

TUCSON & THE GREAT DEPRESSION

This Is Not Your Normal Downturn

...Goldman Sachs recently revised its forecast for the U.S. economy, predicting a recession in 2008 (Reuters)...Of course, not all recessions are created equal. Goldman doesn't predict a deep recession, but rather a mild turndown, with modest recovery in 2009.

CFR.org, 1/18/08, Lee Hudson Teslik, Assistant Editor and economics writer at CFR.org The Council on Foreign Relations. Mr. Teslik is 26 years old.

Both my parents were born in Tucson, so it was perhaps not that unusual when Martha and I left San Francisco and moved to Tucson in 1999. In the late 1940s as a young boy, I remember watching a woman with her pail of still warm homemade tortillas slowly make her way up the alley in Tucson's summer heat towards my grandmother's house in the Armory Park area.

The smell, taste, and texture of those wonderful warm flour tortillas wrapped around the beans my grandmother had cooked are still with me today. But the Tucson we returned to in 1999 was far different than what I remember as a young boy. What is the same, however, is also familial, but in a far different sense.

My father and mother had grown up during the 1930s, the depression years, in Tucson. They had both managed to graduate from college, no small feat especially in those difficult times; but it was clear, even to me as a young boy, that the Great Depression had left its indelible mark on the way my parents viewed the world.

Today, Tucson is far different from the Tucson of the 1930s. But, soon, not tomorrow, but perhaps in the not too distant future, the economic suffering that characterized the Great Depression may again be returning to the town and nation of my parents' youth.

THIS IS WHY

In the 1990s, I had become interested in the causes of the Great Depression, that unique and catastrophic event that brought the world economy to a halt. The depression had occurred after the 1920s stock market bubble collapsed in 1929; and, when the dot.com bubble collapsed in 2000, I found disturbing parallels between the two eras and the two bubbles.

The 1990s upwards rise of the stock market was similar to the upward rise of the Dow in the 1920s, driven then by the spread of radio much as the spread of computers drove the NASDAQ to just as unrealistic highs in 2000.

Martha and I moved to Tucson just before the dot.com bubble collapsed. The money pouring into Silicon Valley had affected the entire bay area. Rents and housing were far

beyond the range of those who previously lived there, and for that and other reasons, it was yet another sign that we should consider the warmth of Arizona and the hospitality of Tucson before the rest of our generation found it.

But when we arrived in Tucson, we were to witness yet another extraordinary bubble, what was to become the largest bubble in history—the US real estate bubble of 2002-2006.

Because of my reading about the economic events of the 1930s, I was well aware of what happens when large speculative bubbles collapse, that the enormous levels of debt left behind as a result of leveraged speculation could plunge the nation and the world into another recession at best and another depression at worst. Those then in charge of the US economy, Alan Greenspan and others at the Fed, knew it too.

To prevent it from happening, the Fed slashed interest rates from 5.25 % to 1 % and unleashed a flood of cheap credit in the hopes of reversing the 2001 economic downturn. But because of changes in financial packaging and the repealing of the Glass-Steagall Act in 1999 which was enacted in 1933 to prevent other depressions, the effect of cheap credit in 2002 was to have an unexpected consequence—an enormous bubble far larger than even the dot.com bubble.

Real estate mortgages, instead of being held on the books of local banks, were now packaged and sold by Wall Street investment banks to yield hungry buyers around the world, buyers who had no way of knowing that the payments on a \$500,000 mortgage were to be made by a \$9.00 per hour convenience store clerk who had been sold a don't ask don't tell no-money down adjustable-rate mortgage by a broker whose incentive was the considerable up-front fees collected at the time of sale made possible by the Fed's 1 % money.

WHERE WE ARE TODAY

In 2008, the convenience store clerk hasn't made a payment in months, the mortgage is in default, the house is in foreclosure, the yield hungry buyers (banks, pension funds, and insurance companies) are now aware their investments may never be repaid, mortgage brokers are looking for jobs, and the Wall Street investment banks that bought, packaged, and sold \$1.5 trillion of subprime mortgages are themselves caught holding billions of dollars of the highest tranches of subprime debt once thought to be safe but are not.

The investment banks, however, those who created subprime mortgages and profited from this bubble are now being bailed out by their colleagues at the Federal Reserve. The US Federal Reserve Bank, the private bank in charge of the public's money, is now allowing global investment banks to trade their suspect subprime investments for US Treasuries, *gratis* of US taxpayers who also recently indemnified investment bank JP Morgan Chase's purchase of investment bank Bear Stearns against any loss, all upside accruing to the shareholders of JP Morgan Chase.

WHAT TOMORROW WILL BRING

While many in Tucson are now aware that something is seriously wrong with the economy; that their homes are going down in value while the price of gas is going up, they, like most Americans, have no idea about the real reasons for the downturn.

As I looked deeper into the causes of what is about to happen, gold and silver, the role of the Federal Reserve in issuing debt as money, and the complicit duplicity between public government and private bankers have become more important in understanding the reasons for the economic collapse that is about to happen.

The gold and silver on-line community has become the prized arena where far from the corporate controlled media, the implications of central bank gold manipulation, the distorted measures of inflation and unemployment issued by the US government, and the disturbing denial of the populace who will soon be affected by what they don't know are parsed and discussed.

I wonder what Americans would do if they truly understood the trouble they are in. I wonder what they would do if they knew America's gold had been spent by the military-industrial complex in 1950-1970. I wonder what they would do if they knew about the dangers posed by investment bank credit default swaps, CDSs, a \$62 trillion unregulated market that could destroy the global economy as quickly and as easily as charged explosives brought down three towers at the World Trade Center on 9/11 (regarding CDSs, I highly recommend Thomas Tan's article *Why Wall St. Needed Credit Default Swaps* <http://news.goldseek.com/GoldSeek/1208412360.php>).

Today, the corporate controlled US media diverts America's attention away from the real reasons and instead fuels the fear that illegal immigration, China or Iran are the reason for America's increasing problems. The truth, however, is much simpler and much less sinister. The truth is that we have brought this on ourselves.

WHAT HAPPENED

*A tale to tell that you might hear
The truth of all of that we fear
That and which we hope to be
That and which we'll never see
A tale so old that it might be
Greece or Rome or Brittany
A tale of power you would know
Except you still deny it so
For once again we've gone astray
And once again we'll rue the day
By standing not for what is true
By standing not for what we knew
But let us now this tale be told
A tale new yet a tale old*

*The traveler spoke to us that day
Of a kingdom far away
He said the kingdom although young
Was watched by all in Christendom
For it was hoped that it would be
A beacon for the world to see
A light of justice a torch for peace
Opportunity within reach
How might this be a voice did ask
When such has never come to pass
That ever since man ruled man
The rule has been by iron hand
The traveler said it was to be
Ruled in ways quite differently
There was to be no king or queen
Nor any manner where it would seem
That one was better than the rest
It was to be a noble quest
It was to be a kingdom fair
Where all would be an equal there
Where every one would have a voice
Where everyone would have a choice
Those who governed would the people serve
Not themselves but those deserved
Such a kingdom it was to be
A kingdom where all would see
That man could rule not selfishly
But for the good of all and could then be
An example fair just and wise
No longer then would man devise
Ways to enslave his fellow man
Because he could because he can*

From *Canterbury Tales Redux, The Traveler's Tale*, Darryl Robert Schoon

<http://www.drshoon.com/articles%5CTheTravelersTaleCanteburyTalesRedux.pdf>

The birth of the United States was a unique event in history. No nation had ever declared so boldly and eloquently the rights of man in its Declaration of Independence. Nor had any nation so specifically set out to define the rights of its citizenry as safe, distinct and sacrosanct from the overriding power of government.

Those who crafted the Declaration of Independence and the US Constitution were unusual men in unusual times. The US was born in revolution and its founding fathers were aware of the ever present dangers that could threaten its fragile rights and freedoms, as history was but the story of governmental tyranny in various guises.

Now, the words and warnings of the founding fathers such as Thomas Jefferson have been lost and hidden; and would certainly be denied today by those who rule the nation founded by greater men than they. Caricatures and charlatans have replaced the great thinkers and brave statesmen who set this extraordinary experiment in motion in 1776, an experiment now in mortal danger of failure and extinction.

Written two hundred years ago, Thomas Jefferson's words today are irrefutable proof that our founding fathers deepest fears have come true.

Thomas Jefferson on Money & Banking

<http://etext.virginia.edu/jefferson/quotations/> Section 36

Thomas Jefferson to Thomas Cooper, 1814. ME 14:61

Everything predicted by the enemies of banks, in the beginning, is now coming to pass. We are to be ruined now by the deluge of bank paper. It is cruel that such revolutions in private fortunes should be at the mercy of avaricious adventurers, who, instead of employing their capital, if any they have, in manufactures, commerce, and other useful pursuits, make it an instrument to burden all the interchanges of property with their swindling profits, profits which are the price of no useful industry of theirs.

Thomas Jefferson to John W. Eppes, 1813. ME 13:423

If the debt which the banking companies owe be a blessing to anybody, it is to themselves alone, who are realizing a solid interest of eight or ten per cent on it. As to the public, these companies have banished all our gold and silver medium, which, before their institution, we had without interest, which never could have perished in our hands, and would have been our salvation now in the hour of war; instead of which they have given us two hundred million of froth and bubble, on which we are to pay them heavy interest, until it shall vanish into air... We are warranted, then, in affirming that this parody on the principle of 'a public debt being a public blessing,' and its mutation into the blessing of private instead of public debts, is as ridiculous as the original principle itself. In both cases, the truth is, that capital may be produced by industry, and accumulated by economy; but jugglers only will propose to create it by legerdemain tricks with paper.

Thomas Jefferson on The Military & the Militia:

<http://etext.virginia.edu/jefferson/quotations/> Section 47

Thomas Jefferson to David Humphreys, 1789. ME 7:323

There are instruments so dangerous to the rights of the nation and which place them so totally at the mercy of their governors that those governors, whether legislative or executive, should be restrained from keeping such instruments on foot but in well-defined cases. Such an instrument is a standing army.

Thomas Jefferson: 6th Annual Message, 1806. ME 3:424

Were armies to be raised whenever a speck of war is visible in our horizon, we never should have been without them. Our resources would have been exhausted on dangers which have never happened instead of being reserved for what is really to take place. .

FROM FREEDOM TO TYRANNY

I am persuaded that in all governments, whatever their nature may be, servility will cower to force, and adulation will follow power. The only means of preventing men from degrading themselves is to invest no one with that unlimited authority which is the sure method of debasing them.

Alexis de Toqueville *Democracy In America* 1840

In 1840, Alexis de Toqueville published his classic work *Democracy In America*. In that extraordinary thoughtful missive on America's experiment with democracy, de Toqueville made a startling observation, that the American experiment contained the seeds of a new kind of tyranny, a tyranny of the majority; and, that a tyranny of the majority is no less a tyranny than if only by one.

De Toqueville wrote:

If ever the free institutions of America are destroyed, that event may be attributed to the omnipotence of the majority, which may at some future time urge the minorities to desperation and oblige them to have recourse to physical force. Anarchy will then be the result, but it will have been brought about by despotism.

Today, opinion in America is influenced primarily by its national media, controlled by corporate and special interests intent on swaying public opinion for their own gain and ends; and in America, where majority opinion is accepted as the truth, dissent and differing opinion are derided and dismissed—as if dissent and difference were themselves unpatriotic and therefore *de facto* not true.

Questioning the opinion of the majority in America is today an impossible task—and if dissent and differing opinions are, in fact, true, then the truth will out, but only with extreme difficulty. If America continues to disbelieve and deny the cause of its economic problems, it will consequently have to learn the truth the hard way—and a depression is the hardest way of all.

We have come a long way from 1776 when our forefathers first began America's experiment with democracy; but if we continue as we have, there will only be a short distance to go.

The power of myth is extraordinary. Correctly applied, the ignorant will believe themselves enlightened and slaves will believe themselves free.

WAITING IN TUCSON

My parents were born in Tucson almost 100 years ago. Tucson was then nothing like it is today. In the intervening years, we as a nation have come to expect that tomorrow will be better than today. Time is about to prove that assumption wrong. It wasn't so in the 1930s. Soon, it will not be so again.

My study of the causes of the Great Depression have led me to believe that America has now gone too far to go back, that Americans because of their foolishness, the duplicity of their leaders, or a combination thereof are today incapable or unwilling to understand what is now about to occur. The lack of understanding, however, will not prevent its occurrence.

The tortillas are still good in Tucson as are the green corn tamales and cheese crisps; and, today, we wait for what summer will bring. This year, however, I fear much more than Tucson's summer heat is on the way.

Invest in gold and silver. Have faith.

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.

Darryl Robert Schoon
www.survivethecrisis.com
www.drshoon.com