must be sought.

Faith, gold and silver will be priceless in the days ahead.

Darryl Robert Schoon

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