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GLOBAL REPORT

2013 - THE YEAR OF THE LAWS

“The leaders of both houses of Congress have got together with the Executive branch of the US government and concocted a fiscal nightmare. They have then rammed it through the Congress using the threat of financial Armageddon as the goad.”

(*The Privateer* - Number 684 - Published August 7, 2011)

This was our reaction to the passage of the *Budget Control Act of 2011*. That bill was passed for one purpose and one purpose only. It was a nebulous “promise” to do something about the size of US government budget deficits in return for the immediate raising of the debt “limit” of the US Treasury. The “limit” was raised immediately. The deficit “promise” was farmed out to what was called the “*Joint Select Committee on Deficit Reduction*”. This committee was given the job of cutting \$US 1.2 TRILLION off the forward estimates of US government spending over the next ten years. It was given until Thanksgiving in late November to complete its task.

When Thanksgiving 2011 did roll around, the committee duly disbanded, having admitted that they could not reach agreement on these paltry spending cuts. By the end of the year, the US Treasury had hit its debt limit (the limit was raised to its present \$US 16.394 TRILLION level on January 27, 2012). At the same time, further measures were taken to prevent any undue attention being paid to the fiscal state of the US government during an election year. Everything was “postponed” - until January 1, 2013.

Well, here we are in January 2013. Everything has been postponed again, for two months.

Seeing In The New Year:

On Friday, December 30, 2011, the US Treasury had ended the year with an official debt “subject to limit” of \$US 15.180337 TRILLION. On December 31, 2012, that debt subject to limit had risen to \$US 16.393975 TRILLION. The Treasury hit its debt limit on the first trading day of 2012 and hit it again on the last trading day of the same year, having increased by

\$US 1.214 TRILLION over the calendar year.

At 2 AM on January 1, 2012, the US Senate passed a bill to “postpone” dealing with any of the spending cuts mandated under the terms of the “fiscal cliff” for two months. At 10 PM on the same day, the Republican-dominated US House of Representatives affirmed this bill with no changes. This was done the day before US markets opened and two days before the new Congress voted into office at the November 6 elections was due to take their seats. Financial markets in the US and all over the world reacted by soaring skywards. Once more, a LAW had been passed. Once more, that was all that was deemed required.

Another Year - Another “Act”:

In 2011, it was called the “*Budget Control Act*”. The new bill is called the “*American Taxpayer Relief Act of 2012*” - even though it was not finally passed until late in the evening of January 1, 2013. We will not waste the valuable time of either our subscribers or ourselves going through all the details of this act. They have been the top story on every mainstream news broadcast in the world ever since the bill got through the House. We will merely observe that the words we used to describe the 2011 law are quite sufficient to describe its descendant. Nothing has changed, except the debts of the US government and the pace with which the Fed is monetising that debt. The circumstances, however, are worse now than they were then.

Consider this. The “threshold” at which the top level of US income tax rises was fixed at \$450,000. The Democrats wanted \$250,000. Some of the Republicans wanted \$1,000,000. Some didn’t want any rise. These levels make little difference since 50 percent or more Americans don’t pay income taxes at all and 95-98 percent of them don’t hit any of these three thresholds. On the other hand, the two percent cut to payroll taxes for Social Security purposes was permanently abolished. This will affect ALL Americans.

President Obama had many things to say about the passage of the act, but one of them stands out: “*Today’s agreement enshrines a principle into law that the deficit must be reduced in a way that is balanced.*” The part of this quote which stands out is not the blather about deficit reduction, but the part that claims that the new act - “*enshrines a principle into law*”.

Of Principles And Laws:

Politicians of every modern stripe are very fond of declaiming about their supposed function of “*enshrining principles into laws*”. They are even fonder of acclaiming the usefulness of “*compromise*” in order to do this enshrining. For many decades, in the higher halls of the US and pretty well every other government, the “*art*” of lawmaking and the “*art*” of compromise have gone hand in hand. What has been utterly lost in the process, of course, is any remaining suspicion that a “*principle*” might exist. And if a principle DOES exist, it is certainly not permitted to get in the way of any laws which might need to be “*enshrined*”.

A “*principle*” has been defined as: “*A fundamental, primary, or general truth or law from which others are derived.*” The “*law*” has been defined as: “*The principles and regulations established in a community by some authority and applicable to its people.*” There are many other similar definitions of both concepts. There are two interesting threads running through most of them. In the definitions of principle, truth and law are used interchangeably. The definitions of law (at least the modern ones found on the Internet) all stress that they are made by governments. On top of that, in none of the half dozen definitions we read did we find the term “*justice*” used.

If the terms “*truth*” and “*law*” are used as being two ways of saying the same thing and if laws are exclusively “*made*” by governments, does that mean that governments are the sole arbiters of the “*truth*”? The contention is not openly stated, but it is certainly implied. Nowadays, there is not a government anywhere which is not striving with all its might to convince its people that it IS the sole arbiter of the “*truth*”. A glance at the way governments go about explaining their arbitrary decisions to those they govern gives conclusive evidence of this on a daily basis.

The popular term for those who are elected to the houses of the US Congress and to the executive pinnacle of the US government is “*lawmakers*”. Both the “*laws*” that they come up with and the myriad of rules and regulations which government bureaucracies establish to enforce them are habitually justified in terms of “*principle*”. The principle (or principles) involved are seldom defined or discussed. If they are in a particular instance, it quickly becomes obvious that in the eyes of the “*lawmakers*”, the concepts of truth and law have absolutely nothing in common. There was a time when truth was merely inconvenient to government. That time has passed. Truth is now an implacable enemy of government and they know it.

Any law based on REAL principle today would bring modern governments crashing around our ears.

“Let’s Give Up On The Constitution”:

Since we do not read the *New York Times*, we are indebted to *ZeroHedge* for bringing what follows to our attention. *ZeroHedge* provided this link to Michael Krieger’s *Liberty Blitzkrieg* blog:

<http://libertyblitzkrieg.com/2013/01/02/new-york-times-op-ed-lets-give-up-on-the-constitution/>

This is a link to an Op Ed which appeared in the *New York Times* on December 30. We have used its title - verbatim - as our headline to this section. What makes the editorial scary, and utterly pathetic, is that it was written by a man named Louis Michael Seidman who has been a professor of constitutional law at Georgetown University in Washington DC for the past four decades. Georgetown University runs what is probably the most prestigious law school in the US. It receives more applications to enroll in its law programs than any other US university and is reputed to be the most selective law school in the nation in terms of the applicants it selects. It is a pillar of the US educational establishment.

We strongly urge ALL our subscribers to read this *New York Times* op ed with care and attention. The entire thrust of Mr Seidman’s “argument” is summed up the last paragraph. We quote:

“...perhaps the dream of a country ruled by ‘We the people’ is impossibly utopian. If so, we have to give up on the claim that we are a self-governing people who can settle our disagreements through mature and tolerant debate. But before abandoning our heritage of self-government, we ought to try extricating ourselves from constitutional bondage so that we can give real freedom a chance.”

(Emphasis by *The Privateer*)

Toxic Trial Balloons:

It is impossible that a so-called “constitutional scholar” who has taught in the top law university in the US for four decades does NOT know that a constitution is NOT designed to put “We the people” in bondage. Its purpose is the exact opposite. *The Privateer* has said this many times in our publishing history and we here say it again: A CONSTITUTION IS THE LAW WHICH GOVERNMENT MUST OBEY!!

Any rational definition of the term “freedom” is simply stated. Freedom is the ABSENCE of coercion. There is only ONE institution in any given nation which takes for itself the monopoly of the use of coercion and that institution is government. Any government MUST have such a monopoly in order to function at all. Without it, ANY law - whether it adheres to principle and truth or not - is unenforceable. If laws cannot be enforced, a government cannot function. The result of that, as all history proves, is chaos.

A free individual is a precursor of any free society. Such an individual is one who possesses a right to life, liberty, and property. That right belongs to the person who exercises it ON PRINCIPLE. As long as that individual does not transgress against the equal right to these things possessed by ALL other individuals, that person can and should be able to live an entire lifetime with no interaction with government whatsoever. He or she can certainly vote for their preferred representative in government - or they can abstain from doing so. In either case, a government in a FREE society does not interfere with individual rights. Nor does it interfere with any individual UNLESS and UNTIL that person interferes with the rights of others. A government in a free society is there to defend individual rights, that is their ONLY legitimate function.

To talk about the “constitutional bondage” of a free people is a piece of populist drivel which would leave the intellectual apologist for any tyrant, divine right monarch or dictator helpless with astonishment. Their instant reaction would be a variation on this theme: **“Surely you don’t expect the people to swallow THAT??”** Mr Seidman apparently does. So does the *New York Times*. And so do the US establishment.

A political constitution can be and has been imperfectly written. It can be and has been “interpreted” out of all resemblance to its original intention. It can be and has been revised and “amended” into near impotence. None of this changes the political purpose of a constitution. That purpose is to PREVENT the people from sinking into bondage by specifying the actions which government is FORBIDDEN to take.

The Government Tooth Fairy:

The piece in the *New York Times* is an example of flagrant contempt for the knowledge and reasoning power of the American people now appearing in the media organs of the US establishment on an increasingly regular basis. It stands out because it is a flagrant example of the “message” being pushed. That message is that any political system which has any constraints of any nature imposed on it is “dysfunctional”. This particular diatribe is the first time we have seen anyone blame the fiscal chaos of the US government on: *“Our insistence on obedience to the constitution with all its archaic, idiosyncratic and downright evil provisions”*. The inconvenient fact here is that had there been any “obedience” to the constitution at all over the last century, the present fiscal chaos enveloping the US government would not exist.

But if you look at all the preposterous “laws” now coming out of governments and the even more preposterous apologetics being produced by the mainstream media in reaction to this “legislating”, you will find a common thread. There was a time when the political and financial establishments were still complacent over their ability to perpetuate the “confidence” of the people in the government’s ability to “run” the economy. That confidence has been evaporating for more than a decade. More recently, the “powers that be” have put their faith in their ability to maintain confidence in the collusion between governments and central banks to preserve the viability of government debt. That faith has been waning since 2008 and especially since the introduction of “quantitative easing” in early 2009.

Now, the establishments in the US and across the world are down to their last card. They are reduced to trying to keep alive the notion that literally ANYTHING is not only possible but easily done as long as the government passes a “law” to make it happen. What originated as the “slogan” of the US armed forces has become the slogan of the governments everywhere. It goes like this: *“The difficult we do immediately. The impossible takes a little longer”*. To the modern government, nothing is “impossible” as long as they retain the power to pass and enforce a law. And NO principle - whether it governs the physical world or the economic and financial world - can stand up to the power of the legislature.

There Oughta Be A Law!:

Sixty years ago in January 1953, days before the inauguration of President-elect Eisenhower, his predecessor Harry Truman gave his last address to the nation as President. Commenting on the Full Employment Act that had been enacted during his first Administration in 1946, Mr Truman said this: *“The (Full Employment) act rejects the idea that we are victims of inexorable economic law”*.

Governments in the US and everywhere else have been rejecting the idea that THEY are “victims of inexorable economic law” ever since. In the process, they have set up a situation in which their citizens have been victimised by those same inexorable laws over and over again. The more laws that are passed, the worse the situation becomes. It has now got to the stage that the damage is obvious to everyone. And still, the governments maintain that all that is necessary to deflect or surmount the economic laws that are as inexorable as ever is to pass another law.

In the US, the first crack appeared in August 2011 when the Congress passed laws which mandated spending cuts in the future in return for more borrowing today. The borrowing was duly done but the spending cuts were postponed - until the first day of 2013. Now, they have been postponed again - by means of yet another law - for two months. The problem for the US is that the \$US 2.1 TRILLION in additional borrowing they gave themselves permission to undertake in August 2011 has now been all used up. They need to give themselves permission to borrow some more (the figure being tossed about is \$US 2.4 TRILLION) while Mr Obama has made it clear that he will not “negotiate” on any conditions being attached to this new Treasury debt “limit”. The US Administration wants to take this question beyond the realm of the “lawmakers” and turn it into an edict passed down from the White House.

King Canute let the rising tide overwhelm him to show his courtiers that he was not omnipotent. President Obama proposes to let the debt overwhelm his entire nation to attempt to prolong the illusion that he IS.

Accept No Substitutes:

There are REAL laws in both the physical and the economic spheres. In both cases, they must be obeyed in order to be commanded. A plane does not fly by “ignoring” the law of gravity. A nation does not grow prosperous by “ignoring” the law that says that what is consumed must first be produced. In December 2011, the US government was busy passing laws to negate the laws they had passed five months previously in August from taking effect - for one more year. In the last issue of 2011 (Number 693), *The Privateer* summed all this up. Nothing has changed in the interim so we present that summation here:

“The difference between “rejecting” the laws of gravity and the laws of economics are clear enough. A man who steps off the window ledge of a ten story building may reject the law of gravity, but that is the last thing he will ever reject. Those who view what is left of him when he hits the pavement are very unlikely to follow his example. A man who rejects the law which states that production must not only come before but exceed consumption if there is to be anything to consume over time can enforce his conclusion by means of the threat of outright force. He cannot negate the economic law. He can merely put himself in a position where he is the last to feel the effects of the law.”

“What is his “claim” on wealth? The money which he has given himself the exclusive “right” to produce. How does he produce it? By making a promise to pay the basis and underpinning for the money and “credit” in circulation. How is the promise to pay which comes due today “honoured”? By issuing new promises to pay which come due tomorrow or next month or next year or thirty years hence. What is his advertised “collateral”? “The full faith and credit” of the nation he controls. What is his actual means of payment? Laws which give him a first claim - to be adjusted according to his need - on the real wealth of his subjects. What is the end result? A monetary system which destroys wealth in order to function.”

Governments everywhere are still passing “laws”. The monetary system is still destroying wealth in order to function. Nothing has changed, except for the amount of government coercion required to keep inexorable economic law at bay. That is ramping up continually. Sadly, it will ramp up MUCH more in 2013.

As January Goes?:

With the computers programmed to anticipate the event, the passage of the *American Taxpayer Relief Act of 2012* was met with a surge on stock markets worldwide. Computers are absolutely certain that a government can accomplish anything with the passage of a law, that is the way they have been programmed. But while stock markets were climbing, a MUCH more ominous development was taking place in sovereign debt markets, specifically in the secondary markets for the debt of the US Treasury.

In the first two trading days of 2013 - January 2 - 3 - the yields on 10 and 30-year Treasury paper rose by 0.15 and 0.17 percent respectively. This rise in yield produced a commensurate FALL in the prices of these “assets” on the secondary market. And that fall produced a triple top on the chart of the longest running bull market in the world today - the Treasury debt bull market which stretches back to 1981.

The Treasury’s debt limit has been hit. The US government has tinkered at the edges with taxes while doing absolutely NOTHING about spending. The President of the United States now demands that US “lawmakers” raise the limit on what the Treasury is “allowed” to borrow with the stroke of a pen. HIS pen. He wants no debate, especially on any notion of matching the debt limit increase with reduced spending. In the face of all this, even the Fed was unable to prevent a sharp upward spike in US rates.

A most inexorable economic law states that you can’t have your cake and eat it too. That law has never been violated because it cannot be violated. For most of 2012, both sides of US politics strenuously avoided any discussion about the fiscal or financial state of the union. The Republicans rejected Ron Paul, the ONE candidate who was willing to act on principle. The result was foregone from then on. Now, in 2013, the Republicans are supposedly attempting to start the debate again. But we have seen what happens when words are supposed to give way to action. The entire motley assemblage folds and another “law” is passed.

INSIDE THE UNITED STATES

A DOLEFUL CENTENNIAL

It could hardly be more appropriate that the new year we are all entering is the centennial year of the founding of the US central bank - the Federal Reserve. The Federal Reserve Act was passed by the US House of Representatives on December 22, 1913. It was then passed by the US Senate and signed into law by President Wilson on December 23, 1913. At the time, the passage of the act was hailed by the eastern mainstream US press as - "*a fine Christmas present to the nation*". One wonders how rapturous the celebrations will be when the centennial of that day hits just before Christmas this year.

Anyone observing the history of US finances since 1913 and the history of global finances since the US Dollar (aka the Federal Reserve Note) became the world's reserve currency in 1944 should long since have lost any illusions about the Fed or any other central bank. Above all, they should have realised that central banks are set up explicitly to be financiers of government. A glance at the "progress" of US government debt over the past century should make that clear. A further glance at the "progress" since the pretense that US Dollars were "backed" by Gold was finally abandoned in 1971 should complete the awakening.

Yet that hasn't happened. It is only in the last decade that the majority of Americans have awakened to the fact that there is such a thing as the Federal Reserve. And it is only since the GFC hit five years ago that any large proportion of them have acquired a hazy notion that the Fed is in some manner "important" to the US economy. Given the fact that the US economy (as contrasted with US financial markets) has remained prostrate since late 2007 and is now in the process of getting worse, the idea has dawned that perhaps the Fed isn't actually doing quite as good a job as they keep telling us they are.

But the number of Americans who understand what the Fed is doing is still tiny. And the number who understand the consequences of what the Fed has done is much smaller still.

The Sad Legacy:

The Council of Economic Advisors (CEA) is a group of three "influential" economists whose task it is to advise the President on economic policies. Ironically enough, the CEA was set up in 1946, in the same year as the Truman Administration passed their *Full Employment Act*. This was the act which President Truman looked back upon fondly in 1953 as being the law which had finally freed the US government from "*inexorable economic law*" (see *The Global Report* in this issue). It is the assigned task of the CEA to provide empirical economic research to the White House and to prepare the *Economic Report of The President* every February.

In their February 2012 report, the CEA brought something to Mr Obama's attention which should have profoundly shocked him. Using "constant 1982-84 US Dollars", they calculated that average weekly earnings in the US had FALLEN by 11 percent since 1973. Thus, even in the eyes of government statisticians, Americans on average have seen their standard of living fall by 11 percent over the last 40 years. This is a shock to your Captain, who was a mere boy of 23 in 1973. It should have been an even bigger shock to Mr Obama, who was 12-years-old at the time.

1973 was, of course, the year when the severing of the US Dollar from Gold finally led to the end of the post WWII fixed currency regimes and the world turned to floating currencies. Since then, in the US and everywhere else, the currencies have floated but their purchasing power has sunk.

The younger the person, the worse the situation they face. Generation Y (those born between the early 1980s and the early 2000s) has seen their nominal average wages fall at twice the speed of older Americans since 2007. In purchasing power terms, the fall has been much worse than that. Since 2006, only 20 percent of college graduates expect to enjoy a higher standard of living than their parents. Less than half of them have a job. It is difficult to exaggerate the speed with which the REAL US economy is imploding.

INSIDE JAPAN

DEBT MEASURED IN ASTRONOMICAL UNITS

In the final and probably the most predictable global shakeup of 2012, the Liberal Democratic Party (LDP) of Japan won the December 16 election in a semi landslide and Mr Shinzo Abe was duly esconced as the new Japanese Prime Minister. This is Mr Abe's second tilt at the job, having held the office for a year as recently as 2006-07. His last stint ended in scandal and policy failure.

Nothing daunted, Mr Abe won this election promising the Japanese people much more ambitious policies than he attempted to exercise last time. The Japanese people went along with him, since he was the only one proposing any policies at all.

And what policies they are! Mindful of the fact that his last time in office lasted barely a year and of the fact that no Japanese Prime Minister has lasted much longer since, Mr Abe has decided to literally go for broke. Of course, neither he nor his political colleagues put it that way. And the anticipation of Mr Abe's policies has led directly to one of the biggest surges in the Japanese stock market for many years. Mr Abe simply plans to unleash yet another huge surge of "stimulus" via borrowing - despite the fact that the Japanese government is already by far the most indebted in the world.

The Japanese government has been chasing "recovery" without success for more than two decades. It is only in the last five years that they have been joined by the rest of the world. Japan's record since 1990 has been studiously ignored because it didn't and still does not "work". Mr Abe is determined to make it "work" this time. As a believer in the political nostrum that ANYTHING can be accomplished by passing laws, he leaves his equivalents in Europe and even in the US far behind him.

Helicopter Shinzo:

As of September 2012, the Bank of Japan (BoJ) held 104.9 TRILLION Yen of the total of Japanese sovereign debt paper. That is a holding of 11.1 percent. Foreign investors held a further 9.1 percent of the total, a new record high. That left the rest - 79.8 percent or 754.2 TRILLION Yen - mostly in the hands of Japanese individual investors and Japanese banks. Back in September, Japanese sovereign debt totalled 945 TRILLION Yen. Today, it has topped the 1 QUADRILLION Yen mark. What's a "quadrillion"? It is one thousand TRILLION or 1,000,000,000,000.00.

According to Japanese government researchers, the current population of Japan is 127.7 million people. These same researchers have looked at the current Japanese birth rate. They have concluded that should it continue at its present levels or diminish further (it has been falling for a while now), the population of Japan will shrink by TWO-THIRDS over the next century.

Today, Japan has one of the longest life expectancies in the world and well over 20 percent of the population is over the age of 65. Immigration is all but non-existent while the "revenue base" to support the gargantuan debt of the government is inexorably falling.

A population of 127.7 million and a sovereign debt of 1 QUADRILLION Yen leaves a per-capita debt for every man, woman and child in Japan of 7,831,635 Yen. Nothing daunted, Mr Abe is ramping up even more "stimulus" while ordering the BoJ to double their "inflation target" from 1.0 to 2.0 percent.

As 2013 dawned, Mr Abe went further. He pledged to spend 1 TRILLION Yen "buying" the capital plant of Japan's biggest manufacturing industries. Under this scheme, the government would "buy" the machinery - using borrowed money of course - and then lease it back to the companies.

Mr Abe is counting on the world's attention remaining on Europe and the US over the coming year. He cannot afford ANY increase in the interest rates his government is paying on its debt.

INSIDE THE EUROPEAN UNION

THE IMF CHANGES ITS MIND

Here we are an entire week into 2013 and the ratings agencies have not downgraded a single European nation yet. Indeed, most of the public murmuring about such actions has thus far been confined to the state of US public finances, although Japan is also being dutifully mentioned as facing some fiscal hurdles this year. Meanwhile, that other “US-based institution”, the International Monetary Fund, has chosen to rethink their time-honoured “cure” for nations which find themselves spending more than they dare tax.

According to *Bloomberg* - IMF officials have now made the public admission that: “*We were wrong about austerity*”. If you have been around for more than a decade or so, you may remember that the IMF had an invariable formula for “rescuing” nations which faced problems with plummeting currencies and/or soaring interest rates as a result of fiscal profligacy. They never used to call it “austerity”. They merely decreed that in return for their financial aid, a country had to get its fiscal and financial house in order. To give one specific example, when the IMF was called in to bail out various Asian nations during the financial crisis of the late 1990s, their formula was standard. The nation in question must either raise its interest rates or stop manipulating them downward. It must make genuine cuts in its budget to lower or eliminate its annual deficits. And it must immediately close its “weak” banks.

This was the same medicine that the IMF had been prescribing all over the “third world” ever since it was created in the wake of WW II. They never called it “austerity”, they called it a return to fiscal and financial responsibility. For well over six decades, this was the IMF’s unvarying practice. But now, they have taken a second look at it and have decided that perhaps it isn’t such a good idea after all.

Why? Simple. Because the US and most of the nations in the European Union are now in an even worse position than were most of the nations which the IMF bailed out over the second half of the twentieth century and the first decade of the twenty-first. On January 4, two IMF officials presented a paper at the annual meeting of the American Economic Association (AEA). The AEA is a venerable institution, having been created in 1885. They even made Ludwig von Mises a “distinguished fellow” - in 1969. The IMF chose this meeting to elaborate on their new position that - to again quote *Bloomberg* - “*austerity can do a lot more damage than previously thought*”.

Please note that the IMF did not made public this “change of heart” over the last three years, the period when the “global” debt crisis was supposedly confined to Europe. But they have made it public now, just days after the US Treasury hit yet another debt “limit” and the US Congress decided that while “austerity” might be all very well and good for the rest of the world, it didn’t work for THEM.

A New Year’s Resolution:

The excuse for all this is the course of the European debt crisis since its beginnings in Greece at the end of 2009. Three years later, the IMF has confessed that its economic forecasters had underestimated the negative impact that spending cuts would have on the broader economy. This is the same IMF that has been observing the effect that the spending cuts they demanded DID have on economies all over the world since the 1940s. Ah well, better late than never. The European are rolling their eyes. The Americans are nodding vigorously and fervently hoping that the world is too polite to notice this abject hypocrisy.

The IMF’s conclusion is as predictable as it is laughable. It is that the “austerity” programs instituted in Europe to deal with their crisis were founded on faulty assumptions and should be eased - at the very least. This had to be done. It was getting more and more difficult for the IMF to continue to approve of European “austerity” while turning a blind eye to the refusal of the US government to even entertain the idea. That refusal has once again burst forth in stark relief with the “deal” cobbled together in the US Congress in January. Something had to be done. So the IMF has conveniently discovered that Europe has been doing the wrong thing for three years - just in time for the US to avoid following suit - at least for now.

AUSTRALIAN REPORT

THE DREAM IS OVER

“With the year now half over, the Labor government is about the only Aussie institution left which is still insisting that the surplus will be reached by June 30, 2013. Pretty well everybody else in Australia has given the goal away as a pipe dream.”

(The Privateer - Number 718 - December 16, 2012)

The mirage of an Australian government budget surplus did not make it to Christmas. On December 21, Australian Treasurer Wayne Swan officially conceded that he cannot meet his self-imposed target for returning to surplus in the fiscal year that ends on June 30, 2013. The present Labor government in Canberra can call a general election any time this year and must call one by November at the latest. If current polls are anywhere near accurate, there is little prospect of Mr Swan being Treasurer after that event.

Australian “economists” (mostly employed by the big banks) lost no time in falling all over themselves in praise of Mr Swan’s about face. Here is a sampling of their reactions:

“...they’re making what I think is a sensible, pragmatic decision.”

“This announcement should not surprise any rational-thinking analyst. ...We welcome the announcement.”

“...the decision not to fight the underlying weakening of the budget position by further tightening fiscal policy to achieve a surplus is good policy.”

Australia (and far too many Australians) has been basking in the nation’s terms of trade ever since the “recession” which hit the rest of the world in 2008-2009 did not officially hit them. The Labor government has been crowing ever since they were elected that it was their superior “economic management” which brought this about. In fact, the Labor government took what were the genuine surpluses (largely due to high taxes and booming terms of trade) of their predecessors and wasted no time in turning them back into deficits. Now, Mr Swan has taken a look at his dwindling tax revenues and thrown in the towel. Any REAL cuts in spending were, of course, totally out of the question. That would smack of “austerity” and “austerity” is now officially a very dirty word right around the world.

Aussie Banks Have A Problem:

Here are three separate headlines which appeared in the Aussie media within days of each other:

December 31: *“Reserve (bank) figures show loan demand low”*

January 2: *“House prices sink for a second year”*

January 4: *“Big four bankers to make history”*

The first headline underlines the consternation being felt at the Australian Reserve Bank (RBA). The RBA has been industriously cutting rates ever since November 2011. Just as it hasn’t “worked” anywhere else in the world, it hasn’t worked in Australia. Loan demand is flat, at best. In December, the only lending category in the private sector that was rising was housing loans - and that by an anaemic 0.4 percent.

The second headline is a direct result of this phenomenon. Nationwide, Australian house prices fell for the second year in a row in 2012. This is the first two consecutive-year fall since 1996. Even with that, the median (half above - half below) house price across the nation is \$A 483,000. By comparison, median US house prices nationwide are still below \$US 200,000.

The third headline is the cumulative result of the first two. The “big four” Aussie banks are now reported to be thinking about cutting their mortgage rates “out of cycle” with the central bank. That means that they would cut their rates whether the RBA cuts or not. Why are they doing this? Because the big banks MUST try to fuel the demand for housing to keep existing prices up. By far the biggest “asset class” held by all of them is mortgages. They cannot afford to see the value of these “assets” continue to fall.

THE GLOBAL MARKET REPORT

PULLING MONEY OUT FROM UNDER MARKETS

As we enter 2013, it would be a good thing to remind ourselves of what “markets” are and of the fact that they are absolutely vital in the process of producing real wealth and prosperity for a nation and the people in it. One could begin by reflecting on the fact that there are many redundant phrases which have long been used to name the way a REAL market works. Take the phrase “market economy” for example. The word “market” is redundant. An economy without a market is a contradiction in terms. Or try the phrase “free enterprise”. The word “free” is redundant here. Without freedom there will be no enterprise. Here’s another one - “private property”. All property is private. It belongs wholly to one individual or parts of it belong to several or even many individuals.

If you look up the word “market” on the *Wikipedia*, you find this definition: *“A market is one of many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange. While parties may exchange goods and services by barter, most markets rely on sellers offering their goods or services (including labor) in exchange for money from buyers. It can be said that a market is the process by which the prices of goods and services are established.”*

There are only three vital words in this entire rather wordy definition. One of them is EXCHANGE. Another one is MONEY. The third is that which emerges when money is used to facilitate exchanges. That vital third word is PRICES. The most vital of all the indispensable services provided by a market is to facilitate the exchange of goods and services through the use of money. The end result of this process is the emergence of prices. And it is prices which form the foundation and the viability of any market.

The central problem of modern “markets” - especially modern financial markets - is that prices are falsified. The problem which looms most acute as the new year begins is that the common denominator in all prices - MONEY - has already been debased to an unprecedented extent. This year, central banks everywhere are replete with schemes to debase it even more.

A Graphic Illustration:

On January 3, *Bloomberg* published an item with the following title: *“Why We Must Go Off the Platinum Coin Cliff”*. It was only a short article, but it contained within it a perfectly condensed example of the entire process of monetary debasement now being pursued eagerly on a global basis.

The article expressed approval of recent statements by Mr Jerrold Nadler - a Democrat House member of more than twenty years standing. Mr Nadler has publicly come out in support of the idea that President Obama make good on his claim that he will not “bargain” with Congress over the necessity to once again raise the debt “limit” of the US Treasury. The specific method being advocated here is the issuing of “high denomination” platinum coins by the Treasury. The idea was first brought forward by a so-called “Constitutional scholar” at Yale law school in 2011. *The Privateer* mentioned it in issue number 717 published on November 25, 2012. We said then that this “solution” was not tried in 2011 and we had no idea whether it would be considered in 2013. It would seem that it is being considered.

Legally, the US Treasury does not have the power to simply issue “money” in whatever quantity it pleases. That is the exclusive preserve of the Federal Reserve. But Constitutionally, the Treasury DOES have the power to strike platinum coins as legal tender with no restrictions on the “denomination” of the coin. Thus, if the Treasury wants to issue a platinum coin “worth” \$US 1 TRILLION - it can do so.

This is the “solution” to the Treasury’s debt limit now being seriously discussed and supported by US “lawmakers”. If the Treasury wants its debt “limit” raised by \$US 2 TRILLION and Congress balks, it can simply issue two \$US 1 TRILLION “face value” platinum coins. If it wants \$US 3 TRILLION, it can issue three of them. And so on. And why are they “worth” this grand sum? Because the Treasury says so.

It's All Perfectly "Legal":

The huge irony of this "platinum scheme" is that the provision in the law which makes it possible is contained in a law which regulates the mintage of gold coinage by the Treasury. The size, composition and DENOMINATION of these Gold coins are all restricted by law. But that is NOT the case for platinum coins. We quote the relevant part of the law:

"The Secretary (of the Treasury) may mint and issue platinum bullion coins and proof platinum coins in accordance with such specifications, designs, varieties, quantities, denominations, and inscriptions as the Secretary, in the Secretary's discretion, may prescribe from time to time."

In other words, Treasury Secretary Geithner or his successor can put any number he wants on a platinum coin of any size and weight. He could refer to the current market price for an ounce coin, for example. Or he could do what is done with the Gold coinage and put "legal tender" values on the coins which bear no relationship to the market price of the metal. A one troy ounce Gold coin minted under the act, for example, has a legal tender value of \$US 50. This is, of course, to prevent the coin from being used as money. Please remember further, in this context, that under Article 1 - Section 10 of the US Constitution: *"No state shall ...coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts."* Constitutionally, the federal government can *"coin Money"* - no specific metals are mentioned.

And You Thought "Markets" Were Tampered With?:

So, the Treasurer can issue platinum coins in any size, shape and DENOMINATION he chooses. In the example being "discussed" in the lead up to the debt limit debate, the denomination chosen is \$US 1 TRILLION. Needless to say, such a coin would never be issued into circulation in the "markets". But it would have legal tender status if deposited with the Fed. By doing so, the argument goes, the Treasury can finance its ongoing expenses without having to issue more debt in the process. And if the Treasury does not have to issue additional debt, the US government can go on spending more than they collect without breaching the Treasury's debt "limit".

That is outrageous enough, but it gets even "better". Mr Obama has said he will not entertain any "debate" over the next debt limit increase. He knows that this is a hollow threat. The suggestion is that he do an end run around any Republican demands for spending "cuts" by ordering the Treasury to mint platinum coins to pay the government's bills. He should then pledge that the instant that the debt "limit" is raised, he will order the Treasury to issue enough new debt to "buy back" the issued coins.

And here's the final glory of it all, the acme of the art of political "deal making". The suggestion is that along with his order to the Treasury to mint the coins, Mr Obama should offer to sign a bill revoking his authority to do it ever again. In return for his signature on this bill, all the Republicans in Congress would have to agree to is to give up their present power to set any "limit" at all on Treasury borrowing.

Presto, no more Treasury debt "limit". No more destabilising debate over the perpetual credit-creation powers of government. No more "dysfunctional" government. In fact, no government at all as far as fiscal matters are concerned. Merely the modern version of a divine right economic dictator in the White House.

What chance do "markets" have of functioning in the face of this type of debate being taken seriously by many of those whose arrogated task it has become to "regulate" those same markets. Please remember that markets cannot function in any but the most rudimentary way without money. Remember also that the prices which result from exchanges on the market cannot perform their vital function when their common denominator - MONEY - can be manipulated in such a brazen and devastating manner.

The "platinum scheme" may not come to fruition. That is not the point. The point is that the very fact that it is being discussed in reputable financial media in the US is proof that money is being pulled out from under the "markets" at a speed and with a brazen arrogance never before approached.

What Is “Dysfunctional” Here?:

In the eyes of those who run financial markets - not just in the US but all over the world - a “dysfunctional” government is one which puts any impediments whatsoever on unlimited credit creation. Given the \$US hundreds of TRILLIONS of “derivatives” extant, any such “limits” or even the thought that there ARE any limits is dangerous in the extreme. These same “markets” get awfully nervous when there is any discussion about “limits” to the issuance of US Treasury debt because that same debt is the ONLY underpinning for the US Dollar which is in turn the ONLY underpinning for the global financial system.

To understand the ludicrous nature of what now passes for “fiscal management” in the US or anywhere else, consider an example. At present, China owns about \$US 1.2 TRILLION “worth” of US Treasury debt paper. Imagine if you will the reaction from the Chinese government if Mr Obama ordered his Treasury to mint a platinum coin weighing (let’s be generous) 100 troy ounces with a denomination of \$US 1.2 TRILLION. Having received this beautiful, bright and shiny new coin. Mr Obama then stuffs it in his briefcase, jumps aboard Air Force One and directs the pilot to head for Beijing. Upon landing, Mr Obama drives to the Great Hall of the People. He then requests and is of course granted a meeting with the Chinese Premier. Mr Obama then plunks his briefcase down on the Premier’s desk, extracts the coin, hands it to the Premier and declaims with a huge smile: *“There you go - we’re even!” “I’m off to Tokyo now. I’ve got another one just like this one for them.”*

Nobody could take this seriously, except an almost terminally dysfunctional government. Sadly, that’s the kind of thing that the markets are counting on and have been counting on for years.

Recent Events:

The fiscal cliff has been moved ahead in time by two months. Meanwhile, the Treasury is presently once again in “extraordinary measures” mode with the debt limit having been hit on the last day of 2012. Nothing daunted, stock markets have roared into 2013 with their biggest first week of the year gains in a long time.

As we mentioned in our *Global Report* though, a HUGE warning sign has been erected in the secondary market for US Treasuries. As *The Privateer* pointed out in our previous issue, yields on 10-year Treasury paper had never remained below the 2.0 percent level for any length of time until April 2012. Since then, they have not been above 2.0 percent. On the secondary market for Treasuries, there have been three peaks above the 152.00 price level since April. They happened on June 1, July 24 and November 16. On January 4, 2013, the “market” closed at 144.50. That’s an established “triple top” on an almost 32-year-old bull market. And THAT puts the *“full faith and credit”* of the US government in great danger.

Gold:

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

What’s Next?:

Treasury Secretary Geithner, who has made it clear that he wants OUT before the deadline for the present debt “limit”, began to take extraordinary measures to keep the debt below its limit on December 31. His estimate is that he could give the US government two months - until the end of February 2013. That has now become the new “time horizon” for US and global markets.

The new year also brings a change to the makeup of the Fed’s FOMC. The one dissenting member from last year, Mr Lasker, is no longer a voting member this year. So much for “exit strategies”.