

Triage In Financial Markets

Global financial markets are in extreme triage following the credit contraction of August 2007. It is believed central bankers are trying to restore markets to help the economy. In truth, they are like life insurance companies fighting to keep a wealthy patient alive so the high premiums will continue to be paid and the large death payout will be postponed.

It has been only nine months since credit markets unexpectedly froze in August 2007. The central bankers who were surprised by the summer 2007 credit contraction now hope the danger has passed. But they are about to be surprised again and soon.

We are witness to the unraveling of historic levels of debt caused by central bank issuance of debt-based money. That such issuance over three hundred years has led to trillions of dollars in constantly increasing compounding debt is not unexpected. What is also not unexpected is that someday the debt could not be repaid.

That realization is what happened in August 2007. Suddenly, buyers of debt, those in need of guaranteed downstream revenues realized \$1.5 trillion of AAA rated subprime CDOs would not be repaid as expected. The consequences of that realization are now in motion.

When this happened, credit markets froze. The day of reckoning feared by *kreditmeisters* had arrived. Since then, central bankers have been furiously providing liquidity to banks, the intermediaries of credit, hoping to restore confidence in credit markets—but more liquidity will not restore confidence in debt any more than more money will satisfy the soul.

Once buyers of debt realized they could no longer trust AAA rated debt, the systemic risk to capitalism soared. The foundation of capitalism, a debt-based paper money system created by bankers, is confidence; and when a confidence game is being run, there is absolutely nothing more important than confidence.

When modern banking substituted credit driven debt-based paper money for gold and silver, every aspect of commerce was affected. Paper money with no intrinsic value, and its method of leverage, capitalism, are totally dependent on trust and confidence; and in August 2007, that confidence was shaken. Whether or not the damage is irreparable remains to be seen.

While credit driven paper money produces growth, it does so at the cost of stability. Today's multi-trillion dollar global economy is based on the banker's amalgam, an unsavory collection of credit, debt and speculative greed, a volatile combination that becomes increasingly unstable as it grows—and it has been growing now for over three hundred years.

CAPITALISM'S MINSKY MOMENT

The late economist, Hyman Minsky, is a name increasingly heard in these increasingly problematic times. Minsky's hypothesis was rather direct in its clarity, that as capital markets mature they became increasingly unstable, that over time investments become more speculative leading to heightened instability which culminates in market corrections whose severity is a function of previous excess.

Two excellent recent references to Minsky are: Thomas Tan's *Introduction To Minsky Theory*, see <http://news.goldseek.com/GoldSeek/1210140240.php> and Doug Noland's *Revisiting Financial Arbitrage Capitalism*, at http://www.prudentbear.com/index.php/archive_menu?art_id=5061. Both articles will shed light on Minsky's explanations about why markets are collapsing and will continue to do so.

Time is a key ingredient in Minsky's observations on the instability of capital markets. Capital markets came into existence in 1694 when the Bank of England, its central bank, was established. The ensuing three hundred plus years have given capital markets more than enough time to mature—and collapse. Minsky's moment, the bane of maturing markets, is now at hand.

DEBT—CURSED BE THE TIE THAT BINDS

The world is now bound as never before by the bonds of debt that cross national boundaries. Globalization is but the name for the spread of England's central banking system that has given bankers increasing control over global productivity while indebting virtually all of humanity.

Capital markets built on credit and debt need to continually expand in order to service previously created compounding levels of debt. When only England was on a credit-based system, as long as England's empire expanded its increasing debts could be absorbed; but when England's expansion slowed, so too did its economy.

The conundrum of the necessity of continual economic expansion is now being played out on a global scale. Now, the entire world is based on England's debt-based central banking system; and, consequently, unless the world economy continues to expand, the commensurate expanding edifice of global debt will collapse.

When global credit markets imploded in August 2007, the contraction of the world economy began. Since then, despite the best efforts of central bankers, global growth has continued to slow; and, after the present contraction has finally run its course, the world will be a far different place than it is today.

It has been only nine months since credit markets froze and uncertainty replaced the smug hubris of the world's then sanguine bankers. Only a year ago, the IMF was predicting yet another year of strong growth, now they see otherwise.

WHEN EVERYONE IS BLIND THE BLIND BELIEVE THEY CAN SEE

Today, bankers don't understand the trouble they are in because what is happening has never happened before—at least to them. The Great Depression was the last time a financial crisis happened on such a scale but the lessons of the Great Depression were those of another generation and lessons lost must be relearned by those who never knew them.

Unfortunately, we will learn the lessons together as we pay for what we collectively forgot and consciously denied. All of us, even the late comers to capital markets in Asia, are vulnerable to the sinking boat of credit and debt built by western bankers over the past three hundred years.

HOW LONG IT FLOATED HOW QUICKLY IT SANK

In May 2008 we are at the cusp of the crisis. Those still in denial hope we are closer to its end than its beginning; but, if we are, that means the descent will be quick and brutal instead of protracted and painfully slow. Either way, the end will be the same.

The daisy chain of debt constructed by bankers has now connected all of us, the solvent and insolvent alike. Personal solvency will provide but little protection when countries, relatives, neighbors, banks, and employers and employees become insolvent. Gold and silver will be among the few lifeboats and faith will be invaluable.

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 convince you to attend (see <http://www.professorfekete.com/gsul.asp>). Professor Fekete, in my opinion, is a giant in a time of small men.

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