

# The Winter Of Our Discontent

*It's the last day's last hour of the last happy year*  
Bob Dylan, lyrics from  
*Cross The Green Mountain*

As we collectively move towards the economic disaster awaiting us, the investment community is hoping the world's central banks will be able to save them from the crisis set in motion by this summer's credit collapse.

If the truth be known—and someday it will be—central banks are at the very center of today's problems. Indeed, they caused them. Today's disintegration of capital markets based on debt-based paper began in 1913 with the creation of the US Federal Reserve Bank, the central bank of the US.

## Why Save When Money Is Worth Less And Less

It was the US Federal Reserve Bank that first “fed” debt-based paper money into the previous savings-based economy of the United States. This substitution of credit for savings has led us to where the US is now—the world's largest debtor along with having a national negative rate of savings.

## Central Banks Paper Mills And Effluence

Unsustainable levels of debt and economic cycles of expansion and contraction are now everywhere. The spread of central banking—the paper mills of credit—has also caused the spread of central banking's attendant problems, mounting debt, inflation, recessions, deflation, etc. The US, and indeed the world, is now addicted to a constant and growing infusion of debt-based paper money provided by the world's central banks.

The paper money is not *gratis*; it comes in the form of debt with compounding interest attached. This debt-based paper is then released into the economy by commercial banks which profit by loaning funds they don't actually have and charging compounding interest on those loans. (see my article *How To Make Millions By Loaning Money That's Not Even Yours That You Don't Even Have*)

<http://www.drschool.com/articles%5CMakeMillionsByLoaningMoney.pdf>

Debt-based paper money has led nations and the world down a very dangerous path. Facilitating expansion by encumbering future revenues with compounding debt inevitably indebts individuals, businesses, and governments beyond their ability to repay.

In the beginning, production expands, needs are met and everyone goes home happy. In the end, everyone's home gets repossessed. This is when the amount of debt has grown so large, governments, businesses, and consumers collapse under its collective weight.

That's where we are today. We lived off tomorrow and tomorrow has arrived. What a surprise.

The \$64 million question  
What do we do now?

For the United States, it is a \$5 trillion question—US government debt now totals \$5 trillion. For Japan, it is a \$6.5 trillion question—Japan's government debt is the largest percentage of debt per GDP in the world. These are troubling numbers, for the US and Japan are respectively the world's largest and second largest economies.

The substitution of debt-based paper money for saving-based money (fully backed and convertible to gold or silver) lies at the foundation of the US and Japan's continuing and about to worsen economic ills—though for different reasons (reasons discussed in *How To Survive The Crisis And Prosper In The Process*).

*And central banks created money in the image of gold and silver and it was not good.*

It was the substitution of debt-based paper money that allowed central banks to inflate their money supply beyond previously conceivable bounds. And, when debt-based economies were released from the need to convert or anchor their currencies to gold or silver, this allowed the US and Japan to further plunder their economies by indebting their citizens to levels of indebtedness beyond their ability to ever repay—EVER.

*"The gap between future US receipts and future US government obligations now totals \$65.9 trillion, a sum that is impossible for the US to reconcile, which means the US is now technically bankrupt."*

St Louis Federal Reserve *Review* July/August issue 2006  
Professor Laurence Kotlikoff

Once, US treasuries were deserving of the world's top AAA credit rating; but the present US economy bears little resemblance to the US economy that was once the world's most powerful, the nation's economy that once owned 75 % of the world's monetary gold and that had a positive balance of trade with the rest of the world.

That economy disappeared in the 1970s, replaced by one that had so squandered its gold that it could no longer back the US dollar. Now, the US is technically bankrupt, the world's largest spendthrift, its largest debtor with the world's largest trade deficit and a negative rate of savings.

But, amazingly the US still has a AAA credit rating on its US Treasury debt. Maybe they know someone at Bear Stearns who knows someone at S&P, Moody's, and Fitch. Some things never change—until they do.

Subprime US Treasuries  
Not Yet Here But Perhaps Coming Soon

As autumn approaches, this summer's credit crisis continues to spread through the global grid created by today's financial wizards—wizards so adept they do not understand what they have set in motion. That this summer's credit crisis surprised them the most is the most disturbing news of all.

The financial wizards of Wall Street and The City are hoping this summer's credit crisis is a bad cold at worst, that perhaps a slight fever and time will heal the illness and they can return once again to the task of carving out billion-dollar bonuses from capitalism's rotting carcass (*sic* capitalism, any economic system based on central bank issuance of debt-based paper money).

But the wizards of Wall Street and The City will be wrong this fall. This summer's credit contraction looks increasingly less like a cold and more like cancer which has metastasized and made its way into the lymph nodes of our global economy.

We wait as the inevitable end of a debt-based paper money system approaches. But have faith, for after the fall a resurrection will occur; albeit, at the end of a long and very hard winter.

Darryl Robert Schoon

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