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"D" Is For Dominance, Debt & Depression

Darryl Robert Schoon

Sell dreams on credit, you'll make a fortune on the interest.

Often, at the end of a movie, clues once hidden become obvious and the reasons for the fall of the hero or heroine are evident. So, too, it is with history. It is at the end of eras that the causes behind the rise and fall of epochs can be seen.

We are at the end of an epoch and the signs are as disturbing as they are increasing in occurrence and severity. We now understand the industrial revolution has overheated the Earth to the point of disassembling its life support systems; and that oil, which fueled its rise and perhaps its demise, may be running out as well.

There is a persistent feeling that for many reasons our present world is unsustainable, that its end is perhaps near; that the apocalypse feared by religious fundamentalists may somehow prove to be true, though not necessarily in the form expected. Systems that previously promised to lead us to a better world have been found to be wanting.

Democracy, freedom's vaunted vehicle, has now shown itself as inept and as fallible as the Catholic Church during the Inquisition. Recently used as an excuse to invade Iraq, democracy's greatest moment now appears to have already occurred; when under the tyranny of kings democracy was hoped to be the solution to the world's ills. The answer is now known. It is not.

But the greatest failing of this epoch is still to come. The collapse of the world economies created by modern banking built on a foundation of debt larger than ever imagined is now about to occur. And, as this epoch ends, the role modern banking played in the coming collapse of the world economy is clear.

MODERN BANKING
THE CAUSE OF THE COMING ECONOMIC COLLAPSE

It is what you cannot see that explains what you don't understand.

Modern banking, i.e. the issuance of debt as money, changed forever the face of commerce, first in the west and then in the east. In one fell swoop, the biblical admonition against usury, the charging of interest for the loaning of money, was put aside in the west and replaced with a system where usury formed the very basis of money and therefore commerce.

Prior to modern banking, in both east and west money was a medium of exchange, a unit of value

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Welcome To Ponzi World

Carlo "Charles" Ponzi (1882-1949)
Born in Parma, Italy, Ponzi immigrated to America in 1903 and was quick to show his entrepreneurial flair.

In 1908 he was imprisoned for two years in a Canadian prison on forgery charges relating to a fraudulent high-interest scheme. Shortly after his release from jail Ponzi was once again arrested for smuggling illegal Italian immigrants from Canada into the U.S. He spent a further two years in an Atlanta, Georgia prison cell.

The next few years saw Ponzi drift through several cities where he picked up various work such as Italian interpreter, waiter, dishwasher, store clerk and typist.

Ponzi finally landed in Boston in 1917 in a job where he answered

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foreign mail. This position introduced him to International Postal Reply Coupons. His astute mind quickly realized there was money to be made by taking advantage of currency exchange rates to purchase the coupons of weak currencies and eventually converting them back into U.S. dollars. Ponzi boasted of making four-fold returns in a matter of weeks.

Desperate to be rich, Ponzi started The Security Exchange Company in December 1919 (formed with a view to trading International Postal Reply Coupons), which promised returns of between 50% and 100% in just ninety days. Thousand of investors rushed to buy Ponzi Promissory Notes ranging from $10 to $50,000. At the height of the scheme staff were taking $1,000,000 per week, much of it in cash, until the office desk drawers and closets were literally overflowing with dollar bills.

Ponzi became an instant millionaire with all the trappings…a twenty-room mansion, gold handled walking canes, the finest of jewelry for his wife, and several fancy cars.

Over the next nine months some 40,000 investors parted with $15 million (around $160 million in today's money) before Ponzi was arrested for fraud. **Many of these investors were lucky to recoup around one third of their money** over the next decade as the scheme was unraveled.

Ponzi was ultimately sentenced to two jail terms of five and seven years, but was released after three and a half, whereby he dropped out of sight.

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either gold or silver or sometimes both. With the advent of modern banking, money was created by governments, issued in the form of debt; and usury, the interest rate, became the sole determinant of its rate of issuance.

How did this extraordinary change occur? The answer is clear, once the question is asked. Modern banking served the interests of those who created it: government and private bankers.

Turning usury into the only accepted form of world commerce could not have been accomplished had the Catholic Church maintained its power in the west. But the Church's power waned after the Dark Ages and secular forces in the form of monarchial governments and private bankers quickly took its place.

Whereas the intent of the Church had been to subjugate the minds and souls of men, the intent of governments had been to subjugate the lands of others and now with the assistance of private bankers it was possible.

Wars could now be fought on the come and giving private bankers the power to issue money only in the form of debt was the price willingly paid by governments to those who enabled their imperialist aims.

USURY
ONCE THE BAIN OF MANKIND
NOW THE KEY TO CONQUEST AND EMPIRE

Public money controlled by private bankers may in fact be the first act of privatization, the act of privatizing a heretofore government function for the purpose of private profit. Governments gave up the power to coin money in exchange for the apparently greater ability to wage war. But the cost to government is now becoming obvious.

In retrospect, the price - at least for governments - was high. For as we enter the 21st century, it is clear that bankers got the better of the bargain. With governments and their citizenry now burdened with increasingly unsustainable levels of debt, private bankers are benefiting as never before and bankers, not governments, have the upper hand.

"Permit me to issue and control the money of a nation and I care not who makes the laws." -- Mayer Amschel Rothschild, founder of the Rothschild banking dynasty, 1790

But in the early days of the marriage between government and private bankers, it appeared otherwise at least to the governments. England, the birthplace of both modern banking and the industrial revolution parlayed this relationship into the greatest empire the world has ever seen.

With the ability to finance its military and navy with future debt, not past savings, England parlayed this advantage into a world empire. Imperialism, the name given to the west's monetary, industrial and military domination over the non-industrialized world benefited England as no other.

The year 1850 marked England's dominance and its apogee as a world power. But twenty years later, England's balance of trade turned negative and a constant and growing trade imbalance in combination with the cost of maintaining a worldwide military presence drained the British treasury of its gold. By the end of the century, England's grip on world power was over.

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Banks Fight to Postpone Day of Reckoning

Axel Merk

The U.S. trade deficit with the rest of the world leapfrogged in recent days: aside from goods and services, we are now importing "consensus based crisis management" from Japan. Out of fear that a cleanup of bad loans would trigger widespread defaults, Japanese banks got themselves deeper and deeper into trouble by hushing up the problems. We are talking about the crisis at Bear Sterns' subprime hedge fund. The crisis shows that major adjustments on how the market prices risks are overdue; this may have negative implications for stocks, bonds, commodities as well as the dollar.

Bear Sterns is a leading provider of services to hedge funds; it is also one of the largest originators of subprime backed Collateralized Debt Obligations (CDOs). CDOs are what their name implies: a security backed by collateral. CDOs are created when mortgages with various risk profiles are grouped into different tranches or segments. Amongst others, Bear Sterns would create a CDO in a bundle according to a client's specifications. Indeed, Bear Sterns would work with a rating agency, such as Moody's, to obtain the desired rating (a practice likely to face more scrutiny as some allege that Moody's no longer acts as an independent rating agency, but as a syndicator in the offering). The explosive demand in this sector has attracted ever more creative structures. Investors should have grown concerned when dealmakers started suggesting that one can create a higher grade security by grouping together a couple of lower grade securities; it is rare that 1+1 equals 3. As these instruments have grown more complex, the clients buying these instruments often do not have a full understanding of what they buy.

How do you make a bestseller better? You introduce leverage. Not only can leverage be introduced in the credit derivatives that define some of these securities, but brokers eager to attract hedge fund business may also accept CDOs as collateral to lend money. The hedge fund now attracting so much attention is Bear Sterns' High-Grade Structured Credit Strategies Enhanced Leverage Fund; it was launched only 10 months ago; it shall be noted that Bear Sterns did not put much of its own money into the fund, but supplied many of the CDOs. $600 million in invested capital was boosted with borrowings of about $6 billion. The collateral provided by the fund had the highest ratings by Moody's. However, a high rating does not assure that the CDOs are liquid, i.e. that they can be sold off on short notice. This became painfully clear as bets of the fund were creating heavy losses and some lenders asked for more collateral for the loans extended; in the industry, this is called a margin call. Bear Sterns told other lenders, including Merrill Lynch, J.P. Morgan and Citigroup that the fund was unable to provide more collateral. On a side note, it is rather grotesque that Merrill, J.P. Morgan and Citigroup are amongst the larger investors in a fund managed by Bear Sterns; Bear Sterns put little of its own money into the fund.

In the brokerage industry, when a margin call is not met (when the borrower cannot provide sufficient collateral), the broker may seize the collateral and liquidate open positions. While a forced sale of the collateral may be painful for the borrower, it protects the system as a whole. Such forced sales happen all the time in the futures market, where positions are "marked to market" every day to evaluate the profitability and risk of open positions.

But the CDO market is not a regulated futures market; there is no daily market price that would allow one to assess the value of the collateral. The primary methods used to value CDOs are called "mark to market" and "mark to model". In the more conservative "mark to market" approach, independent parties are asked to value the securities; as the name implies, the "mark to model" approach is more aggressive and uses a computed, theoretical value. But because these instruments are sold in privately negotiated transactions, rather than a regulated and liquid market, neither valuation method is suitable in case of a forced liquidation. In the case of Bear Sterns' fund, Merrill Lynch sent bid sheets to numerous parties, soliciting prices for their holdings; as everyone knew that Merrill wanted to get rid of the securities at any price to cut its losses, it is fair to assume that the prices offered were significantly below the value assumed for the collateral.

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Gold - 1970's Replay?

LTGoldBull

Will the POG ever break to new highs (US$730), or even bust through that elusive 700 mark? It's been a tough road for us gold investors to stomach since May 2006. This long correction or consolidation is having an adverse effect on many, shaking the weak hands out of the market during what will inevitably be the greatest Bull Market, gold has ever seen.

I often refer to the last great bull for encouragement to stay invested. The POG rose from $50 in early 1971 and peaked at $200 in 1974. Things looked very encouraging then, but along came the big correction/consolidation that retraced 50% of the gains back down to $100 level by 1977. Many an investor was shaken out of his positions, confidence in the sector was lost, much like today, when now after 13 months POG has basically gone no where since May 2006, but has corrected back to $560, a 23% move and the mainstream media pundits again have all but declared the POG long dead. What happened after 1977 was clearly astonishing, as any gold bull now knows, $800 by 1980. What a move, could we see a repeat this decade? I'm banking on it.

A closer look at the technicals since 2001, clearly show gold in a major Bull phase. This set back we're now experiencing is only temporary in the grand scheme of a Bull Market. Think at least a decade and more. The last 13 months while unnerving, is the Bull's rest period and only seems like it has lasted forever. We have retested the $700 mark now 3 times, only to fail to breech it and to fall back. My conclusion is that we go higher soon. Those not already holding long positions will be hesitant to get in at the higher levels and miss much of the next phase of this Bull Run.

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Surfacing under the alias of Charles Borelli, he then engaged in a pyramid scheme down in Florida selling off worthless land and was again arrested and sentenced, only to skip bail and attempt to flee to Italy. He was recaptured and spent the next seven years back in Boston prison.

Ponzi was deported back to Italy in 1934, worked under Mussolini, finally ending up in Rio de Janeiro where his luck went from bad to worse. He passed away penniless in the charity ward of a Rio de Janeiro hospital leaving behind an unfinished book entitled "The Fall of Mister Ponzi".

"A Ponzi scheme is a fraudulent investment operation that involves paying abnormally high returns ("profits") to investors out of the money paid in by subsequent investors, rather than from net revenues generated by any real business…"Wikipedia.

A World Ponzi Finance Scheme?

Jim Puplava, host of the Financial Sense News hour conducted a very interesting interview with Doug Noland, financial markets strategist for David Tice & Assoc, on April 21, 2007.

Noland, author of the Credit Bubble Bulletin, believes we are currently experiencing **"the most reckless credit expansion in history!"** and that **"the U.S. and global credit system has become a Ponzi Finance Scheme."** Noland finds the current **"data extremely alarming…the most reckless credit expansion in history…liquidity like we've never seen before…unbelievable what's happening…we have credit**

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England reached its peak in 1850; one century later the US was to also achieve the same. In 1950, like England one hundred years before, the US was the world's most powerful nation and possessed 75 % of the world's monetary gold, the largest amount owned by any nation in history. However, just as with England, circumstances were to soon change.

By the 1970s, the US balance of trade had turned negative and the 21,775 tons of gold the US had possessed in 1950 was almost gone, sold to finance America's worldwide military presence and the overseas expansion of its corporations.

By the end of the century, the US, once the world's richest nation was now the world's largest debtor. In 2006, the St Louis Federal Reserve Bank issued a report stating:

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.

Such government indebtedness would have shocked the Founding Fathers. The revolt against England's rule in 1776 has had much to do with debt and taxation, as it had to do with liberty and freedom.

Thomas Jefferson had already observed the effects of England's pact with private bankers on its citizens:

If we run into such debts as that we must be taxed as the people of England are, our people, like them, must come to labor sixteen hours in the twenty-four, and give the earnings of fifteen of these to the government for their debts and daily expenses;

And the sixteenth being insufficient to afford us bread, we must live, as they do now, on oatmeal and potatoes, have no time to think, no means of calling the mis-managers to account; but be glad to obtain subsistence by hiring ourselves to rivet their chains around the necks of our fellow sufferers;

And this is the tendency of all human governments. A departure from principle in one instance becomes a precedent for a second, that second for a third, and so on 'til the bulk of the society is reduced to be mere automatons of misery, to have no sensibilities left but for sinning and suffering...

And the precursor of this frightful team is public debt. Taxation follows that, and in its train wretchedness and oppression.

PUBLIC DEBT
TAXATION THEN
WRETCHEDNESS AND OPPRESSION

In 1913, America made the very same "bargain" with private bankers as had England in the 1700s. Realizing that England's days of empire were numbered, private bankers moved quickly to institute the same system in America that had benefited them so well in England.

In 1913, with the creation of the Federal Reserve Act, the US government transferred its power to issue money to private bankers, thereby forever indebting the US government and its citizens to a future of increasing debt at the hands of its new creditors.

Private bankers had convinced President Woodrow Wilson the Federal Reserve Act would benefit all

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As Merrill went public with its plan to auction off the collateral, others tried to rescue the fund. There was talk that Citigroup would inject $500 million; Bear Sterns might inject $1 billion. And the Blackstone Group was very interested in supplying much needed capital. Blackstone's offer required the brokers to abstain from further margin calls for 12 months. Such restrictions may be common in the private equity world that Blackstone is active in, but was not acceptable to Merrill. As the rescue plan fell through, Merrill stated it would go ahead with its auction yet again. In the meantime, J.P. Morgan was front running Merrill by trying to unload collateral they held for the Bear Sterns fund. When all was said and done, it wasn't clear how much which broker was able to sell; but the sales were halted once again, and the parties seem to have agreed on an 'orderly unwinding' of the positions.

In our assessment, this had the hallmarks of the biggest financial crisis since the bailout of Long Term Capital Management; in 1998, the Federal Reserve (Fed) coordinated a bailout that led to the orderly unwinding of a fund that threatened the stability of the financial system. But this time is different: the instruments involved are so complex that journalists have had difficulty relaying the issues to the public; but the multiple calling and canceling of auctions by Merrill highlight the behind the scene maneuvering to avoid a fallout to the rest of the industry and beyond.

The risk to the financial system was not merely that some large brokerage firms may have been forced to write down a couple of hundred million dollars – they may still have to do that but had the fire sale gone through, market values would have been available to the securities sold. This in turn would have forced other lenders to revalue the collateral they hold; and as the collateral is worth less, the brokers will lend less money. That would have triggered further margin calls, further forced liquidations. When hedge funds implode, they tend to sell off more liquid assets first; at the end of the sale, the prices of the liquid assets are depressed; yet the fund may still be left holding illiquid securities. To illustrate this, take the example (this is not the Bear Sterns fund) of a hedge fund that may make bets on CDOs and, say, the price of oil. As such a fund needs to raise cash, it would close out the more liquid oil positions, causing a spike (or drop – depending on which way the unwinding works) in the price of oil. The resulting volatility in the markets would be most painful for leveraged investors in the oil market, although the crisis originated in the CDO market. Too many leveraged investors have become complacent because the low volatility we enjoyed in recent years. Aside from the short-term volatility, the high leverage employed by many hedge funds would need to be reduced permanently. As speculators pare down their leverage, they sell off assets to raise cash.

In our assessment, the well-intended attempts to unwind the Bear Sterns fund in an orderly fashion are highly problematic. The fund's problems have clearly shown that the credit extended to the industry is too large. The bankers involved commit similar mistakes as bankers in Japan in the 1980s and 1990s, where clearly bad loans were kept afloat with artificial means; those involved had the best intentions, but caused over a decade of pain to Japanese banks, corporations and consumers.

It may well be that the value obtained in a fire sale is less than that obtained in an orderly liquidation. But the lesson to take home from this is that CDOs must not be used as collateral for 10:1 leverage. In our assessment, the unreasonable leveraged employed by many hedge funds have contributed to a global liquidity glut that has driven up all asset classes, from stocks to bonds to commodities and other hard assets. As lenders have ignored risk, volatility reached abnormally low levels in 2006. Markets need risk to properly price assets; it is urgently necessary that volatility come back into the markets, so that lenders make more reasonable decisions. The Bear Sterns debacle highlights that the industry has gone too far, and that it is high time that credit be reigned in. So far, the first good that has come out of all this is that the planned initial public offering (IPO) of Everquest Financial seems to have been aborted: Bear Sterns was the underwriter in Everquest, a firm that specializes in buying CDOs from hedge funds. Another hope is that traditionally more

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Whenever the gold market is having a down day, if feeling discouraged, I refer to my notes that made me the GOLD BULL that I now am. The US debt and credit situation, reaching absurd levels.

The US Budget and trade deficits totally are unsustainable and worsening into the future. The USD has bounced off long term support around 81, now standing in the 82.50 area, has only one direction to go. Need I say more? I will, with many countries saying they are diversifying away from the greenback; the proof is in the pudding. I'll be watching the monthly, "Net Foreign Purchases", for evidence of the dollars demise. I'm thinking the dollar will fall to far and to fast, after breeching long-term 80-81 support, and that the Fed ultimately, will react swiftly to shore up support for the greenback, by raising interest rates, much to the detriment of US Stocks and the crumbling mortgage arena.

What will be the spark that leads to crisis? Any or all of these are significant matters, however, there's one in the making that may be the match that sets the tinderbox on fire. The US Congress is on a roll, many from both sides of the House and Senate that want Trade Sanctions against China. Would you poke a stick in your banker's eye? There may even be enough votes to override the Presidents veto. We'll see, for sure a trade war enacted against China will go down in history as one the greatest blunders ever. With the US already losing its industrial base to China, India and the likes, the economy is now hollowed converting to services sector based.

Article by:
LTGoldBull
24 June 2007

U.S. Federal Open Market Committee Statement: Text

By Washington newsroom +1-202-624-1820

June 28 (Bloomberg) -- The following is the full text of the statement released today by the Federal Reserve:

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.

Economic growth appears to have been moderate during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over coming quarters.

Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain those pressures.

In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Thomas M. Hoenig; Donald L. Kohn; Randall S. Kroszner; Cathy E. Minehan; Frederic S. Mishkin; Michael H. Moskow; William Poole; and Kevin M. Warsh.

Courtesy of Bloomberg.com
June 28, 2007

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Americans, not just the bankers. Too late, President Wilson realized his horrific mistake:
I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the civilized world, no longer a government by free opinion, no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of a small group of dominant men.

With the creation of the US Federal Reserve Bank, Thomas Jefferson's fears had been realized. Private bankers now controlled the issuance of money in America and debt replaced savings as America's method of commerce; a method that would increase America's indebtedness in direct proportion to the profits of bankers; and today in 2007, Jefferson's fears are coming true:

If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, (i.e., the "business cycle") the banks and corporations that will grow up around them will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered.

Jefferson's words are especially relevant in 2007 as America's historic housing bubble collapses and banks foreclose on loans made to the vulnerable and unwitting; thereby depriving the people of all property until their children wake-up homeless on the continent their fathers conquered.

DOMINANCE & DEBT
DEPRESSION
IS NEXT

Today, the US economy is a "dead man walking", a term used to describe those condemned to death but still alive. Like in the movies, the scene has now been set, events have transpired that will determine the outcome, and although the exact ending is not yet known, the end itself is unavoidable.

The amount of debt owed by the US government and its citizens can never be repaid. In today's modern banking system, debt-money is constantly fed into the system until debt levels reach such heights debts cannot be serviced or retired. At that point, the system will begin to collapse. This is where we are today.

The coming collapse may be triggered by a run on the US dollar, once backed by gold but now an irredeemable piece of paper whose only value is determined by speculators, or it may be triggered by the failure of an over-leveraged hedge fund or the inability of a large money-center bank suddenly unable to meet its obligations.

But irregardless of what triggers the coming collapse? The collapse will result from our worldwide modern banking system, a system whereby governments allow private bankers to issue debt as money in order to further the insatiable ambitions of those who govern.

"Deep down in our hearts, we have been accomplices in doing something terrible and unforgivable to our wonderful country. Deep down in our heart, we know that we have given our children a legacy of bankruptcy. We have defrauded our country to get ourselves elected." -- US Senator John Danforth 1992

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excesses virtually everywhere" and believes that "**1929** (is the) **only time even remotely comparable**."

The following figures for year over year change in money supply seem to back him up; **Russia....up 42%, China...up 18%, India...up 17%, Australia...up 14%, Brazil...up14%, Denmark...up13%, Europe...up 12%, etc.**

Noland lays much of the blame on deregulation which is allowing undisciplined credit systems around the world to inflate, as well as the U.S. current account deficit which is "**throwing dollar liquidity out to every place in the world... credit systems can inflate as much as they want without having to worry about weak currencies**" in a kind of dangerous race to the bottom.

But even more worrying is the realization that a huge part of this credit expansion is now outside the banking system. Noland points out that Wall St is now driving and perpetuating the current credit excesses in the form of a huge Merger and Acquisition Bubble and a Securities Lending Boom, which has sprung up to replace slowing Mortgage Credit. "**The numbers have now got so huge...an unbelievable amount of liquidity.**"

It is clear the U.S. credit system is inflating dramatically (despite M3 having been dropped to try and hide this fact), and that this inflation is being recycled through the Central Banks. As the U.S. current account deficit expands it is now sending nearly a trillion dollars of new finance out to inflate credit systems around the world. And Wall Street, with its new "**flexibility and aggressiveness in this contemporary financial system**" is providing much of the impetus as it keeps on increasing the leverage on new-style securities in a chase for high yield.

Noland believes the Federal Reserve no longer has a lot of control of the credit system through bank loans, but that we are now at the mercy of unfettered Wall St securities-based finance...that Wall St can now circumvent attempts at tightening by the Fed. He has no doubt that Wall St is well and truly convinced that (like his predecessor Greenspan) "**Bernanke will not pop bubbles...they (the Fed) will aggressively ease if there is any systemic threat. The financial sector is driving the real economy, not vice versa.**" And why shouldn't Wall St feel safe? It seems clear they are even being assisted whenever there is some kind of systemic threat by the clandestine maneuvers of the Plunge Protection Team (aka The Working Group on Financial Markets) which was formed by Ronald Reagan in 1987 following the stock market crash.

Jim Puplava has studied the balance sheets and debt structure of the top five brokerage firms on Wall St and is amazed at their total liabilities, and alarmed at the equity base supporting it all (especially when their mind-boggling derivatives books are added in)...(it's) "**one of the most frightening things I've seen in my 30 years in the business!**" Puplava was referring to how **Wall St firms have ratcheted up debt to equity to an astounding 22 to 1 over the past five years.** During the past twenty-five years (most of which was under Alan Greenspan's stewardship) he has noticed how the credit structure has evolved, from junk bond financed mergers and acquisitions in the 1980's, to the technology equity bubble of the 1990's, morphing into the sub-prime real estate bubble this century, and now the private equity driven M&A bubble.

Puplava's wit led him to joke**...:If they keep expanding the credit at this rate, they're going to have to start chopping down all the trees**" as the printing presses work overtime. Little wonder that Puplava sees nothing but inflation as far as the eye can see, culminating in a devastating hyperinflation before an all-engulfing recession/depression.

HYMAN Minsky (1919-1996)

Wikipedia has this to say about Hyman Minsky;

"British economist John Maynard Keynes had written about unstable financial markets, but Minsky was the first to explain how this instability developed and interacted with the economy. Minsky wrote in 1974, '...the financial system swings between robustness and fragility and these swings are an integral part of the process that generates business cycles'.
Disagreeing with many mainstream economists, he argued that these swings, and the booms and busts that can accompany them, are inevitable in a free market economy, unless government steps in to control them, through regulation, central bank action and other tools that in fact came into existence in response to the Great Depression. He opposed the deregulation that characterized the 1980s."

Minsky believed the three types of finance firms could choose from (depending on their risk tolerance) were hedge finance, speculative finance, and Ponzi finance. He described **how in a protracted period of good times the markets moved through several phases...from Easy Credit to Over-trading; to Euphoria (dare we say "Irrational Exuberance?"), to Insider Profit Taking near the end of the Ponzi Finance Scheme, and finally**

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Revulsion as the stream of new players dries up, panic sets in, and the Ponzi scheme collapses and rapidly self-destructs.

Minsky would have, no doubt, shaken his head in disbelief at the position the Federal Reserve now finds itself in. After having been in bed with Wall St for so long it remains to be seen how the Fed will extricate itself from this delicate relationship when the crunch finally comes.

If foreign investors finally cry "enough is enough" and dump the increasingly worthless U.S. dollar, will the Fed at last be forced to step back in to somehow try and shut down the runaway credit expansion we are now experiencing? Will it punish a profligate Wall St to stop the American economy being wrecked? If it doesn't, will the American currency, people and economy still be afforded the special status and consideration they received during the last century if the rest of the world suffers from the fallout?

Article by:
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The Outstanding Public Debt

National Debt:
8,807,874,205,904.77
The estimated population of the United States is **302,292,017**
US citizen's share of this debt is
$29,136.97
The National Debt has continued to increase an average of
$1.10 billion per day
Business, Government and Financial Debt exceeds
$48 Trillion

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conservative investors, such as pension funds, will reduce their exposure to overly leveraged hedge funds. If such investors are told that they should not “rock the boat” with a rushed decision, they may be well served to take their losses now rather than potentially even greater losses later.

Federal Reserve Chairman Ben Bernanke is particularly proud that regulators have extensive experience on how to manage crises.

The danger of superior crisis management is that you take the ‘danger’ out of investing. Without risk, speculators have no restraint; in recent years, we have called this the ‘Greenspan put’, named after the reputation of former Fed Chairman Greenspan to first allow bubbles to be created, and then to bail out those who suffer from the bursting of the bubble. The Fed is shooting itself in the foot with such an attitude, as the Fed loses control of money supply in a world where risk is under-priced.

When European Central Bank President Trichet was recently asked whether the latest interest rate hike in the euro-zone meant that credit was now tight, he mused that higher interest rates mean little when sources of credit are abundant. His comments came before the recent sell-off in bond prices. But as bond prices sold off in recent weeks, lower grade bonds fell not significantly more than government bonds; a healthy market requires a greater risk premium for junk bonds: the collapse of an overly speculative fund must be allowed, so that investors have an incentive to demand higher yields for riskier investments.

In summary, we expect volatility to pick up in all markets. As volatility picks up, speculators may sell assets to raise cash. Given the gains experienced in just about every asset class, there may be few places to hide. As bond prices may be under further pressure, the cost of borrowing goes up; this in turn may have implications for American consumers whose spending habits are interest rate sensitive because of their high levels of debt. This is where the circle to the trade deficit is closing.

The U.S. dollar is dependent on inflows from abroad as Americans import more than they export. If higher borrowing costs cause consumers to spend less, foreigners may redeploy more of their investments to other, more robust areas in the world. While Treasuries tend to be the first safe haven in times of increased volatility, the U.S. dollar no longer is the safe haven it used to be. In our view, a diversified approach to something as mundane as cash is something investors may want to evaluate. Gold is one such diversification.

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