

# ODOM'S RAZOR

## Greenspan, Congress and the Coming Credit Bubble

Members of Congress toady to the Federal Reserve Chairman during Congressional hearings. None question the possibility that Greenspan's policies could destroy U.S. financial markets and destabilize world markets.

The following was published over three decades ago by an economist before he achieved power. Bear in mind that "power corrupts and absolute power corrupts absolutely."

*"When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. [italics added] More disastrous, however, was the Federal Reserve's attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain's gold loss and avoid the political embarrassment of having to raise interest rates.*

"The 'Fed' succeeded: it stopped the gold loss, but it nearly destroyed the economies of the world, in the process. *The excess credit which the Fed pumped into the economy spilled over into the stock market-triggering a fantastic speculative boom. [italics added]* Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank failures. The world economies plunged into the Great Depression of the 1930's...

"...Stripped of its academic jargon, the welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare schemes. A substantial part of the confiscation is affected by taxation. But the welfare statist were quick to recognize that if they wished to retain political power, the amount of taxation had to be limited and they had to resort to programs of massive deficit spending, i.e., they had to borrow money, by issuing government bonds, to finance welfare expenditures on a large scale...

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holdings illegal, as was done in the case of gold....

"...Deficit spending is simply a scheme for the 'hidden' confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights..."

A bubble far greater than the combined stock market meltdown and telecom failures is underway, the coming credit bubble. Congress knows what is coming but fears public opinion. Alan Greenspan knows this also, but he too understands public opinion; he also realizes his time in office is limited. Neither Congress nor Alan Greenspan has the courage to act now: raise interest rates, let weak companies fail, and allow unemployment to rise and run its course. No one wants the excesses wrung out quickly. Such action would be politically unpalatable. Most live

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## The Coming Credit Bubble *Continued...*

only for today and want the party to continue. Therefore, inflation will win out, whether the dollar is devalued or prices increase, and talk of deflation for the U.S. is propaganda.

One example, real estate. No member of Congress is asking tough questions of the real estate industry, i.e., executive pay, stock options, acquisitions, and nonrefundable deposits for lot and land purchases. No federal agency is investigating the real estate locomotives, Fannie Mae and Freddie Mac, most particularly the massive sums loaned to marginal and unqualified home buyers. No one is checking into the huge land development loans being made by financial institutions to develop now overpriced land for lot sales in the distant future. And yet, real estate constitutes only one segment of the coming credit bubble.

*The excess credit which Alan Greenspan pumped into the economy spilled over into the stock market - triggering a fantastic speculative boom.* Only after this new credit bubble explodes, as do all bubbles, will Congress investigate. An unlucky few will be handcuffed and led away. But that will not satisfy the millions of Americans who then are financially destroyed. Their lives will be changed, and few will ever recoup their losses. They will blame Congress and rightly so.

The motto of today is spend. Middle class American savers now are penalized by lower-than-inflation interest rate returns. Next they will suffer the most from the inflation to come.

Not every nation reacts identically to the same problem. Japan now nears the U.S. pre-1930, when Americans saved, worked hard, and were strong willed.

The U.S. now nears pre-1930s Germany, when Germans were spendthrifts, decadent, and soft. Germans with personal gold holdings (other than German Jews) were unfazed by the Great Depression of 1929-1939. Many profited greatly. Germany's middle class was financially ruined.

What of Argentina, now in the news? In 1945 the Argentinean government had 34.20 million ounces of gold, the fourth largest gold holdings in the world. In 1985 Argentina had only 4.37 million ounces and dropped in rank to number 16 among world governments. In 2002 Argentina is bankrupt and millions of their citizens are financially ruined. However, Argentineans with personal gold holdings today, like the 1930's Germans, are unaffected by Argentina's financial failure. They too are profiting greatly from their new purchasing power.

One of the greatest, but rarely mentioned, freedoms of America today is the right of U.S. citizens to legally own gold. Since the beginning of the world, no great civilization has maintained supremacy nor has any been immune to the vicissitudes of history. The U.S. is no exception.

- Guy Odom  
August, 2002