Heads Up!

We Hold These Truths
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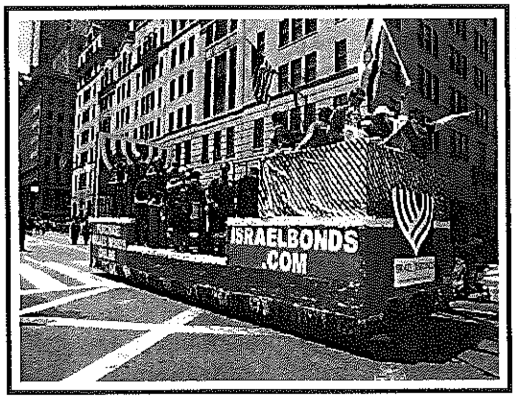
Israeli Bond Salesmen Target US Cities & States To Fund War Costs

Worldwide, stock and bond markets are convulsing over reports of financial failure in Cyprus, the little island that looks like a turtle with its long neck pointing at Turkey, a chip off the European Union, bitterly divided ethnically by warring factions. Its insolvent government and failing banks have anxious and hopeless depositors lining up at ATM machines all night long. Cyprus is a land of frozen assets and fear.... depositors can only say of the bankers, "why did I trust their words?"

A few miles East on the Mediterranean shore, is Tel Aviv, where it is business as usual. Israel was just honored by a visit from the U.S. President; Israel's secretly indebted banking system funds a militarist economy that boasts of power but leaks at every seam. It is the consummate actor, feigning prosperity while it hovers on the brink of national financial suicide.



Israel Bonds: To Buy or Divest?

Much like Cyprus, Israel is deeply dependent on tourist money for its day to day existence. It borrows with little future capacity to pay back, except by borrowing more. Israel is an economic fantasy; it lacks natural resources, water or arable land. Yet Israel has chosen to weigh itself down by a giant military machine, bigger and more costly than countries many times its size.

What keeps Israel going? Will it ever go belly up, like Cyprus? Israel is near becoming a three-time loser; it counts on surviving its next financial crisis by passing its losses on to unknowing Americans through their pension plans.

Who pays Israel's bills? It has never been a secret that Israel has been kept alive from the beginning by the variously categorized donations from U.S. taxpayers, which the U.S. government calls foreign aid. But due to the declining purchasing power of the Dollar, the more than $3 billion a year military aid is not nearly enough; Israel is looking for more money. It has always sold bonds to Jewish supporters worldwide. What was not know by this writer is that these early bonds were issued in US Dollar denominated. About a decade ago it initiated a plan to sell bonds to many more Americans, through states, cities, and retirement funds. These are dollars that keep U.S. local state government going, and must not be at risk.

Israel, a two-time loser with a secret to keep. We all know what happens to us if we continue borrowing; Israel knows, too. The bond sales must be paid back, or the maker must someday default. That is how bonds work because interest compounds on top of interest. This is what has happened to Cyprus banks.

What is little known, is that in its 65 year history, Israel has already reneged on its currency twice, washing away its debts by devaluing the underlying currency and then reissuing a new one, and pretending it never happened. Israel hides her financial history cleverly with half truths like this one: "Israel has never missed an interest or principle payment on a bond." American state and local leaders accept, or pretend to believe, Israel's claim that it is solvent, and buy Israel's bonds (I-Bonds) with taxpayer money.

Many conscientious American Zionists bought Israeli bonds in its first 20 years. I remember street sales in major cities. These 12 year "savings bonds" were issued in dollar denominations and, according to Jewish Telegraphic Agency 10/24/1962, $24.5 million were to be retired in 1963, but by this time Israel had already sold $563 Million of dollar bonds outstanding, over $20 for every $1 redeemed. These early bond were the bait for much bigger issued to come.

Development Corporation for Israel
ISRAEL BONDS
Member FINRA, SIPC

The latest advertising by Israeli Development Corporation (IDC), an organization set up to market Israeli bonds, boasts that "U.S. 2012 Israel bond sales set a new record, with total investments exceeding $816 million. The sales represented a 29 percent increase over 2011. Worldwide sales also rose, surpassing $1.2 billion." It appears from this announcement that about 2/3 of Israel's bond sales are in the United States. This is in addition to the $3.0 billion in the foreign aid we are told the U.S. federal government gives to Israel every year.

The IDC also claims: "Ohio Treasurer Josh Mandel completed the single largest Israel bond investment by a state -- a $42 million purchase that increased the total amount of Israel bonds in the Ohio Treasury's portfolio to over $80 million." Do Ohioans know this? IDC claims that some 80 cities and state governments and employee pension plans have now invested their taxpayers' money in Israeli bonds.

The January 1, 2013 Prospectus for Jubilee Seventh Series, Israel-Dollar bonds, obtained from IDC, discloses that in the last two years, they have sold $735 million of this one series in the U.S. The Jubilee series introduced a new, audacious concept, in that they are not payable in Israeli money, but in U.S. dollars. And the prospectus warns in the last pages that no American has legal status to sue Israel for non-payment.

It is fundamental to understand that Israel can never repay I-Dollar bonds, or even the generous interest it offers, except by selling more and more I-Dollar bonds. The reason is that only the U.S. can print dollars, just as only Israel can print shekels. To do otherwise is called counterfeiting, as we explained in our March 8 article, "How Israel is dodging its bad credit history by selling Dollar Bonds")

Let us look at a few examples: The state of Colorado cannot legally invest in foreign government securities for very sound reasons. But Senate bill 2013-137 would allow the Colorado Treasurer to buy Israeli bonds -- only Israeli bonds. We suspect Israel's lobbies are behind the bill. The bill was pulled from the Finance Committee hearing after a challenge, in which this writer had a part, was mounted.

I discovered the real target was not the state treasury's temporary, unspent tax money, but the massive long-term funds managed by the Public Employees Retirement Associations (PERA) say, $40 billion. I asked PERA if it already owned Israeli bonds; an official's e-mailed response was: "PERA does have investments with a market value of about $832,000 in more liquid publicly traded bonds issued by the State of Israel."

It seems the change in law is not really needed in Colorado; the retirement fund billions may be invested wherever the managers decide. But Israel is not a safe investment choice, any more than Cyprus is.

Israel has organized 25 sales offices in the United States for the sale of I-bonds. Keep in mind that it must sell enough new bonds each year to pay off those that mature, plus the cost of its sales staff, plus all the promotion and lobbying to legitimize sales in the U.S., and to fund whatever it is that Israel is raising the money for.

Besides offering larger returns, Israel's bond salesmen use major deception to sell the bonds. They say in their advertising, "Israel has never missed payment of principal or interest since the first Israel bonds were issued in 1951." This is a half truth used to deceive Americans. Israel may have paid principal and interest, but did the currency they paid buy anything?

As I detailed in my Feb 24, 2013 article, Devaluation Risk of Shekel Bonds, Israel's Achilles heel is its incredibly bad history of de facto defaults on past currencies by devaluation, which it has done twice to investors between 1948 and 1985, And its present NIS (New Israeli Shekel) has lost some 59% of its value since being issued in 1986 to replace the worthless (old) shekel.

Israel acts with such authority its dismal credit history is hard to believe, but a surprising disclosure of was printed a year ago in Israel's large daily, Haaretz. Requiem for the Shekel states: "The State of Israel is only 64 years old, but it has had three different currencies - the lira, which replaced the Eretz Israel lira; then the old shekel; and then in 1985, the new shekel. Now, 26 years after that last change, the Bank of Israel is considering changing the name of the country's currency once again, in 2013, when it issues a new series of banknotes. The new currency will probably be called the Israeli shekel."

It seems the Israeli bankers reasoned that investors might wonder why a "new" Shekel was needed, unless something had gone amiss with the "old" shekel. The Haaretz story contained the following admission about Israel's pre-1986 years: "We then entered a period of high inflation. The treasury considered inflation of only 10 percent a month an achievement. Of course the shekel lost value, and that same package of coffee cost 10,000 shekels."... A cup of coffee cost 20,000 shekels in regular restaurants and 30,000 shekels in expensive restaurants, and the currency's value declined every day. People stopped talking in shekels and started talking in dollars, and one dollar was worth 1,500 shekels. And then they said 'All right, now we're dividing everything by 1,000,' and invented the new shekel." "The new shekel's value was set at 1,000 old shekels. The raging inflation had become hyperinflation, soaring to more than 500 percent a year. National debt shot up to more than 80 percent of GDP."

Yes, that was Israel, not Cyprus. Haaretz stops short of telling readers what this did to shekel-bond holders; Yes, they may have been paid every shekel, but the shekel was worthless. We should ask, why would any American public official, paid by taxpayers, risk investing a dollar in a country with a history of losses and running what looks like a perpetual musical chairs bond scheme? Would your legislators loan taxpayer money to an investor who has gone through bankruptcy twice and is borrowing more money at every opportunity?

The over-the-top risk of default for Israeli dollar bonds: No country wants to destroy its own money, especially not for a third time, which is why Jubilee Series Seven (Israeli dollar denominated bonds) is such a brilliant scheme for Israel, giving it two currencies in circulation at the same time. Israel can, at any time, default on dollar bonds (payable mostly to Americans) and go on paying interest to Israelis on NIS denominated bonds! As far as I know this is unprecedented, making Israeli bankers de facto licensed dollar counterfeiters, legitimized by the US Securities and Exchange Commission that approved the Jubilee Dollar Bond Prospectus. How different is this from printing USA $100.00 bills? For more detail: How Israel is dodging its bad credit history by selling Dollar Bonds

You can find out if your state or city is investing in Israeli bonds with a couple of phone calls... it should be public information. Think about those folks in Cyprus, standing in line to get to the ATM machine in front of the bank.

Charles E. Carlson

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Devaluation Risk of Shekel Bonds

Dear Members of Colorado Senate Finance Committee and Others:

In response to: SB 13-176, a bill [5] to "authorize the State Treasurer to invest State's money in debt obligation backed by the full faith and credit of the State of Israel. This paper is to inform Legislators of the inherent risk of investing in foreign currencies and the long term sinking value of Israel's currencies, which do not seem to be well known and purposely difficult to obtain, but which are historical facts. Such records are blacked out and unavailable from Israel's Central Bank, which only provides the latest years data. The Federal Reserve Bank of New York does not offer any historic quotes on the Shekel, though it covers most major currencies.

Old 10,000 Israeli Shekel note with a picture of Golda Meir.

In 1986, Israel replaced the old Israeli Shekel with the New Israeli Shekel (NIS) at a ratio of 1,000 to 1.

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The New Shekel (NIS) was adopted in 1985 (made effective, 1/1/1986), as the third currency in Israel's 66 year history, and its exchange rate was then 1.5 NIS to one US Dollar, from whence it declined to where today 3.68 NIS are needed to buy one US Dollar. This would mean a 59.2% decline in value. From 2003 to 2008 the Shekel actually appreciated briefly in terms of US dollars, recovering about 15% of its decline since 1985. Not withstanding, a New Shekel bond bought for $1000.00 in 1985 would fetch only $410.00 today. [1]

Mechanics of Devaluation

All Colorado permitted investments are dollar delineated for very good reason. (see 24-36-113. Investment of state moneys – limitations) To buy Israel issued bonds the State of Colorado must effectively convert its dollars to Shekels, Israel does not and cannot sell dollar bonds. The present Colorado statues do not authorize a single investment repayable in a foreign currency, and the US Constitution does not allow any State to use another currency except the US Dollar. Foreign currency denominated instruments are open to currency fluctuation and devaluation risk. Interest and principal payments on Israeli bond investment is then paid in Shekels, which must be converted back to dollars before the State can pay bills. Therefore, it is clear if the value of the Shekel declines, as it has done most of Israel's history, the State would have less dollars to spend.

Foreign currencies are inherently dangerous because devaluation is a political decision. To illustrate, some Coloradans have lost money in Mexican Bank Peso accounts that pay, or used to pay, high interest rates, but have devalued several times, drastically diluting both principal and interest. There is no guaranty against devaluations because it is done in the dark of night by political edict, which is necessarily a secret. The "Full Faith and Credit of Israel" means only that the State of Colorado will get back the same number of Shekels that it invested, but there is no telling how many dollars those Shekels will convert back into. In the past it has usually been less than the amount invested.

In fact, in its short life Israel has devalued its currency many times. Its policy until 2000 allowed constant devaluation. I quote from "Historical Exchange Rates of Asian Countries":

"Up till now, Israel still maintained a crawling exchange band, where the upper limit depreciates at a rate of 6% per year, the lower limit depreciates at a rate of 2% per year, and the width of band at the end of 1999 was about 44.5%." [1]

About eighty separate incidents of Israel currency devaluation and downward "adjustment" were found between 1967 and 2000. [1]

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To illustrate the impact of devaluation, be it a creeping one, or sudden, let us look at Venezuela that devalued its Bolívar by 32% in February, 2013. Procter & Gamble Company, which does business there, immediately announced to shareholders a currency exchange loss of between $200 million - $275 million. Every American holder of Venezuela bonds has also lost about 1/3 of their capital. Keep in mind, Venezuela is not a third world State, it is a major oil producer and trading partner with the USA, but this did not stop it from devaluing.

Countries devalue their currencies in order to gain trading advantage over other countries. A nation need not be insolvent to devalue. Some businessmen in Israel now want even greater devaluation to make vacationing there more competitive with Southern Europe and Israeli goods cheaper in the world market. At the present time Spain, Italy, Greece, Ireland, and even France are also candidates for devaluation. London Financial Times, Feb 21, 2013, wrote: "loose monetary policy adopted by major central banks around the world could spill over into a series of competitive devaluations." [2]

Conclusion:□ The future for Shekel bonds can not be known by this writer, nor by the Treasurer of Colorado. Past statutes seem to take for granted that State of Colorado Treasurer has no business taking a currency speculation risk with taxpayer money. Devaluation risk is all the reason that is needed to trash SB 13-176. The legislature should not invite the Treasurer to take unusual risks with State funds by approving investment in any foreign currency, especially not one with a history of multiple devaluations.

Additional possible risk of USA disinvestment: While not necessary to the argument of excess risk of Shekel investment, it is noteworthy that there are growing political, religious, and humanitarian movements afoot to compel the US Congress to curtail aid for Israel's military establishment. If the US Government were to discontinue military aid to Israel, as it is being increasingly pressured to do, it can be reasonably expected that Israel would have no choice but massive devaluation in order to pay for its military establishment, the largest and most expensive in the Middle East. The likelihood of this happening can not be calculated, but the Legislature should be aware of it.

Past Shekel weakness is largely attributed to Israel's disproportionately large military budget. The cost of "The 1967 War" and other wars appears to have forced Israel to abandon the I-Pound as its currency. I call the legislature's attention to one such movement that could have sudden and dramatic negative impact on Israel's monetary policy.

Fifteen Protestant and Catholic church leaders, having more than 25 million members combined, have formally asked the US Congress for what amounts to sanctions against Israel. They state in part: "We have also witnessed widespread Israeli human rights violations committed against Palestinians, including killing of civilians, home demolitions and forced displacement, and restrictions on Palestinian movement, among others. We recognize that each party—Israeli and Palestinian—bears responsibilities for its actions and we therefore continue to stand against all violence regardless of its source. Our stand against violence is complemented by our commitment to the rights of all Israelis, as well as all Palestinians, to live in peace and security."
Further:
"We request, therefore, that Congress hold Israel accountable to these standards by making the disbursement of U.S. military assistance to Israel contingent on the Israeli government's compliance with applicable U.S. laws and policies. As Israel is the single largest recipient of U.S. foreign aid since World War II, it is especially critical for Israel to comply with the specific U.S. laws that regulate the use of U.S.-supplied weapons. We also encourage Congress to support inclusive, comprehensive, and robust regional diplomacy to secure a just and lasting peace that will benefit Israelis, Palestinians, and all the peoples of the region, and the world." [3] & [4]

I will be on hand at the Finance Committee hearing to raise this issue and answer questions.

Yours very truly,
Charles E. Carlson,

Notes:

[1] "Historical Exchange Rate Regime of Asian Countries": http://intl.econ.cuhk.edu.hk/exchange_rate_regime/index.php?cid=24 [Major sources of reference include: World Currency Yearbook (WCY), IMF Annual Report on Exchange Arrangement and Exchange Restriction (IMF), Bufman G. and L. Leiderman. 2001. Surprises on Israel's Road to Exchange Rate Flexibility (Bufman)]

[2] From **London Financial Times**, Feb 21, 2013: "Loose monetary policy adopted by major central banks around the world could spill over into a series of competitive devaluations." http://www.ft.com/intl/indepth/currency-wars

[3] "Churches Call For Congressional Investigation Into Aid To Israel": http://globalministries.org/news/mee/pdfs/Military-aid-to-Israel-Oct-1-Final.pdf

[4] "JVP Rabbinical Council stands with churches challenging US aid to Israel": http://mondoweiss.net/2012/10/jvp-rabbinical-council-stands-with-churches-challenging-us-aid-to-israel.html

[5]The Colardo Bill Text:
http://www.leg.state.co.us/clics/clics2013a/csl.nsf/
b i l l -
cont3/2579711E1C9517F887257AEE00571C7B?open&file=176_01.pdf