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Financial-Captal-Equity-Commodity & Political Trends
History is a Catalogue of Soulutions

WE PRINT BONDS – NOT MONEY

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DEFAULT in the realm of sovereign debt remains a question on the mind of serious investors. Even China has come out warning the US they should be responsible. Yet at the same time we are trapped by theories that are emerging more like Frankenstein made up of bits of pieces from scattered one-liners that litter the economic landscape. We have Obama saying it is not fair to cut spending without raising taxes on the rich and corporations. Missing in this debate is common sense. Let's see. Would you give the power of attorney to your teenage children to go sign anything they want and you have to pay the bill? If we are talking about fairness, is it fair for politicians to do as they like with no national votes and then come back years later and say you now have to pay for whatever they did? The war in Afghanistan cost over $1 trillion. When Ronald Reagan came to office, the National Debt was $1 trillion and that represented two World Wars, Korea, Vietnam, and all the social programs of the New Deal. Politicians spend as they like, take no responsibility, and then want to pass the bill to the people. Is that fair? Where is there any democratic process in this decision? We vote on nothing and the elected representative is subject to lobbyists and party bosses who dictate what they shall vote on if they want party support for the next election. This is the most bizarre democratic form of government I have ever heard of. Did anyone in Washington ever hear of "***No Taxation without Representation***?"

Everyone is excited for Greece will get a new bailout of $157 billion that is being hailed as the savior of Europe. This sovereign debt crisis has been metastasizing in Europe for the last 15 months ever since the Pi Cycle hit on April 15th, 2010 (2007.15 + 3.14 = 2010.291). The Greek riots began right on cue. The markets stopped lending to Greece, Portugal, Ireland, and they are concerned about Italy and Spain. And in this atmosphere, we have the US political clowns refusing to extend the debt ceiling?

Between all the cheering, we have the first partial default. Yes, Greece and France will put up more cash to bailout Greece and this is much like sucking the poison out of a friend from a king brown snake that will succeed in only killing you both. Germany and France are the fools rushing in where wise men dare not go. They are increasing their own debt that will exactly do what for Europe? In addition, private holders of Greek debt had to agree to take less. That is a debt restructuring we call in real circles – a plain partial default. So much for the vow that no member would ever fail repay its debt; OOPS!

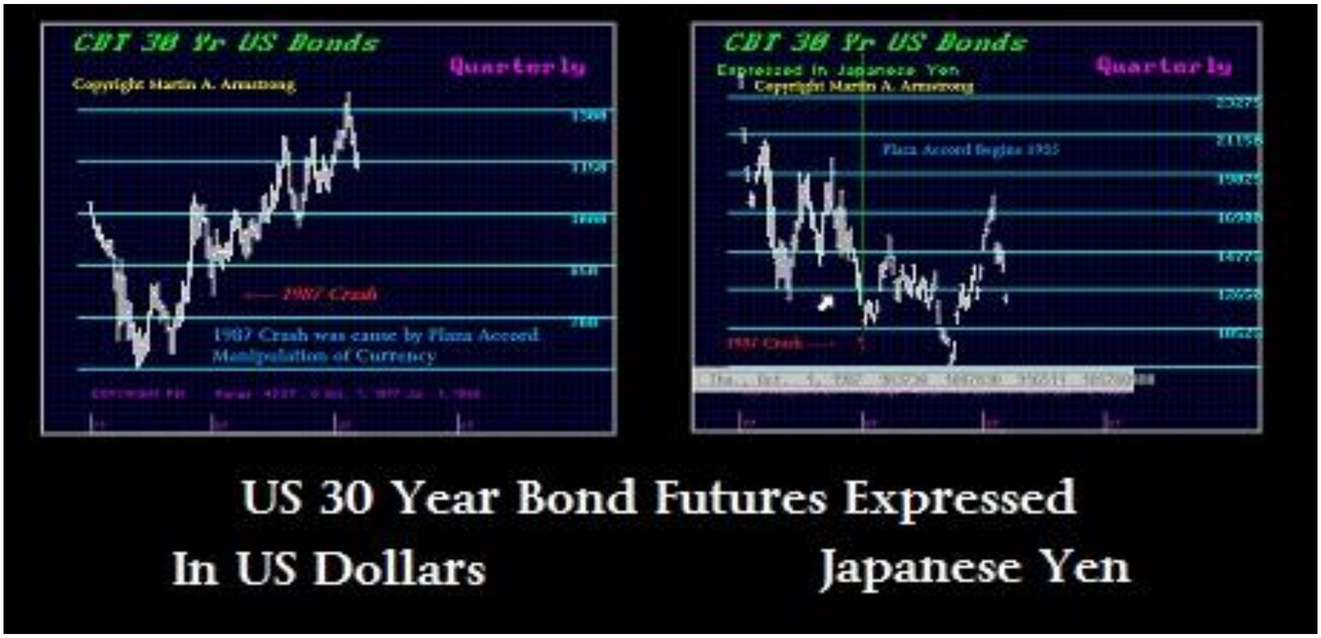
The problem we have is simple. Nobody ever pays their debt. Politicians simply roll the debt forever. So where exactly is there some change in direction? Germany and France really expect to be paid back out of this deal? We might as well call it what it is – a donation. Until we begin to face up to the fact that we are debt junkies and unless we revise the world monetary system, all we are doing is destroying the strong to help the weak. They never heard of reform. The system is BROKE! Everyone can cheer and the fools will rejoice pretending everything has been solved. Sorry. You haven't fixed the problem!

There are people yelling gold is money and demanding a return to a gold standard as if this will actually fix something. So let's see. The national debts we cannot pay now, we convert and become payable in gold only? That's a good one. Your mortgage would now be payable in gold. After gold was confiscated, the Supreme Court was faced with solving the Gold Clause problem in private contracts. At that time, you entered into a contract and the terms spelled out what you might owe in gold. It was held in four main cases ***Norman v. Baltimore & Ohio Railroad Co***. 294 U. S. 240 (1935), ***United States v. Bankers Trust Co***., 294 U.S. 240 (1935), ***Nortz v. United States***, 294 U.S. 317 (1935), ***Perry v. United States***, 294 U.S. 330 (1935) that the government can always do whatever it wants and it has the power to alter every contract you have signed previously. In 1934 they altered contracts removing the Gold Clause retroactively and they would do the same today if you returned to a gold standard now. Do you have the gold to pay the mortgage company? If not, they could legally take your house and throw you out on the street.

We are addicted to debt and the Primary Dealers are keeping it going. Sorry Obama. You can yell all you want about the evil rich and corporations have to pay more so you can keep paying the Primary Dealers/Investment Bankers who in turn come back and are your largest contributor, but the real unfair transfer of wealth is not between the so called "rich" that are now anyone who earns $250,000 in household income, but how much is going out the back door to the bankers to constantly roll a debt nobody has any intention no less ability to pay off. Isn't it time the Marxist shit stop and we look closely at what the hell is really going on?

The rhetoric of the gold standard crowd keeps claiming we are printing money that is an IOU. Sorry, but exactly what is the IOU when they promise to exchange it for nothing? I hate to point this out, but WE **DO NOT PRINT MONEY – WE BORROW IT!** Money is electronic, not paper that is a tiny fraction of the money supply. We lost control of the money supply because money can be created by capital rushing back and forth around the world. There are no exchange controls so if someone in Europe wants to buy $1 billion they just do the transaction converting the Euro to the dollar on a dealing desk. Nobody calls the Fed for permission. The theory that if we **BORROW** it is less inflationary than if we **PRINT** is absolute nonsense. In fact, it costs us far more to **BORROW** than to **PRINT** because we pay people interest to buy the bonds. Pictured here is the first currency issue of the United States and I hate to inform you, the term "***GREENBACK***" did not mean just that it was not backed by gold. The US did not issue gold backed currency before the Civil War. It also meant that if you flipped over the note, there was no interest schedule printed on the reverse! Currency was at first a form of circulating bond that paid you interest. Here is a state issue of Louisiana. Note that there are coupons to the right. You could clip the coupons and collect the interest on the currency.

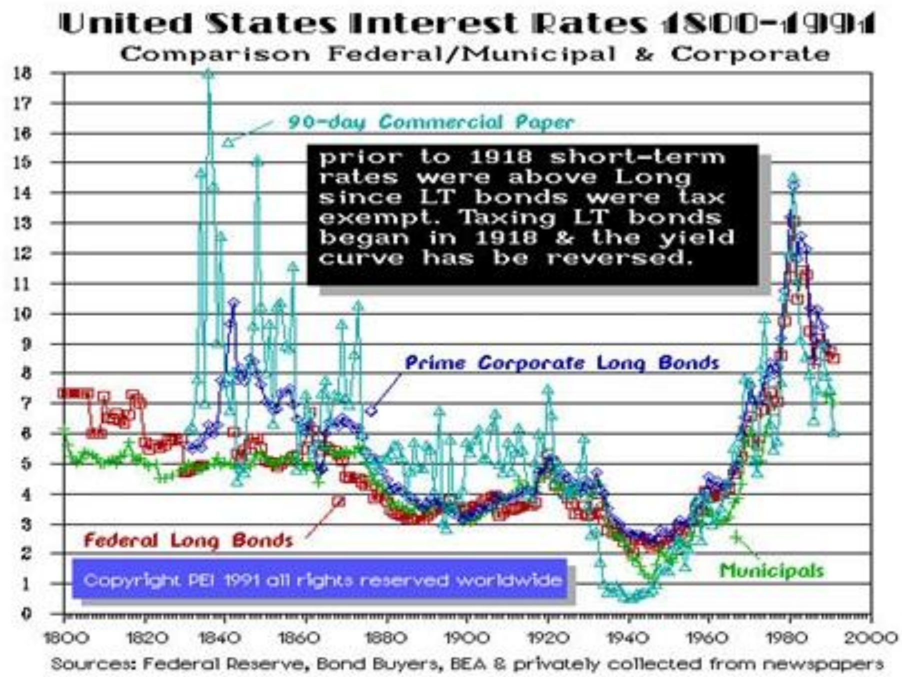
This whole problem of **DEBT** stems from the insane proposition that it is **LESS** inflationary to **BORROW** rather than to **PRINT** money. Had we printed the past 30 years instead of borrowing, the debt would be about one-third of what it is today. We live on a credit card and we are using the credit card to also pay the interest without ever making a payment.



What happens in a sovereign default? Should we stop raising the debt ceiling at the 89th time? Are we just printing bonds/money with no endgame in mind? Having actually worked with the movers and shakers around the world and sitting down with governments in times of trouble, I acquired actual experience in these areas not just ivory tower contemplation or the bravado of opinion. We at **Princeton Economics** were the modern day version of the ***Ghost Busters*** in international finance. There weren't very many crisis events we were not called into. There is a **HUGE** difference between **THEORY** and **REALITY**. You have to understand the political game at foot. You can point to something and say Mr. Politician if you don't do this **NOW**, 1,000 people will die next year. Unless there is personal gain out of acting, they will let those people die. The political way is to scream outrage, hunt down whoever they blame, and crucify them rather than stop the ***shit-from-hitting-the-fan***. This is just how it is done. They take credit for prosecuting, but not for preventing. Term limits would eliminate career politicians.

Some merely assume that there will **NEVER** be any default and that at best there would be some suspension on a temporary basis. However, to a large extent, there is just a gross misunderstanding about how a debt crisis is resolved. A financial crisis is certainly looming on the horizon. What we undoubtedly face is the continuation of the ***Sovereign Debt Crisis*** that is truly an ongoing **CONTAGION**. Oh there will be oscillations that will appear, like now, that the problem is solved. But we have not changed the nature of the beast. We are throwing a sheet over the 800 pound gorilla, but he will figure out how to pull it off soon enough. Did anyone notice **ALL** government have the same debt problem? That means we are dealing with a **STRUCTURAL PROBLEM** on a global scale!

Pictured above shows how the floating exchange rate system has dramatically altered how everything trades. It is not just the debt that affects the decision to buy or sell. It is how those debt instruments also hold up against the net swings when translated into the currency of the investor. Currency has become as I have said many times, nothing but a share in the national wealth like a company and it is prone to speculation and wild swings based upon confidence swings.



The fed ended the $900 billion in their QE2 program but it will embark on a new plan. It has to. The economy is not recovering because of a **STRUCTURAL DEBT CRSIS** causing a structural shift in everything not the least is employment. The states and the feds are strapped for cash and instead of reform they are raising taxes that will cost more jobs. The mere uncertainly about the economy prevents business from expanding by adding employees. They have increased purchases of equipment, but not personnel. One in every three unemployed persons in the USA has been unemployed for more than one year. They are not funding NASA. This is indicative of government worldwide. Government workers are those being cut the most. Local police are being transformed into revenue agents told to write tickets, not protect us! Others have taken early retirement and are not being replaced. Public government is in a downward spiral and the low does not appear to be due until 2020.

There is **NO** relationship that is **FIXED**. Pictured here are the interest rates for Federal Long Bonds, Municipals, Prime Corporate Long Bonds, and 90 Day Commercial Paper from 1800 to 1991. We can see that the 19th century was chaotic. After the Great Depression, interest rates tended to converge together. We are embarking on a return to the good old days where you will see significant disparities as capital tries to figure out who is good and who will default. Where munis were the best credit at the start of the nation and people distrusted the feds, today the munis are the worst of the lot.

We are indeed putting lipstick and a dress on the pig and pretending this is the New Year Baby. So put your glasses on and open your eyes. Trust me. It is still a pig. Sleep with one eye wide open. Use some common sense. The **SYSTEM** of debt is collapsing. This is not unique to any one country, for everyone is going down the drain. We are **NOT** printing money! It is much worse. We are printing money in the form of **BONDS** that pay interest ensuring the greatest transfer of wealth export in the history of the world. The "***Greenback***" issues were far more than not gold backed. They couldn't afford the interest and so they stopped paying it. Hello! Sound familiar? The interest is killing us. You can chop every program and people will starve on the streets. But guess what! The debt will keep growing until you stop this insane game of borrowing perpetually. Common Sense would be something to pray for.