

Martial Law and the Economy: Is Homeland Security Preparing for the Next Wall Street Collapse?

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Reports are that the Department of Homeland Security (DHS) is engaged in a massive, covert military buildup. [An article in the Associated Press](#) in February confirmed an open purchase order by DHS for 1.6 billion rounds of ammunition. [According to an op-ed in Forbes](#), that's enough to sustain an Iraq-sized war for over twenty years. DHS has also acquired heavily armored tanks, which have been seen roaming the streets. Evidently somebody in government is expecting some serious civil unrest. The question is, why?

Recently revealed statements by former UK Prime Minister Gordon Brown at the height of the banking crisis in October 2008 could give some insights into that question. An [article on BBC News](#) on September 21, 2013, drew from an explosive autobiography called *Power Trip* by Brown's spin doctor Damian McBride, who said the prime minister was worried that law and order could collapse during the financial crisis. McBride quoted Brown as saying:

If the banks are shutting their doors, and the cash points aren't working, and people go to Tesco [a grocery chain] and their cards aren't being accepted, the whole thing will just explode.

If you can't buy food or petrol or medicine for your kids, people will just start breaking the windows and helping themselves.

And as soon as people see that on TV, that's the end, because everyone will think that's OK now, that's just what we all have to do. It'll be anarchy. That's what could happen tomorrow.

How to deal with that threat? Brown said, "We'd have to think: do we have curfews, do we put the Army on the streets, how do we get order back?"

McBride wrote in his book *Power Trip*, "It was extraordinary to see Gordon so totally gripped by the danger of what he was about to do, but equally convinced that decisive action had to be taken immediately." He compared the threat to the Cuban Missile Crisis.

Fear of this threat was echoed in September 2008 by US Treasury Secretary Hank Paulson, who [reportedly warned](#) that the US government might have to resort to martial law if Wall Street were not bailed out from the credit collapse.

In both countries, martial law was avoided when their legislatures succumbed to pressure and bailed out the banks. But many pundits are saying that another collapse is imminent; and this time, governments may not be so willing to step up to the plate.

The Next Time WILL Be Different

[What triggered the 2008 crisis](#) was a run, not in the conventional banking system, but in the “shadow” banking system, a collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but are unregulated. [They include](#) hedge funds, money market funds, credit investment funds, exchange-traded funds, private equity funds, securities broker dealers, securitization and finance companies. Investment banks and commercial banks may also conduct much of their business in the shadows of this unregulated system.

The shadow financial casino has only grown larger since 2008; and in the next Lehman-style collapse, government bailouts may not be available. According to President Obama in his [remarks on the Dodd-Frank Act](#) on July 15, 2010, “Because of this reform, . . . there will be no more taxpayer funded bailouts – period.”

Governments in Europe are also shying away from further bailouts. The Financial Stability Board (FSB) in Switzerland has therefore required the systemically risky banks to devise “living wills” setting forth what they will do in the event of insolvency. The template established by the FSB requires them to “bail in” their creditors; and depositors, it turns out, are the largest class of bank creditor. (For fuller discussion, see my earlier article [here](#).)

When depositors cannot access their bank accounts to get money for food for the kids, they could well start breaking store windows and helping themselves. Worse, they might plot to overthrow the financier-controlled government. Witness Greece, where increasing disillusionment with the ability of the government to rescue the citizens from the worst depression since 1929 has precipitated [riots and threats of violent overthrow](#).

Fear of that result could explain the massive, government-authorized spying on American citizens, the domestic use of drones, and the elimination of due process and of “posse comitatus” (the federal law prohibiting the military from enforcing “law and order” on non-federal property). Constitutional protections are being thrown out the window in favor of protecting the elite class in power.

The Looming Debt Ceiling Crisis

The next crisis on the agenda appears to be the October 17th deadline for agreeing on a federal budget or [risking default](#) on the government’s loans. It may only be a coincidence, but two large-scale drills are scheduled to take place the same day, the “[Great ShakeOut Earthquake Drill](#)” and the “[Quantum Dawn 2 Cyber Attack Bank Drill](#).” According to a Bloomberg news clip on the bank drill, the attacks being prepared for are from hackers, state-sponsored espionage, and organized crime (financial fraud). One interviewee stated, “You might experience that your online banking is down You might experience that you can’t log in.” It sounds like a dress rehearsal for the Great American Bail-in.

Ominous as all this is, it has a bright side. Bail-ins and martial law can be seen as the last desperate thrashings of a dinosaur. The exploitative financial scheme responsible for turning millions out of their jobs and their homes has reached the end of the line. Crisis in the current scheme means opportunity for those more sustainable solutions waiting in the wings.

Other countries faced with a collapse in their debt-based borrowed currencies have survived

and thrived by issuing their own. When the dollar-pegged currency collapsed in Argentina in 2001, the national government returned to issuing its own pesos; municipal governments paid with “debt-canceling bonds” that circulated as currency; and neighborhoods traded with community currencies. After the German currency collapsed in the 1920s, the government turned the economy around in the 1930s by issuing “MEFO” bills that circulated as currency. When England ran out of gold in 1914, [the government issued “Bradbury pounds”](#) similar to the Greenbacks issued by Abraham Lincoln during the US Civil War.

Today our government could avoid the debt ceiling crisis by doing something similar: it could simply mint some trillion dollar coins and deposit them in an account. That alternative could be pursued by the Administration immediately, without going to Congress or changing the law, as discussed in my earlier article [here](#). It need not be inflationary, since Congress could still spend only what it passed in its budget. And if Congress did expand its budget for infrastructure and job creation, that would actually be good for the economy, since [hoarding cash and paying down loans](#) have significantly shrunk the circulating money supply.

Peer-to-peer Trading and Public Banks

At the local level, we need to set up an alternative system that provides safety for depositors, funds small and medium-sized businesses, and serves the needs of the community.

Much progress has already been made on that front in the peer-to-peer economy. In a September 27th article titled “[Peer-to-Peer Economy Thrives as Activists Vacate the System](#),” Eric Blair reports that the Occupy Movement is engaged in a peaceful revolution in which people are abandoning the established system in favor of a “sharing economy.” Trading occurs between individuals, without taxes, regulations or licenses, and in some cases without government-issued currency.

Peer-to-peer trading happens largely on the Internet, where customer reviews rather than regulation keep sellers honest. It started with eBay and Craigslist and has grown exponentially since. Bitcoin is a private currency outside the prying eyes of regulators. Software is being devised that [circumvents NSA spying](#). Bank loans are being shunned in favor of crowdfunding. Local food co-ops are also a form of opting out of the corporate-government system.

Peer-to-peer trading works for local exchange, but we also need a way to protect our dollars, both public and private. We need dollars to pay at least some of our bills, and businesses need them to acquire raw materials. We also need a way to protect our public revenues, which are currently deposited and invested in Wall Street banks that have heavy derivatives exposure.

To meet those needs, we can set up publicly-owned banks on the model of the Bank of North Dakota, currently our only state-owned depository bank. The BND is mandated by law to receive all the state’s deposits and to serve the public interest. Ideally, every state would have one of these “mini-Feds.” Counties and cities could have them as well. For more information, see <http://PublicBankingInstitute.org>.

Preparations for martial law have been reported for decades, and it hasn’t happened yet. Hopefully, we can sidestep that danger by moving into a saner, more sustainable system that makes military action against American citizens unnecessary.

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