DON’T CRY FOR ME ARGENTINA

SAVE YOUR TEARS FOR YOURSELF

While bankers do control the issuance of credit, they cannot control themselves. Bankers are the fatal flaw in their deviously opaque system that has substituted credit for money and debt for savings. The bankers have spread their credit-based system across the world by catering to basic human needs and ambition and greed; and while human needs can be satisfied, ambition and greed cannot—and the bankers’ least of all.

I have a bad feeling about what’s about to happen. The Great Depression is the closest that comes to mind. I, like most, was not alive during the 1930s when it happened. Nonetheless, what once was feared in private is now being discussed in public. It’s going to be bad. It’s going to make high school seem like fun.

THE UNITED STATES OF AMERICA
THE NEXT ARGENTINA

This Time is Different: A Panoramic View of Eight Centuries of Financial Crises by University of Maryland‘s Carmen Reinhart and Harvard’s Kenneth Rogoff makes for perfect reading when flying between the US and Argentina.

There is perhaps no better analysis than Reinhart and Rogoff’s on the history of sovereign defaults; and, as such, Reinhart and Rogoff’s paper was ideal reading material when traveling between the US and Argentina, for the sovereign defaults that happened in the past to Argentina will soon be happening to the US.

But a US default will make Argentina’s debt defaults pale both by comparison and consequence. The US, unlike Argentina, is the world’s largest economy, the issuer of the world’s reserve currency and the world’s largest debtor—and a default by the US on its debt will shake the very foundations of our increasingly fragile global economy.

SOVERIGN DEBT
LIQUIDATING AMBITION

The power of ambition is extraordinary. The power of ambition transformed the US from the world’s only creditor after WWII into the world’s largest debtor in less than fifty years. Wanting to emulate England’s 19th century empire in the 20th, the US instead has mirrored England decline in the 20th century here in the 21st.

Credit and borrowing fueled America’s ambitions in the 20th century as it had England’s in the 18th and 19th. During the 1980s, to pay for President Reagan expansion of the military, the US quadrupled its national debt in less than a decade by borrowing three trillion dollars during a presidency pledged to balance the budget.

When Reagan took office, US debt totaled one trillion dollars. When Reagan left office, US debt totaled four trillion dollars. Reagan's vaunted slogan of fiscal conservatism was just that—a slogan; and while talk is cheap, the debts now have to be repaid.

Just as the costs of WWI forced England to abandon the gold standard in the early 1900s, post WWII military spending forced the US to suspend the convertibility of the US dollar to gold in 1971; and the consequences, e.g. burgeoning trade deficits and global currency instability, are now putting unsustainable strains on a financial system already *in extremis*.

Ambition has its price and the bill is now due and owing. The question is: how will the US pay what it owes? In Hyman Minsky's Financial Instability Model, the US is close to "Ponzi status" if not already there since the US is having to roll its debt forward and borrow from others to pay the interest as it can no longer pay down the principle.

In 2006, in an article published by the St Louis Federal Reserve Bank, Professor Laurence Kotlikoff stated the US was "technically bankrupt" as there was no way the US could pay the $65.9 trillion it owed.

Evidently, Professor Kotlikoff was conservative in his estimate or we're going downhill faster than he knew. Just three months ago, on May 28, 2008 Richard W. Fisher, President and CEO of the Dallas Federal Reserve Bank estimated the obligations of the US to be actually $99.2 trillion, 50 % higher than Kotlikoff's figures.

Fisher stated:
In the distance, I see a frightful storm brewing in the form of untethered government debt. I choose the words—"frightful storm"—deliberately to avoid hyperbole. Unless we take steps to deal with it, the long-term fiscal situation of the federal government will be unimaginably more devastating to our economic prosperity than the subprime debacle and the recent debauching of credit markets that we are now working so hard to correct.

Fisher should know what the US owes and the danger that sum represents. As President and CEO of the Dallas Federal Reserve Bank, Fisher is a part of the Federal Reserve System—the very system that has indebted America into perpetuity when its credit-based money forced out gold and silver based money in 1913.

But in his speech Fisher said nothing about the role the Federal Reserve has played in America's fatal dance with debt, warning instead about the increasing costs of entitlements such as Social Security and Medicare.

Fisher is part of a larger effort to now blame America's entitlements as the primary cause of our problems, assiduously avoiding the role his own Federal Reserve Bank has played in sinking our once wealthy nation into perpetual indebtedness.

In truth, the entitlement program that poses the greatest threat to America is—and always has been—the Federal Reserve System. Without the Federal Reserve's credit-based money whose compounding interest (paid to the bankers) is obliged to be paid for by a possibly unconstitutional US income tax [note: the Federal Reserve Act and Federal Income Tax were both instituted the same year in 1913], the US would not be indebted and bankrupt as it is now.

If Ben Bernanke and Richard Fisher et. al. at the privately owned Federal Reserve Bank resigned and stopped plundering the US for their own benefit at the expense of the public in order to line the pockets of their banker friends with public funds, the US might have a chance of successfully getting out of this mess.

But, of course, they won't and the now privately controlled US government will continue to indebt the American public so insiders can continue to profit immensely at the public trough. But the question still remains, how will the US pay its unpayable debt? The answer is as clear as it is obvious. It won't because it can't.

DEBT & DESTRUCTION SOUTH OF THE BORDER

In their well-researched paper, *Serial Defaults and Its Remedies*, Reinhart and Rogoff write "Cycles in capital flows to emerging markets have now been with us for two hundred years". If we are to understand the dynamics of serial default, it would do us well to look at these cycles and their relevance to what is happening today.

Serial Defaults and Its Remedies, Section 2. Capital Flow Cycles and the Syndrome of "This Time Is Different":
..a pattern of borrowing followed by crisis is evident in the string of defaults during 1826-28 in Latin America that come on the heels of the first wave of massive capital flows from Britain into Latin America in 1822-25…A second wave of capital flows from Britain came during the 1850s and 1860s. The cycle ended with the crisis of 1873. The next wave of capital flows into emerging markets coincided with the shift of the financial epicenter of the world from London to New York. Among Latin American countries, the borrowing binge of 1925-28 was [financed] with "cheap" money from New York. Capital flows peaked in 1928, the year before the U.S. Stock market crash ushered in financial and currency crises around the world and eventually an international debt crisis during 1929-33.

Argentina is at the very epicenter of Latin America borrowings and defaults and a cursory judgment may well lay the blame for such on Argentina. But understanding the past is akin to sedimentary sampling and a deeper reading of events reveals far more than the too familiar story of a spendthrift deadbeat nation borrowing more than prudence would otherwise dictate.

The capital flows from England and the US in the last two hundred years to Latin America were flows of credit, not money. The distinction is critical in understanding what has happened during the last two centuries. It explains the basis of the British Empire and current American power. It also explains the exploitation of Argentina.

The British Empire was founded on the central bank invention of credit-based money and the subsequent ability to substitute this new “money” for costly gold and silver; and the issuance of paper money allegedly backed by gold and silver is a critical component in the confidence game of central bankers to pass off their printed coupons as the real thing.

What the private bankers accomplished with the creation of the Bank of England was the government’s “legitimization” of the bankers’ new credit based coupons, *sic* paper money—coupons upon which the private bankers could now charge interest just as they had when loaning actual gold (what a wonderful scam). The new coupons were a lot easier to come by, especially when the king gave them a monopoly over its issuance.

The advantage to the king was that the king now had an unlimited supply of “money” that could be used to finance his wars—wars which led to the establishment of the British Empire; the cost of which was transferred directly as a burden to the people as the new counterfeit debt-based money was now an obligation of the state, not of the king.

This was the genesis (genius to the bankers and government) of the modern income tax where the people are forced to pay interest on the credit-based money issued by their own government. This was also the beginning of credit-based markets, deceptively called capitalism in order to closely identify the newly counterfeit credit based economy with the real money it had replaced.

CAPITALISM
THE SPREAD OF DEBT IN DISGUISE

The flow of credit from England and then from its surrogate successor, the US, to developing nations such as Argentina was but the flow of printed coupons designed to harness and indebt the wealth and productivity of new lands.

The “capital” was really only credit, thinly disguised debt in the form of paper money originally issued by central banks, the Bank of England in Britain and the Federal Reserve Bank in the US, the twin towers of monetary Mordor.

The wonderfully sounding idea of unfettered capitalism is but a smokescreen for bankers to leverage their coupons in the form of credit and thereby indebt and control the productivity and wealth of others. As such, it has accomplished its goal admirably but its success will now cost the bankers dearly.

Three centuries of indebting nations, businesses, and the citizenry with constantly compounding debt is no longer sustainable. This is why central bankers in London, New York, Paris, and Tokyo are in such distress. Debtors can no longer pay their debts, defaults are on the rise and bankers may actually have to find real jobs if their confidence game continues to disintegrate.

BANKERS' FEARS

Lawrence Summers' credentials as a banker are impeccable. Educated at MIT and Harvard in economics, Summers has served as Chief Economist for the World Bank, US Secretary of the Treasury and President of Harvard University.

Recently, in March 2008, Summers stated:
..we are facing the most serious combination of macroeconomic and financial stresses that the U.S. has faced in a generation--and possibly, much longer than that…It's a grave mistake to believe in the self-equilibrating properties of economies in the face of large shocks. Markets balance fear and greed. And when fear takes over, the capacity for self-stabilization is not one that can be relied upon.

On June 29, 2008 the Financial Times quoted Summers:
... *we are in an economic environment where we have more to fear than fear itself…*

Lawrence Summer's fears are not to be taken lightly. They are the banker's equivalent of Jim Cramer's televised fit of fear when interviewed on CNBC last year, see http://www.youtube.com/watch?v=SWksEJQEYVU&eurl=http://eddriscoll.com/archives/2007_08.php.

While Summers is rightfully fearful of the current economic environment, the rest of us have far more to fear from bankers like Lawrence Summers and others like him. Summer's role in the manipulation of the price of gold is found in his 1988 paper *Gibson's Paradox and the Gold Standard* co-authored with Robert Barsky, published in the *Journal of Political Economy* (vol. 96, June 1988, pp. 528-550).

The hubris of bankers such as Summers is stunning. Fixing the price of gold hoping to control interest rates and prices is like fixing the temperature of thermometers hoping to control global warming. Such is the short reach of Summers' considerable intellect.

EVIL BANKERS
FACT OR FICTION?

But the real danger of bankers like Lawrence Summers lies not in their untethered intellect but in their cold ambition and selfish greed that sees nations and people as but living fodder to be milked, used and discarded as they and others profit.

In 1991, Summers issued the following memo while serving as Chief Economist at the World Bank:

…developed countries ought to export more pollution to developing countries because these countries would incur the lowest cost from the pollution in terms of lost wages of people made ill or killed by the pollution due to the fact that wages are so low in

developing countries…the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.

As the World Bank's Chief Economist, Summer's memo is a chilling reflection of the heartlessness that lies at the core of bankers and banking establishments. The World Bank itself seems to be a favorite watering hole for those of questionable intent.

Robert McNamara, the architect of the Vietnam War was President of the World Bank as was Paul Wolfowitz, the architect of the Iraq War. The current President of the World Bank, Robert Zoellick, is also an ardent supporter of the Iraq War (also on Zoellick's considerable list of "credits" is his service as advisor to Enron, his membership on the Council on Foreign Relations and Trilateral Commission and his attendance at the secretive Bilderberg meetings from 1991 to the present and his role as Senior International Advisor to investment bank Goldman Sachs).

It is no coincidence that those heading the World Bank are closely associated with America's vast war machine. Bankers have profited from fueling the military ambitions of both England and the US for the past two centuries and continue to do so today.

But perhaps the most damning indictment yet of the World Bank and today's bankers is John Perkins's *Confessions of an Economic Hitman* (Barrett Koehler, 2004) in which Perkins reveals the hidden intent of the World Bank and US bankers to cold-bloodedly indebt third world countries such as Argentina and profit by their misery.

In their review of *Confessions of an Economic Hitman*, Russell Mokhiber and Robert Weissman write:

> *Remember Smedley Butler?*
>
> *He was perhaps the most decorated Major General in Marine Corps history. In the early part of this century, he fought and killed for the United States around the world. Butler was awarded two Congressional Medals of Honor.*
>
> *Then, when he returned to the United States he wrote a book titled "War Is A Racket" which opens with the memorable lines: "War is a racket. It always has been."*
>
> *"I was a high class muscleman for Big Business, for Wall Street and for the Bankers," Butler said. "In short, I was a racketeer, a gangster for capitalism."*
>
> *In a speech in 1933, Butler said the following:*
> *"I helped make Mexico, especially Tampico, safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank boys to collect revenues in. I helped in the raping of*

half a dozen Central American republics for the benefit of Wall Street. The record of racketeering is long. I helped purify Nicaragua for the international banking house of Brown Brothers in 1909-1912. I brought light to the Dominican Republic for American sugar interests in 1916. In China I helped to see to it that Standard Oil went its way unmolested."

Smedley Butler, meet John Perkins.

Perkins has just written a book, "Confessions of an Economic Hit Man" (Barrett Koehler, 2004). It is the War is A Racket for our times. Some of it is hard to believe. You be the judge.

In 1968, after graduating from Boston University, Perkins joined the Peace Corps and was sent to Ecuador. There, he was recruited by the National Security Agency (NSA) and hired by an international consulting firm, Chas. T. Main in Boston.

Soon after beginning his job in Boston, "I was contacted by a woman named Claudine who became my trainer as an economic hit man." Perkins assumed the woman worked for the NSA.

"She said she was sent to help me and to train me," Perkins said. "She is extremely beautiful, sensual, seductive, intelligent. Her job was to convince me to become an economic hit man, holding out these three drugs –- sex, drugs and money. And then she wanted to let me know that I was getting into a dirty business. And I shouldn't go off on my first assignment, which was going to be Indonesia, and start doing this unless I knew that I was going to continue doing it, and once I was in I was in for life."

Perkins worked for Main from 1970 to 1980. His job was to convince the governments of the third world countries and the banks to make deals where huge loans were given to these countries to develop infrastructure projects. And a condition of the loan was that a large share of the money went back to the big construction companies in the USA – the Bechtels and Halliburtons.

The loans would plunge the countries into debts that would be impossible to pay off.

"The system is set up such that the countries are so deep in debt that they can't repay their debt," Perkins said. "When the U.S. government wants favors from them, like votes in the United Nations or troops in Iraq, or in many, many cases, their resources – their oil, their canal, in the case of Panama, we go to them and say – look, you can't pay off your debts, therefore sell your oil at a very low price to our oil companies. Today,

tremendous pressure is being put on Ecuador, for example, to sell off its Amazonian rainforest -– very precious, very fragile places, inhabited by indigenous people whose cultures are being destroyed by the oil companies."

When a leader of a country refuses to cooperate with economic hit men like Perkins, the jackals from the CIA are called in. Perkins said that both Omar Torrijos of Panama and Jaime Boldos of Ecuador -– both men he worked with – refused to play the game with the U.S. and both were cut down by the CIA -– Torrijos when his airplane blew up, and Roldos when his helicopter exploded, within three months of each other in 1981.
If the CIA jackals don't do the job, then the U.S. Marines are sent in –- Butler's "racketeers for capitalism."

Perkins also gives lurid details of how he pimped for a Saudi prince in the 1970s, in an effort to get the Saudi royal family to enter an elaborate deal in which the U.S. would protect the House of Saud. In exchange, the Saudis agreed to stabilize oil prices and use their oil money to purchase Treasury bonds, the interest on which would be used to pay U.S. construction firms like Bechtel to build Saudi cities.

For years, Perkins wanted to stop being an economic hit man and write a tell-all book. He quit Main in 1980, only to be lured back with megabucks as a consultant. He testified in favor of the Seabrook Nuclear power plant ("my most infamous assignment") in the 1980s, but the experience pushed him out of the business, and he started an alternative energy firm.

When word got out in the 1990s that he was starting to write a tell-all book, he was approached by the president of Stone & Webster, a big engineering firm.

Over seven years, Stone & Webster paid Perkins $500,000 to do nothing.
"At that first meeting, the president of the company mentioned some of the books that I had written about indigenous people and said –- that's nice, that's fine, keep doing your non-profit work," Perkins told us. "We approve of that, but you certainly would never write about this industry, would you? And I assured him that I wouldn't."

Perkins assumes the money was a bribe to get him not to write the book.

But he has written the book.

You be the judge.

Evil bankers? Fact or Fiction? You be the judge.

DEFAULT OR JUST DEADBEATS

While Reinhart's and Rogoff's work on sovereign default is worthwhile and important, their glaring avoidance of the geopolitical aspect of credit flows from England and the US to Latin America and other developing regions is indicative of the blind eye scholars turn to the activities of those who pay them.

Lawrence Summers was President of Harvard University where Kenneth Rogoff is now employed. It is not likely those who hired the likes of Summers would look kindly upon Rogoff should he begin asking questions whose answers would lead to truths Harvard's trustees would rather not see the light of day.

So instead of dealing with the critical issues raised by John Perkins, Reinhart and Rogoff consider the phenomena of sovereign defaults as an innocent rite of passage much like high school through which developing economies must pass. Perhaps it is so, perhaps not.

But their "trained" eye wanders a bit, even to an untrained eye such as mine. According to Reinhart and Rogoff, the US is a "default virgin", *sic* the US has never missed a debt repayment or rescheduled on at least one occasion. While this is strictly so, the US is nonetheless at the center of the largest default in monetary history.

In the 1970s, the US defaulted on its gold obligations under the Bretton-Woods Agreement. After overspending the greatest hoard of gold in history, 21,775 tons, between 1949 and 1971, the US had 7,000-8,000 tons of gold left and still owed perhaps over 31,000 tons to others.

In 1973, when the US officially refused to convert US dollars held by other countries to gold, it was the biggest monetary default ever. In that one act, as a consequence the entire global monetary system shifted from a gold-based system to a fiat-paper system.

Of the US default on its gold obligations, Professor Antal Fekete wrote in June 2008:
http://www.professorfekete.com/articles%5CAEFItsNotADollarCrisisItsAGoldCrisis.pdf
Thirty-five years ago gold, symbol of permanence, was chased out from the Monetary Garden of Eden, replaced by the floating irredeemable dollar as the pillar of the international monetary system. That's right: a floating pillar. The gold demonetization exercise was a farce. It was designed as a fig leaf to cover up the ugly default of the U.S. government on its gold-redeemable sight obligations to foreigners. The word 'default' itself was put under taboo even though it punctured big holes in the balance sheet of every central bank of the world, as its dollar-denominated assets sank in value in terms of anything but the dollar itself. These banks were not even allowed to say 'ouch' as they were looking at the damage to their balance sheets caused by the default. They just had to swallow the loss, obediently and dutifully join the singing of the Hallelujah Chorus of sycophants in Washington praising the irredeemable dollar and the Nirvana of synthetic credit.

Debt virgin? Hardly, and whether the US defaulted or not is not just a question of semantics, it is a matter of truth—which, like credit, is now surprisingly hard to come by.

THIS TIME IT'S DIFFERENT

Carmen Reinhart and Kenneth Rogoff's paper, *This Time It's Different*, refers to the idea that sovereign defaults are a thing of the past. That we have somehow fixed what was wrong and it won't happen again. Reinhart and Rogoff think otherwise.

But this time, in a different way it really is different. This time default will come to both banker and debtor alike. The bankers' system itself is now collapsing under the weight of debt that the bankers' debt-based money has produced.

Banks are finding themselves increasingly bankrupt as are the governments the bankers used to debase the world's currencies. This time, not only will Argentina possibly suffer another sovereign default, so too will its creditor, the US, as will many of the US banks that issued that debt.

The default of the US will remain, however, outside the limited definition of default used by Reinhart and Rogoff. The US will not miss a payment or reschedule its debt. Unlike Argentina, the US prints the currency in which the Argentine and US debt is denominated. The US will print its way out of its debts. Argentina cannot.

Because of the enormity of the US debt, the amount of dollars necessary to print to pay down the debt will lead to the hyperinflation in the US and the destruction of the US dollar. Those who live by the sword sometimes die by the sword—though not often.

In that same article where Professor Kotlikoff estimated US liabilities to be $65.9 trillion, Kotlikoff also wrote:

The United States..appears to be running the same type of fiscal policies that engendered hyperinflations in 20 countries over the past century.

Maybe this time it isn't different..

DON'T CRY FOR ME ARGENTINA
SAVE YOUR TEARS FOR YOURSELF

In 1976, the Argentine military overthrew the democratically elected Argentine government. The first to recognize the dictatorship was the US. The second was the International Monetary Fund, and within 24 hours of recognizing the soon-to-be most brutal regime in recent history, the IMF arranged a loan to the military junta.

At the time, Argentina's external debt totaled $7 billion. When the bloody dictatorship ended with the return of democracy six years later, Argentina's debt totaled $43 billion, a debt owed mainly to US banks.

The common law concept of *caveat emptor* has particular relevance here, *caveat emptor*—Latin, "let the buyer beware", is a legal precept that buyers must take responsibility for the conditions under which the sale was made.

If you loan to a dictatorship, don't expect to be repaid if a democracy emerges.
Richard Perle, former US Assistant Secretary of Defense and neoconservative lobbyist

Richard Perle who supported the Iraq War said those words shortly after the US invaded Iraq. While it is doubtful Perle believes the same applies for debts incurred by the US supported dictatorship in Argentina, the truth of Perle's words extend beyond Perle's situational principles or a lack thereof. In a court of law, an illegal contract cannot be enforced—unless, of course, the court has been bought off.

A critical distinction between the debt "owed" by Argentina and the debts owed by the US is that Argentina's debt was illegally imposed upon Argentina by the IMF, the US and international bankers without the consent of the Argentine citizenry, The US debt, however, was incurred with the consent of the American people—or was it?

That, my fellow Americans, is a $99.2 trillion question.

BANKRUPT BE THE BONDS THAT BIND

Americans with their outstanding obligations now measured in trillions of dollars of outstanding US bonds have much in common with the Argentine people. We have both been enslaved and bankrupted by the same financial system.

While it is impossible for the debt burdened Argentines to do something about US banks, it is not impossible for Americans to do so. The US Federal Reserve Bank—the largest emitter of debt-based money in the world—while not an official US government agency is nonetheless still subject to the rules and laws of our land.

STIRRINGS IN THE ELECTORATE

Dissatisfaction, the beginning of change, is now occurring. The two political polarities are finally awakening to the fact that both have been callously used by those in power. The US has lurched right then left then right again, but it continues to go in the same disturbing direction, a direction now equally distasteful to those on the left and on the right.

In modern democracies, successful politicians must possess two qualities: They must say what the people want to hear and they must do what those in power want done.

It has been easy to manipulate those on the right as well as those on the left. The Republicans and Democrats have done so for years. But where's the beef? The nation's finances have been even more badly managed by the Republicans than the Democrats—and Iraq? Sure, vote for the Democrats and stay mired in a conflict they promised they would end.

Both parties are controlled by the same money, the same money that now controls global governments and institutions such as the World Bank and the IMF, the same money that buys politicians, scholars, the military, lawyers, TV anchors, radio talk show hosts and anyone else whose influence they can use for their own ends.

There is a reason why we are indebted as we are and there is a reason why we are mired in a war that one wants except the few that do, the few that now control our nation and many others. In the midst of this most unreasonable world, there are reasons—whether you want to know them or not.

Humanity now finds itself at the beginning of a profound shift, a shift that will force us—if we are to survive, if we are to triumph—to put aside our differences to accomplish together what we obviously cannot accomplish apart.

The two political polarities must find common ground or they will soon find there is no ground at all. What is happening is bigger than money and power although it involves both. It involves humanity, it involves all of us and unless we find each other we will soon find there will be nothing left to find at all.

We are closer to the end than to the beginning. Keep your own counsel. Buy gold and silver. Keep the faith.

In Argentina, I read in a recent issue of Scientific American that physicists now believe that in the beginning of time the Universe was only one centimeter across. That knowledge heartened me. We have come a long way.

Note: I will be speaking at Professor Fekete's last session of Gold Standard University Live to be held in Canberra, Australia from November 11th to the 14th. The focus of the session will be trading the gold and silver basis for profit. For further details, contact feketeaustralia@yahoo.com.

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