



# MONETARY & ECONOMIC REVIEW

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## Economic and Political Crisis

### *An Update*

By Dr. Larry Bates

*Bates, an economist and Publisher and Editor of Monetary & Economic Review and Unravelling The New World Order, is a former member of the Tennessee House of Representatives and Chairman of its powerful Committee on Banking and Commerce. He is a former bank CEO and an internationally recognized expert on political systems and the Federal Reserve and how they affect the economy and your investments. Dr. Bates is the author of the book, The New Economic Disorder.*

Real unemployment numbers are rising, as nearly 17 percent of the population remains unemployed. The government is only reporting 10 percent unemployment, as they do not count those who are “discouraged” and no longer seeking employment, nor do they factor the “underemployed.” The unemployment rate during the Great Depression peaked at just over 25 percent. The only sector of the economy with full employment is the Federal Government, along with most state and local governments.

Astounding data emerged in December 2009 that showed the average pay for federal workers exceeded \$70,000 per year. That is \$30,000 higher than the average private sector workers who makes on average just over \$40,000 per year. You cannot stimulate the economy from the top down by growing the size and scope of the federal, state, and local governments with hopes that some of the money will trickle down to the average citizen and thereby stimulate the economy. Governments, by and large, when they exceed the roles of protector and builder of infrastructure become economic parasites that contribute nothing to the economy but only take from, stifle, and suck dry most economic activity.

#### **Systemic In Nature**

Our current economic and monetary systems are at the heart of our debacle. We have a debt-based economy and a debt-based monetary system. Plainly put, under this system nothing happens until money is borrowed into existence. This inflates the currency and ultimately causes price inflation. In fact, this economic game is rigged . . . that’s right, it is rigged. How do we know? In his 1920 book, *The Economic Consequences of the Peace*, U.S. economic architect John Maynard Keynes says, “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 sure nor subtle way to overturn the existing basis of society than to debauch (destroy) the currency. It engages all the processes of economic law that come down on the side of destruction, and does it in a manner that not one person in a million can diagnose.”

#### **Role of Bankers**

Since the central bank (Federal Reserve) has a monopoly on the creation of money, nothing will happen to stimulate the economy until money is borrowed into existence. Most consumers are either unable or unwilling to borrow the bankers’ money. Most bankers are scared to loan money for fear of future economic uncertainties. If consumers don’t borrow and spend money, the economy is going nowhere and will stay suspended in stagnation. When the federal government spends and borrows the expenditure, such spending from the top down would do little if anything to help the economy. The money just doesn’t trickle down enough to stimulate anything except increase the size and scope of an already giant bureaucracy. Either the Obama crowd and the Democrats in Congress are incredibly stupid and do not know what they are doing—or they know precisely what they are doing. Either way, they are destroying our country.

#### **Where’s the Money?**

As we have previously pointed out, when the federal government spends money, it can get it in only three ways: 1) tax, 2) borrow or 3) print. The Obama budget is right at \$4 trillion. If the feds took 100% of all income of those in American that make \$500,000 or more, you will have raised only \$1.3 trillion. This means the middle class will have to be taxed even more.

The fact is, you cannot build a European-style socialist government without European style exorbitant taxes. As in Europe, this means reduced economic activity and much higher unemployment. Deficit spending equals tax hikes and currency depreciation due to Federal Reserve printing of more money.

### **More Mortgage Problems – Prime Loans**

In addition to the commercial real estate woes the percentage of U.S. homeowners who owe more than their house is worth will double to almost 50% from 26 percent reported earlier in 2009. In an August 5, 2009, Reuters News Service wire report by Al Yoon<sup>1</sup> states, “Home price declines will have their biggest impact on prime ‘conforming’ loans that meet underwriting and size guidelines of Fannie Mae and Freddie Mac, according to a report issued by Deutsche Bank.”

Prime conforming loans make up more than two thirds of all mortgages and are typically regarded as less risky because of stringent underwriting requirements. The impact on the U.S. economy will be significant given that this sector of loans has the largest share of outstanding loans in the overall mortgage market. This will further fuel a vicious cycle of defaults and foreclosures as homeowner equity is eliminated and the incentive to pay and stay in the home diminishes. The greater the negative equity, the more likely are defaults as chances for recovery diminish.

To have any hope, we must change the Congress and the White House. Franklin D. Roosevelt embarked upon the same plan that Obama and company are implementing and he prolonged the Depression for ten more years. It also took 25 years for the stock market to just break even with pre-crash levels.

We interviewed Congressman Louis Gohmert (R-TX) in the first quarter of 2009, and he proposed implementing a moratorium on taxes for 2-3 months.

He couldn't get the proposal off the ground due to opposition from the Democratic leadership. His plan would work, and here's why. If you eliminate taxes (withholding, FICA, and Medicare) for 2-3 months, this would put an extra \$600-\$700 in the pockets of the average worker for each month of the program. This would be the greatest stimulus you could give an economy because it quickly gets money into people's hands. They will spend, save, or pay off debt and the velocity (speed at which money turns over in the economy) will revive economic activity. Problems will arise for politicians when the 2-3 month moratorium on taxes ends. The masses will realize they can spend the money better and wiser than the government and all politicians who don't agree with the masses will find themselves unemployed.

### **Economic and Political Risk**

The greatest economic risk we face is currency depreciation due to massive printing of money to cover government spending. The greatest political risk we face is rising taxes and increased government controls over every aspect of our lives. In view of our current assessment of the ongoing economic and political crisis, we make the following recommendations:

- 1) Pay no attention to the advice of financial advisors who do not understand our debt-based economy and debt-based money systems. They will only understand what their bosses on Wall Street tell them. Their job is to get you into debt-based paper IOU's or some mutual fund.
- 2) Avoid holding bonds, due to credit risk and currency depreciation. Bonds are guaranteed certificates of confiscation.
- 3) Do not be tempted by the pitch to get into global stocks. Remember, this economic debacle is global, and other countries (and their shares) are experiencing the same problems as in the U.S. Also avoid the pitch to get into the “green” or Copenhagen trade investments. It is a trap.
- 4) Avoid the pitch to invest into emerging markets. The first wave of bad news in other sectors will dry up funds for emerging markets and you may have to wait for years to recover your investment.
- 5) Be more concerned with return of assets than with return on assets. Risks lurk around every corner in the investment world and remember, “Cash at the crash will be king.” That's cash in CDs and money funds and cash in gold and silver coins.

*MER* readers may call for a complimentary Economic and Political Risk Analysis: 800-325-0919, Ext 7470

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<sup>1</sup> Reuters News Service: “About Half of U.S. mortgages seen underwater by 2011” – Al Yoon, August 5, 2009 5:12 pm ET