

## **Whose Line (of Credit) Is It Anyway?**

Doug Wakefield with Ben Hill

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“Permit me to issue and control the money of the nation and I care not who makes its laws.”

*- Mayer Amschel Rothschild, founder of the Rothschild family  
international banking dynasty*

“And I sincerely believe that banking establishments are more dangerous than standing armies.”

*- [Thomas Jefferson](#)*

Knowing that I've been warning of a credit crisis for years, a securities firm owner I had not spoken with since 2007 called and said, “Well, you were right.” To me, this is like a fellow crewmember on the Titanic coming up and telling me I was right about not wanting to go so fast through foggy, iceberg-infested waters. We are all in the same boat. I've been wrong several times in my life, and if there were one time when I really wanted (and want) to be wrong, it is now.

Though I do not know, nor can I explain, all the nuances of what is transpiring in our economy, the situation unfolding in California serves as a good proxy. Like our federal government, and most of our nation's Fortune 500 companies and states, California has been running budget deficits for quite a while. But since it is not a banking institution, our federal government is unwilling to help them with their \$26 billion dollar annual deficit, leaving the state to issue an estimated \$3 billion worth of IOUs instead. A July 2, 2009, [BBC article](#) states:

California Governor Arnold Schwarzenegger has declared a fiscal emergency in his state, as officials prepare to issue billions of dollars of IOUs to the state's creditors.

California is estimated to be the world eighth-largest economy, and the fiscal crisis will have ripple effects through the US.

Our nation's major banks said they would only accept these IOUs through Friday, April 10<sup>th</sup>. A July 7, 2009, [Wall Street Journal article](#), noted:

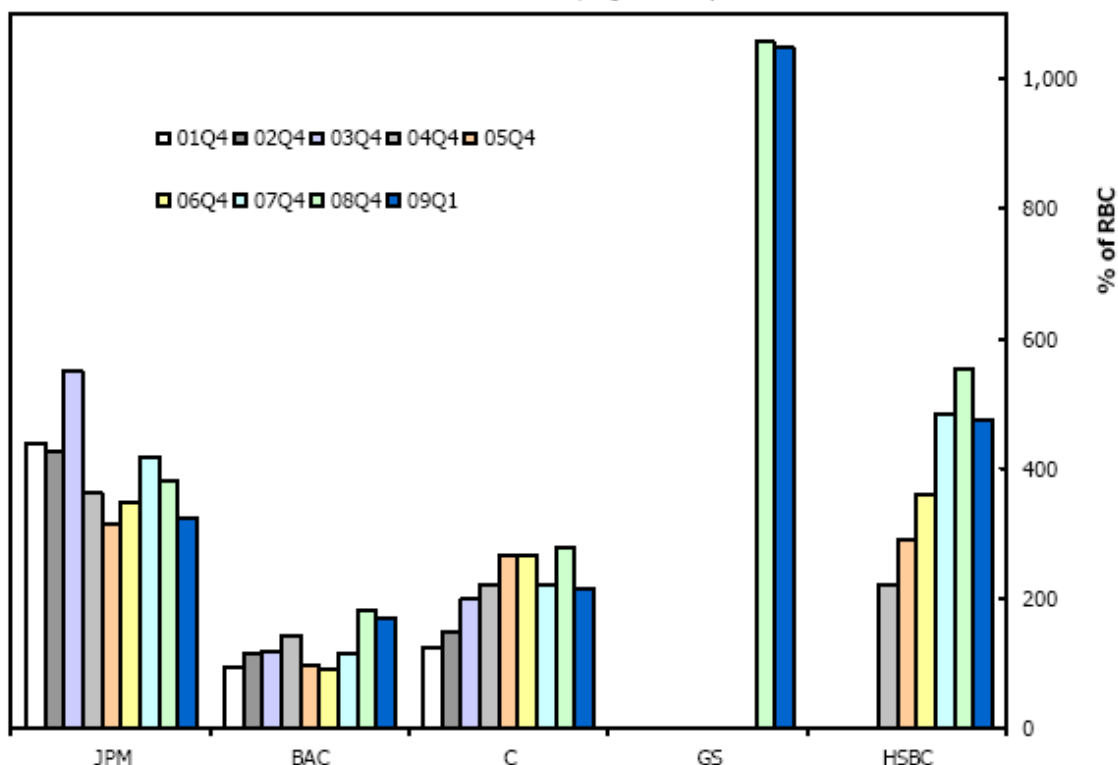
A group of the biggest U.S. banks said they would stop accepting California's IOUs on Friday, adding pressure on the state to close its \$26.3 billion annual budget gap. The banks had previously committed to accepting state IOUs as payment. California plans to issue more than \$3 billion of IOUs in July.

Mind you, these are the same banks that received [\\$700 billion in TARP funds](#), \$345 billion of TGLP loans, and over [\\$13.9 trillion](#) in government guarantees – the same banks that created all of those crazy negative amortization, interest only, adjustable rate mortgages in the first place and loaned them to people who in many cases had no income, no job and no assets (NINJA loans) – and the same banks that went out and leveraged up these loans and spread them across the globe via the alphabet soup of derivatives, of which their U.S. exposure now stands at [\\$202 trillion](#).

Graph 5A

## Percentage of Total Credit Exposure to Risk Based Capital

Top 5 Commercial Banks by Derivatives Holdings  
Year-ends 2001 - 2008, Quarterly - 2009



Would that California were as privileged as a bank. Then our federal government would give it multiple times its \$26 billion need. If it were [JP Morgan, it would have received \\$138 billion](#). If it were [Bank of America, it would have received \\$118 billion](#). If it were [Citibank, it would have received \\$300 billion](#). If it were [AIG, it would have received \\$150 billion](#). While states and automakers plead for much smaller bailouts, banks look to have a blank check.

And, some of this money might be justifiable if it were making its way back into the economy and the hands of the people who need jobs. Mike Shedlock's Global Trend and Economic Analysis shows that our [current unemployment numbers are understated by over 2.5 million](#) since the mainstream reporting does not include the [Emergency Unemployment Compensation](#). Official unemployment shows that we are just approaching 10 percent, but John Williams' Shadow Stats shows that when we add back "discouraged workers" and take some of the [bias](#) out of the calculations, the number is closer to [20 percent](#).

As [Paul Kasriel's recent article](#) states, 98 percent of the increased reserves sits on the books of banks:

Reserves created by the Fed have increased by a staggering \$858 *billion* in the 12 months ended May. But *excess* reserves on the books of depository institutions have increased by almost as much, \$842 *billion*. So, in the 12 months ended May, *98%* of the increase in reserves created by the Fed has simply ended up as *idle* reserves on the books of depository institutions.

In his June 26, 2009 article, *It Is Economic*, Doug Noland notes Fed credit has been on the rise:

Federal Reserve Credit has expanded \$1.122 TN over the past 52 weeks (128%).

June 24 – New York Times (Stephen Labaton): "During the debate over financial regulation, the Federal Reserve chairman Ben S. Bernanke has been surprisingly quiet. But behind the scenes, he has been a forceful proponent of giving the Fed more power, both defending his management of the economic crisis and arguing that more authority would help the agency act more decisively to reduce the chances of a recurrence... Despite criticism by some lawmakers that the Fed failed to anticipate the problems

that led to the crisis, Mr. Bernanke has told associates that such critics fail to recognize the extraordinary actions taken by the central bank over the last year.”

The following table from [The Chart Store](#) verifies the same and shows that the build up in banks cash assets represents a 236 percent yearly increase.

**Assets and Liabilities of Commercial Banks in the United States <sup>1</sup>**  
(seasonally adjusted, billions of dollars)

	5/31/09	4/30/09	Change for month	% Change Month	5/31/08	Change for year	% Change Year
<b>ASSETS</b>							
Bank credit	9,774.80	9,728.50	46.30	0.48%	9,425.40	349.40	3.71%
Securities in bank credit	2,672.80	2,677.20	(4.40)	-0.16%	2,506.50	166.30	6.63%
Treasury and Agency securities	1,271.00	1,265.30	5.70	0.45%	1,109.40	161.60	14.57%
Other securities	1,401.90	1,411.90	(10.00)	-0.71%	1,397.10	4.80	0.34%
Loans and leases in bank credit <sup>2</sup>	7,102.00	7,051.40	50.60	0.72%	6,918.80	183.20	2.65%
Commercial and Industrial	1,503.10	1,522.10	(19.00)	-1.25%	1,493.30	9.80	0.66%
Real Estate	3,881.30	3,837.60	43.70	1.14%	3,639.80	241.50	6.63%
Revolving home equity	613.50	606.10	7.40	1.22%	511.10	102.40	20.04%
Other residential	1,544.60	1,505.60	39.00	2.59%	1,467.90	76.70	5.23%
Commercial	1,723.30	1,725.80	(2.50)	-0.14%	1,660.80	62.50	3.76%
Consumer	881.00	881.10	(0.10)	-0.01%	828.80	52.20	6.30%
Security	195.20	188.30	6.90	3.66%	304.70	(109.50)	-35.94%
Other loans and leases	641.40	622.30	19.10	3.07%	652.20	(10.80)	-1.66%
Interbank loans	442.70	429.50	13.20	3.07%	455.30	(12.60)	-2.77%
Cash assets	1,041.10	1,017.30	23.80	2.34%	309.10	732.00	236.82%
Other assets	1,063.60	1,053.60	10.00	0.95%	986.40	77.20	7.83%
<b>TOTAL ASSETS <sup>3</sup></b>	<b>12,156.40</b>	<b>12,070.40</b>	<b>86.00</b>	<b>0.71%</b>	<b>11,077.70</b>	<b>1,078.70</b>	<b>9.74%</b>
<b>LIABILITIES</b>							
Deposits	7,485.10	7,358.70	126.40	1.72%	6,863.00	622.10	9.06%
Borrowings	2,451.50	2,449.20	2.30	0.09%	2,335.10	116.40	4.98%
Net due to related foreign offices	204.10	283.50	(79.40)	-28.01%	(26.20)	230.30	-879.01%
Other liabilities	732.00	748.70	(16.70)	-2.23%	701.40	30.60	4.36%
<b>TOTAL LIABILITIES</b>	<b>10,872.60</b>	<b>10,840.10</b>	<b>32.50</b>	<b>0.30%</b>	<b>9,873.40</b>	<b>999.20</b>	<b>10.12%</b>

With all the corruption entangled within the system, exemplified by the revolving door and blurred lines between the leadership of Goldman Sachs and the Federal Reserve, the US Treasury, and many aspects of US monetary and fiscal policy (see our May 2009 issue of *The Investor's Mind: The Goose that Laid the Golden Egg* or *Rolling Stone* magazine's July 2, 2009, article, [The Great American Bubble Machine](#), which both implicate Goldman Sachs as one of the most politically connected Wall Street firm in modern history) Thomas DiLorenzo's May 13, 2009 article, [Never-Ending Government Lies About Markets](#), was right to state:

The purpose of government is for those who run it to plunder those who do not. Throughout history, governments have used violence,

intimidation, coercion, and mass murder to enforce this system. But governments' first line of "defense" is always a blizzard of lies — about its own alleged benevolence, altruism, heroism, and greatness, along with equally big lies about the "evils" of the civil society, especially the free market.

So, we can sit idly by and allow the Wall Street banks to solidify their grasp on our government by setting new laws into motion that make their power absolute, or we can heed Lord Acton's words, "Power corrupts and absolute power corrupts absolutely," and let our voices be heard in Washington. Congressman Ron Paul's fight to audit the Federal Reserve finally looks to be gaining support. A July 9, 2009, Reuters article, [Bid to Clip Fed's Wings Gains Support in Congress](#), states:

A proposal from a long-time congressional foe of the Federal Reserve that could give lawmakers sway over monetary policy has won the support of a majority in the House of Representatives, alarming officials at the U.S. central bank.

The Federal Reserve Transparency Act of 2009, put forward by Republican Representative Ron Paul of Texas, now has 250 co-sponsors in the House. It will get air-time on Thursday during a congressional hearing on Fed independence that will feature testimony from the Fed's No. 2 official, Donald Kohn.

Public anger over the trillion dollars the Fed has put into play to battle the financial crisis and bail out investment bank Bear Stearns and insurer American International Group has created a backlash and calls for more accountability.

A proposal from President Barack Obama to put the Fed in charge of monitoring risks to the entire financial system has intensified the scrutiny.

Paul has tapped into this anger and put forward a 2-1/2 page bill that would explicitly repeal a provision of law that prohibits the Government Accountability Office, a government watchdog agency, from auditing monetary policy decisions.

Fed officials see this as a dangerous intrusion on their independence that could hinder their ability to make the best long-term decisions for the economy.

Paul, however, thinks Congress needs more control.

“Why should they be independent? Independence to them means secrecy, do whatever they want, spend billions of dollars, bail out their friends,” Paul told Reuters Television.

Paul's bill, which is co-sponsored by 78 Democrats, would also expose Fed transactions with foreign central banks, Fed emergency lending operations and discussions between Fed officials to scrutiny by the GAO, which can offer policy suggestions to lawmakers.

And before we are duped into believing that we must allow the “honorable” members of our state enough “secrecy” to help our country, let’s remember to wise words of Dr. Murray Rothbard:

The first truth to be discovered about human action is that *it can be undertaken only by individual “actors.”* Only individuals have ends, and can act to attain them. There are no such things as ends of or actions by “groups,” “collectives,” or “States,” which do not take place as actions by various specific individuals. “Societies” or “groups” have no independent existence aside from the actions of their individual members. Thus, to say that “governments” act is merely a metaphor; actually, certain individuals are in a certain relationship with other individuals and act in a way that they and other individuals recognize as “governmental.” (Italics his)

On July 4, 1776, our nation’s founding fathers signed a document that stated:

Governments are instituted among Men, deriving their just powers from the consent of the governed, — That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness... when a long train of abuses and usurpations, pursuing invariably the same Object evinces a

design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security.

For the benefit of so many in the present, and our children, we must take actions to correct the abuses in our government so that it is once again a government of the *people*, by the *people*, and *for the people*. As it stands, I fear that songwriter Josh Groban's words, "Blinded by trust, asleep to the truth, awakened by disbelief," describe the majority of our fellow countrypersons.

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