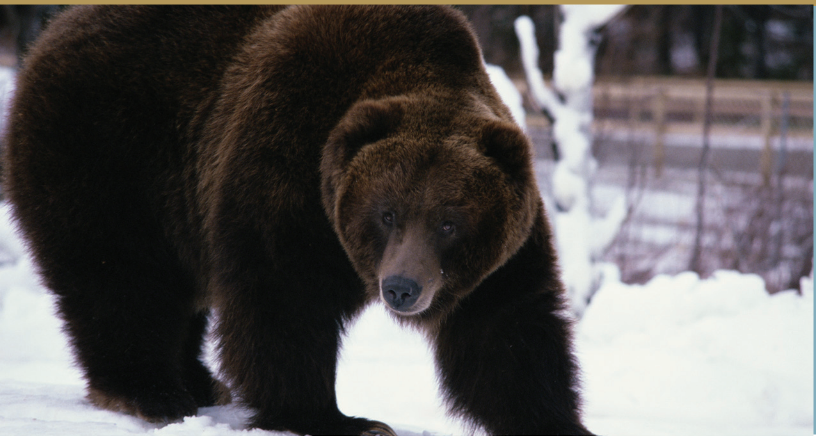
Volume 9 | Issue 1 . September 14, 2009

LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

WINTER WARNING



BEHOLD A PALE HORSE AND HE WHO SAT UPON HIM WAS NAMED DEATH, AND HELL FOLLOWED WITH HIM

Consider this title as an analogy of the U.S. economy, directed by Federal Reserve Board Chairman Ben Bernanke and leading to the second great economic depression.

In his book, The Ascent of Money, author Niall Ferguson recounts that "most advanced economies essentially followed the British lead when it came to regulation through a monopolistic central bank operating on the gold standard and concentration of deposit-taking by a relatively few large institutions. The Banque de France was established in 1800, the German Reichsbank in 1875, the bank of Japan in 1882, the Swiss National Bank in 1907; while legislation was not passed to create the Federal Reserve System until 1913." Indeed, after signing the Federal Reserve into existence, U.S. President Woodrow Wilson declared "I am a most unhappy man. I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world; no longer a Government by free opinion, no longer a government by conviction and the vote of the majority, but a Government by the opinion and duress of a small group of dominant men."

Eustace Mullins, an American researcher, historian and author of Secrets of the Federal Reserve, argues that the Federal Reserve Act of 1913, drafted by German banker Paul Warburg (at the time a partner of Kuhn, Loeb) and others (criminal conspirators) in a secret meeting at J.P. Morgan's winter retreat at Jekyll Island, Georgia, defies Article 1, Section 8, Paragraph 5 of the U.S. Constitution by creating a "central bank of issue" for the United States. Moreover, Mullins contends, the U.S. Federal Reserve is actually owned by wealthy banker families such as the Warburgs, Rothchilds, Rockefellers, Kuhns, Goldmans and other bankers and industrialists. Mr. Mullins' comments and statements are complemented by those of U.S. Congressman Ron Paul (a Presidential candidate in 1998) who has often stated that Congress established the Federal Reserve System "without any constitutional authority to do so." Indeed, as a result of the banking crisis and stock market crash of 1907, in order to protect the assets of the bankers and big business, the Federal Reserve System was created in 1913 to function "as a lender of last resort." However, by this act, the U.S. Government enabled the establishment of a central bank empowered to operate a fiat monetary system, with the ability to issue / print money (legal tender) virtually out of thin air and which is doomed to collapse. History is rife with examples of this deceitful practice which destroys the purchasing power of a currency; such as the U.S. Confederate dollar of the 1860's and the French assignat of the 1790's.

Testifying before the House Committee on Rules on December 15, 1911, after the Aldrich plan (later named the Federal Reserve Act) had been introduced in Congress, then Congressman Charles Augustus Lindbergh, Sr. (the father of the famous aviator) stated that "Our financial system is a false one and a huge burden on the people. I have alleged that there is a Money Trust (a consortium of Wall Street bankers) and the Aldrich plan is a scheme plainly in the interest of the Trust. Why does the Money Trust press so hard for the Aldrich plan now, before the people know what the Money Trust has been doing? The Aldrich plan is the Wall Street plan. It is a broad challenge to the Government by the champion of the Money Trust. It means another panic, if necessary, to intimidate the people. Aldrich, paid by the Government to represent the people, proposes a plan for the trusts instead. It was by a very clever move that the National Monetary Commission was created. In 1907, nature responded most beautifully and gave this country the most bountiful crop it had ever had. Other industries were busy too, and from a natural standpoint, all the conditions were right for a most prosperous year. Instead, a (financial) panic entailed

LONGWAVE group

enormous losses upon us. Wall Street knew the American people were demanding a remedy against the recurrence of such a ridiculously unnatural condition. Most Senators and Representatives fell into the Wall Street trap and passed the Aldrich-Vreeland Emergency Currency Bill. But the real purpose was to get a monetary commission which would frame a proposition for amendments to our currency and banking laws which would suit the Money Trust. The interests are now busy everywhere educating the people in favour of the Aldrich plan. It is reported that a large sum of money has been raised for this purpose. Wall Street speculation brought on the Panic of 1907. The depositors' funds were loaned to gamblers and anybody the Money Trust wanted to favour. Then when depositors wanted their money, the banks did not have it. That made the panic." How insightful and prophetic of Mr. Lindbergh, to lay bare the deceitful manner in which the Federal Reserve System was conceived and ultimately, enacted.

"By far the most secret and least accountable hybrid operation of the U.S. Government is the Federal Reserve System" cites the late Murray Rothbard of the Ludwig Von Mises Institute, in his book The Case Against the Fed. "The Fed is accountable to no one; it has no budget; it is subject to no audit; and no Congressional committee knows of, or can truly supervise, its operations. The Federal Reserve, virtually in control of the nation's monetary system, is accountable to nobody – and this strange situation, if acknowledged at all, is invariably trumpeted as a virtue. In 1993, the maverick and venerable Democratic Chairman of the House Banking Committee, Texan Henry B. Gonzalez, optimistically introduced some of his favourite projects for opening up the Fed to public scrutiny." Although the Gonzalez proposals were not intrusive, President Bill Clinton squashed the initiative, declaring that it would "run the risk of undermining market confidence in the Fed." Ostensibly, former President Clinton would have us believe he was protecting the integrity of the Fed, when in fact; he was protecting its independence and the interests of the Fed's private shareholders.

U.K. economist and author of The Coming First World Debt Crisis in 2006, Ann Pettifor, warned that rich countries were heading for a debt crisis that would overshadow anything ever seen in the developed world. Today, she is dismayed that politicians have failed to seize the opportunity that the credit crisis has given them to embark on tough reform of the banking system. Ms. Pettifor notes that "there's an enormous amount of complacency from politicians, in particular, about what will happen next. I believe politicians have given away the opportunity to restructure the banks and reconfigure the system."

According to a recent Gallup poll, the Fed is the least trusted by Americans, from among a group of nine government agencies. A new Rasmussen Reports national telephone survey finds that 75% of Americans favour auditing the Federal Reserve and making the results available to the public. While U.S. President Obama hopes to expand the Fed chairman's regulatory controls, 46% of Americans say that he already has too much power over the economy and 51% oppose expanding the Fed's regulatory powers. These polls are emerging as Fed Chairman Bernanke is attempting to project a new policy of openness, citing that his significant number of recent public appearances is the result of the "extraordinary" times the country faces. Actually, Mr. Bernanke has been vigorously defending the Federal Reserve's handling of the credit crisis at appearances from a 60 Minutes television interview to a Kansas City town hall session, in an effort to forestall a congressional proposal (which has 250 sponsors) by Republican Representative Ron Paul that would undercut the Fed's independence. Moreover, Mr. Bernanke went on record as saying that he chose to bail out the major U.S. banks because he didn't want to be the "chairman who presided over the second great depression." In point of fact, not only is the second great depression well under way, but also, Mr. Bernanke acted to rescue the U.S. large banks because, as stated above, they are the shareholders of the Federal Reserve System.

Fed Chairman Bernanke now finds himself in the middle of what purports to be the formation of the biggest financial bubble of all time – the debt bubble. The U.S. national debt has just surpassed the $11.8 trillion mark. Last week, the U.S. Congressional Budget Office (CBO) reported that the Federal Government's budget deficit had reached $1.4 trillion (U.S.) through August 31 /09, on track to reach a record high of $1.6 trillion (U.S.) for the fiscal year end September 30, 2009. Indeed, the CBO has projected that U.S. budget deficits will remain in the trillion dollar range until at least 2019. Included in America's debt load are the current economic stimulus packages and various government aid initiatives; as well as future spending obligations for Social Security, Medicare, Medicaid, global military obligations and other entitlements. The U.S. Government cannot possibly meet these commitments without raising taxation levels, cutting back on spending programs, or, a combination of the two. The relentless printing of money is a trajectory which is unsustainable for the United States of America.

An interesting investigation by the Huffington Post has revealed that "the Federal Reserve, through its extensive network of consultants, visiting scholars, alumni and staff economists, so thoroughly dominates the field of economics in America, that any real criticism of the central bank has become a career liability for members of the profession. This dominance helps explain how, even after the Fed failed to foresee the greatest economic collapse since the Great Depression (of the 1930's), the central bank has largely escaped criticism from academic economists. The Fed failed to see the housing bubble as it was occurring, insisting that the rise in housing prices was normal; with then-Federal Reserve Chairman Alan Greenspan saying that 'a national severe price distortion (in housing was) most unlikely'. On year later in 2005, current Chairman Ben Bernanke said that the boom ' largely reflects economic fundamentals'. The Fed also failed to sufficiently regulate major financial institutions, with Greenspan – and the dominant economists – believing that the banks would regulate themselves in their own self-interest. In the field of economics, the Chairman remains a much-heralded figure, lauded for reaction to a crisis, generated in the first place by the Fed itself. Congress is even considering legislation to greatly expand the powers of the Fed to systemically regulate the financial industry." The American people have a long-standing habit of boasting to the rest of the world about their country's liberties and inherent freedoms. Upon close inspection, however, the inescapable pursuit of the Fed appears to be one of control of the U.S. banking system and related regulation; as well as dominance of the economics profession. It is all about a conspiracy of power and control of the American financial system operating in the best interests of the private shareholders (owners) of the Federal Reserve.

Will the Fed Cycle Be Unbroken?

Inasmuch as the Fed's excessive money printing during the 1920's precipitated the speculation resulting in stock market crash of October, 1929 and the Great Depression of the 1930's; similar Fed activity today is prompting warnings from economists such as Harry Dent, author of "The Great Depression Ahead". Mr. Dent believes that stock markets and commodity prices may climb back toward their highs on the back of massive government stimulus programs, but a spending slowdown by baby boomers will create an even weaker economic environment that will last for the next 15 years. He predicts another strong stock market crash late in 2009 or in 2010, followed by an even deeper downturn into 2010 and 2011. Mr. Dent cautions that "people need to be patient and wait longer to buy houses, wait longer to get back into the stock market and use whatever bounces we get this year to get out, because this is not over."

Murray Rothbard contends "that the Fed is manning the ramparts against the menace of inflation brought about by others, is nothing less than a deceptive shell game. The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about inflation, for which everyone else in society seems to be responsible. We begin to see why it has always been important for the Fed, and for other central banks, to invest themselves with an aura of solemnity and mystery. If the public knew what was going on, it would soon discover that the Fed, far from being the indispensable solution to the problem of inflation, is itself the heart and cause of the problem. What we need is not a totally independent, all-powerful Fed; what we need is no Fed at all."

In a Long Wave Analyst special edition published in the fall of 2007, Ian Gordon, economic forecaster and interpreter of the Kondratieff Cycle, warned "The Kondratieff winter is now underway in earnest and nothing can stop it. The huge credit expansion initiated by the Maestro, the former Federal Reserve Chairman, Alan Greenspan, has now reversed. The ensuing credit contraction will be devastating. It will take down creditor and debtor alike and will result in a destructive and frightening deflationary depression." Mr. Gordon has since predicted that the Dow Jones Industrial Average will, not only, retest the lows of March /09, but also, nosedive to the 1,000 level before making any meaningful recovery to the upside.

The late W.D. Gann, a market trader, author and student of market cycles published his outlook for the year 1929 in an article penned in November, 1928. The following is his introduction to that forecast: "This year appears in a cycle which shows the ending of the bull market and the beginning of a prolonged bear campaign. The present bull campaign has lasted longer than any previous campaign in the history of this country. The fact that it has lasted longer and (stock) prices have advanced to such abnormal heights means that when the decline sets in, it must be in proportion to the advance. The year 1929 will witness some sharp, severe panicky declines in many high priced stocks." Mr. Gann's unique understanding of cycles allowed him to make such a prophetic assertion. In our Long Wave Analyst article "This Is It" published in November, 2007, we were able to confidently predict the top in stock prices, the banking crisis and the economic downturn, based upon the confluence of Gann cycles which all came together in 2007.

Mr. Gann considered the 20-year cycle and any multiples thereof, to be the most important; such as, the 100-year cycle. It was the Wall Street Crash of 1907 and the subsequent banking crisis which set the stage for the establishment of the Federal Reserve in 1913. Today, the expanding government debt bubble jeopardizes the very viability of the American central bank system. The only way to determine a market-based monetary system, completely backed by gold, is to have the Federal Reserve System abolished. Deservedly, the Fed must be held accountable for the credit crisis. An increasing number of Americans following Ron Paul's leadership attest to this. As the economic crisis deepens, the collective anger will grow, perhaps, forcing the Fed's demise in 2013 – one hundred years after its birth.

Written By: Christopher Funston

Ian A. Gordon, The Long Wave Analyst, longwaveanalyst@telus.net