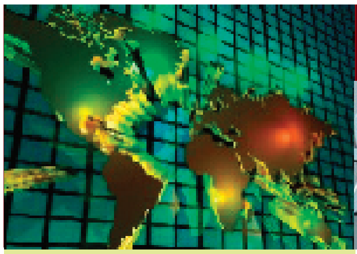

Forcing Change Volume 2, Issue 9

Feature Articles

The Joseph Principle and Crisis Economics p. 1

The Sad Road to Socialism: What Happens When Private Property is No Longer a Right p. 7

False Values, False Economy, and the Devil to Pay p. 13

What are Banks For? p. 17

Carl Teichrib, Chief Editor

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The Joseph Principle and Crisis Economics

By Carl Teichrib

Confusion reigns. Economic bewilderment appears to be the hallmark of 2008.

Banks don't seem to know what to do; politicians offer stimulus packages that don't stimulate; and everywhere financial planners and advisors proclaim that "it will get better" while each passing week gets worse. And at the gut level everyone knows that if the markets completely unravel, if currencies shatter in the confusion, a brutal monster – Chaos – will appear from under the bed and run rampant while the financial house burns.

Watching the markets and thinking through the possibilities, two interlocking phrases immediately come to mind: Ordo ab Chaos, and Crisis Equals Opportunity.

Ordo ab Chao is a Latin phrase and the motto of the Thirty-Third Degree of Freemasonry.[1] It means, "Order out of Chaos."

This expression portrays a simple message. Out of the chaos of extreme crisis comes a time when everything is remade, and order is restored. But you must understand; just because order has been established, it doesn't mean that the world is the same as it was before the catastrophe. It won't be; it can't be.

For those who have lost a home to fire, you know that eventually organization returns to your life. However, you also know that your world has been changed forever; it's not as it was before that fateful day. Likewise, as our smoldering, global financial house catches flame (in my estimation it's only in the beginning stages), a new edifice will be introduced after the conflagration is over. But it won't be the same structure.

Something else must be considered: the house doesn't have to be utterly razed. At some point during the fire, the house could be closed-up for a short time. Then, while the world waits with abated breath, a new building would be unveiled from behind the smoke. In our desire for safety the world would abandon the old house and flee to the new, safer looking structure.

Is this possible? Remember, Crisis Equals Opportunity, and Order will arise after Chaos.

Without doubt this economic crisis – and the chaos that follows – will present individuals and organizations opportunities that would never otherwise be pursued during times of normality. It's hard to not to expect anything different. After all, the firemen who are now trying to douse the flames are the same people who started the fire.

The manipulation of calamities, be they natural or man-made, to re-make a society or nation isn't new. Such actions can be traced back to Biblical times.

Before I go on, I would be remiss not to make note of the following: I recognize that for many, the Biblical character I will be using as an example has often been viewed as a person who did little wrong. Indeed, he has historically been acknowledged as a laudable figure, and to some, a foreshadow of the Messiah. But two facts need to be considered. First, the Bible doesn't condone or condemn this individual's tactics; it just describes the situation as it happened. Second, the individual in question was human in every way. That is, he did things in his life that were praiseworthy and profane, delightful and despicable, benevolent and dubious.

How do I know that, seeing that the Bible never directly mentions any of his failings?

Simple; he was a man.

Joseph, the hero of the last section of Genesis, provides a remarkable example of the use of "crisis economics" to change an entire nation. Interestingly, Bible students have long overlooked his political tactics of currency leveraging – an instrument used to alter a culture while consolidating wealth into the hands of the ruling elite. As this is the oldest example I have found regarding monetary manipulation for the gaining of power, I've dubbed this "The Joseph Principle."

In Genesis 47, Joseph, second in command to Egypt's Pharaoh and warned of a coming famine, had prepared stockpiles of grain to aid the people through the crisis. When the famine hit the land, the people came to Joseph to buy food stock. A simple transaction was made; the citizens used the national currency to purchase grain.

In verses 14 and 15 we find an unusual development. After the grain was purchased, Joseph intentionally holds the money back, keeping it from being re-circulated into the local economy. The result is predictably catastrophic for the people: Economic crisis.

According to the King James Version, "the money failed" (vs.15), and in the New International Version it says that the "money is used up." Egypt experienced intentional, government-sponsored deflation in the midst of a natural calamity. The money collapsed.

Needing to eat, what did the citizens do? They brought Joseph their livestock in exchange for grain (vs.16-17). As an agrarian society, livestock represented the industrial basis of the people. Hence, placing this power in the hands of the government, the people's commercial activity was effectively abolished.

In relating this series of events to others, some have asked me; "Why didn't the people just eat the animals instead of trading them for grain?"

Refrigeration didn't exist. And while the people could have dried some of the meat for long-term use, grain would have been the most valuable and stable food source during a drought. Now the people had neither money nor livestock; and a year later they were out of food.

Returning to Joseph, who obviously was in charge of the storehouses, the people begged their leader to take their land and themselves in trade for food (vs.18-19). Property was therefore consolidated under the state, and the citizens literally became slaves in their own country (vs.20-21). In the King James Version the language goes even further: Joseph de-populates the rural areas and moves the people into the cities.

This is a masterful population control strategy.

Once the wealth of the nation had been consolidated under the Pharaoh's banner via Joseph's actions – monetary wealth, the industrial base, land and productivity, and the people as economic assets – then Joseph instituted a new farming and taxation system (vs.20-24). How did the people respond? They gladly relinquished control of their wealth, property, and themselves (gave up their freedom) for the promise of state-dictated security.

Keep in mind; all of this started through a debasing of the currency system. The manipulation of money is, arguably, the most potent method – outside of war – used to rearrange the fabric of society.

Am I suggesting that our current crisis will be used as leverage to re-structure our Western world? The odds are in favor of it. Consider what the father of modern economics, John Maynard Keynes, had to say in 1919.

> "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency." – John Maynard Keynes, *The Economic Consequences of the Peace,* (1919), p.236.

Keynes economic model is what we have been using since the end of World War II. Roughly speaking, it's the idea that governments can stimulate the economy through interest rate management – the heart of credit and debt – taxation programs, and other state-instituted incentive programs. Although the above quote was aimed primarily at inflationary actions, the same conclusion could be made regarding deflationary leveraging.

Three other quotes come to mind,

> "The great struggle of history has been for the control over money. It is almost tautological to affirm that to control the production and distribution of money is to control the wealth, resources, and people of the world." – Jack Weatherford, *The History of Money* (Crown Publishers, 1997), p.246.

> "The control of money and credit strikes at the very heart of national sovereignty." – A.W. Clausen [then president of Bank of America], in a 1979 interview with the *Freeman Digest*, "International Banking," p.21.

> "…new comprehensive politico-economic systems across peoples almost always arise of out conquest or common crisis…" – A.W. Clausen, *Freeman Digest*, "International Banking," p.23.

The linkages between economic crisis and change cannot be ignored.

During the mid-1970s a "new international economic order"[2] was proposed in light of growing energy costs, world currency imbalances, and other shake-ups in the global economy. The objective of this movement – which emanated from Algeria and found support through the Group of Non-Aligned Countries[3] – was to change the capitalist/Western-oriented world financial system into a more socialist-styled model.

The Club of Rome, an elite group of eminent leaders, also supported this effort. In 1976 it fleshed out what this "new international economic order" would look like. According to the Club, the world's social, political, cultural, and economic composition needed to be re-aligned under a sweeping system of international management. This included the promotion of regional monetary integration, the creation of a World Treasury agency, and international taxation powers – all with the aim of progressing "towards a world-wide monetary system."[4]

How would citizens come to accept such radical changes? The Club of Rome understood the historical mechanism needed: Crisis.[5]

Although the "new international economic order" fell apart due to national infighting between agenda-supporting countries (among other factors), the principle of "economic crisis" and "change" never went away.

Flash forward one year past the famous 1987 stock market crash.

On January 9, 1988, *The Economist* published a cover story about a proposed international currency called the Phoenix. Like the mythical firebird that arises out of the ashes of destruction, this international currency would likewise emerge from the chaos of crisis. As the article noted, it would take "several more big exchange-rate upsets, a few more stockmarket crashes and probably a slump or two" before politicians would accept the Phoenix and secede monetary power to a higher authority. *The Economist* even suggested a start-up date: 2018.[6]

Looking to curb government-led monetary mismanagement, a problem that seems to plague every nation-state, the article suggested a radical re-arrangement: Country-level decision making, under the Phoenix, would disappear under a world central bank.

"There would be no such thing, for instance, as a national monetary policy. The world phoenix supply would be fixed by a new central bank, descended perhaps from the IMF. The world inflation rate – and hence, within narrow margins, each national inflation rate – would be in its charge. Each country could use taxes and public spending to offset temporary falls in demand, but it would have to borrow rather than print money to finance its budget deficit. With no recourse to the inflation tax, governments and their creditors would be forced to judge their borrowing and lending plans more carefully than they do today. This means a big loss of economic sovereignty, but the trends that make the phoenix so appealing are taking that sovereignty away in any case."[7]

More recently, Robert Mundell – the "father of the euro" – has been traveling around the world lecturing on the hoped-for creation of a new international currency called the DEY, a combination of the US dollar, euro, and yen. Crisis, Mundell realized, will open this door.

> "International monetary reform usually becomes possible only in response to a felt need and the threat of a global crisis."[8]

This Nobel Prize winner also pointed his finger to the possible trigger event, saying that the "global crisis would have to involve the dollar," and that a world currency should be viewed as "a contingency" to a global dollar disaster.[9]

And Benn Steil, the Director of International Economics at the Council on Foreign Relations, suggested a re-making of the world's financial system around three key currencies – the US dollar, euro, and a new Asian monetary unit. Steil implied that the hinge-point for this development would be a major shake-up involving the US dollar.[10]

Crisis, in relation to regional and world currencies, have been highlighted in two previous issues of Forcing Change. But it needed to be reiterated here. Why? Because today, during every news hour, we hear more talk of the global financial emergency.

And crisis equals opportunity.

Beyond the obvious, that wealth will be lost and won on a daily basis during this calamity, some bigger picture aspects need to be briefly considered.

1. Watch as regional and world currency scenarios become increasingly acceptable. This will likely be more evident in academic and narrowly-focused financial circles. However, you may see these ideas surface in some newspaper editorials and other outlets. In fact, as we draw closer to 2010, watch as the business media starts to focus on the upcoming currency block now developing in the Persian Gulf region.

2. Suggestions to re-build the world's financial house. Actually, this is already happening. Consider the following taken from a recent Bloomberg news release,

"Italian Prime Minister Silvio Berlusconi said governments may shut financial markets as the credit freeze pummels stocks and threatens a global recession.

As equities suffered their worst week since the 1970s, Berlusconi said in Naples, Italy that markets may be shut while policy makers 'rewrite the rules of international finance.'

The discussions were revealed as finance ministers and central bankers from the Group of Seven nations sought a united front aimed at thwarting the crisis. Among the options: Pumping taxpayer funds into loss-ridden banks and guaranteeing lending between them and their deposits.

'Doing nothing is not an option at this stage,' Bundesbank President Axel Weber told reporters in Washington. French Finance Minister Christine Lagarde said 'a coordinated basis is the only way to react to the situation.'

Unprecedented interest-rate cuts and bank bailouts have failed to quell panic in markets, putting officials under pressure to pull even more policy levers today or risk exacerbating the financial and economic turmoil.

'The gravity of the current situation is sinking into officials' mindsets,' said Charles Diebel, head of European rates strategy at Nomura International Plc in London. 'It's time for the kitchen sink, as in throw everything there is at the problem, and on such a scale that the shock and awe will break the cycle of fear.'"[11]

Keep your eyes on Asia, especially China and India, as well as South America and the Persian Gulf region. As wealth and economic clout dries up in the North American markets, other parts of the world with more vibrant populations will rise in power. FC

Endnotes:

[1] Albert G. Mackey, *An Encyclopædia of Freemasonry*, Volume 2, (Masonic History Company, 1917), p.537.
[2] Philip C. Bom, *The Coming Century of Commonism: The Beauty and the Beast of Global Governance* (Policy Books, 1992), pp.27-53.
[3] See, *Reshaping the International Order: A Report to the Club of Rome* (E.P. Dutton, 1976), p.4. The oil crisis and OPEC's role in third-world advocacy played a monumental part in setting the stage for this movement. For more on this development, see Jean-Jacques Servan-Schreiber, *The World Challenge* (Simon and Schuster, 1980).
[4] Ibid, pp.126-134.
[5] Ibid, p.110.
[6] Cover story, "Get Ready for the Phoenix," *The Economist*, January 9, 1988.
[7] Ibid.
[8] Robert Mundell, "A Decade Later: Asia New Responsibilities in the International Monetary System," presentation given in Seoul, South Korea, May, 2-3, 2007.
[9] Ibid.
[10] Benn Steil, "The End of National Currency," *Foreign Affairs*, May/June 2007.
[11] "Berlusconi Says Markets May Be Shut; G-7 Seeks United Remedy," Bloomberg.com, October 10, 2008.

Editor's Note:

The following article, used with the author's permission, provides a sober yet necessary review of socialism's progression in society. By understanding the steps of socialism, you will be better able to comprehend the direction your nation is going. Although this article was written from an American viewpoint, Mr. Loeffler's piece has implications that transcend any one nation.

John Loeffler is the host of Steel on Steel, a weekly radio program that highlights historical and contemporary challenges to Western culture. He is also the co-host of the Big Picture segment of *The Financial Sense Newshour* (www.financialsense.com).

The Sad Road to Socialism: What Happens When Private Property is No Longer a Right

By John Loeffler (www.steelonsteel.com)

> "But if the government undertakes to control and to raise wages, and cannot do it; if the government undertakes to care for all who may be in want, and cannot do it; if the government undertakes to support all unemployed workers, and cannot do it; if the government undertakes to lend interest-free money to all borrowers, and cannot do it; if…'The state considers that its purpose is to enlighten, to develop, to enlarge, to strengthen, to spiritualize, and to sanctify the soul of the people' – and if the government cannot do all of these things, what then? Is it not certain that after every government failure – which, alas! is more than probable – there will be an equally inevitable revolution?"
>
> – Frederic Bastiat, *The Law*, (June, 1850)

It's been more than 150 years since Frederic Bastiat wrote his treatise, *The Law*, a small work, challenging the ravages of failing socialism thrust upon France as a result of the French revolution.

In that unique pamphlet, Bastiat points out that when the law of any country supports the moral belief systems of a people, defends the rights of said people and their property, the law is perceived as being moral; a defense against evil and those who flaunt it as being immoral. Payment of taxes and civic obligations are perceived as a virtue and those who flout this as criminals.

However, when the law becomes a source of plunder or pits itself in opposition to the morals of the people, the people perceive the law to be immoral and widely despise it. Indeed, in those times, flouting the law is extolled as virtue.

Another book by contemporary author Hernando Desoto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, points out much the same thing – that the security of ownership of private property, guaranteed by law for the lower and middle-classes, has been the essential ingredient resulting in the prosperity enjoyed by many western countries. Without this security, where the state becomes an impediment to commerce or property ownership, the people are forced to operate their economies outside of law – which is once again perceived as evil – rather than a force for good.

In essence, when a government goes from being a protector of private property to a plunderer of it, it places itself on a course of chaos, economic ruin, and its own ultimate self-destruction.

The Three Steps of Socialism

Socialism is the mechanism that transforms government from its noble role as a protector into a predator. And since the citizens of our fine country seem determined to plow through socialism to its bitter end, we should examine the territory through which these three sad steps lead. The core result of socialism is the destruction of private property and wealth.

The events described in this article are a composite of the ravages of socialism experienced in other countries. While each country does not experience all the events portrayed (remember, this is a composite, variants will be found in each historical example), all socialist countries ultimately follow the same miserable path. The U.S. doesn't have to go down this road, but it seems determines to do so.

We're Off to See the Wizard

One of the great dangers of any government "by the people" is that sooner or later their politicians discover they can vote largess from the public trust. Their first experiment at this bold new adventure invariably revolves around social programs enacted in the name of morality and the public good – or even solving some current crisis.

Who could oppose that? "After all," it will be argued, "don't you care about people, or the welfare of the country, or the environment?"

The lure of this argument has been absolutely irresistible, from the Roman Empire to the French and Bolshevik revolutions, all the way to the mainstream "Socialist Parties" in the USA today (Democrat and Republican – both have followed a socialist line).

Step One - The Moral Argument: A Promise of Something for Nothing

The moral argument that claims we can finally solve poverty, pain, sickness, and hunger with "free" money seems just too good to be true. It usually is, but it "sells" to the public. To fund these allegedly moral programs, the assets of the gentle citizens must be quietly taxed in the name of the public good.

Only a few wise and isolated voices warn that this baby dragon they have just hatched will grow up to be a fire-breathing monster. But not to fear; the wise voices are generally shouted down by the "gentle politicians," who fiercely demonize protestors as selfish and blocking the road to the perfect society. After all, how could something so noble do anything bad to the country?

At first the rich are the only ones asked to pay more of their "fair share." In the U.S., income tax originally affected only upper-bracket individuals. In this early stage, few complain and everyone seems happy, except for those nagging voices still warning of dire consequences ahead – the ones the gentle legislators wish would just shut up. Other than that, the people have little to fear because the gentle legislators appear to be heroes, placing our feet firmly on the road to utopia. Soon they promise all the have-nots will have, and those who do have, will have just a little less.

After all, as we said, it's just their "fair share."

Ah, but time rumbles onward, and the number of people dependent upon these programs swells along with the number of "free" government services. Free things do sell, and that's what politicians want to do: sell their programs.

As the programs swell, they become unwieldy, requiring bloated bureaucracies to administer them to ward off the inevitable fraud and corruption. This in turn consumes an ever-greater part of the tax booty and services less to the originally intended recipients.

In order to control the chaos of a large group of people cueing up to get something for nothing, large volumes of laws and regulations have to be written to control who gets what, where and when – and who the "givers" and who the "takers" are. Now, the bureaucrats who administer these programs are also dependent on them for their livelihoods. This entrenches the program and assures its progression to Stage Two.

The Magic Dragon Isn't Cute Anymore

Somewhere along the line, the gentle legislators discover that their baby dragon has grown and it's snarling at them a lot. It wants much food. They're not controlling it; it's controlling them. However, in order to retain their prestigious position, ever-increasing sources must be found to feed their growing rapacious raptor.

The food source (tax burden) shifts rapidly downward into the middle class, as the gentle politicians coo that only the rich are being soaked. Concomitant with the increase of taxation, the miracle of hidden taxation through monetary inflation is discovered. Central banks print more and more money to allow the good times to continue over and above what direct taxation will allow.

This process of monetary inflation results in debasement of the currency, causing the citizens to work harder and harder, and run faster and faster, in order to keep up with the loss of their currency's value and the concomitant rise of prices. It's slow at first but accelerates along an insidious, exponential path. Ultimately it destroys everything the middle-class works for.

Additional reptilian food sources called "revenue streams" are created. More fees, fines, "mitigation payments" and permits are required to do almost anything, driving the cost of doing everything upwards. Coupled with this is a bewildering array of regulation and laws making the business of life much more difficult to accomplish. Big businesses can absorb this, but the middle class ultimately buckles under the strain.

The dragon is never satisfied.

Stage 2: Silent War Between Government and Its Citizens

At some point, the unwashed masses suspect their politicians aren't really gentle any more, much less benevolent. This is where a silent war between government and people erupts. It's a blurry transition through never-never land, when the politicians still claim to be gentle but the people sense that they have gone from being protectors of the public good and private property, to plunderers of it. It's a shift from morality to immorality.

The "Bastiat" transition doesn't take place all at once but, one by one, members of the working class realize they're toiling like mad and getting nowhere. What money they do make is confiscated in taxes or destroyed by inflation. Little is left over, and their life's savings are being destroyed while the politicians tell them "all is just fine." A cognitive dissonance is created between the hardship workers experience and the good times the politicians promise.

But those friends of the dragon on the dole still insist the dragon's intentions are moral, even if its methods are not. As tax rates push ever higher into confiscatory ranges, self-preservation kicks in and the people take defensive action against what they no longer perceive as "moral duty" but legally sanctioned theft. While the people do this they pretend that the gentle politicians are correct, even though they know better.

The rich catch on and move their assets offshore and sometimes themselves, physically moving out of the reach of the dragon: they expatriate. These individuals have the means to structure their finances in a way that preserves wealth. Besides, the politicians are frequently among this class, so they aren't about to let the dragon loose on themselves.

Unfortunately, the middle-class doesn't have this option, so it fights the dragon by engaging in evasive maneuvers. Citizens cheat on taxes, and seek to conceal taxable assets. Whenever possible transactions are shielded from the ever-prying eyes of the hungry dragon.

As the ravages of taxation and inflation eat out the middle-class's substance, a vibrant underground economy springs up, utilizing barter, cash, foreign currencies, precious metals and any other means to conceal taxable activity. Regulatory laws are flouted as people try to "see what they can get away with." Often times this underground economy has an organized crime component (which is what happened in the former Soviet Union).

The second half of Stage Two of this government-citizen war kicks into gear as the dragon responds to rising opposition. And a panoply of laws and regulations – with increasing fines, penalties and prison sentences – are imposed on the people.

To block the rampant flouting of law, the dragon wants to monitor everything the citizens do in order to assure that plunder shall be paid. All of this is done in the name of the "rule of law" and public order. Civil rights break down, all in the name of morality and public security.

Every once in a while the beleaguered middle-class pleads with the gentle politicians to fix the problem – unaware that it was the gentle politicians who created it in the first place. But politicians are more than happy to be seen as dragon slayers, and hence they create a series of scapegoats for the problem, transferring blame for the mess and enacting a new series of programs to supposedly fix the dilemma.

In reality, they just delayed the pain, put the dragon on steroids, and made the problem far worse.

This war is not without casualties. As it becomes ever more difficult for small businesses to function in this poisoned atmosphere of taxes, fees, fines, regulations and prosecutions, more of the middle-class throws up its hands and goes elsewhere or becomes part of the dependent poor. Small businesses fold or operate illegally.

As inflation devours life savings, people are wiped out. Retirees have a difficult time as their lifetime achievements are destroyed. Most of the middle-class slides inexorably down the slope into poverty.

Disrespect of law is common. In the free-for-all, everyone is in it for himself and no one can afford to obey the law. Jails swell with those unfortunate enough to get caught. As more complex laws are steadily passed, all citizens ultimately become law-breakers. This slide is also evident in the monied-class as scandals and corruption charges become public.

This enables the dragon to seek pretexts for seizing the assets of citizens. Businesses are nationalized. Wage and price controls are instituted. Property ownership is forcibly transferred from those who oppose the dragon to those who support it. Retirement plans are brought under the "protection" of government and their owners left with government-issued IOUs. Assets are seized on the mere allegation of criminal activity. Indeed, law enforcement agencies encourage their members to plunder. They even make arrangements with organized crime at times. The list of plunder-and-defend possibilities is astounding.

In an effort to stem the hemorrhage, the middle-class starts throwing out the rascal politicians, only to elect another group of rascals. This has little effect, since the dragon is now a self-existing monster that doesn't require gentle politicians. By this stage it's very clear: Small and middle-class businesses, and ranchers and farmers all know who the enemy is – the dragon.

There is no illusion that the politicians are "gentle" or acting in the people's best interests.

As the security of property ownership declines, investments flee and the economic environment becomes unstable; no one wants to invest where earnings will be heavily taxed. Moreover, nobody wants to subject themselves to the possibility of direct confiscation on the allegation of having violated a plethora of unknowable, unobservable laws. Doing business becomes just too dangerous.

As doing business becomes perilous, investments die and jobs go out of existence, increasing the pain of the working lower and middle-classes. Small business is always the primary creator of employment and it is the most abused. In the end, the rich are never soaked, the middle-class is destroyed, and the poor discover that there is no free lunch.

Stage Three: A Day of Wrath and Mourning

Ultimately the dragon cannot keep its promises. This last stage is where events turn nasty and chaotic. It is a dangerous time – it is a time no country should ever wish to reach.

Politicians are perceived as ravenous wolves. Blame and finger-pointing frenzies among politicians erupt to deflect responsibility, all the while attempting to hold onto their privileged positions.

Faith in government dissolves along with faith in the currency. Widespread flouting of law is common and tax payments quit. If it gets bad enough, organized and random crime flourishes. The domestic economy collapses into a depression, and the currency is no longer a valid measure of wealth – it disintegrates.

By this time there are several violently outraged groups of people. The first group consists of those who have been dependent on the dragon for their free programs, and once the dragon reneges on its promises to provide these "services," they are outraged at the violation of their imagined rights to a free lunch. This group can include pensioners who paid the dragon money but discover the dragon spent it all before they retired.

The second group is the middle-class, who have been beaten to death to feed the dragon and his cronies. They have lost all their livelihood and property.

This is the point where many revolutions occur. Sometimes the revolutions are non-bloody and occur only at the voting booths; sometimes they are horrifically violent.

It is a dangerous time because the chaos caused by the breakdown of economic and political order, coupled with the collapse of morality, often requires brute force to restore order. And brute force is fertile ground for dictators and the destruction of rights.

One of the great ironies of history is that those who started the mess – and benefited greatly from it – are rarely, if ever, called to pay for the crimes and carnage they caused.

Finally the dragon dies.

Conclusion

No country trapped in socialism goes through all the events described above, which is a composite of past histories. The nation can turn itself at any time providing it is prepared to discipline itself, and undergo the pain required to get off the public dole – much like coming off an addiction. Few societies ever want to face that, so they condemn themselves to all three stages. And the longer they wait to enact the necessary changes, the worse the pain will be.

From currency, to energy, to property rights – the issues today are clouded with so much static and partisan bickering that the average person has little real comprehension of what is happening. Frequently, Democrats and Republicans blame each other when, more often than not, they're both responsible and fiddle while Rome burns.

America is truly at an economic and moral crossroad, having already started into Stage Two down the sad road to socialism. Whether or not we plow through all three stages remains to be seen. It takes great moral courage to prevent this.

Unfortunately, politicians tend to be neither moral nor courageous.

Thus it is up to what actions are moral, legal and necessary, to see our families and friends safely through the tempest. But as a ray of hope, it is here where Americans in times past have shown themselves most noble. FC

John Loeffler is 40-year broadcast news veteran and host of the nationally syndicated talk show on the IRN/USA Radio Network, Steel on Steel (www.steelonsteel.com) and co-host of *The Financial Sense Newshour* (www.financialsense.com).

False Values, False Economy, and the Devil to Pay

Editor's Note:

The following article, used by the author's permission, provides an important perspective on the current financial crisis – including the necessary role of economic correction. Another aspect to this crisis, which the author briefly alludes to in this piece, is the role of national security. Forcing Change encourages its readers to review Mr. Nyquist's articles on Russian grand strategy in light of Western economic collapse. These articles can be found at his website: www.jrnyquist.com.

Jeff Nyquist is an author and analyst on global affairs, with a primary interest in Russian/Soviet Grand Strategy and its relationship to change in the Western world.

By J. R. Nyquist (www.jrnyquist.com)

Our wretched economy of false valuations cannot continue much longer. It is the domestic counterpart of President Bush's past friendship-false with Vladimir Putin. It is the fantasy world of an everlasting bull market and "successful" government bailouts. The political leadership in America has demonstrated that it doesn't understand economics. They cannot solve the present crisis unless they go back to school and consult the wisdom they have so long neglected. They have built their post-Cold War world on a false boom, on false "partnerships" with enemies. They have permitted a policy of credit expansion without end.

"Credit expansion," wrote the Austrian economist Ludwig von Mises, "is the governments' foremost tool in their struggle against the market economy. In their hands it is the magic wand designed to conjure away the scarcity of capital goods…and to make everybody prosperous."

But everyone cannot be prosperous. The boom created by credit expansion cannot last. This is what the leaders of the United States have missed.

"The inescapable consequences of credit expansion," wrote Mises, "are shown by the theory of the trade cycle. Even those economists who still refuse to acknowledge the correctness of the…credit theory of the cyclical fluctuations of business have never dared to question the conclusiveness and irrefutability of what this theory asserts with regard to the necessary effects of credit expansion."

And what are these effects?

According to Ludwig von Mises, an upswing occasioned by credit expansion can only be maintained by further credit expansion; and, in the long run, "it turns into depression when the further progress of credit expansion stops."

This outcome is absolutely certain, and today's financial crisis underscores the point. The economic boom of recent years has been propelled forward by an unprecedented credit expansion. At each turn, when the market was threatened with contraction, further credit expansion was urged.

The magic wand of credit expansion is like heroin addiction. The more you take, the more you want. The day inevitably comes when you cannot increase the dosage because you run short of supply. And so it is with credit expansion. The markets are accustomed to easy money. They now require easier and easier money. They are addicted. Eventually,

however, they must suffer the symptoms of withdrawal.

Did we think this expansion could continue forever without consequence? Evidently, we did not consider where we would end up. And now, at last, the United States Government believes it can fill the hunger for credit through a coordinated push – the last gasp of our insatiable credit addicts.

President Bush offers a plan. Behind closed doors he reportedly said, "This sucker could go down."

Once again, the president's grammar is in error. The sucker in question will go down.

Every dollar poured into the proposed rescue operation will be lost. Buying toxic debt is not a solution. The proposed mechanism for rescuing the economy represents a new falsification of values – and a new twisting of the market. The dollar cannot possibly survive this new initiative. A $700 billion bailout is only the beginning. It is merely a foretaste. What we see in Washington is an exercise in self-deception. It is the self-deception of a country that does not see danger, of a country that ignores the wisdom of ancestors and the ABCs of economics.

They want a booming economy. What they've failed to consider is the false nature of the boom thereby engendered.

False values, false ideas and promises of false prosperity pepper the program of today's politicians. They have no business at the helm of a great country. Their leadership consists in pitiful ignorance, and the republic may be in its last days. There has been a shocking willingness to destroy the country's currency.

"If the government does not care how far foreign exchange rates may rise, it can for some time continue to cling to credit expansion," Mises explained. "But one day the crack-up boom will annihilate its monetary system."

The proposed plan to save the markets will save nothing. The proposed solution is no solution. Improper investments have been made and massive losses must result. We have to take our medicine before we can get better. Debasing our already debased currency makes things worse. We have avoided economic pain by a continuous expansion of credit. The artificial boom must come to an end. False values must pass away so that real values can be brought to the fore.

Few realize how destructive the boom has been, for the real damage is done by the regime of false values and our collective investment in those values.

"The boom is called good business," noted Mises, "prosperity, and upswing. Its unavoidable aftermath, the readjustment of conditions to the real data of the market, is called crisis, slump, bad business, depression."

The latter, however, is the period of healing and correction.

The real magic of economics is learning to accept correction. This is what we refuse to do.

The country's financial managers set a terrible example. Traditionally, the captain goes down with his ship. As the Titanic sinks today our financiers don't want to be rescued in a lifeboat. They want to be rescued in a yacht. They don't want to accept that wars and depressions are necessary because human nature craves fantasy. The bubble of false peace and false prosperity necessarily bursts. In the end, reality must be confronted.

"People rebel against the insight that the disturbing element is to be seen in the malinvestment and overconsumption of the boom period," wrote Mises.

The curious fact is, noted the Austrian, "If we apply this yardstick to the various phases of the cyclical fluctuations of business, we must call the boom retrogression and the depression progress. The boom squanders through malinvestment scarce factors of production and reduces the stock available through overconsumption; its alleged blessings are paid for by impoverishment. The depression, on the other hand, is the way back to a state of affairs in which all factors of production are employed for the best possible satisfaction of the most urgent needs of the consumers."

If the state is to do anything constructive during the "progressive" period of depression, it is to maintain the country's nuclear deterrent and preserve national unity. There is no doubt that America will shortly be forced to call its troops home and close its overseas bases. The financial situation is going to dictate international withdrawal. It is going to dictate a more modest government. But the politicians in Washington cling to the notion that the boom can continue, that the false approach to the international situation is viable.

The United States cannot save the world. It will be fortunate to save itself. President Bush's proposed bailout is not simply a socialist measure; it is an attempt to avoid a return to correct valuations. It is an ignorant attempt, in effect, to extend the damage that has already been done.

Our politicians want to give us easy money, a furtherance of the shopping mall regime. They believe this will prevent millions from losing their jobs. They believe that their proposed measures will save ailing banks. Prosperity would then continue.

"This reasoning seems plausible," wrote Mises. "Nonetheless it is utterly wrong."

The boom has made prices and wages too high. Demand has lost all sense of supply. The consumer is accustomed to getting whatever he wants, even though he cannot afford it. In order to put matters right, wages must fall, consumption must be restricted, wasteful practices must come to an end.

"There is no use in interfering by means of a new credit expansion," wrote Mises. "This would at best only interrupt, disturb, and prolong the curative process of the depression, if not bring about a new boom with all its inevitable consequences."

When Bill O'Reilly says that the disaster is too great, that despite his support for the free market he sees no alternative to the government bailout plan, he is denying the healing power of a depression. He is denying the fundamental lesson of economics.

The damage to the economic system has already occurred during the period of false prosperity.

As strange as it seems, financial crash and depression are needful. We must pass through a time of troubles. There is no other way to correct the regime of false values.

The problem, of course, has become political. The regime is a political system in which the economically ignorant call the tune. The magnitude of the disaster is thereby amplified. The political actors now put the political system at risk.

Because there are national security implications, they now put our very lives at risk. **FC**

J.R. Nyquist is author of *The Fourth World War*, and writes regular columns for FinancialSense.com. His webpage is www.jrnyquist.com.

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What are Banks For?

Editor's Note: The following item was originally published in the April 3, 1957 issue of Punch magazine. Since then, it has been reprinted in G. Edward Griffin's monumental work, *The Creature from Jekyll Island: A Second Look at the Federal Reserve.*

Forcing Change has decided to reprint this exchange as an exercise in critical thinking regarding banking and economics.

Q: What are banks for?

A: To make money.

Q: For the customers?

A: For the banks.

Q: Why doesn't bank advertising mention this?

A: It would not be in good taste. But it is mentioned by implication in references to reserves of $249,000,000 or thereabouts. That is the money that they have made.

Q: Out of the customers?

A: I suppose so.

Q: They also mention Assets of $500,000,000 or thereabouts. Have they made that too?

A: Not exactly. That is the money they use to make money.

Q: I see. And they keep it in a safe somewhere?

A: Not at all. They lend it to customers.

Q: Then they haven't got it?

A: No.

Q: Then how is it Assets?

A: They maintain that it would be if they got it back.

Q: But they must have some money in a safe somewhere?

A: Yes, usually $500,000,000 or thereabouts. This is called Liabilities.

Q: But if they've got it, how can they be liable for it?

A: Because it isn't theirs.

Q: Then why do they have it?

A: It has been lent to them by customers.

Q: You mean customers lend banks money?

A: In effect. They put money into their accounts, so it is really lent to the banks.

Q: And what do the banks do with it?

A: Lend it to other customers.

Q: But you said that money they lent to other people was Assets?

A: Yes.

Q: Then Assets and Liabilities must be the same thing?

A: You can't really say that.

Q: But you've just said it. If I put $100 into my account the bank is liable to have to pay it back, so it's Liabilities. But they go and lend it to someone else, and he is liable to have to pay it back, so it's Assets. It's the same $100, isn't it?

A: Yes. But…

Q: Then it cancels out. It means, doesn't it, that banks haven't really any money at all?

A: Theoretically…

Q: Never mind theoretically. And if they haven't any money, where do they get their Reserves of $249,000,000 or thereabouts?

A: I told you. That is the money they have made.

Q: How?

A: Well, when they lend your $100 to someone they charge him interest.

Q: How much?

A: It depends on the Bank Rate. Say five and a-half per cent. That's their profit.

Q: Why isn't it my profit? Isn't my money?

A: It's the theory of banking practice that…

Q: When I lend them my $100 why don't I charge them interest?

A: You do.

Q: You don't say. How much?

A: It depends on the Bank Rate. Say half a per cent.

Q: Grasping of me, rather?

A: But that's only if you're not going to draw the money out again.

Q: But of course, I'm going to draw it out again. If I hadn't wanted to draw it out again I could have buried it in the garden, couldn't I?

A: They wouldn't like you to draw it out again.

Q: Why not? If I keep it there you say it's a Liability. Wouldn't they be glad if I reduced their Liabilities by removing it?

A: No. Because if you remove it they can't lend it to anyone else.

Q: But if I wanted to remove it they'd have to let me?

A: Certainly.

Q: But suppose they've already lent it to another customer?

A: Then they'll let you have someone else's money.

Q: But suppose he wants his too…and they've let me have it?

A: You're being purposely obtuse.

Q: I think I'm being acute. What if everyone wanted their money at once?

A: It's the theory of banking practice that they never would.

Q: So what banks bank on is not having to meet their commitments?

A: I wouldn't say that.

Q: Naturally. Well, if there's nothing else you think you can tell me…?

A: Quite so. Now you can go off and open a banking account.

Q: Just one question.

A: Of course.

Q: Wouldn't I do better to go off and open up a bank? FC

Forcing Change
Box 31
Plumas, Manioba R0J 1P0
carlteichrib@forcingchange.org