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For The Individual Capitalist.

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GLOBAL REPORT

A WORLD IN PERPETUAL CRISIS

Logically, the title of this *Global Report* is nonsense. By definition, all crises are short-term when compared with the much longer periods known as “normal”. Nonetheless, a state of “perpetual crisis” is what many politicians across the West want people to believe! In any real crisis, emergency steps have to be taken, and politicians love taking them. They can then run roughshod over individual rights, property rights and lives.

Since August/September 2007 and the start of the US financial and credit money system breakdown, one crisis after another has been paraded before the public - ongoing “terrorism”, swine flu, global warming etc. All these are hoisted up to distract the American public away from the deflationary implosion of the US banking and financial system. Parallel to this has come the biggest bailout of an entire financial system in history. As best can be counted, the US bailout bill is (at least) \$US 12.8 TRILLION.

Florida Beats California:

This week, as *The Privateer* goes to press, reports are coming out that over the second calendar half of this year, 47 percent of houses in Florida will be “underwater” - the mortgage against the house will be higher than the value of the house. Once, this was a definition of bankruptcy, a state where liabilities exceed assets. Florida will cave in during the second half. The evidence? For the first time since 1946, Florida is losing population.

Washington Beats Them All:

When Congress returns, it will have to raise the US debt ceiling from its present \$US 12.1 TRILLION level. The Treasury is in the position of California and Florida. Its liabilities too exceed its assets.

REAL Global Crisis Triggers:

Over the rest of the second half of this calendar year, the global triggers and landmines will be many. Massive market upsets are a certainty. For example, Japan's economy returned to positive growth in the second quarter, following Germany and France out of recession, new data showed on August 17.

Japan's economy, the second largest in the world, grew by 0.9 percent in the second quarter (April-June) after contracting for four straight quarters. Germany and France also reported positive GDP numbers. Since these nations are, at least on paper, working themselves out of the global recession, they are going to face increasing pressure to actually raise their internal interest rates. That is the real global trigger!

The nations which are first to raise rates will show strength. Those which don't will show the opposite.

All Hands On Deck:

It is inherent in any crisis that most individuals involved drop whatever they are doing and head towards a place where their help can do some good. In any REAL crisis, many private endeavours are put on hold until the crisis is over. Please notice here that most individuals have not forgotten their own earlier purposes and will return to them when the crisis is over. But this where governments come in!

A Government Crisis:

Any crisis gives to governments the excuse to step in to “fix” it. And a government “fix” almost always largely eliminates what were the previous individual rights of many individuals. The right to property, for example. The new rule becomes - *Do As I Say*.

When the crisis is government created, as most are, then government action almost always makes it worse. This is why the step is taken towards what can be called the “sequential” crisis. As soon as one “crisis” is solved, another one appears.

Once the stage of creating one crisis after another has been reached, and we have been at that stage for at least two decades, government becomes the all purpose - CRISIS FIGHTER. At that point, what used to be normal life in civil society disappears under tidal waves of regulations which then inundate what were once normal actions. What was once done by right is now done by (government) permission.

There Once Was Freedom Here:

In the past, it was not only possible but mandatory for an individual in civil society to act privately in voluntary cooperation with others based solely upon their own peaceful choices. This was known as: FREEDOM. Freedom defines an absence - something which is not there. Lord Acton stated this clearly: *“Freedom is where government is NOT”*. Freedom always starts inside the individual’s private property line where government needs a warrant to even enter. A nation based on private property has many areas owned by private individuals where freedom reigns. This is the REAL “civil society”.

The Crisis To End All Crises:

This crisis began back in August/September 2007 when the US financial system began to break down, taking the West’s other financial systems down with it. At first, this crisis was called a credit-crunch. That was quickly elevated to a global economic crisis. A global economic crisis cannot get any bigger - it is, after all, global. Governments of all political colours have stormed into the breach and for all practical purposes made their banking and financial systems into public utilities just like power plants.

Having already gained control of what money is, governments have now gained control over when, where and how that money is spent or invested. With their taxing power on the other side of the money creation power, governmental control over mens’ monetary affairs can best be described as total.

Having Gained Control - Can They Keep It?:

Yes, for a while, by keeping the entire economic system in a state of perpetual crisis. The problem here is that this is the polar opposite of what most people want. They want to return to living their own lives.

This is the problem now facing governments all across the West. All of the “stimulus” they have done has to be seen to actually work. Any return to normality, to a situation where people return to dealing with their own affairs, has to be politically prohibited. Economic history shows what lies ahead. First, it will be allocations of real goods followed by outright rationing. After that comes conscription of labour.

The State In A Real Crisis:

Today, there is no better example of a state in deep crisis than the US. Federal US government expenditures are now 185 percent of tax receipts! The Obama administration is borrowing the difference. The US budget deficit reached a record \$US 1.27 TRILLION for the first 10 months of the fiscal year and broke a monthly high for July, the government said August 12. This is deficit spending out of control.

Here Comes The Second US Real Estate Crash:

US commercial real estate values in the US fell 27 percent in the year through June. Estimates are that rents for offices, shops and warehouse space may continue to drop through 2010. The *Moody Commercial Property Price Indices* fell 1 percent in June and are down 36 percent from their October 2007 peak. This will hit the US financial sector broadside in September. Even commercial real estate owners who can service their loans today cannot get the roll-over finance and loans they need.

This situation is complicating the refinancing of almost \$US 165 Billion in mortgages for skyscrapers, shopping malls and hotels later this year. Commercial real estate valuations can now be put side-by-side with the valuations of private houses. Both of these “assets” are the collateral foundation which all the other loans made against real estate rest upon. If the collateral crashes in value, so do all the lenders.

An Overview Of The Real US Economy:

Wholesale prices in the US fell more than forecast in July as energy costs receded, capping the biggest 12-month drop on record. The 0.9 percent decrease in prices paid to factories, farmers and other producers followed a 1.8 percent gain in June, the Labor Department said on August 18 in Washington.

A Short Interlude - Wholesale Prices And Deflation:

Wholesale prices are what major producers and other actors in the global economy look at to find where their own economic goods clear the markets. All across Europe, Asia and Latin America, producers are now biting the bullet. Having accepted that the global deflation is here and given up on any idea that the stimulus packages will bring back prices to their previous levels, they are now cutting prices.

The Real US Economy:

Imports at Los Angeles, the nation's busiest port, are down 16.9 percent to 305,226 cargo containers compared with a year earlier. For the year, traffic is down 15.9 percent to 3.77 million containers. In direct physical terms, this shows the REAL contraction of the US economy. When this collapse in import volumes is added to the contraction still taking place inside the US physical economy, a clear picture emerges TOTALLY at odds with all the “recovery” talk. In physical terms, this is depression territory.

Bad As It Is - This Is Only The Start:

The hard truth for Americans is that they have to start from where they are now. There is economically no other place to start from. For example, between 2000 and 2007, Americans added \$US 7 TRILLION to the debts they owed against their houses. They have spent ALL the money they borrowed. Now they look at mortgages where the sums owed exceed the value of the houses. Real bankruptcy awaits.

On the political level, the situation is even worse. The invisible deflation has caught out every state in the US from California to Florida. Fourday weeks, furloughs, etc. are hitting state and local public servants at ever higher speed. Cruising serenely above it all in Washington - borrowing and spending is exploding. We are close to a breaking point. The “stimulus” is perpetuating the crisis. Normalcy is gone.

A Return To Normalcy - Or Perpetual Crisis:

The tragedy of the West is that next to nobody is alive today who still has a personal memory of what it was like to live prior to August, 1914 when the First World War erupted. Prior to that, there had been a general peace which had lasted, with two interruptions, from 1815 to 1914. Peace was normal.

The one thing which stands out from the many yellowing photographs and personal writings and other letters is the immense inner confidence and the soaring optimism that lives could only improve over the years ahead. It was the epoch of the Classical Gold Standard and global free trade. In 1914, people had literally seen their own living standards triple in their own lifetimes. Their economy was Capitalism.

In the US, there was no income tax! This was something Americans didn't get until mid 1913.

The Political World Of Normalcy:

The first and foremost thing about the political world before August 1914 was that it was small. That is what left room for the expansion of civil society during that period. International travel was unencumbered. Only Czarist Russia and the Ottoman Empire required passports for foreigners to enter.

Both of these regimes deployed Secret Police forces and were well known for using torture.

The LONG Road Back To Peacetime Standards And Normality:

Today, the West is careening backwards in political terms - with no obvious stopping points to be seen - towards what was once called the "Ancien Regime". Now, instead of the divine right of kings, what we are seeing today is the absolute power of the total State as exercised by its many bureaucracies.

Here again, history gives lessons. At its very acme of power, the divine right of kings started to unravel under sustained intellectual assault. This happened during the Age of Reason. That was followed by the Enlightenment, an epoch in which the West reached its own apogee in 1776 when Jefferson penned the Declaration of Independence and Adam Smith wrote the Wealth of Nations. Political philosophy and economic theory now stood side by side as partners.

This was the true underpinning of the global Industrial Revolution which followed between 1815-1910.

The Bureaucratic State At Its Apogee:

The Obama bureaucratic state is expanding its reach across the US economy at an astounding pace. At the same time, the collateral foundation has fallen out from under the US banking and financial system, exposing it to \$US 4.1 TRILLION in loan write-offs while having capital of a mere \$US 1.4 TRILLION. If this does not say insolvency in large letters, the insolvency of the US Treasury DOES!

The US Treasury - Where Debt Is EVERYTHING:

The US Treasury is today a centre of fiscal fantasy land. The collapsing tax base under the Treasury has exposed it completely. The Treasury must go over to the Fed and have it print the money it wants to spend or cease payments in part or in whole for several US federal agencies. Fed printing exposes the US Dollar to ever larger global currency risk while reneging on payment will pull the "green shoots" political veil from American eyes. Politically, the last is most dangerous, but Americans are already seeing it with state and local governments where public services of all kinds are being cut back hard.

Why doesn't the Treasury do this too? Because that would expose the fact that its promises were LIES.

Approaching The End Of US Illusions:

The strain between the politics of perpetual crisis pulling in one direction - and the climbing demand of the American people for assurance that the economic crisis is being handled so that they can all soon go back to their normal lives pulling in the other - is clear and obvious. The gap is widening fast and it is impossible to breach because the claim that the crisis is being “handled” is simply not true. The crisis was caused by reckless credit expansion. It cannot be cured by MUCH more of the same.

Any Credit Expansion Is A Crisis In The Making:

There is nothing normal in a credit expansion. Sadly, this is the situation which most Americans want to return to as fast as possible. American politicians are no better, in fact they are worse. They are throwing gargantuan budget deficits in after the Fed’s record low 0.00-0.25 percent interest rates. The economic results should now be clear. They are climbing unemployment (official unemployment is at 9.5 percent and seven states are now reporting unemployment above 20 percent) and house foreclosures at record levels. Finally, the US has a factory utilisation level of 65 percent. This is a still deepening depression.

What Can Be Done:

At present, sadly, not much. Across the English-speaking nations, the same economists and the same ideologues who launched the US and the UK on the latest credit escapade beginning in 2000 are mostly still in charge. They are now advocating even more grotesque budget deficits and credit expansion as the cure for the earlier credit expansion. But a turn in events is looming as millions of people in the English-speaking nations begin to realise that they have been led into a real economic depression.

The same thing happened back in the 1970s when the Keynesians stood aghast at the fact that they were in a real economic recession with unemployment climbing, factory utilisation plummeting, budget deficits soaring all around them and consumer prices exploding. According to the Keynesian economic theory, this was impossible. But there it was for all to see. Tragically, it is all now happening again.

What can be done is to do what *The Privateer* is doing - doggedly maintain the hard truth that individual freedom can only exist on the basis of private property and that freedom is indivisible and must exist both in the political as well as economic realm for human beings to prosper. Otherwise, become one of those unswerving individuals who will, always politely, defend individual freedom and liberty in any encounter or a public forum. Last, simply take care of one’s own affairs peacefully and productively.

Living Normally In A Perpetual Crisis:

The first rule is to ignore those who foster an atmosphere of perpetual crisis. This is an attempt to frighten the living daylights out of people and thereby short circuit their powers of discriminatory thinking. In practical terms, if any danger is more than 100 miles away, by the time it gets to where you are, somebody will already have dealt with it. Imaginary fears are always much larger than most real ones.

The “perpetual crisis” distraction should not be difficult to ignore in the US since it has been a rolling theme of government for a long time, especially since 9/11 almost eight years ago. Now, really over the past two months or so, we have been faced with the opposite approach with governments telling us that the “global crisis” is over and economic “growth” is about to burst forth again.

Cast your mind back to May 2003 and the stage-managed circus of President Bush landing on the deck of the USS Abraham Lincoln to face a huge banner draped across the superstructure proclaiming “*Mission Accomplished!!*”. Compare that to what you are hearing today from Washington and Wall Street.

Living normally today means thinking for yourself. Nothing more - and nothing less.

INSIDE THE UNITED STATES

THE CBO LANDS A FISCAL BOMB ON MR OBAMA

The bi-partisan Congressional Budget Office (CBO) has dropped a fiscal and political bomb on President Obama. In its latest report, the CBO says that a permanent spending cut of 8 percent would be necessary to stabilise US Treasury borrowing in the long run. That is the equivalent to eliminating overnight all US military spending along with healthcare for the indigent. It is more than 8 percent of current US GDP.

If this report does nothing else, it finally brings home the stark reality in fiscal terms that the US can no longer afford its global empire of more than 800 military bases placed in more than 140 other nations.

The US Federal Budget Deficit:

The excess of spending over revenue for July climbed to \$US 180.7 Billion. July spending rose 26 percent from a year earlier to \$US 332.2 Billion while revenue fell 6 percent to \$US 151.5 Billion. The Office of Management and Budget estimate for the 2008-09 was \$US 1.825 TRILLION in June. Next week, the White House is expected to issue a "revised" estimate of \$US 1.580 TRILLION.

The US Collapsing Tax Base:

On July 12, the Treasury reported that US corporate tax receipts reached \$US 104.5 Billion through July versus \$US 246.8 Billion in the same month a year earlier. That's a decline of 58 percent! Individual income tax receipts to July fell 21 percent so far this fiscal year to \$US 750.4 Billion when compared with \$US 943.9 Billion a year earlier. Unemployed people don't pay income taxes. They don't earn anything.

US Jobs Report:

American employers eliminated 247,000 workers from payrolls in July according to an August 7 Labor Department report, bringing the cumulative reduction to about 6.7 million since the start of "the worst economic contraction since the Great Depression" in December 2007. The winter months ahead in the US will be hard. US Wages and salaries fell by 4.7 percent in the 12 months through June, the biggest drop since records began in 1960, according to Commerce Department data issued this week.

Look Who's NOT Talking:

There are 22.5 million US government employees at the federal, state and local levels. There are only about 20 million jobs in the nation's manufacturing and construction sectors combined. The average annual salary on the federal government payroll is \$US 75,419 this year, according to *Econwatch*. The story is much the same at the state and local levels. In Pennsylvania, the average state employee has an annual salary of about \$US 68,000 while the state's average household income is \$US 48,576. The US private sector has a per capita income of \$US 39,751 and a per household income of \$US 50,740.

Prices Are Deflating Slowly In The US:

Wholesale prices in the US fell more than forecast in July as energy costs receded. The 0.9 percent decrease in prices paid to factories, farmers and other producers followed a 1.8 percent gain in June.

OECD Report:

A 30-nation survey by the Organization for Economic Cooperation and Development (OECD) in 2008 put the poverty rate of the US above only Mexico and Turkey. This is the true state of affairs in the US.

INSIDE CHINA - AND JAPAN

A “BEAR MARKET” IN CHINA?!

This was a headline splashed across *Bloomberg's* website on August 19 as the Shanghai Composite Index (China's major stock market index) slumped 4.3 percent on the day to close at 2785. This was 19.76 percent below the 3471 level which the index had closed at a mere eleven trading days before on August 6. A “bear market”? Not quite - that term being reserved in modern parlance for a market which has fallen 20 percent or more from a recent high point. But close.

The relevant point here, of course, is whether China has ever actually emerged from the horrendous bear market slump it suffered in the year between October 16, 2007 and November 4, 2008. That period saw the closing level on the Shanghai index plummet from 6092 to 1706. And that's a fall of 4386 points or 72.00 percent. That's not quite as bad as the Dow fall between 1929 and 1932 - or the fall on the Nikkei when Japan's property bubble burst at the end of the 1980s - or the Nasdaq collapse in the wake of the “dot com” boom. But again, it's close.

Two weeks ago on this page, *The Privateer* reported that, largely fuelled by massive credit expansions and led by China, Asian markets were once again in blow-off. On August 4 (see above), the Shanghai index stood almost 91 percent above the level at which it had started the year. A week before that, on July 27-28, the political and economic principals from China and the US met in Washington DC in what the US dubbed a “*Strategic and Economic Dialogue*”.

For public consumption, as far as the US was concerned, the key to global economic and financial “recovery” was co-operation between the US and China. For China, that meant the continued encouragement of “economic growth” by means of internal Chinese consumer spending. And that, in turn, meant a continuation of the “stimulus” which the Chinese government was injecting into the economy. Beijing had certainly been on this path, with new loans in China up by 300 percent in the first half of 2009 when compared with the amount in the first half of 2008.

Then came July, when internal lending by Chinese banks slumped to 25 percent of its level in June. With that came reports that the Chinese government was about to implement steps to “dampen” property speculation in China. In the face of this barrage, added to which were more and more “disappointing” earnings reports from large Chinese corporations, the Chinese stock market has abruptly turned down.

And now, China's number two bank, the *China Construction Bank*, has announced that it is cutting its lending by 70 percent over the second half of 2009. Since the global stock market slump of late 2007 through 2008 bottomed in March this year, the massive global stock market rebound has been led by Asia in general and by China in particular. This stock market rebound has been the one piece of tangible evidence backing up the global assertions that the financial crisis is “over”. China is now well on the way towards pulling the plug on their market.

Real Goods Or Paper Pyramids?:

Over the past decade, Chinese trade with Africa has increased tenfold. By the end of 2008, China had gone past the US to become Africa's top global trading partner. That spread has widened, with no let up in Chinese investment in the infrastructure necessary to extract commodities and other raw materials. In the “developed” world, China still buys paper “assets”. In the “third” world, it buys REAL ones.

The Japanese Election:

The election is on August 30 with the current government expected to lose. Under Japanese law, a special session of parliament must be held within 30 days of the election to vote on a new Prime Minister.

INSIDE THE EUROPEAN UNION

BICKERING AT THE BANK OF ENGLAND - AND - FRANCO/GERMAN “GROWTH”

On both sides of the Atlantic, the term “quantitative easing” is back in the news. The term is one of the latest “coined” by economists to describe something that governments have been forced into by the pressure of circumstances. The circumstances being the global financial crisis.

Quantitative easing is the process by which the central bank makes it possible for governments to continue to issue the debt they need to fight the “crisis” when nobody is buying it. When that happens, the central bank steps in and simply creates the money necessary. In the US, the Fed began this process on March 25. In the UK, the Bank of England (BoE) began it a bit earlier than that - on March 5.

On August 6, the Bank of England’s “Monetary Policy Committee” or MPC - the equivalent of the US Fed’s FOMC - met and decided unanimously to keep the Bank Rate at 0.5 percent. That is the level it has remained at since March 5, the date that the MPC inaugurated their policy of “quantitative easing”.

But while the decision to leave UK rates unchanged was unanimous, the decision on the ceiling for quantitative easing was not. Bank of England governor Mervyn King wanted to expand the ceiling on the Bank’s bond purchases to 200 Billion Pounds. This was voted down by a 6 - 3 margin at the MPC meeting. There are two things of significance here. The first is that Mr King lost a vote within the MPC. But he has done that before. The second item is that this is the first time that Mr King has lost a vote in a situation where he wanted “looser” monetary policy. On all previous occasions where Mr King has been overruled, he wanted “tighter” policy - higher official rates or more stringent lending guidelines or both.

At the latest US Fed FOMC meeting on August 11-12, the Committee not only announced that their ceiling for buying Treasury debt would not be shifted from its original \$US 300 Billion, they announced that the process of “quantitative easing” would cease operation altogether in October. At the latest Bank of England MPC meeting on August 6, the Committee announced that their quantitative easing program would be increased by 50 Billion Pounds to 175 Billion.

Mr King had wanted the ceiling raised by 75 Billion Pounds to 200 Billion, the equivalent to HALF the UK’s conventional “gilt” market and 14 percent of British GDP. His rationale was twofold. First, the UK CPI for July came in at 1.8 percent. That is above the BoE’s “target” of 2.0 percent. Second, Mr King made the point that unless the amount of “quantitative easing” was raised to his preferred 200 Billion Pounds, it might prove insufficient and therefore - “confidence in the efficacy of monetary policy might be damaged”. In the days when Englishmen were being “transported” for petty crimes, there used to be a saying: *“Better to be hung for a sheep than a lamb”*. It would seem that Mr King concurs.

Germany “Grows” - And France Does Too:

Germany and France are now both officially out of “recession” with second quarter “growth” figures of PLUS 0.3 percent. For the Eurozone as a whole, the second quarter figure was MINUS 0.1 percent.

Remember, the “official” definition of a recession is two consecutive quarters of “negative growth”. With the positive number for the second calendar quarter, Germany and France cannot be back in official “recession” until (at least) the first quarter of next year.

That suits the politicians in Germany well, since the federal election will take place just over a month from now on September 27. So “low key” has this election been to date that Chancellor Merkel has just this week returned from her summer holidays and has not yet begun to campaign at all. Imagine that happening in a US presidential election a month out from the polling date. Like Japan, Germany is “busy” with internal concerns until the end of September. The Pittsburgh G-20 meeting is on September 24-25.

AUSTRALIAN REPORT

STIMULUS IN MICROCOSM - THE AUSSIE EXPERIENCE

On the surface (and few economic or political commentators either in Australia or elsewhere look anywhere else), the Australian economy appears to be a paradigm of economic stability in a world of “crisis”. The Aussie economy has yet to suffer a period of “negative growth”. On top of that, Aussie consumer spending has hardly budged, Aussie real estate prices are holding up and Aussie unemployment has so far suffered the mildest of upturns. It remains below 6.0 percent on the latest official figures.

So “benign” does the Australian version of the global financial crisis appear that the head of the local central bank, Reserve Bank of Australia (RBA) governor Glen Stevens, recently stated that the downturn might be among the shallower recessions the nation had experienced. Mr Stevens went on to say that: *“Chances are now that we are not going to get the 8.5 percent peak in unemployment. The chances are the peak is going to be noticeably less than this.”*

All this was said in the context of widespread local conjecture, which Mr Stevens neither acknowledged nor denied, that the RBA was considering the process of returning official Aussie interest rates to a more “normal” level. At their current level of 3.0 percent, Aussie rates are at 40-year lows.

If You Start With A Surplus - You Don't Go Broke As Fast:

Australia is a big nation with a VERY small population. It is rich in raw resources and had - until recently - a ready and voracious customer for those resources in Asia generally - and particularly in China. Indeed, even with the recent slowing in China's breakneck expansion, the Chinese government has just clinched a deal to buy \$ 50 Billion in natural gas from fields to be developed off the coast of Western Australia.

Up until the global financial crisis hit two years ago, Australia had enjoyed a long period during which our “terms of trade” were as good as this nation has ever enjoyed. This was because of the coincident boom in commodity prices and the explosion of commodity demand from the “emerging” economies.

The commodities boom, coupled with the introduction of new taxes (the GST) and soaring “capital gains” in the stock and real estate markets swelled government coffers. The difference in Australia was that the government of the day actually managed to implement and then retain annual budget surpluses.

That was not the case in the private and consumer sector as Australian net national debt soared. Aussie “consumers” in particular went on a borrowing rampage every bit as virulent as did their compatriots in the US and in the UK. So, when the world economy keeled over two years ago, the Aussie private sector had no room to maintain their borrowing. But the Aussie government DID, thanks to the surplus. As a result, the Aussie dive into financial ruin has, to date, been more gradual.

Business Goes One Way - Consumers Go The Other:

In the latest “seasonally adjusted” data, Australian business borrowing in the month of June fell 7.6 percent, while lease finance plunged an eye-watering 17.2 percent. In stark contrast, (residential) housing finance figures showed a 1.0 percent increase for houses purchased by owner-occupiers. Australian businesses are cutting back on their “gearing”, Australian “consumers” are not.

With Labor in power in Canberra, the focus is on “employment”. “First home owner” grants are still rampant. Mortgages and “interest free loans” are easier to get and command lower rates than do business loans. Government projects are crowding out the private sector in a rush to bring forward long-necessary “infrastructure” programs and “create” jobs. Australia is the world in microcosm. Government measures are the same, so the results will be the same. Now that the surplus is long gone, the outcome is certain.

THE GLOBAL MARKET REPORT

“STIMULUS OR BUST”

This is the actual title of an article written by Nobel prize winning economist Joseph Stiglitz which appeared in the UK *Guardian* newspaper on August 10 and has since been widely reproduced on sites across the internet. We'll spare you most of the article, contenting ourselves with one short quote:

*“Questions are being raised as to whether the policy of jump-starting the economy through a massive fiscal stimulus has failed. Has Keynesian economics been proven wrong? ...**That question, however, would make sense only if Keynesian economics had really been tried.** Indeed, what is needed now is another dose of fiscal stimulus.”*

Well, let's see now. Keynes published his major economic tome - *The General Theory of Employment, Interest and Money* - in 1936 and was very influential in UK and US government and economic circles long before that. Keynesian economics has been the ruling orthodoxy in English-speaking academic economic circles and in the offices of Treasuries and central banks all over the world for almost three-quarters of a century now. It has been the major source of academic rationale behind the growth of interventionism, deficit spending and credit expansion. It still is.

Keynes' "general theory" was proven wrong the year after it was published when, in 1937, the US economy slumped abruptly back into depression with even greater speed than it had at the outset of the "dirty 1930s". It was proven wrong again in the nearly two decades between the mid '60s and the early '80s. It has been proven wrong in Japan for nearly two decades, ever since the collapse of the housing bubble at the start of the 1990s. And, there is also the small matter of the present global financial crisis.

Keynesian Economics Really HAS Been Tried:

March backwards in economic history to the great Wall Street crash of October 1929, an event which will be celebrating its 80th birthday this year. Having done so, march forward to the present. You will traverse an economic terrain of ever bigger and ever more frequent "booms" and "busts". There has not been a year since 1929 when one nation, or a group of nations or the entire world was not subject to an economic collapse of greater or lesser magnitude. There is not a nation on the face of the earth, up to and including the US itself, which has not gone through the "bubble and bust" cycle repeatedly over that period.

The fundamental reason for this is crystal clear. The world has not had a single SOUND money since the onset of WW I in August 1914. And THAT event has just celebrated its 95th anniversary. A SOUND money is an economic good which has proven its efficacy as a medium of exchange in an unhampered market where individuals meet to exchange the fruits of their labours.

To call Gold a "*barbarous relic*", as Keynes did, is to consign the entire history of human progress from the cave to the Constitution of the United States to the province of barbarism. It is worse than a lie, it is the opposite of the truth. It is also a necessary pre-requisite for the government takeover of individual freedom and political liberty. Civilisation is built by CIVIL society. Barbarism is built on the rubble of what was once constructed by free people working in a society of voluntary co-operation.

Consider the contrast between the US federal government "enclave" in Washington DC - one is almost tempted to call it the "green zone" - and the once hugely prosperous "motor city" of Detroit, Michigan. In Washington, politicians and bureaucrats are blandly creating "stimulus" out of thin air and spending TWICE as much as they are managing to extract from their subjects. In Detroit, a *CNNMoney* reporter recently went on a tour of the inner city to study how people are using urban farms to grow their own food.

This is not a symptom of Keynesian economic not being tried. It is a symptom of its inevitable end result.

The Rock Or The Hard Place:

In Greek mythology, Sisyphus was a Greek King who tried to put one over on the Gods of Olympus. As a punishment, Zeus condemned Sisyphus to an eternity of rolling a rock up a steep hill only to lose control near the top and watch the rock bounce back down to the bottom. After which he started again - endlessly.

The Old Testament version of this parable is: *“As ye sow, so shall ye reap”*. A modern American version would be: *“You made your bed, now lie in it”*. The parallel to modern economic theory and practice in the form of credit expansion and deficit spending should be clear enough. Everybody loves the “boom” while it’s on. Nobody wants to look ahead to the consequences. And the great majority of people profess great amazement and surprise when the inevitable “bust” follows. In reality, human beings are not as ignorant of the simple fact that actions have consequences as many of them profess to be. If they were, then these parables going back millennia would not have lasted.

Keeping The “Rock” Rolling:

When the impetus behind a national or international economy is torn from a base of how much is produced and saved - and rebuilt on the quicksand of how much is borrowed and spent - there is one pre-requisite and many necessary consequences. The pre-requisite is an “elastic” currency - the “need” for which was the argument most often invoked by the original proponents of the Fed.

Once an “elastic” currency is established, it must become the only medium of exchange allowed to circulate. That was established with the legal tender status of “Federal Reserve Notes” (aka US Dollars). Once that is done, the impediments to its “elasticity” must be unobtrusively removed. In the US, this took a bit less than 60 years and culminated in August 1971 when US Dollar redeemability in Gold was ended.

Once this has been “accomplished”, as it was nearly 40 years ago, then a prospect of unlimited and unending borrowing and spending stretches out in front of the arbiters of the economy in the seats of political and financial power. To keep the “people” happy, the financial booms get bigger and bigger. When the busts come, the “solution” is to increase the borrowing and spending dose. In the long run? Well, to quote Keynes - *“we are all dead”*. The slightly less “terminal” version of this - long used by politicians and financial potentates is - *“not on MY watch”*.

It is an established fact that the standard of living of the “average” American has not improved since the beginning of the 1970s. At the start of this period, the prevailing attitude of “middle America” was still one of producing and saving. By the middle of the 1990s, it had become one of borrowing and spending. The combination of government and CONSUMER borrowing and spending was enough to fuel the last two bubbles of the era - the stock market bubble of 1995-2000 and the real estate bubble of 2002-2006.

In the Keynesian terminology of our modern age, the “elastic” currency which is the US Dollar and the debt issued by the US Treasury which is its ONLY underpinning is backed by *“the full faith and credit of the US Government”*. Faith has been said to move mountains, but it cannot stop a rock from rolling back down a hill. And what about “credit”? In 1971, the Treasury’s funded debt was \$US 400 Billion. It is now just under \$US 11,800 Billion. Nearly 97 percent of total US Treasury funded debt has been “borrowed” since 1971. Over 25 percent of it has been added to the total since the first signs of the global financial crisis emerged with the collapse of California mortgage lenders in early 2007.

Keynesianism Hasn’t Been Tried??:

Keynesianism has been the prevailing political and economic orthodoxy for the entire lifetime of the vast majority of the people alive today. No “ordinary” economist or politician would get away with a whopper as vast as that one. It is the province of Presidents, Prime Ministers and Nobel prize winning economists. We’ll say it again. What we are facing now is its inevitable end result.

Two More “Myths” Revisited:

The first is the one about King Midas and his “Golden Touch”. King Midas was condemned to dying of hunger and thirst by having his wish that everything he touched be turned to Gold granted. This is popularly interpreted as the just deserts of an avaricious and greedy king. In reality, it is an eloquent exposure of the falsity of the notion that wealth can be created by the wish - or legal power - of a ruler.

The other one is not a myth. It is the story about King Canute trying to demonstrate his omnipotence by having his throne placed below the high tide mark and ordering the sea to stay where it was. Again, in reality, King Canute set up this stunt as a lesson to his courtiers who had been telling him that he could do anything he wanted to do - simply because HE, the KING, wanted to do it.

Today, Mr Stiglitz is telling us that his particular panacea for our financial ailments has not yet been tried and has thus not been yet proven to be impotent. He wants more stimulus to ward off the “bust”.

Mr Obama, Mr Bernanke and Mr Geithner (and myriads of others) are standing out in flat contradiction. They are proudly telling us that Keynesianism HAS been tried - AND IT HAS WORKED! The next time you read about or see or hear someone claiming that the “recession” is over - remember the lessons of Sisyphus, Midas and Canute. Those who refuse to remember history are condemned to repeat it. Don’t be one of them.

Recent Events:

For the purposes of political and financial analysis, we can easily expand the “green zone” mentioned earlier (the Federal government enclave in Washington DC) to include Wall Street. Here too, the inhabitants don’t deal with reality. They deal with incoming tides and golden touches. On Wall Street, and its equivalents across the world, the message that the recession is over is being grasped with blind ferocity. The one CONCRETE tangible piece of evidence held up to support the contention that the global “recession” IS over is the continuing rally on global stock markets.

The biggest evidence yet that this rally is faltering has come out of China, where the Shanghai stock exchange tumbled almost exactly 20 percent between August 4 and August 19. Even on Wall Street, the Dow is finding the going getting harder. The Dow dove almost 200 points on August 17 on news that US consumer confidence is still declining. But the index turned around with Shanghai later in the week, especially when Mr Bernanke spoke at Jackson Hole, Wyoming and proclaimed - in the words of several headlines covering the event - that he had “saved the world”.

Gold:

For MUCH more on Gold - please see Gold This Week (GTW):
<http://www.the-privateer.com/subs/goldcomm/gold.html>

What’s Next?:

The summer doldrums are reaching their end. Next week, Mr Obama takes a vacation. In Germany, Chancellor Merkel has returned from her vacation, less than a month out from the German elections.

On August 30, Japan goes to the polls. It is universally expected that the ruling party will be defeated in a landslide. But whatever happens, the Japanese government is internally focussed for the next month.