

# Who's Been Goosing Goldilocks? America & The Myth Of Free Markets

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

When credit markets began to unravel in the summer of 2007, central bankers and economists were surprised. In retrospect, they should not have been. Warnings of a speculative bubble were issued as soon as cheap credit began distorting housing prices in 2003. Denial, however, always trumps reason in the presence of profits—or ulterior motive in the case of Greenspan.

So it was in the 1920s in the US, in the 1980s in Japan, in the 1990s in the US and it will be so again in the 2000s in the US—all large speculative bubbles ending in collapse; but this time, like in the 1930s, the collapse will affect the entire world, for another global depression may be in the offing.

Credit, like steroids, is a potent tool and is now the prime mover of financial markets in New York, London, Tokyo, Hong Kong, etc. The interest rate of central banks measures the flow of liquidity in the form of credit that credit-addicted global markets depend on and crave; but credit like steroids, with continued usage will destroy the body it once helped—*Parcus nex, sic* economic death, is the next stage in our deadly dance with debt.

## CAPITALISM REPLACES COMMERCE

Prior to central banking and credit-based capital markets, commercial markets were not dependent on credit. They were free markets, unaffected by the spigots of credit and debt. Free markets operate without the artificial stimulation of credit-based money; free markets respond to real needs and real demands, not to the incessant need of bankers to indebt society in their drive to enrich themselves—a drive that produces individual profits in the short run and collective economic ruin later.

## BAD MONEY DRIVES OUT GOOD

Credit-based capital markets were introduced in 1694 in England; and for the next three hundred years, England's bankers and their allies overpowered and replaced savings-based markets all over the world. Now, for the first time all economies are based on a foundation of credit-based capital with hard currencies, gold and silver, now replaced by the capital of capitalists, credit-based paper currencies.

This is where we are today. It will not be where we are tomorrow. Endings imply beginnings; and choice implies the possibility of change—especially when the foundation of today's financial world is credit, debt, and speculative greed; the bankers' amalgam—with government deceit and power added to keep the unstable amalgam intact.

## FADING FINANCIALS

Today, financial markets built on debt based paper are in trouble and the keepers of capitalism's crown jewels, the central bankers, are hard pressed to stay ahead of the problems posed by collapsing markets.

The solutions being proposed by central bankers increasingly resemble those of retreating armies—feints instead of advances, bold proclamations betrayed by flaccid follow-through, all obviously concocted on the fly in the face of unexpected crises. The central bankers' limited arsenal of rate cuts is clearly inadequate regarding the rapidly evaporating liquidity of credit markets.

In January 2007, corporations at risk of default were able to borrow \$8.5 billion in the markets. One year later in January 2008, only 10 % of the previous year's sum was available, \$850 million instead of \$8.5 billion. This extraordinary contraction of credit occurred even as central bankers slashed borrowing costs.

With credit markets in disarray, news issued by today's financial spinmeisters, is increasingly based on deceptive figures and distorted markets. Today's so-called free markets are not free at all. Today's markets, especially in the US, are being manipulated in order to keep them afloat.

### WHO'S GOOSING GOLDBLOCKS

*For over a century, a 10% or greater correction could be expected to occur every 15 months on average, yet the last correction of that magnitude occurred more than four-and-a-half years ago. In the past, this would have been termed a Goldilocks scenario.*

Alan Newman, *Crosscurrents* November 6, 2007

Credit-based capital markets need to expand in order to service previously created debt; the amount of which is ever-expanding because of accruing compound interest. This is no small task because the longer credit markets exist, the greater the debts and the greater the need to expand.

The three hundred year expansion of credit-based capital has now come to a halt; and it is this unexpected event that has captivated bankers and government officials alike. This week in Tokyo, representatives of the G7, the world's most advanced economies concluded that central bankers can no longer solve their problems alone. They are correct. They are wrong in that governments will be able to help.

Government interference in capital markets is not a new phenomenon. In fact, it has been accelerating. The US now interferes in the markets at levels last seen in the Soviet Union, albeit in markedly different ways. Whether this is good or bad is beside the point; the point is today's markets today are not free.

The Working Group on Financial Markets, the Counterparty Risk Management Group, the Exchange Stabilization Fund etc. all work in concert and collusion with bankers to

keep credit markets afloat; a collusion made possible by the purchase of politicians by investment banks.

## BUYING POLITICIANS

In 1966, Professor Carroll Quigley, Professor of History at Georgetown University, member of the Council on Foreign Relations and mentor to Bill Clinton published *Tragedy and Hope* in which he wrote:

*The powers of financial capitalism had (a) far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent meetings and conferences. The apex of the systems was to be the Bank for International Settlements in Basel, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank...sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world.* [bold type added for emphasis]

On January 10, 2008, Andrew Sorkin reported in the New York Times:

### Tony Blair to Join JPMorgan as Adviser

*The former prime minister of Britain, Tony Blair, will join the banking giant **JPMorgan Chase** as a part-time adviser, the bank said.*

*While the firm did not say how much it would pay Mr. Blair, one New York recruitment consultant told *The Financial Times* that it was likely to be more than \$1 million a year.*

*Joining a finance company after political life is a familiar route for former prime ministers, as well as for politicians in the United States. John Major, Mr. Blair's predecessor, now works for a private equity firm, the **Carlyle Group**, as did former President George H.W. Bush. At **Citigroup**, James D. Wolfensohn, the former World Bank president who was Mr. Blair's predecessor as special envoy to the Middle East, has a senior advisory role. And Robert E. Rubin, the former Treasury secretary, serves as an influential **Citigroup** director and sounding board for its top executives...Mr. Blair's move also comes a month after Jonathan Powell, his former chief of staff, landed a full-time job with a JPMorgan rival, **Morgan Stanley**.*

And later, on January 29, 2008, Philip Webster, in the TimesOnline reported:

### Two jobs bring Blair's jackpot to £2.5m a year...plus millions from speeches

*Tony Blair has taken a second big job with a leading financial player, attracted by the prospect of working on its climate-change initiative.*

*The former Prime Minister has joined Zurich, the Swiss company, as an adviser. The appointment, thought to be worth at least £500,000 a year, comes less than three weeks*

*after he took a similar role with J P Morgan Chase, one of the biggest investment banks on Wall Street. That was believed to be a package worth about £2 million a year...His spokesman said that there were no other positions in the offing. The former Prime Minister is thought to have turned down approaches from HSBC and Citigroup.*

In 1973, Spiro Agnew, was forced to resign as US Vice-President for accepting \$29,500 in bribes while governor of the state of Maryland. It is obvious from Tony Blair's compensation in 2008 that the price of politicians has increased substantially since the 1970s—yet another sign of rampant inflation.

### GOLD—THE BAROMETER OF MONETARY CHAOS

The fear of central bankers is that their game of credit-based fiat money will be exposed for what it is, a confidence game that advantages bankers and governments at the expense of entrepreneurs, producers and savers; and, once exposed, their position of privilege and profits will collapse.

Because of this, central banks and government officials are determined to keep the market's one dependable warning sign—the price of gold—capped. The price of gold is the nemesis of today's credit based capital markets. Only when the price of gold rises, are investors alerted to the dangers resulting from monetary instability.

This is why the custodians of credit are so intent on keeping the price of gold low. A low price of gold implies investing in paper IOUs, government and corporate debt and other credit based instruments is safe and profitable. A high price of gold implies the opposite—that the risk of paper and credit based IOUs is on the rise.

In the fall of 2007, as the price of gold rose from the mid \$600s to the mid \$800s, the central bank of Switzerland sold 22 tons of gold into the market. Imagine how high the price of gold would have been had not the 22 tons of gold been made suddenly available?

And on February 1st, as gold suddenly dropped from the \$920s down into the \$890s, I heard rumors that several hundred tons of gold had come on the market. Unlike the 22 tons from the Swiss National Bank, this latest rumor could not be confirmed.

But confirmed or not, central bankers in the past and present have been all too willing to empty their national treasuries in order to ensure their own positions of privilege in the name of market stability. Current UK Prime Minister Gordon Brown's future position in the world of finance is undoubtedly secure.

### GOLD SCISSORS PAPER

There is much debate as to how this will all end. While the particulars are unknowable, the end is not. The collapse of paper-based paper currencies and speculative credit markets is certain. Only the time is not.

Be confident. Free markets will return. Not today, but someday and perhaps sooner than believed. In the meantime, while paper money still has value, buy gold and silver. Such bargains do not last forever.

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