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The arrogance of failure

By Henry Lamb

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What would you do, were you to discover that the CEO of the corporation in which your entire life savings were invested, borrowed a sum of money greater than the firm's total annual revenue, and you discovered that every year, the firm was spending 44-percent more than its revenue?

Then, you discover that this condition has persisted for nearly three years, since the CEO was hired.

Then the CEO calls a special shareholder's meeting to complain that the board of directors will not allow him to borrow more money, and to inform you that the firm will not be able to pay dividends, nor will it even be able to pay its employees unless the board's borrowing limit is reversed and more money is borrowed.

As a shareholder, you are allowed to ask: "If we are already spending more money than we are taking in, how will you repay the money that you are borrowing?"

The CEO replies: "We will borrow enough to send all our customers a check which they can use to buy our merchandise. That will increase our revenue so we can make our interest payments and repay our loans."

Another shareholder asks: "Why don't you cut back on your spending so that you are spending less than you are taking in."

The CEO replies: "I'd love to reduce spending, but that would mean the people to whom we are now sending checks would no longer be able to buy our products and that would reduce our revenue. What we really need is to raise the prices on our goods that are bought by millionaires and billionaires.

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The Brink of Total Financial Collapse

By Michael Coffman, Ph.D. and Kristie Pelletier

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The Western World is careening towards a total financial collapse that is now appearing to be unavoidable. Since our four-part series on [Understanding America's Financial Crisis](#) in early May, the unraveling of the global financial health of the world has accelerated to near freefall conditions. If you are a neophyte to the financial crisis, read our four-part series first to get an overview of the rapidly escalating crisis.

Total unraveling of the global financial crisis was narrowly averted when the [Greek parliament](#) voted at the end of June to impose two major austerity bills. The legislation allows Greece to receive a \$40.6 billion installment of a \$159 billion package in financial aid from the EU (European Union) and IMF (International Monetary Fund). While averting a short-term disaster, the [Financial Times](#) reports economists are warning that the new measures "may have simply delayed the inevitable."

The problem of Greece's enormous debt and [its inability realistically to finance itself](#) in future years remains as intractable as ever. Default is inevitable. Writing for the [Financial Times](#), [Chris Giles warns](#) that even under the best of circumstances Greece is predicted to default by 2013 sending shockwaves through Europe that certainly will find their way to the U.S. Giles predicts that not only would Greece be kicked out of the EU, but Spain, Ireland, Italy and Portugal (the so-called PIIGS nations) also default and lose their membership in the EU.

Hyperinflation will grip these defaulted nations as they lose the protection of the EU, cascading into a severe

depression for the rest of Europe. It is also likely the Euro would either cease to exist or would no longer be a serious contender with the U.S. dollar. That's the good news. Greece is highly socialistic with most people depending on the government for their benefits, and indeed, their livelihoods. Outrageous benefits and corruption are the norm. Losing even some of those socialist benefits has already caused frequent riots.

However, with the passage of the austerity laws in late June, [Greek unions are rioting](#) with increasing violence. Leaders are holding their collective breath. If the violence threatens the government, even with Marshal Law imposed, the newly passed austerity laws may go down in flames – literally. The unions actually want the government to default on their debt and go back to the Greek drachma. They falsely believe it to be like bankruptcy that would free them from the backbreaking debt to continue life as usual.

More likely, however, if the unions get their way and Greece defaults, the EU banks will no longer fund Greek banks and Greek government will simply run out of money. It will neither pay its bills nor provide the outrageous benefits to the rioting population. That would cause a [mass run on Greek banks](#), forcing them to close their doors. Everything would grind to a halt. The unions would not only lose their generous benefits, they would get nothing at all. It would be an unimaginable catastrophe.

Other European banks have also loaned Greece tens of billions of dollars. It is extremely difficult to determine the exact amount, but private banks in the U.S., France and Germany all have about a [\\$40 billion exposure \(loss\) if Greece defaults](#). They are currently rolling over the debt into new loans, hoping for the impossible – that Greece will recover, or they can shed their debt to some other institution, preferably their government's central bank.

Then it becomes the liability of the people. (We've already seen how that works out with TARP – the banks profit, the people suffer). The [central banks](#) will provide unlimited liquidity to the banks suffering runs or default on Greek loans, thereby limiting the damage. However, the world could ride out the storm; albeit with some significant belt tightening. The downside is that if Greece defaults, the PIIG nations fall like dominos. Again, it is hard to estimate total private bank exposure, but [Bloomberg](#) estimated in April of 2011 that U.S. private

banks held a \$236.8 billion exposure. Bloomberg reports that European private banks hold over [\\$1 trillion in Greek and Spanish debt](#) alone. Ironically, some economists are warning that Spain and Italy are very close to total collapse already. They believe that it may happen this year regardless of what happens in Greece.¹ It is impossible to get accurate information from the central banks because they don't ² provide an accounting, but the exposure is likely in the many trillions of dollars. In the case of the U.S. Federal Reserve (Fed), American citizens are liable for any bad debt incurred by the Fed.

This is not idle speculation. The Fed recently complied with a Freedom of Information Act request that revealed that all of the \$630 billion Second Quantitative Easing (QE2) ending June 30 this year directly, or indirectly went to bailing out defaulting European banks, not to U.S. banks to help the U.S. economy. No wonder small business could not get loans! [Tyler Durden, writing for zerohedge.com](#) made this staggering conclusion:

In summary, instead of doing everything in its power to stimulate reserve, and thus cash, accumulation at domestic (US) banks which would in turn encourage lending to U.S. borrowers, the Fed has been conducting yet another stealthy foreign bank rescue operation, which rerouted \$600 billion in capital from potential borrowers to insolvent foreign financial institutions in the past 7 months.

QE2 was nothing more (or less) than another European bank rescue operation! (Original in bold) Durden also provides evidence that the Fed has done this in the past to bail out the European Central Bank as well as many other private European banks. These machinations have saved Europe from going under already. However, there is no way either private or central banks can weather a PIIGS default storm. Trillions of dollars would soon disappear from the balance sheets of hundreds of private and central banks in Europe and the United States. As banks directly affected by the PIIGS' defaults begin to fail themselves, their failure will set off a domino effect, seriously affecting banks not directly involved.

All but a couple economies of the Western world are teetering already. The real concern is whether this chain reaction would result in a severe depression for the Western world, or whether the financial structure of the world would completely collapse. In either case the United States would suffer as well. Even more sobering;

rather than this scenario not playing out until 2013, it could actually happen much sooner in late 2011 or early 2012. We all hope this does not happen. Yet, we are told nothing by either the government or by the mainstream media. Why? The financial cartel controlling the world's central banks (including the U.S. Federal Reserve) has known about this inevitability since the 1990s. They could have prevented it then. Instead they have systematically implemented a new global financial architecture that creates a financial and political world government. To learn more, reread our May 3rd article, [Part IV: Implementing the New Global Financial Architecture](#).

Time is extremely short. Yet the Progressives in Congress are attempting to block every effort to deal with it, guaranteeing the worst possible collapse possible. If we are given the time, our only hope is to vote every progressive out of office at every level of government in 2012 and replace them with those who understand the U.S. Constitution and are committed to systematically restore America to the Constitutional Rule of Law.

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1 Weekend Edition: Porter Stansberry: The World's Global Currency System Is Collapsing. The Growth Stock Wire. June 25, 2011*

The arrogance of failure

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The CEO continues: "This board of directors you have chosen has fought with me since they were elected, doing everything they can to make you think they are looking after your interests. What they are doing is looking to be re-elected, and they are destroying the firm in the process. You must override the board of directors and borrow enough money to meet our obligations and to invest in new products and new employees. Without borrowing more money. we cannot meet our obligations and our firm will lose its credit rating and will not be able to borrow. You will lose everything you have invested in this firm."

If the CEO of the corporation in which your money was invested presented an argument even close to this scenario, and you did anything other than fire him, then you would deserve to lose your investment.

The CEO America hired nearly three years ago has presented arguments for raising the debt ceiling that make the above scenario look brilliant. Moreover, he has deliberately lied to the shareholders by telling them that he could not guarantee that social security checks could be delivered, because he did not know whether there would be enough money in the coffers.

What a load of unmitigated crap! What kind of CEO doesn't know how much money is in the bank? An incompetent failure is the only accurate answer. What kind of CEO would deliberately continue spending 44-percent more than the incoming revenue - for nearly three years? An incompetent failure is an accurate description. What kind of CEO tries to blame his board of directors for his own incompetence? "Incompetent failure" is the most appropriate description of such a CEF (Chief Executive Failure).

The CEF America hired nearly three years ago has demonstrated his incompetence not only through his handling of the economy, but in his direction of foreign policy as well. America's strongest ally, Israel, the only democratic government in the Middle East, holds an approval rating for America's CEF that hovers in the [6-percent range](#), and continues to fall.

America's CEF completely ignored the Constitution and the War Powers Act when he invaded Libya to protect Libya's citizens from that nation's leader. He told the nation's shareholders (Americans) that the action was justified and that it was for a matter of days, not weeks. That was nearly six months ago, and the invasion continues.

The leader of Syria has [been killing his citizens](#) even more aggressively than Libya's leader, but the CEF is not interested in protecting Syrian citizens. What kind of executive demonstrates such inconsistent logic? A Chief Executive Failure is the only appropriate answer. What would you do were you to discover that the CEO of the country in which you've invested your life and the future of your children turned out to be a CEF?

A nation would get exactly what it deserves were it to allow an incompetent executive to continue to spend beyond the nation's means, while blaming others, and to continue to offend our allies abroad, and to selectively invade foreign nations in violation of the Constitution and existing law.

America's shareholders deserve a better performance than the current CEF has produced.