Financial Lessons of the Ages January 8, 2010

Doug Wakefield with Ben Hill

Rather than rigorous study, which would help us connect the explosion of debt that has occurred in the last century (particularly since the early 1970s) with the financial markets, the majority of the financial industry and the investors who depend on their experience, have instead relied on simple slogans like, “the market always goes up over the long term” or “invest according to your risk tolerance.” And as long as the public believes that *up* markets mean the elixir of capitalism is working and we are getting better and that down markets are only temporary, these trite sayings will suffice. Human nature being what it is, I suppose we would rather seek “advice” that allows us see things the way we want them to be, rather than address how unsustainable debt and corporate and political corruption could impact our collective future.

But for however long we move away from common sense and sound financial principles, we prove that we are sheep, silently waiting for slaughter. In the two years prior to December 2008, we saw the destruction of $30 trillion in financial capital, the largest loss of capital in history. We are now engaged in the all too temporary game of “borrow more and spend your way to recovery,” whistling to keep our spirits up as we go. But a true study of the past – one that goes back further than the last few years of adjustable rate mortgages and beyond the slick advertising and cherry-picked dates that are presented as history to help the financial industry sell their newest product – will help us gain perspective.

While Americans pride themselves on being well informed, the vast majority do not understand the history of money and banking and the close relationship that these have had with U.S. foreign policy during the 20th century. In this missive we will examine financial principles from the ancient world alongside a few events that took place over the last half century. Since money has come to be seen as needed for survival, money and morality are closely intertwined. As such, the moral lessons that were developed in a society that was much more rudimentary than our own addressed the same dynamics we are dealing with in this age.

Because the writings found in the Bible were assembled over six world empires, spanning almost 1500 years, I can think of no other comparable record of ancient history – in examining the life of an ancient people or society. Since Jews wrote all but two of the 66 books that comprise the Old and New Testaments – Luke and Acts were written by Luke, a Gentile – I use the words "Jewish writings" to refer to the same.

In order to keep this from being a rote history lesson or religious discussion that has nothing to do with our modern financial system, I will bring the ancient and the modern worlds together with many illustrations. After all, it was ten centuries before Christ that Solomon wrote "there is nothing new under the sun." Twenty centuries after Christ, financial writer Bill Bonner reminds us, "When it comes to science and technology, man learns. When it comes to love, war, and finance, he makes the same mistakes over and over again."

With all the monumental mistakes that continue to come to light in this period of history, a continuous examination of a wide range of views covering multiples of centuries is a worthy pursuit. Regardless of the race, gender, religion, nationality or socioeconomic level in which you are categorized, if you agree with the three suppositions below, from *Jerusalem: City at the Crossroads of History*, a piece we released earlier this fall, I believe you will find this article to be worth your time:

- Money has brought us to a point where we are more globally connected than at any other time in human history;
- Morality, especially at the foundational level of our financial system, continues to erode, and
- Power continues to shift into fewer hands.

These themes are common to those who have spent time studying the influence money has exerted throughout history. As we begin a new year, ask yourself what foundation-level changes need to be made to our global, financial system to move us closer to "Peace on earth, goodwill toward all"?

Lesson 1: The Poor and Credit

> If one of your countrymen becomes poor and is unable to support himself among you, help him as you would an alien or a temporary resident, so he can continue to live among you. Do not take interest of any kind from him,

> but fear your God, so that your countryman may continue to live among you. You must not lend him money at interest or sell him food at a profit. (Leviticus 25: 35-37, NIV)
>
> If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest. (Exodus 22:25, NIV)

The wealth disparity, fueled even further by the massive distortion of prices due to the global explosion of debt over the last few decades, has brought us to a point where 15 percent of the population controls 80 percent of the world's income. [1] According to the World Bank, almost half the world, over 3 billion people, live on less than $2.50 a day, and 80% live on less than $10 a day. While I am not an expert on world poverty, only the most blinded individuals can ignore the effect monetary manipulation has had in this downwardly spiraling situation.

Now, if we look around the globe over the last few decades, we find that the IMF has initiated an economic process known as "shock therapy" in more than 150 countries. [2] So, what is economic shock therapy? Wikipedia notes, "Shock Therapy refers to the sudden release of price and currency controls, withdrawal of state subsidies, and immediate trade liberalization within a country, usually also including large scale privatization of previously public owned assets." While the implied objective is to help a crisis-stricken country benefit by opening it to global capital markets, when these IMF's policies are adhered to, the process has repeatedly resulted in exploding debt and drastically decreased standards of living in the countries that have sought such help. So, let's walk through a simplified example of this process to make this even clearer.

Step one requires the nation's currency to be devalued, and, if need be, overnight. On Friday, one unit of your currency is equal to one US dollar. But on Monday, through a process known as devaluation, the same unit of currency is only equal to 50 cents. Recall that devaluation occurs when a monetary authority *officially* lowers the value of a country's currency, whereas depreciation is an unofficial decrease in the exchange rate of a country's currency.

While changes to the medium of exchange for the all important issues of food, clothes and shelter merit a direct vote by all persons affected, altering the value of an entire nation's currency is often usurped by a small handful of political and financial players. Time and again, currency manipulations have been left to a few

American academics, the IMF or the World Bank, and the government leaders of nations seeking "assistance." Even if interest rates remain unchanged, once these radical changes take place, it now takes twice as much currency to pay off the same debt, which is often owed to the global banks. But, when countries devalue their currency, interest rates on their debt rises to offset the increased risk of holding their bonds.

The history of Brazil in the early '90s presents us with a real-life example:

> The devaluation of the cruzeiro [Brazil's 'dollar'] had been imposed by the creditors and inflation was running at more than 20 percent a month – largely as a result of the IMF's "anti-inflation program." A hike in real interest rates imposed on Brazil in 1991 by the IMF had contributed to fueling the internal debt, as well as attracting large amounts of "hot" and "dirty" money into Brazil's banking system. Tremendous profits were made by some 300 large financial and industrial enterprises. These groups were largely responsible for a "profit-led inflation"...
>
> The IMF's hidden agenda consisted of supporting the creditors while, at the same time, weakening the central state. Ninety billion dollars in interest payments had already been paid during the 1980s, almost as much as the total debt itself ($US 120 billion). [3]

Upon examining Argentina in the '70s and '80s, we see:

> During junta rule, Argentina's external debt had ballooned from $7.9 billion the year before the coup to $45 billion at the time of the handover – debts owed to the International Monetary Fund, the World Bank, the U.S. Export-Import Bank and private banks based in the U.S.
>
> Soaring interest rates meant higher interest payments on foreign debts, and often the higher payments could only be met by taking on more loans. The debt spiral was born. In Argentina, the already huge debt of $45 billion passed on by the junta grew rapidly until it reached $65 billion in 1989, a situation reproduced in poor countries around the world. [4]

Ecuador has suffered under the schemes of deceitful international bankers for more than three decades:

> Like many of the victims of the U.S. subprime mortgage mess, the Ecuadorian people were the targets of predatory lending. In the 1970s, unscrupulous international lenders facilitated some $3 billion in borrowing by Ecuadorian dictators who blew most of the money on the military. After the transition to democracy, the Ecuadorian people got stuck holding the bag.
>
> Over the years, the country has made debt payments that exceed the value of the principal it borrowed, plus significant interest and penalties. But after multiple reschedulings, conversions, and some further borrowing, Ecuador's debt has risen to more than $10 billion today.
>
> *The human costs are staggering. Every dollar sent to international creditors means one dollar less is available for fighting poverty. And in 2007, the Ecuadorian government paid $1.75 billion in debt service, more than it spent on health care, social services, the environment, and housing and urban development combined.* [5] (Italics mine)

The events of the last 2 years have brought this painful discussion back the shores of the U.S. Since most are ignorant of the inestimable suffering that accompanies global banks – primarily U.S. and European – and U.S. foreign policy, these same players sowed the same seeds in the U.S., the E.U., and much of the developed world. We are now waking up to the painful reality that we have bought into countless lies, among which are the inane ideas that "deficits don't matter," and that "printing more debt to bailout yesterday's debt, is the only solution."

When the public reads $4.8 trillion - Interest on U.S. Debt, after our greatest symbol of wealth, the Dow Jones Industrial Average, rallied 62 percent in nine months to rest near its high for 2009, how can we grasp the illusory nature of this wealth? Are we planning on using these gains to start paying down the $13 billion a day in interest on the Federal debt – not to mention state, local, corporate, or individual debts? Is it possible that an undeclared version of shock therapy is currently underway in the U.S? Would it benefit us, collectively, if the Federal Reserve gave individuals and business owners the same access to cheap interest rates that the global banks have enjoyed since December 2008?

Lesson 2: Dishonest Scales

> You shall not have in your bag true and false weights, a large and small. You shall not have in your house true and false measures, a large and a small. But you shall have a perfect and just weight and a perfect and just measure, that your days may be prolonged in the land which the Lord your God gives you. (Deuteronomy 25:13-15, Amplified)

False weights or dishonest scales may seem to have no relation to modern day-to-day life. In ancient days scales were used to conduct business. Honest scales meant honest business. BibleTools sheds some light on the use of scales in the ancient world:

> In ancient times, the value or quantity of a thing was determined by weighing it on scales. In fact, people bought and sold items by weight or measure rather than by our currency-based system. For instance, the shekel was not originally a unit of money but of weight according to which the price and quantity of things were determined. As such, scales were common marketplace items, and God demanded they be used justly.
>
> Interestingly, because scales are easily manipulated, they can also be a symbol of fraudulent exaction and oppression...

In describing how money is created today, author and attorney Ellen Brown uses the Chicago Federal Reserve's own publication, "Modern Monetary Expansion: A Workbook on Bank Reserves and Deposit Expansion" to illustrate this process:

> It begins, "The purpose of this booklet is to describe the basic process of money creation in a 'fractional reserve' banking system...The actual process of money creation takes place primarily in banks." The Chicago Fed then explains:

> > [Banks] do not really pay out loans from the money they receive as deposits. If they did this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts.

Brown continues her explanation from the Chicago Fed's booklet:

> The booklet explains that money creation is done by 'building up' deposits, and that *this* is done by making loans. Contrary to popular belief, loans *become* deposits rather than the reverse. The Chicago Fed states:
>
> > [B]anks can build up deposits by increasing loans and investments so long as they keep enough currency on hand to redeem whatever amounts the holders of deposits want to convert into currency ... [6]

While some suggest that "fractional reserve" banking does not necessarily foster dishonesty, this essay, from Ayn Rand's 1967 work, Capitalism: The Unknown Ideal, helps us see that the creation of new money dilutes the value of all money that currently exists:

> The abandonment of the gold standard made it possible for the welfare statists to *use the banking system* as a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds as the equivalent of what was formerly a deposit of gold.
>
> In the absences of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.
>
> This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the 'hidden' confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard. [7]

Many are surprised when they learn that Alan Greenspan wrote this essay *before* he became the nation's highest monetary authority as Chairman of the Federal Reserve.

So, who benefits most from such an arrangement? Dr. North expounds:

> The winners are those who get access to the phony money early, and spend it fast. The losers are those who get access to the phony money later, after prices in general have risen. Worse, what about the people on fixed money incomes, who don't see their incomes rise at all, but who now face higher prices? [8]

In moving from theory to practice, we need do is consider HR 1207. If we really want to move away from the never-ending cycle of financial crises, wouldn't the first step be an audit of the Federal Reserve, something that hasn't occurred since its founding in 1913? Isn't it time that we took a look behind the corporate veil of secrecy? In response to *Time* naming Ben Bernanke the "man of the year," Whiskey and Gunpowder's January 7, 2010 article, Big Blunder: The Ben Bernanke Travesty, notes Ron Paul's repeated efforts to accomplish this task:

> Congressman Paul has been sponsoring bills to audit the Fed ever since he first entered Congress in 1976, and on six occasions Paul has introduced bills that would have ended the Fed entirely. Standing largely alone, yet seeing clearly into the future, Ron Paul has challenged a rotten to the core Fed over a period of decades, while Congressional colleagues and a mainstream media, asleep at the switch, were busily applauding people like Bernanke and Greenspan as masters of the universe and oracles of the modern world.

Lesson 3: Corrupt Leaders Exploit People

And yet the praise of men appears to be so compelling, that thirty-three years later, when Greenspan was asked if an interest rate hike could prick a stock market bubble, he feigned ignorance, stating:

> That presupposes I know that there is a bubble... I don't think we can know there's been a bubble until after the fact. To assume we know it

currently presupposes that we have the capacity to forecast an imminent decline in prices. [10]

If people could create money out of nothing, would that give them a sense of power? If they could create a loan with the click of a mouse, and then call it a deposit, could that go to their head, possibly even to the extent that they thought they were above other men? Could the god-like power of being able to influence the lives of people around the globe have gone to Greenspan's head? Having to choose between intellectual and moral honesty and the accolades and praise of men, it looks as though he chose the latter. Remarkably, some 2,800 years ago, Isaiah wrote of the social injustices that inevitably follow when nations' leaders recreantly turn to corruption, betraying their mandate to enrich themselves instead of caring for the poor and powerless:

> Your silver has become dross, your choice wine diluted with water. Your rulers are rebels, companions of thieves; they all love bribes and chase after gifts. They do not defend the cause of the fatherless, the widow's case does not come before them. (Isaiah 1: 22, 23, NIV)

When we compare Isaiah's comments with our system of "false weights and balances," discussed so clinically as a mere "increase to the money supply," we see the truth more clearly. So, who are "the winners" and "the losers" in this giant casino game that global banking cartels have rigged? In her book, It Takes A Pillage, former Goldman Sachs managing director, Nomi Prins, enlightens us on how insurance companies were able to access to TARP funds, even though they're not banks:

> So far, AIG has gotten $182 billion in government help. Even though we all knew AIG as a mammoth insurance company, it has technically been an S&L since 1999, when it bought

a little S&L in Newport Beach, California. That's the little loophole through which it bagged all the public money.

On January 8, 2009, insurance companies Hartford Financial Services Group Inc. and Lincoln National Corp. got approval from the Office of Thrift Supervision (OTS), an office of the U.S. Treasury that regulates and supervises the thrift industry, to acquire *existing* S&Ls and become thrift holding companies...

So, Hartford applied to acquire the Florida-based Federal Trust Bank for $10 million. Lincoln National also applied to become an S&L holding company with the Office of Thrift Supervision, and it simultaneously agreed to acquire Newton County Loan and Savings Bank and applied to TARP for money.

Buying these thrifts allowed insurers to qualify as S&L holding companies and made them eligible for TARP funds. The payoffs were huge. Hartford's $10 million acquisition of Sanford, Florida-based Federal Trust Corp. entitled it to up to $3.4 billion of TARP capital.

Lincoln National's takeover of Newton entitled it to up to $3 billion, even though Newton County Loan and Savings Bank had only three full-time employees and $7.3 million worth of assets. [11] (Italics hers)

But why should investors be concerned about these companies, which had the "savvy" and the connections to play on dishonest scales? The companies' prices went back up; isn't that all that matters? If these companies win, who loses?

I was fortunate enough to interview a Russian gentleman who lived through Russia's IMF-imposed economic shock therapy in the early 90s. Here, he discusses the drastic price changes he lived through at that time:

> One day someone could go and see one price for an item, and the next week that person would see a higher price. For example, a loaf of bread could cost today, one ruble. You go tomorrow and it cost a ruble and a half. You go next week, it cost 4 rubles. So, in a week's time, a loaf of bread could go from 1 ruble to four rubles. It could stay 4 rubles for a week or two, but then, after that short time, it would be 10 rubles…
>
> We purchased a VCR in the fall of 1992 for 1,200 rubles and sold it used for 200,000 rubles in the fall of 1994.

In his book, The Globalization of Poverty and the New World Order, Michel Chossudovsky elaborates from his own research on Russia during this period:

> The IMF-World Bank program, adopted in the name of democracy, constitutes a coherent program of impoverishment of large sectors of the population. It was designed (in theory) to "stabilize" the economy, yet consumer prices in 1992 increased by more than one hundred times (9,900 percent) as a direct result of the "anti-inflationary programme."
>
> The price of bread increased (by more than a hundred times) from 13-18 kopeks in December 1991 (before the reforms) to over 20 rubles [2000 kopeks] in October 1992; the price of a (domestically produced) television set rose from 800 rubles to 85,000 rubles. Wages, in contrast, increased approximately ten times – i.e. real earnings had declined by more than 80 percent and billions of rubles of life-long savings had been wiped out. [12]

So, *with no significant change to aggregate quantities of essential commodities,* a whole society is thrown into chaos. There are so many ways that this is wrong, it is difficult to determine the most offensive aspect of this travesty. Instead, we ask this question: "If the price of bread went from $2 a loaf to $200 a loaf, in what ways would that affect your standard of living?"

If we were at the top of the global banking establishment, the answer to the above question would be, "not at all." As New York Attorney General Andrew Cuomo articulates in his piece, [No Rhyme or Reason: The 'Heads I Win, Tails You Lose'

Bank Bonus Culture, when bankers' recklessness and deception caught up with them, instead of acting in the best interest of the nation, the government gave them enough money to ensure that executives' bonuses would still be paid:

> An analysis of the 2008 bonuses and earnings at the original nine TARP recipients illustrates the point [that bonuses were unaffected]. Two firms, Citigroup and Merrill Lynch suffered massive losses of more than $27 billion at each firm. Nevertheless, Citicorp paid out $5.33 billion in bonuses and Merrill paid $3.6 billion in bonuses. Together, they lost $54 billion, paid out nearly $9 billion in bonuses and then received TARP bailouts totaling $55 billion.
>
> For three other firms – Goldman Sachs, Morgan Stanley, and J.P. Morgan Chase – 2008 bonus payments were substantially greater than the banks' net income. Goldman earned $2.3 billion, paid out $4.8 billion in bonuses, and received $10 billion in TARP funding. Morgan Stanley earned $1.7 billion, paid $4.475 billion in bonuses, and received $10 billion in TARP funding. J.P. Morgan Chase earned $5.6 billion, paid $8.69 bil1ion in bonuses, and received $25 billion in TARP funding. Combined these three firms earned $9.6 billion, paid bonuses of nearly $18 billion, and received TARP taxpayer funds worth $45 billion.

And, if the government is always going to bail out the multi-national banks and banks in general, the best strategy is to get to the top of the global banking cartel. After all, with the way the laws are structured today, there is little chance of being prosecuted. So, the "can't lose" attitude the FDIC's promise, to rescue financial institutions that are "too big to fail," feeds and facilitates an atmosphere that focuses on profits and bonuses. After retiring from the FDIC in 1986, former Chairman Irvine Sprague wrote Bailout: An Insider's Account of Bank Failures and Rescues, which points to some of the root causes of the instability inherent in our banking system:

> This record of repeat behavior points to the greed factor that remains the major – often the only – reason for a bank's failure. Banks fail in the vast majority of cases because their managements seek growth at all cost... Some simply have dishonest management that loots the bank. A 1986 FDIC survey concluded that criminal misconduct by insiders was a major contributing factor in 45 percent of recent failures.

> The theme of my remarks was that the major banks of the nation today range virtually unchecked throughout the world, gathering deposits, lending money with abandon, and piling up off-book liabilities – some risky and few capitalized. Further, they have economies of scale and the ability to plaster the nation with credit cards and loan production offices.[13]

Since the fall of 2008, central banks have flooded the global *banking* system with "new money." Over the same time, commercial and private lending rates have contracted rapidly. So, are we seeing an *economic* recovery, or is this the most expensive financial market rally of the last century – propelled by political power plays dependent on debt?

Reserves of Depository Institutions - Federal Reserve - H.3 (in billions)				
Date	**Total**	**Nonborrowed**	**Required**	**Excess**
Sep-07	43	41	41	2
Oct-07	42	42	41	1
Nov-07	43	42	41	2
Sep-08	102	-187	42	60
Oct-08	315	-332	47	267
Nov-08	609	88	50	559
Jan-09	858	294	60	798
Feb-09	700	117	57	643
Mar-09	779	167	55	724
Sep-09	922	615	62	860
Oct-09	1056	791	62	994
Nov-09	1140	923	63	1077

F.100 Households and Nonprofit Organizations (1) billions of dollars; quarterly figures are seasonally adjusted annualized rates							
	2005	**2006**	**2007**	**Q1 2008**	**Q3 2008**	**Q1 2009**	**Q3 2009**
Home mortgages (7)	$1,033	$977	$658	$277	-$257	-$19	-$369
Consumer credit	$100	$95	$137	$115	$16	-$88	-$81
Federal Reserve statistical release, z.1, Flow of Funds Accounts of the U.S., 3rd quarter 2009							

If we continue to ignore the pain of others, and allow the fear of pain to focus our attention solely on staying one step higher up the Darwinian food chain than our neighbor, sooner or later, we will suffer their same fate. And any pleasure we find will be momentary. But, if we care for others, understanding that their lives are often affected by influences outside of their control, sooner or later, we will be helped by yet another. Is not the whole determined by its parts?

The focus of this missive is certainly far beyond an individual country. So, where do our collective futures lie? Who are tomorrow's winners? Who are its losers? When it comes to determining winners and losers, has our society lost its moral bearings in this extremely competitive game?

Humbly, I suggest that until the powerful alignment of the state with financial markets is cleared from the dishonest scales that are inherent to the system, we will continue along this one-way trajectory towards global repression. And, the costs that continue to mount will be measured in lives, not paper money.

> The merchant uses dishonest scales; he loves to defraud. He boasts, 'I am very rich; I have become wealthy.' (Hosea 12:7-8, NIV)

Best Minds Inc gleans ideas from a wide range of topics and experts. To improve our odds of profiting during this time of great deception and confusion, we seek to bring history into the action of financial market movements in a "connect-the-dots" format. For those interested in our research, we encourage you to consider our publication, The Investor's Mind: Anticipating Trends through the Lens of History.

Sources:

1. The Globalization of Poverty and the New World Order (2003), Michel Chossudovsky, page 21
2. Ibid, page xxii
3. Ibid, page 192
4. The Shock Doctrine: The Rise of Disaster Capitalism (2007), Naomi Klein, pages 196 & 199
5. Hoodwinked: An Economic Hit Man Reveals Why the World Financial Markets Imploded – and What We Need to Do to Remake Them (2009), John Perkins, page 66
6. Web of Debt: The Shocking Truth About Our Money System and How We Can Break Free (2007), Ellen Hodgson Brown, J.D., page 26
7. Capitalism: The Unknown Ideal (1966), Ayn Rand, page 101
8. Honest Money: Biblical Principles of Money and Banking (1986), Dr. Gary North, page 46
9. It Takes a Pillage: Behind the Bailouts, Bonuses, and Backroom Deals from Washington to Wall Street (2009), Nomi Prins, page 123
10. Greenspan's Bubbles: The Age of Ignorance at the Federal Reserve (2008), William A. Fleckenstein with Frederick Sheehan, page 99
11. Ibid, pages 76 & 77
12. The Globalization of Poverty and the New World Order (2003), Michel Chossudovsky, page 240
13. Bailout: An Insider's Account of Bank Failures and Rescues (1986), Irvine H. Sprague, pages 233 & 249

Doug Wakefield
President
Best Minds Inc., A Registered Investment Advisor

Best Minds, Inc is a registered investment advisor that looks to the best minds in the world of finance and economics to seek a direction for our clients. To be a true advocate to our clients, we have found it necessary to go well beyond the norms in financial planning today. We are avid readers. In our study of the markets, we research general history, financial and economic history, fundamental and technical analysis, and mass and individual psychology.