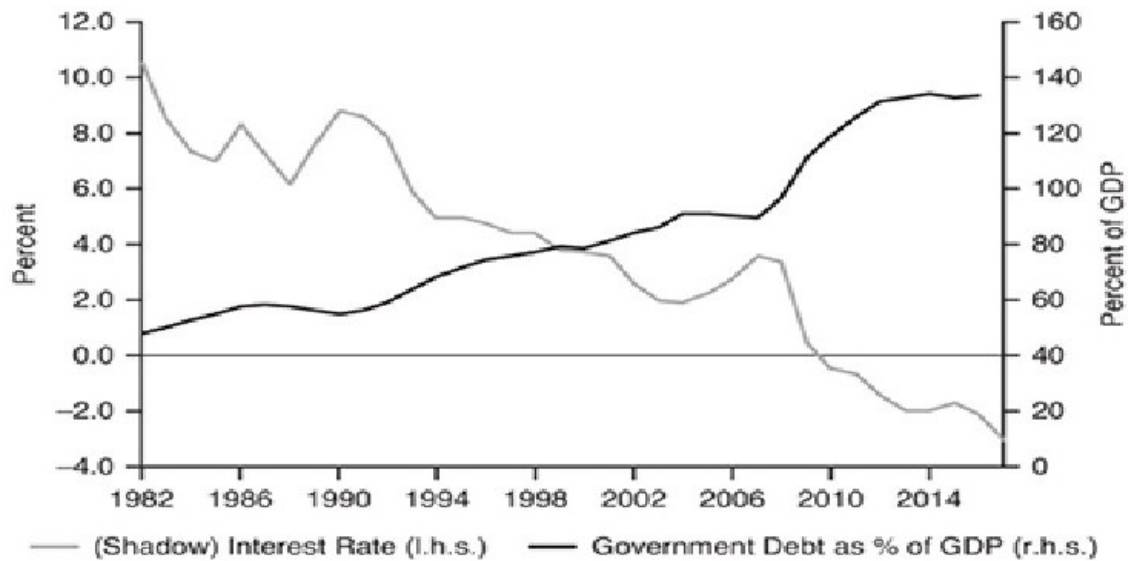


Debt Trumps Politics

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We have seen how fiat debt has grown since 1971 when the dollar came off the gold peg. Successive western governments and certainly the UK have been able to increase debt as long term interest rates have trended lower. There have been brief respites but politicians have always resorted to deficit spending to 'bribe' their voters - no politician that wishes to be re-elected in a democracy can allow a majority of its voters to be dissatisfied.

CENTRAL BANK INTEREST RATES AND GENERAL GOVERNMENT DEBT IN G4 COUNTRIES



NOTES: Arithmetic average for United States, Japan, Germany/eurozone, and United Kingdom. Debt on the right axis equals the arithmetic averages of the euro area (represented by Germany, France, Spain, and Italy), Japan, United Kingdom, and United States.

The recent 'gilets jaunes' riots in France and protests across Europe including Spain, Italy, Greece and even Germany are grounded in the problems of debt saturation and the inability of Govts to continue or increase deficit spending.

I recently saw some graffiti written in English on a wall in France : "Your Comfort Zone Will Kill You". Initially I thought this is very good English for a French graffiti artist but on reflection I realised it could be applied to the complacency we see as those who are not in a debt trap or have relatively high income are not yet feeling the effects of the continuing financial crisis. Financialisation (www.money-liberty.com/gallery/financialisation.pdf) of our economies has allowed those with the money levers to skim value from the real economies as many struggle to pay for the basic costs of living. If your income has been derived from property or stock markets then you have benefited from the fiat debt but those without assets reliant on low paid work and benefits to maintain their standard of living are the losers.

Politicians are now faced with a Hobson's choice of delivering the economic pain of real austerity for all and a possible depression or an attempt to placate the masses by hosing down Main Street with a final round of 'money printing'. The latter will no doubt lead to serious inflation with its own set of

problems and social strife; the former could lead to revolutionary consequences as the masses demand change.

The reality is that our politicians are only looking to the next election and it is like a game of 'pass the parcel' – if they can carry on kicking the can down the road they will do and then hand on the problem to the next administration. The danger for all of us is that the growing debt monster needs resources and this leads to ever riskier investments, foreign adventures and possible conflict. There is a chance that a potential chaotic debt implosion caused by a major default could wake everyone up to the reality of taking the pain of debt conciliation and a return to sound money (www.money-liberty.com/gallery/soundmoneyorbust.pdf) with a global currency backed by gold and/or other commodities.

There has been talk of taking debt saturation and 'money printing' one step further by introducing negative interest rates (i.e. stealth tax). This can only be achieved if all fiat money is electronic and can have the negative interest deducted at source (www.money-liberty.com/gallery/cashisking.pdf). Without this the liquidity in the banking system would dry up quickly as smart money would move to assets, crypto currency and gold. There would also have to be capital controls to prevent money being moved out of a negative rate jurisdiction. This could be the dystopian view of politics as our Governments resort to undemocratic control of individual wealth.

In this new multipolar world with the US, China, Russia and possibly an EU we can be sure that our political systems and with it any form of democracy will be reliant on our money system. Sound money will bring honesty to politics and allow fair reward for entrepreneurial activity, work and thrift.

Money is a universal need
Sometimes driven by excessive greed.
It can be earned with honest graft
Or stolen through criminal or stealth like craft.

Sound money is the basis of trusted transaction
For nation states and individual satisfaction
But Fiat money is no more than an IOU
That relies on trust of those who issue.

Dollar hegemony has underpinned the system
But now is out of equilibrium.
Exchange controls have been overridden
Welcome to the global financial prison.

Crypto currency could be our salvation
But still too many have reservations.
Digital storage and transaction complexity
For mass adoption we need simplicity.

A new financial order must be made
A return to nationhood with trusted trades.
With a currency free from manipulation
To value work and wealth creation.

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