



The Great Depression of the 2010s

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Economics is not rocket science. Neither is power.

Depressions are monetary phenomena caused by central bank issuance of excessive credit. In 1913, the newly created US central bank, the Federal Reserve, began issuing credit-based money in the US. Within ten years, the central bank flow of credit ignited the 1920s US stock market bubble; and shortly thereafter, following the collapse of the bubble in 1929, the world entered its first Great Depression in 1933.

Investment banks are the undoing of central banking. While all banks, central, commercial and investment, view credit as the opportunity to exploit society's growth and productivity, investment bank exploitation of growth and productivity exposes society to extreme risks - for investment banks use society's savings to make their volatile and speculative bets.

The speculative risks undertaken by investment banks is done by leveraging the savings of society; and, when investment bank bets are sufficiently large enough and the bets go bad - as they inevitably do as the luck of investment bankers is due more to their proximity to credit than to their ability to foresee the future - it is society that will bear the brunt of the pain in the loss of its savings.

Inevitably, investment bankers cannot resist the temptations of excessive credit and, like the buyers of teaser-rate home mortgages, they will always overreach themselves - an overreaching that will have disastrous consequences for the society whose savings they bet.

The leveraged overreaching by investment banks in the 1920s caused the Great Depression of the 1930s and their more recent overreaching in this decade, the 2000s, is about to cause another Great Depression in the next, the 2010s.

It is the proximity of investment banks to the pools of savings that allows investment banks to profit. By their access to society's savings, investment banks use society's wealth as the foundation of their highly leveraged bets in financial markets; and in so doing, they have now placed all of us in harms way.

GOVERNMENT THE DEVICE BY WHICH THE FEW CONTROL THE MANY

The collapse of financial markets in the first Great Depression led to the US Congress to enact laws that would hopefully insure that such a collapse would never again happen. To that end, in 1933 the Glass-Steagall Act was passed by Congress and signed into law.

Acknowledging the role that investment banks had played in the Great Depression, the passage of the Glass-Steagall Act in 1933 separated investment banking and commercial banking to insure that investment bank speculation would not again destabilize commercial banks as it did during the Great Depression leading to the loss of America's savings.

What bankers hath joined together let no man put asunder

However, in 1999, the US Congress repealed the Glass-Steagall Act and America was once again vulnerable to the highly leveraged shenanigans of Wall Street. This time, however, it was not only the US but the entire world whose futures were to be bet and lost by Wall Street gamblers.

The globalization of financial markets had spread the dangers of US investment banking to banks, insurance companies, and pension funds around the world. Now, the savings of Europe and Asia as well as the US were to be impacted by the wagers of Wall Street who in the 2000s literally bet the house on the possibility that subprime CDOs were actually worth their AAA ratings.

Glass-Steagall, the law enacted in 1933 to prevent another Great Depression was repealed at the behest of bankers. While it is true that at certain times the US government will act in the best interest of society, usually (and usually in the guise of so doing) the US government is the pawn of the special interests that benefit from the trough of government largesse and regulation. The repealing of the Glass-Steagall Act in 1999 was therefore a reversion to the mean.

We are today in the initial stages of another collapse that will lead to another Great Depression. The safeguards put in place to prevent such from happening were not only disassembled in 1999; but, now in 2008, the US government has moved even closer to exposing its citizenry and indeed the world to the speculative carnage and folly of investment banking excess.

THE RULE OF LAW IS A WONDROUS THING - ESPECIALLY IF YOU WRITE THEM.

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As credit markets seized up, the Fed gave the 20 primary dealers in U.S. government bonds the same access to discount- window loans that had previously been reserved for banks. The central bank now auctions as much as \$100 billion to lenders a month, and has cut the cost on direct loans to just a quarter- point above the overnight rate on loans between banks.

The US Federal Reserve is now underwriting, i.e. subsidizing, the commercial activities of global private investment banks. The 20 primary dealers in US government bonds include the world's largest investment banks - BNP Paribas Securities Corp. (French), Barclays Capital Inc (British), Banc of America Securities LLC (USA), UBS Securities LLC (Swiss), Dresdner Kleinwort Wasserstein Securities LLC (German), Daiwa Securities US Inc. (Japan) etc.

In truth, these investment banks are global entities and have no actual nationality no matter what jurisdiction in which they are legally domiciled. As such, they also have no allegiance except to their own self-interests.

QUESTION:

Why is the US government allocating public resources for the benefit of private international investment banks?

ANSWER:

US resources are subsidizing international investment banks through the Federal Reserve Bank, a quasi private entity which was given governmental powers in 1913 (some allege in violation of the US Constitution). That a quasi private bank is bailing out private banks with public monies does make sense. What doesn't make sense is why the public allows it.

There is much discussion as to the justification and reasons for US, UK, European, and Japanese central banks bailing out private banks with public money. Issues such as moral hazard are now being raised in questioning the right and consequence of so doing.

In truth, such issues are irrelevant. Not that they are in themselves not important, but issues such as moral hazard will have no effect whatsoever on what is going to happen.

Intent is the underlying motive that explains what is about to occur. The intent of private bankers is not public stability, nor growth, nor productivity - it is the pursuit of private profit via the use of public credit and debt.

Today, most governments, especially the US and UK, are controlled by private bankers - which is why government policy continues and will continue to favor the interests of private bankers over the public good.

THE MELTDOWN OF MAMMON

I am sure that in some quarters of the Catholic Church objections were raised (perhaps even on theological grounds) about the torture used by the Church during the Spanish Inquisition; just as today, there have been objections raised by some in the US in regards to the use of torture in its "war on terror".

Objections are always tolerated by those in power as long as the objections do not rise to the level of action. The objection to central bank credit and influence in our monetary affairs is therefore rhetorical. The influence of private bankers and central banking in our monetary affairs will not change until their influence has run its course - which is now about to happen.

The present epoch of central banking will perhaps be known as the period *when bankers roamed the earth*. Just as during the Jurassic Age, when dinosaurs roamed freely eating whatever and whomever they encountered, bankers did much the same in the present epoch that is now about to end - profiting by the productivity of society and the public and private debts incurred as a result of bankers' induced credit-based spending.

Bankers achieved their immense power during this era by exploiting flaws in human nature and systemic flaws in the economic system they constructed for their own benefit. But as with all flaws, human or economic, the consequences of so doing are exposed over time. That time has now arrived.

Money is not credit, nor is money created *de jure* by circulating paper coupons imprinted with a government stamp stating the coupons are now legal tender to be used in the settlement of debts.

The idea that central bank coupons/paper money, *sic* debt, can be used to settle another debt is astounding. That we have been led to accept it is so is even more astounding. Throughout history, every experiment with paper "money" as a settlement of debt has failed. Our experiment with paper money towards that end will be no different.

The recent correction in the price of gold and silver is just that, a correction in an otherwise direct repudiation of the on-going attempt by governments and bankers to substitute paper coupons for real money.

A paper yen, a paper euro, a paper dollar, when no longer backed and convertible to gold or silver is but a paper coupon masquerading as money - a coupon with an expiration date in invisible ink.

In truth, the bankers' real gambit is not their bet that paper money can be substituted for gold and silver or that subprime mortgages can be passed off as AAA securities. Their real gambit is that central bank issuance of debt as money and their control of governments will never be discovered by the public.

HUBRIS FOLLY AND DISASTER

The world of credit and debt and all it has created has been made possible by bankers and their debt based system of money and central banking. Its cost, however, will be born by future generations who were not present when the debts were incurred.

Those who utter in pious simplicity those wonderful words, "our children are our future", have no idea what they have done to those very children and their future by spending today what future generations will have to earn tomorrow.

Here, in the US, an entire generation has grown up on the suspect promises of easy credit and paper money. That generation is now beginning to suspect that something is wrong, that the price of their gas, food and healthcare is rapidly rising and their dream of home ownership is a trap from which bankruptcy is increasingly their only escape.

Still, this generation has no idea of how terribly wrong it actually is and why it has happened; and their ignorance of such will give them little comfort during the Great Depression that lies directly ahead.

The chickens are coming home to roost; and they closer they come, the more they are looking like vultures.

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Note: I will be speaking at Professor Antal E. Fekete's **Session IV of Gold Standard University Live** (GSUL) July 3-6, 2008 in Szombathely, Hungary. If you are interested in monetary matters and gold, the opportunity to hear Professor Fekete should not be missed. A perusal of Professor Fekete's topics may induce you to attend (see <http://www.professorfekete.com/gsul.asp>). Professor Fekete, in my opinion, is a giant in a time of small men.