

## The Fall of Capitalism

September 23, 1997, 9:30am

- Foreigner, feeling the effect of home currency devaluation begin to repatriate capital and discontinue new purchases of dollar denominated investments such as stocks and more specifically US Treasury Bonds.
- The strong dollar has had a deleterious effect on multi-national companies doing business abroad inasmuch as exports are more expensive. Moreover, Southeast Asian countries which were strong and growing economies which accounted for 40% of US export growth are now in contraction.
- This strong dollar effect causes earnings to contract, starting with multinational companies and then “trickling down” to small companies causing the stock market to begin its downward spiral.
- The dollar which is already beginning to feel pressure due to foreign selling, begins to react to the decreasing value input of the US stock market in the aggregate value of US assets (i.e. financial & hard assets) and its “Fort Knox” tie to the dollar begins to feed on itself in a self perpetuating downward thrust.
- As foreigners increase their liquidation pressure begins to build on long term treasury prices driving yields higher. As yields escalate, the federal reserve is forced to raise the discount rate in order to defend the currency.
- This increase in interest rates puts a strangle hold on the primary contributor to corporate America in the phenomenal earnings growth achieved throughout the 1990's. The market which “built into” stock prices with double digit earnings growth rate begins to recognize that it is now looking at a severe earnings contraction and selling pressure magnifies.
- Labor costs which increase dramatically in 1996 and 1997 and were justified due to “productivity” begin to weigh heavy on corporate America. It must raise prices to cover cost “Cost Push” in the face of waning demand (not demand pull) this causes inflation to rise, and interest rates to continue to move higher.
- Individual consumers, caught totally off guard by this dramatic change of events begin to panic.
- Individuals begin to see their net worth reduced by 30% to 40%.
- They begin to think about job security. Corporations begin laying off their workers in order to cut cost.

- Consumers (worker, employees) begin to feel the weight of their debt and begin to panic. They cancel any planned purchased and vacations.
- Delinquencies on credit cards escalate at an alarming rate along with bankruptcies.
- Banks begin to panic and stop loaning money to individuals and in some cases begin to call in loans.
- The federal reserve cannot inject money into the system as this would exasperate the devaluation spiral of the dollar that the market is now in.
- The federal reserve looks to the world bank and IMT for help. Because the “global” economy was on a “dollar based” (not gold based) system. The world currency market is under siege.
- Investors are buying gold in response to this melt down of the global crash. It is the only asset which in all currencies has experienced “price stability” in inflation adjusted returns.
- The world realizes that “capitalism” is subject to the evil forces of greed and abuse of power, which in the long run lead to corruption, and death.

#### **Causes and effect**

- The concepts of capitalism and democracy promote freedom of choice to pursue what is in one best interest.
- Unfortunately, greed, corruption and the misuse of power in the bands of government are contradictory to capitalism and true democracy.
- Government is the only entity whether institutional or business to operate the same today as it did 200 years ago. (only larger and more of it)
- Because of this, it is unable to compete or keep up with the power of capitalism.
- Government see capitalism at a threat to is “power structure”.
- Government fails to recognize the fact that it has been removed from power.
- However, it controls the blood line of capitalism.
- Information and technology

- Through a conspiracy to defraud the public it uses this information and technology in order to retain “control” .
- Like any “Kingdom” before it, this is a battle to the death. But unlike previous battle involving guns, knives, spears, bows and arrows, this battle is economic. About control of money, about control of information and control of technology.
- Control of a society has always resulted in the demise of that society. This is as old as the world itself. Those in power striving to keep their power, ending in tragedy.
- Capitalism and communism weren't so different after all. One set out to control its people, the other its information and technology. (knowledge) Each other giving what it felt was needed and retaining for itself what it felt was not. Both ending, appropriately in grand fashion.

Transcribed 12/8/95

GG - a note on currencies - just a thought that I want to document.

If we were to take a look at the currency of a country -- the value of the currency of a country being an indication of the net asset value of a country. All the assets and capital goods of a country. And the stock market being a reflection of the earnings of current and potential earnings of a country. In an environment where you have a cold war and, therefore, military involvement and the building up of arms in a country, and specifically in the United States, then what happens to a currency in that environment is that the value of the military is factored into the net asset value of the currency accordingly. Once you remove the military aspect out of the equation, what would happen is that the currency would drop in value, which would not be a negative, but rather a positive. For example, if you had to pay security guards at a manufacturing plant to protect the plant for being raided by ---noise)

So if we were trying to protect the plant from, let's say a gang, that would try to go in and destroy the factory, you would have to buy security cars, you would have to pay for the employment of the security guards, you would have to pay their medical, you would have to provide all of the services that they would require; in other words, it would be a big expense in running that particular factory. And then if those goods were shipped to a retail store, the retail store would have to mark up the price of those goods in order to recapture their costs of creating a secure environment to manufacture the goods.

In an environment where every factory in existence would need to spend that money in order to have that security, only the very strongest and most liquid factories would be able to manufacture product, so the demand for the product would be very high. If you got rid of the gang across the street and all of a sudden, everybody were able to manufacture products, the company that was providing the security originally would now have access to revenues, or I should say, earnings to apply to things that would be more productive.

They would be able to let the security guards go, use the automobiles for a more productive purpose. They could take all their resources that they were applying to protecting the plant; take those resources and use them towards more productivity. Consequently, what would happen is that they would be able to bring the price of their goods down and they would be able to attract more buyers.

The same thing holds true in a country that is basically protecting the world. What happens is that the value of the military that that country represents is so great that it is reflective in the value of the currency. Once you eliminate, to a large degree, that military, the value is taken out of the valuation of the currency. The currency falls like the dollar has and all of a sudden you have an environment where that product, just like that factory that was able to eliminate the overhead, becomes very competitive. So the dollar falling to the levels that it has, has been a positive that has been extrapolated from the elimination of the cold war and therein lies the peace dividend that everybody has been looking for and not been able to find. It lies in the devaluation of the dollar. It is not a negative the way that most people have viewed it, but rather a positive in that it makes our country more competitive on a global scale.

And you can look across at Japan and now the concern is that there will be a re-valuation of the yen. What happens is that the Japanese are having to repatriate dollars back to Japan in order to finance the economic problems that they are having domestically.

So, the sign of a rising currency is not always a sign of a strong economy. To the contrary, in many times it can be a sign of a weak, domestic environment whereby the country is once again repatriating their currency. Conversely, a falling currency does not necessarily imply a weak economy or weak country. If we are able to purchase and invest money abroad and we are buying other country's currency in order to do so, the effect would be for the dollar to fall and their currency to rise. So, this is a misunderstanding that a lot of people have in today's world.

November 19, 1997

Low interest rates in a "supply side" economy with "inflating" capacity, is the equivalent to low interest rates in a "demand pull" economy with inflating prices of consumer goods.

The demand side creates inflation of consumer goods.

The supply side creates inflation of capacity which reduces the price of consumer's goods.

Contrary to popular belief that so long as prices are not inflating, no interest rate hike is needed, just the opposite is true.

An increase in interest rates is needed to increase the cost of "carrying" excess capacity as well as increase the direct cost of capital.

As excess capacity is absorbed through an increase in prices and demand, prices for capital can then decrease in order to continue building supply.

In the absence, supply creates more supply driving prices down until interest rates reach zero and massive deflationary trends emerge causing irreparable damage.