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Economic and Political Crisis

Perilous Times, a New President, and False Hope

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In the recent U.S. Presidential election, exit polls showed that most people voted for Barack Obama because of the downturn in the economy and hopes that he will turn things around. One television news report showed a young woman expressing her support for Obama and saying, “When he is elected, I won’t have to worry about putting gas in my car or paying my mortgage . . . I will help him and he (Obama) will help me.”

Due to the economic crisis, there has emerged an expectation that government should provide a bailout for everyone who has a need. There is a general lack of understanding that government has no money that it first didn’t take from someone else. In fact, it was a British professor, Alfred Fraser Tyler, who stated over 200 years ago, “A democracy can last as long and until a majority of its citizens discover they can vote themselves largess (large gifts) from the public treasury and then they will continue to elect the politician promising the most, and the end result is a fall of that democracy due to economic ruin and chaos.” Apparently what we learn from history is – we don’t learn from history. When government spends money, whether for economic bailouts or stimulus programs, or for social programs, it can only get the money from three sources: 1) tax the money, 2) borrow the money, or 3) have the Federal Reserve create and print the money.

That brings us to our current predicament. If you raise taxes during a recession on any class of taxpayers, rich or poor, you run the risk of exacerbating and prolonging the economic downturn. If you borrow the funds, you are competing against private individuals and businesses for available capital and you will again exacerbate or prolong the economic downturn. The only option remaining is for the Federal Reserve, a private bank (not federal and with doubtful reserves), to print the money. It is widely known that bad policies produce bad outcomes. One might add that bad decisions produce bad results. Malinvestments always have to be liquidated, and malinvestments are liquidated either in bankruptcy courts or through massive inflating of the currency. This act of massive money creation always destroys the purchasing power of the currency, and hits hardest those who are retired and other on fixed incomes. Inflating of the currency produces higher prices all across the board.

What Will Happen?

It is almost a foregone conclusion that the new President and the Democrat controlled congress will propose another two to three bailout or stimulus programs. Many of these proposals will resemble those of former Presidents, Herbert Hoover, a Republican, and Franklin D. Roosevelt, a Democrat. Following the stock market crash of 1929, the Hoover administration tried to spend their way out of the Great Depression whereby they increased spending by 47 percent between 1929 and 1932. It didn’t work and Hoover was defeated by FDR in 1932. Roosevelt continued the massive federal spending and expansion of the government bureaucracy. Despite all the massive spending for new programs, fewer Americans had jobs in 1940 than in 1929, and the home ownership rate recorded by the U.S. Census was only 43.6 percent, the lowest ever recorded. After the stock market crash of 1929, it took 25 years for holders of most shares to just break even to their pre-crash values. Recent history shows us that Japan has lowered its interest rates to 0 percent and has increased its money supply 30 percent a year for 12 years without reviving their economy.

What Could Have Been

The Treasury Secretary under President Herbert Hoover, Andrew Mellon, came into office in 1921 with the goal of reducing the federal debt from WWI. To do this, Mellon needed to increase revenue and cut spending. Mellon understood the history of taxation: where excessively high tax rates exist, the taxpayer would withdraw his capital from productive business. Mellon argued that when taxes are reduced, capital will flow into the economy and it will flourish. In fact, Mellon knew that by lowering tax rates across the board, he could increase the overall tax revenue. Mellon's plan had four main points:

- Cut the top income tax rate from 77 to 25 percent
- Cut taxes on low incomes
- Reduce or eliminate the Federal Estate Tax
- Promote efficiency in government

By 1926, 65 percent of the income tax revenue came from incomes \$300,000 and above when just five years earlier, less than 20 percent came from incomes above \$300,000, even though their incomes were taxed at 77 percent. During this same period under Mellon's plan, the overall tax burden on those that earned less than \$10,000 dropped from \$155 million to \$32.5 million. Mellon's plan was working. The Federal Reserve, in the 16 months prior to the crash of 1929, increased the money supply by 62 percent and then at the time of the crash, drained the money supply and thus caused the collapse of the stock market. This was an early sign that the Federal Reserve was using their control of the money supply to rob the American middle class of their hard earned money. Those who had pledged their farms, homes, car, or businesses to the banks lost it all. There was not enough money in circulation to pay their debts and many of these assets were bought by the economic elite for pennies on the dollar.

Assessing Current Conditions

The labor department reported in November 2008 that the U.S. jobless benefit rate was the highest since 1983 when the nation was struggling to recover from a long and painful recession. The two days following the election of Barack Obama, the stock market dropped almost 1,000 points. General Motors and Ford Motor Company reported huge losses in the third quarter and further reported that due to burning through all their cash, the traditional American auto industry, with sales down 32 percent from a year ago, is very close to collapse. Major retailers reported the steepest declines in fall sales in over 40 years. JC Penney, The Gap, and others reported drops in sales of more than 10 percent.

As of November, The National Bureau of Economic Research had not officially declared the U.S. economy to be in recession. However, many economic writers and analysts were saying all statistical indicators signal a recession due to widespread weakness with no signs of recovery. Then, two weeks later the same organization proclaimed the recession actually started at the end of 2007. Job losses are mounting and spreading across industries. The 75-year-old American Institute for Economic Research's report of November 3, 2008, says of the expected Democrat bailout plans: "Aside from being motivated by politics as opposed to economics, the main problem is that it cannot be easily timed or used with any degree of precision. There is no convincing evidence the officials will be able to reliably „jumpstart“ the economy. What is clear, however, is that these actions will dramatically increase the budget deficit and are likely to cause substantial inflation, further eroding the purchasing power of the dollar."

The problem is so large that even the policymakers have yet to grasp the magnitude of the debacle we face. Home values are still plunging across the nation, having declined on average by more than 15 percent from their March 2007 levels. Banks and brokerage houses have collectively lost hundreds of billions of dollars in the ongoing hedge fund and derivatives meltdown. Weary investors were shocked to see that the investment banking units of most Wall Street firms couldn't even manage their own assets, let alone those of their clients. The outmoded investment models had no understanding of the structural nature of our debt-based economy and debt-based monetary system and thus were doomed to failure. We have seen more than \$8 trillion of wealth transferred in the last three months of 2008. This is modern day "Robin Hood" economics that takes wealth from the ignorant and uninformed and transfers wealth to those who understand the system.

The Game Is Rigged

Most politicians, bankers, and Wall Street operatives are promoting atypical Keynesian approach to try and solve our economic debacle. You see, John Maynard Keynes, a British Economist, is the architect of our current economic model in the U.S. and around the world. Keynes wrote a book in 1920 entitled *The Economic Consequences of Peace*. In the book Keynes states, "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of its citizens. There is no more surer, nor more subtle way to overturn the existing basis of society than to debauch or destroy the currency. It engages all the processes of economic law that comes down on the side of destruction and does it in a manner that not one person in a million can diagnose." *One person in a million?* That's proof that the game is rigged.

You Don't Have to Be a Victim

In periods of economic downturn, economic crisis, or outright economic collapse, wealth is not destroyed; it is merely transferred. Money is the transfer agent. The one thing that will determine whether you will be a winner or a loser

in the economic scheme of things is your knowledge about how the monetary system works. We are admonished in the Scriptures to get “wisdom and understanding.” John 8:32 tells us, “And ye shall know the truth and the truth shall make you free.” It’s not the truth that sets us free; it is our knowledge of the truth. The major truth to understand in the current economic debacle is that one of two things will happen: Default and outright collapse of the U.S. and world economies, or massive creation of new money supply and new bank credit. The policymakers’ stance is heavily weighted toward massive inflation of the currency.

Where Do I Put My Money?

The chart below lists assets in tow major categories. I have listed them in both the Ownership and the Loanership columns in order of declining liquidity. It is important for us to understand the need for liquidity, because during times of economic turmoil, there is always a flight to cash. That’s cash in your CD’s and Money Market funds and cash in the form of precious metals.

Ownership vs. Loanership	
Gold	FRN’s
Silver	MM Funds
Platinum	CD’s
Coins	T-Bills
Stocks	Annuities
Real Estate	Bonds
Collectibles	Notes

In this current economic climate, move your loanership assets out of notes and U.S. bonds. Assess the safety of your insurance company that issued your annuity and reduce your exposure away from weak insurance companies. Move up into more liquid assets on the loanership side. The move some of your loanership cash over to ownership cash (gold and silver coins), as these are the only monetary assets that aren’t someone else’s liability. The only real estate purchase that makes sense in this climate is agricultural real estate. Delay purchasing residential real estate as there will be a further decline in housing prices. In the area of stocks and stock mutual funds (stock soup), the economic downturn will hurt earnings across the board, and without earnings, stocks will continue in the doldrums and also trend downward. Remember, this economic crisis will be deep and will be prolonged. Move quickly to avoid economic risk that often accompanies political change.

In a Nutshell

The masses will cry for economic relief from the government. Politicians will frantically try and stimulate the economy by throwing money at the problem – money they don’t have and money that will have to be printed. The solution or remedy for the economic woes is the same thing that caused the problem to begin with. The proposed stimulus measures are the economic equivalent of crack cocaine. The economy again will get “hooked” on the stimulus and the demands for even greater stimulus will mushroom.

I believe we have a minimum of two years and a maximum of five years to get our financial house in order so we can weather the financial storms and what might be a financial tsunami. (Call 1-800-336-7000 to get the updated version of *The New Economic Disorder*, and order our recent 3-hour DVD briefing *Economic and Political Crisis*.) Learn quickly how the system works and put your understanding to action. You see, none of what is happening now or will happen, catches God by surprise. He’s not having an anxiety attack over our current debacle. Press into His wisdom with that intimate relationship with Yeshua, and in the midst of it all remember that God’s economy is tithes, alms and offering. Never lose sight of God’s economy, even in tough times.