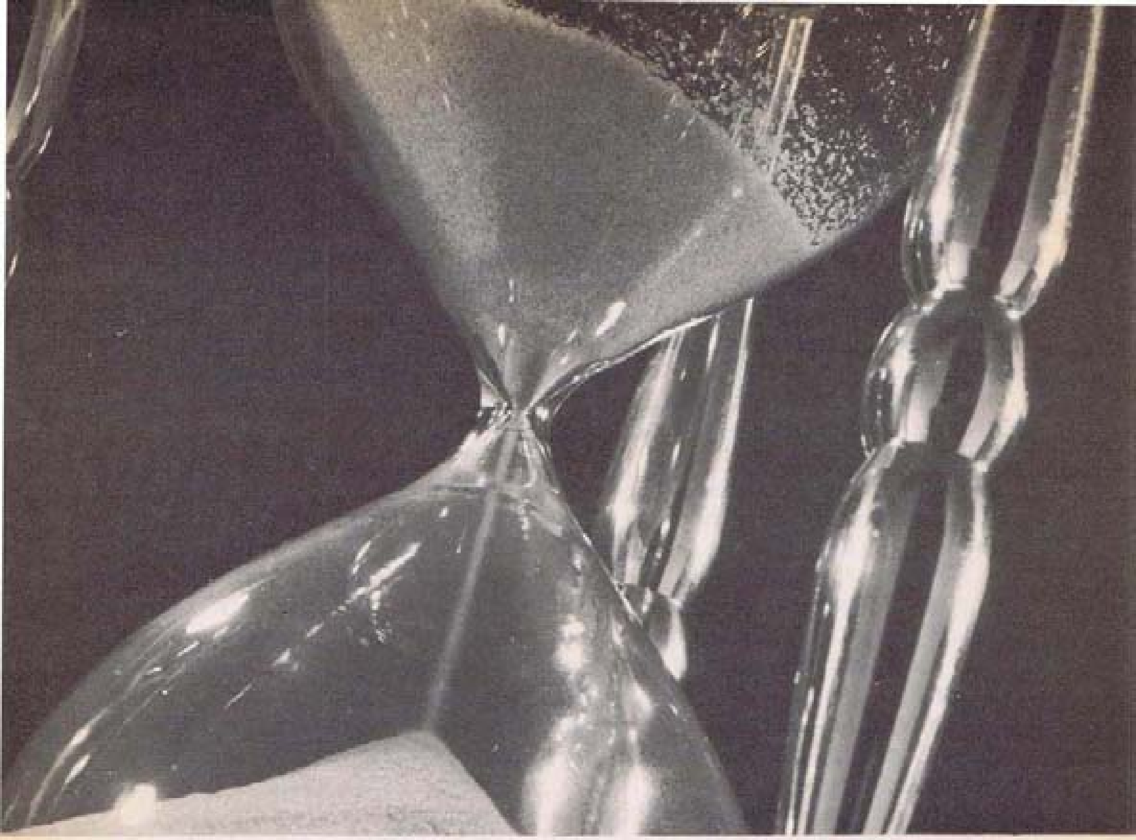

Harold M. Lambert Studios

Trouble In THE BANKS

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■ OVER THE past four decades Americans have been told in millions of classrooms and tens of millions of living rooms that Franklin D. Roosevelt and the reforms of the New Deal have banished depression from the land for all time. At the core of this myth is the notion that our financial system is now guaranteed to be immune from the runs, panics, and bankruptcies which closed two thousand banks during 1931-1933.

For at least the last two decades Free Market economists have been warning that the very agencies that "Liberals" assure us make the banking system as solid as the Rock of Gibraltar virtually guarantee an eventual panic capable of destroying our economy. Your basic garden-variety worshipper of Government, of course, is not concerned. He wouldn't be concerned if he saw a Soviet brigade marching up Main Street. But normally intelligent people are now becoming very worried indeed about the safety of their money. And recent developments indicate that even the banking Establishment is seriously alarmed.

Traditionally it has been only the Free Market types who have been doing the doomsaying. No more. For instance, there is Professor Jay Forrester of the Sloan School of Management at M.I.T., who is not likely to be a guest lecturer at the Foundation for Economic Education. Professor Forrester is a computer expert who put together a team of scientists to study economic patterns going back hundreds of years. After the team had programmed reams of material and statistics into the M.I.T. computers it discovered that there is a long-term (or long-wave) cycle which lasts anywhere from forty-five to sixty years and ends in a deep depression.

Forrester was not familiar with the fact that what he had confirmed had been known for nearly sixty years. In the early 1920s the fledgling Soviet Government appointed a non-Communist Russian economist named Nikolai Kondratieff to investigate long-range economic cycles. Kondratieff had researched back to the beginning of the money economy. What he found was that the Western world has experienced a constantly recurring series of these waves of prosperity followed by depressions that begin approximately every fifty years. In 1923, on the basis of this research, Kondratieff predicted the 1929 crash.

The Soviets, however, were not pleased with Kondratieff's conclusions. They had expected him to show that Marx was correct in his notion that capitalism carries the seeds of its own destruction. What Kondratieff established was quite different. While the Communists liked the idea that there were recurring depressions in capitalist economies, they rejected his idea that these economies had always come back stronger than ever before. The stunned economist was sent off to Siberia to ponder his error for fifteen years.

What Professor Forrester's computer bank discovered was that the so-called Kondratieff Wave is in fact a capital-goods cycle in which new technology becomes fully developed at the cycle's end. Economies tend to progress as follows: Depression, thrift, investment, activity, prosperity, use of credit, abuse of credit, economic excesses and inflation and poor collateral, loss of confidence, panic, and, once again, depression.

Free Market economists are divided as to the validity of the Kondratieff Wave. Those who doubt its value point out that, in our current cycle, plateaus and secondary depressions have not occurred on schedule. The defenders respond that no two Kondratieff cycles are exactly alike and that the theory has general validity even if it is not always an accurate predictor of the exact time of the panic and collapse. They point out that sophisticated modern means of manipulating the economy may have stretched out the cycle. Forrester talks about it lasting as long as sixty years.

It is extremely interesting that Professor Forrester and his M.I.T. team were largely financed by the Rockefeller family. Apparently the Rockefellers were anxious to validate the Kondratieff Wave.

How does this fit with the concept that since the creation of the Federal

President Carter has signed into law the most sweeping banking bill since the Federal Reserve Act. It sets us up for massive currency inflation to bail out the big banks. Among other things it puts all depository institutions under the Fed, permits selective bank holidays, and allows suspension of reserve requirements.

Reserve System depressions have been, as Congressman Charles Lindbergh Sr. predicted, "scientifically created"? There is certainly no conflict between what might be called "the conspiracy theory" and the Kondratieff Wave theory. If one assumes that the Establishment *Insiders* have mastered the Kondratieff Wave one may deduce that they know when recessions and major depressions are due. Then it becomes a matter of balance — like riding the waves at Waikiki.

Conspiratorial planning could have a major effect on the depression which Forrester foresees in the next few years. He states: "Historically, a depression following a long-wave peak has been deflationary. Prices, wages, and interest rates have fallen. But the 1980s could be different. Never before have there been such big government and such powerful inflationary forces." The M.I.T. scientist predicts that the next depression might be an inflationary depression, the worst of all possible worlds. An inflationary depression would have tremendous impact on everyone and would invite enormous increases in governmental power under the guise of coping with economic disaster. In a deflationary depression such as that of the 1930s, the eighty percent of the work force which was able to remain employed lived reasonably well if not in opulence. Wages were low, but hamburger was a nickel a pound. An inflationary depression would wipe out almost everyone.

The fact that the economy has been pushed into recession is abundantly clear to all over the age of thirteen. Brother Carter has predicted that it will be "short and mild." He is whistling past the graveyard, well aware that a deep and nasty recession virtually guarantees that by late January 1981 he will be back with the rest of the Snopeses shelling peanuts at the family warehouse. More and more economists are predicting that the soft landing for which Jimmy hopes is unlikely.

How does all of this threaten the banking system?

Whether they are called recessions, depressions, or panics, downturns in business activity are bad news for all bankers who are not prepared. People are forced to take their savings out of banks to pay for their daily bread. Marginal businesses go under and some loans which the banks have made during boom times can no longer be sustained and result in default. Which is why many of the big bankers are becoming increasingly alarmed that the planned economy is out of control.

The economy is out of control because the government is out of control. In March, the beleaguered Jimmy Carter made noises about slicing a few ounces of blubber off his whale-like Budget. In the abstract, everyone was for the cuts. But, when it came down to making specific reductions, the cheers turned into shrieks of anguish whenever the projected reductions touched somebody's pet project. Instead of making cuts, Carter raised taxes. Even so, the claimed balanced Budget is balanced precariously on a teetering rock.

For one thing, the balance is based on the assumption that we will have the mildest of recessions. A deeper recession than that predicted by the White House, virtually a certainty, will produce far less tax revenues and escalate Welfare benefits for the unemployed. At the first sign that the recession is really pinching, cries will be raised for *stimulating* the economy and bailing out those who are in trouble. One can hear the wailing already as the automotive industry, which provides employment for one of every six jobholders in the nation, is in more trouble than a redneck in a white sheet at a Black Muslim rally. The construction industry, with all of its myriad of related suppliers, is also flat on its back. And the collapse of these two industries, alone, is enough to guarantee real trouble.

So interest rates will be lowered and inflation will be continued. But remember that instead of cutting government to reduce the deficits which create inflation, Carter is increasing taxes. Under President Carter we have seen the federal tax burden as measured by the ratio of all taxes to G.N.P. jump by eighteen percent. Meanwhile the cost of living has soared by fifty percent and it is escalating at a rate of eighteen percent for the year — guaranteed to drive nearly every family and business to the poorhouse. And Carter had the audacity to add a gasoline levy of ten cents a gallon to tax the trip. After all, he claims, he is at war with inflation. If that is the case, it is another no-win war.

What does all of this mean? Let us imagine that by the wildest of good fortune Mr. Carter is able to cut the increase in the cost of living in half. At ten percent compound interest the cost of living would still double in seven years. If Kondratieff Wave theory holds, the current recession will be followed by one more boom before the disaster. It will be a super boom with the Dow Jones doubling and re-doubling. And the following bust will be the worst in history. In other words, by comparison with the last great boom and bust of the Twenties and Thirties, we are in 1926 or 1927.

The Carter combination of stupendous taxation piled on top of record increases in the cost of living are sapping the life blood from the economy. America is already generating saving at the lowest rate of any major industrial nation, and the new taxes and increased price inflation will make matters much worse. No new investment means no new businesses with modern machinery to provide jobs. In fact it could mean closing our major industrial plants. Get the picture? So do the Learned Elders of Bankerdom.

When the economy is going through an expansionary phase, the big bankers are fat and happy. "A little inflation is a healthy thing for the economy," they will pontificate as they puff on their three-dollar cigars. The deposits roll in and the loans roll out and everybody is optimistic. Profits are high enough to make them arrogant and self-satis-

fied. Between 1968 and 1978, after-tax bank profits rose from $4.7 billion to $10.9 billion. Then, in 1979, the banks struck a bonanza. According to *Business Week* for April 21, 1980:

"Despite a squeeze on interest spreads from the year's unprecedented rate increases, 1979 turned out to be one of the most prosperous years for the nation's big banks. The reason: Whatever the banks lost in margins they picked up in volume as both business and consumers scrambled to nail down credit lines or take out new loans before interest rates rose even higher or the supply of funds to make loans dwindled altogether. As a result, earnings before securities gains and losses for the country's largest banks were up almost 20% over the same period a year ago — and 1978 itself was a good year for the banks."

Read that carefully for the storm warning. Last year profits were huge because business and the public went on credit-card binges (literally and figuratively) in anticipation of a continued inflationary boom. Starting last October, the nation's central bank, the Federal Reserve, started squeezing such loans. Notice also that the bank profits were calculated before considering investment gains or losses. You will see how important that little clause is momentarily. But, in any event, it is highly doubtful that during the inflationary recession of 1980 the banking industry's balance sheets will look nearly so cheerful.

One reason that "a little inflation" has been profitable for the banks has been a federal law known as Regulation Q. This set the maximum rate of interest that could be paid by banks and savings and loans on passbook accounts. The banks could pay up to five percent and other thrift institutions were allowed to go to 5.25 percent. This was a great arrangement for the bankers and a terrible deal for savers. Banks were in essence borrowing from their savers at five percent and lending at ten or twelve percent. Regulation Q had been instigated at the behest of the very powerful banking lobby. It amounted to a license to steal.

But those who live by the inflationary sword may perish by it as well. Eventually, in 1977, inflation pushed the federal government's T-Bill rates above the Regulation Q ceiling. The bankers began crying that the Treasury was draining their funds as people withdrew their savings and bought Treasury Bills. In order to help the banks, the government allowed them to issue special six-month certificates paying the market rate of interest. The catch was that, like T-Bills, you could only buy these money-market certificates in denominations of ten thousand dollars or more. This excluded the vast majority of savers who were stuck with five percent passbook accounts in a period of inflation that was double that figure. Now it was a license to steal only from the little fellow.

But Regulation Q turned out to be a serious problem for the banking fraternity. The free market has a funny way of working around would-be monopolists. Some capitalist sharpies created a new savings instrument called the money-market fund. According to the *Los Angeles Times* of March 18, 1980: "Money funds — which pool money from investors and invest in high-yielding bank certificates, commercial paper and government debt obligations — have shown a spectacular growth over the last few years. More than 3 million people, lured by rising interest rates, have placed more than $60 billion in the funds compared with only $4 billion in 1977."

Money-market funds are as popular with bankers as Norman Dacey is with lawyers. Scores of them have sprung up in the last few years. Associated Press of March 3, 1980, quotes banker Lee Gunderson as saying: "Bankers around the country . . . are losing deposits to money-market funds, both directly by withdrawals and indirectly by the withholding of funds that otherwise would have been deposited." The same article made it perfectly clear that the banking brigade was about to retaliate. It quoted a spokesman for the American Bankers Association as saying of its plans to go after the money-market funds: "We're not talking about a study group or even a task force, but a strike force just like the military, or the F.B.I."

As fate would have it, when Jimmy Carter announced his anti-inflation program on March fifteenth, he decreed that money-market funds would be required to set aside fifteen percent of any new assets in a non-interest bearing reserve. He has also signed the most sweeping banking "reform" bill since the creation of the Federal Reserve System, and one of its tenets is the gradual abolition of Regulation Q. The same bankers' group which had created that heist now had to have it destroyed or be driven to the wall by competition from the funds. Inflation giveth and inflation taketh away.

While the new law slows the money-market raiders, it does not replenish the banks' savings account deposits. And deposits are half the game in banking. In our banking system, deposits are another of those twin-edged cutting instruments. The banks operate on what is known as the fractional reserve system. This means that, under the watchful eye of the Fed, they may not only lend demand deposits, they may lend *several times* their demand deposits. How many times depends on the current fractional reserve requirement.

If the reserve requirement is twenty percent, the bank can put the depositor's dollar up as a reserve and create four more out of thin air. If the reserve is fifteen percent, it can put up a depositor's savings dollar as a reserve and create more than six dollars which never existed before. Since the bank is earning interest on all these dollars which it has created by computer entry, you can understand why the bankers love the fractional reserve concept. Most people believe that a bank takes in Mr. Brown's savings and lends them to Mr. Smith after setting aside a reserve. That is how savings and loans work, but not banks. A banker is permitted by law to be a money magician.

However, as we said, the process works both ways. All is well as long as new savers come pouring in the front door to give their hard-earned dollars to the banker. He will leverage each dollar into five or six dollars in new loans. But, when the saver comes in and removes his dollar, it chokes the same five or six dollars in loans and that new money which was created at the punch of a computer key is now extinguished as the sword cuts back. The money supply which is exploded by rising deposits is imploded by falling deposits. This is why bankers stock up on Nytol when a recession threatens. If they have to start calling in loans the borrower may not be able to repay. So you can readily understand why the bankers regard money-market funds with less than eternal fondness.

We are now in that part of the business cycle at which bankers start worrying about people drawing out their savings to meet business or personal emergencies. It is also a period during which a banker worries about his really big depositers pulling the plug. The modern version of the run on the bank may not (at least at its inception) be a mob of worried townspeople lining up in front of the local bank. It may take the form of the sheiks of Araby refusing to renew their certificates of deposit.

A very high percentage of the bank deposits being held by nine of the top ten American banks is owned by foreigners. The April 21, 1980, issue of *Business Week* gives the percentage of foreign deposits in U.S. banks. They are: 1. BankAmerica, fifty percent; 2. Citicorp, seventy-five percent; 3. Chase Manhattan, fifty-four percent; 4. Manufacturers Hanover, forty-six percent; 5. Morgan Guaranty, fifty-five percent; 6. Chemical Bank, forty-three percent; 7. Continental Illinois, forty-eight percent; 8. Bankers Trust, forty-eight percent; 9. First Chicago, fifty-seven percent; and, 10. Western Bankcorp, nine percent.

To give you an example of the magnitude of the situation, that fifty percent of the BankAmerica's deposits which belongs to foreigners amounts to a cool fifty-four *billion* dollars. The Federal Deposit Insurance Corporation, which insures against bank deposits going down the drain, has a total reserve of only eight billion dollars.

How dangerous is this situation? That will get you an argument. Obviously if the grand pooh-bahs of the camel kingdoms pulled their funds out of the banking system, the big banks would do a dazzling impression of the *Hindenburg*. But some observers maintain that the banks and the O.P.E.C.ers are buried in each other till death do them part. Those who hold this view maintain that the oily sheiks know their petroleum profits have been recycled through the big international banks and lent to the governments of oil-purchasing coun-

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tries all over the globe. According to this theory, the sheiks realize that they can't get even a fraction of their funds back without putting the world's biggest banks into bankruptcy. By doing this they would lose their investments and wreck their markets. In addition to which the Arabs realize that if the American banks were faced with mass withdrawals Jimmy Carter would freeze their assets just as he has done with those of Iran.

There is, however, another school of thought which holds that the banks are every bit as vulnerable as it appears on the surface. First, say the advocates of the disaster school, we can't view the Arabs as a single body and mind. Their deposits are made up of monies from a goodly number of wealthy individuals and governments. Like everyone else, if they fear a run on the bank, they won't want to be last in line. They might easily try to grab as much as they can as quickly as they can, believing that if the American government were to freeze all O.P.E.C. deposits simultaneously it would cause an international collapse of the dollar since an oil embargo would obviously follow. All of this would assure a worldwide depression that would make 1933 seem like a picnic in the park.

The Middle East is as unstable as nitroglycerin. Most of the nations there are threatened with both revolution from within and Communist conquest from without. Either occurring in a major country could trigger a chain reaction that would produce a run on the Western banks. And besides, who ever said that Arabs were rational? Fanaticism has been a hallmark of the Middle East since the memory of man runneth not to the contrary.

The other side of the deposit-withdrawal coin involves the investment policies of the big banks. In the April 1980 issue of AMERICAN OPINION your correspondent warned that American banks have lent an incredible $190 billion to so-called Third World countries whose chances of repaying the loans range from slim to none. For the most part these are monies deposited on one hand by O.P.E.C. nations and borrowed on the other by the undeveloped countries of the world to pay for Arab oil. In essence the Arabs are delivering their oil for paper money to keep the banking system humming. In this game between the banking mongoose and the Arab cobra it is difficult to tell who is doing what to whom.

The deadbeat Third World countries which have borrowed the funds that the Arabs have put in the big banks do not produce enough surplus to repay the loans. Since the bankers were not born yesterday, we must assume that they knew that these were bad loans in the first place. And since the big bankers are not known for passing out funds without being repaid, we must assume they have anticipated a way out of the predicament. In our April article on "The Sting" we predicted that the I.M.F. would monetize its remaining 115 million ounces of gold (most of it "contributed" by the United States) and lend the money to the defaulting nations so they might pay off the banks. Which means the threat to the banking system from defaulting Third World nations might not be as severe as it appears. That is, unless a number of these countries default simultaneously and trigger a worldwide panic.

Meanwhile, one does not have to look to dealings with Tanzania or Cocomania to find fundamentally unsound bank loans. The easy-money policies followed by every recent Administration, supporting deficit spending and decades of Federal Reserve policies which pumped artificial "reserves" into the banking system, have created gross malinvestment in the expectation of perpetual inflationary boom. This kept eager borrowers chasing the banks seeking loans. With the arrival of economic contraction and hard times those unsound loans come back to haunt the "go-go" bankers who were less than prudent in lending their depositors' funds. This rocked the banking system to the point that by late April the Fed began to turn on the money pump again.

By this time a depression had already hit the bond market, which is enormous. It is, in fact, four times the size of the entire stock market when measured by capitalization. Over the last year bonds lost twenty-five percent of their value — amounting to an astounding eight hundred billion dollars in losses. After all, who wants to tie up their funds for twenty or thirty years at nine or ten percent when prices are rising at double that?

Not only have corporations been unable to raise the new capital they need through the bond market, the banks are loaded with bonds. With these bonds worth far less than when the banks purchased them, the banks began carrying billions of dollars of bonds on their books at the acquisition cost rather than the market value. Dr. Gary North, the respected Free Market economist, says: "I can guarantee you that there isn't a bank in the country that is not technically insolvent." In fact the bond debacle has already broken the First Pennsylvania Bank, one of the nation's twenty-five largest, and the oldest and biggest bank in Philadelphia. It was saved only by a half-billion-dollar bailout arranged by the F.D.I.C. through other banks. According to the *Los Angeles Times* of April 29, 1980:

"The infusion of $500 million will provide vital relief for First Pennsylvania, victim of a classic investment mistake — borrowing short [*demand deposits*] and lending long. Beginning in 1976, the bank borrowed massive amounts of short-term money to buy government bonds with a fixed return. As interest rates rose, the bank was paying more for borrowed money than it was getting in interest on the bonds, and profits shrank. The bank became mired in even deeper trouble last fall when the bond market virtually collapsed . . . ."

As long as such disasters arise one at a time, the government can probably arrange for other banks to come to the rescue. But what if a number of banks the size of First Pennsylvania find themselves simultaneously in the same boat? This deeply worries *Business Week*, an Establishment journal which for many years preached the message of orthodox Keynesian inflation. Of special concern is the possibility that the banks will replace the badly wounded bond market. In an April 21, 1980, article entitled "New Era For Banking" the McGraw-Hill weekly comments as follows:

"Months of chaos in the financial markets have now prompted the U.S. banking system to take perhaps the biggest gamble in its history: an attempt to replace the nation's bond market as supplier of capital to business. Unfortunately, the timing could not be worse for the banks. A new recession is looming out of the present credit squeeze, while the nation's banks have not fully recovered from the downturn of 1974. So, the big worry now is that the banks will be stretched far beyond their limits, leading to a massive shakeout of smaller institutions and a loss of confidence in the entire system. ***

"Such fears were underscored as long ago as last October, when Comptroller [*John G.*] Heimann stunned the financial markets by warning that an undisclosed number of institutions could fail and destroy confidence in the entire system. The Comptroller's office indicated that problem banks numbered about 250. The grim truth is that the banking system is far less able to withstand a recession than it was in 1974, when a takeover of the bond market was not even a dream."

Business Week goes on to reveal that while about thirty banks failed in the last recession, the situation is now much shakier. It warns: "Today bank equity is supporting a higher level of assets than five years ago. Indeed, by the end of 1980 that ratio is expected to fall below 4% — each $1 of equity now supporting more than $25 of loans and investments. And for every $1 of stable core deposits, the banks are carrying more than $2 of purchased money [*certificates of deposits*] that can be withdrawn on short notice."

Not surprisingly, operators in the banking community have been taking measures to try to protect themselves — but not by insisting upon sound money and sound business practices. Rather the game is to trap the nation's depositors and make them pay for the mistakes of the politicians, the bureaucrats, and the banking hustlers. Which is why, on March 28, 1980, the House and Senate passed the most revolutionary banking law since the creation of the Federal Reserve in 1913. Three days later Jimmy Carter signed the Depository Institutions Deregulation and Monetary Control Act into law.

Despite the far-reaching consequences of this measure it is unlikely that you read a thing about it in your local newspaper. If you did, it was strictly the *Little Red Riding Hood* edition.

Both opponents and supporters of the new law agree that it is extremely complex. After the House passed its version, and the Senate did the same, it was sent to Conference Committee to rationalize the differences. Incredibly, forty-two changes were made before the bill was sent back to the House and Senate for final approval. A number of those changes were in neither the original House nor Senate version. The lobbyists for the banking *Insiders* had been busy little beavers.

Despite these momentous and dramatic changes, however, neither house debated the final version for more than a few hours. There is no way that more than a handful of the Members of Congress could have had any idea at all what they were voting for in this complicated measure. Yet it sailed through slicker than hot butter on Teflon. The House passed the bill by a staggering 380 to 13 margin, with opposition being led by Congressman Ron Paul.

In the Senate, Senator William Armstrong of Colorado smelled a rat. The Conservative Senator pleaded with his colleagues that this bill was too important for cursory deliberation. But Senator William Proxmire, Chairman of the Senate Banking Committee, was shepherding the bill through the Senate and he prevailed with his argument that the day marked the end of the quarter and it was essential to get approval of the new legislation before the lawmakers adjourned for the Easter vacation. While the cogency of this argument did not overwhelm Mr. Armstrong, the vast majority of his colleagues immediately saw its brilliance. Over Armstrong's objections, the Senators passed the bill on a *voice vote* and headed for the hinterlands.

To students of American history this may all sound familiar. In fact it is a replay of the creation of the Federal Reserve in 1913. The only difference is that at that time the bankers' bill was passed in an equivalent rush so that Senators could adjourn for Christmas. In both cases the *Insiders* of the banking establishment were the power behind the scenes.

One of the words in the title of this new law is Deregulation. The bill is in fact one part Deregulation and ninety-nine parts Regulation. While Regulation Q will be phased out over a six-year period, the rest of this extensive law is pure regulation. One part which will be popular with the public is that the Federal Deposit Insurance Corporation now insures savings accounts to one hundred thousand dollars instead of a mere forty thousand. But, as the *Wall Street Journal* points out, the F.D.I.C. is now 1.22 percent reality and 98.78 percent wishful thinking. The *Journal* says this could backfire:

"The situation is 'even worse than it looks,' worries Jack Guttenberg, a senior banking professor at the University of Pennsylvania's Wharton School. If the FDIC ever had to use any 'significant' amount of that kitty to pay off depositors of any major bank, he reasons, the public would come to realize how little was left, and might well pull enough out of other banks to cause 'a shambles.' "

But perhaps the most significant aspect of the new Act is that it puts all depository institutions, not just national banks, under the control of the Federal Reserve System. For all intents and purposes, all the state banks in the country have just been put under the jurisdiction of Paul Volcker and the Federal Reserve operators. Is that a good idea? National banks had been dropping out because of the interest-free reserves which the Fed required of members. From now on, the Fed will dictate policy to every American savings institution. After all, if you are going to have a paper system where the money is not backed up by gold or silver, but by the promises of politicians, bureaucrats, and bankers, you eventually have to have one money dictator to make sure that everyone creates money out of nothing in appropriate amounts.

When the likes of the *Wall Street Journal* and *Business Week* start sounding like Howard Ruff, you know that the Big Money Boys in New York and Washington are very nervous. Today, the depository institutions are so interlocked that the domino theory applies to banks, savings and loans, and other thrift institutions. The Money Crowd can't afford "a chain reaction of collapses" as predicted by Professor Guttenberg. It has been officially decided that the banking system is not going to be allowed to go broke. Instead, as Dr. Gary North observes, "the dollar is going to be allowed to go broke."

Now that all depository institutions must meet the Fed's reserve requirements, they also have access to the Fed's loan window. The Fed can serve as the "lender of last resort" to all savings institutions. The government has billions of paper dollars stored up, and in the case of an emergency C-130s will be hauling fresh new greenbacks all over the country.

The new law also lowers the reserve requirements for banks so they can pump out more newly created credit to keep bad loans afloat and prevent collapse. And the new law also allows the Federal Reserve to suspend all reserve requirements for one hundred days. This means that every bank will have the equivalent of its own printing press. In short, the printing press will actually be "the lender of last resort."

It gets worse. The law further eliminates the requirement that the Fed have collateral for Federal Reserve Notes (currency) held in the vaults of the Federal Reserve Banks. This will enable it, for the first time, to print unlimited quantities of Federal Reserve notes and store them in their vaults in anticipation of runaway inflation. The new measure also expands the definition of collateral to include any asset the Federal Reserve Banks may purchase or hold in their Open Market operations. This will enable the Fed to put more of those Federal Reserve notes into circulation and effectively lower reserve requirements. That is already under way.

And, in order to keep you from getting to your safety deposit box where you may have coins or other hard assets, the Comptroller of the Currency is empowered to impose selective banking holidays, city by city, state by state, without the approval of Congress.

In other words, the *Insiders* of the Establishment have decided to let everyone share in the collapse of the banking system through hyperinflation. The banks will not collapse — although they may close for a time — but the purchasing power of our money will. Instead of another 1929, we are being set up for something like the German inflation of 1923.

During the runaway German inflation of the early 1920s, currency was printed in such huge amounts that finally the Weimar Republic used ink on only one side. At the request of the Carter Administration, Senator Proxmire, Chairman of the Senate Banking Committee, has introduced bill number S. 2305 to allow the reverse side of the dollar bill to be printed by a much cheaper process than that now being used by the Bureau of Engraving.

Looking for a way out? You should know that yet another little dandy the boys are trying to put through is H.R. 5691, which makes it a crime to transport or even to attempt to transport "monetary instruments" totaling five thousand dollars or more into or out of the country without filing the required reports with the government. The law sets up a bounty system with rewards up to a quarter of a million dollars for anyone who provides information leading to a conviction. No warrant or probable cause would be required to search the property of anyone suspected of trying to transfer money out of the country before the roof collapses. Introduced under the excuse that it would help fight drug smuggling, the measure does not even mention narcotics. It is supported by Customs, Treasury . . . and the Comptroller of the Currency.

When "The Boys" are simultaneously moving on so many closely related fronts you can bet that something very serious is in the wind. Naturally it doesn't involve anything so serious as a conspiracy. There has been no conspiracy in the world since the Garden of Eden. It's contrary to man's nature you know. ■ ■

CRACKER BARREL

■ Tarsiers, small nocturnal aboreal East Indian mammals related to the lemurs, feed mostly on insects which they find at night. They can rotate their heads nearly 360 degrees, giving them "a wide field of vision."