

A GOLDEN PARACHUTE WITH A SILVER LINING

AN ESCAPE ROUTE IN A TIME OF DISASTER

Only those who have gone too far know where the limits should have been

Money served throughout history as a medium of exchange and as a storehouse of value. But when gold and silver coins were replaced by paper currencies, money no longer was the same. Paper money, no longer having intrinsic value, now functions only as a medium of exchange, a function that degrades over time.

The value of paper money continually loses value because the constant printing of paper money constantly dilutes the value of previously printed money. The more paper money printed, the less paper money is worth; and today, money is being printed at a faster rate than at any time in history.

In fiat paper money systems, today's paper money will be worth less than tomorrow's and will be worth less the day after *ad infinitum*. This constant degradation of paper money is known as inflation. When the process rapidly speeds up, it is known as hyperinflation. Remember that word.

For the first time in history, all money, all currencies are now fiat which means money *no longer has intrinsic value*. This is not because intrinsic value was deemed unnecessary for a functioning currency. The real reason is far less reasonable.

All money is now fiat because between 1949 and 1970 the US overspent its entire 21,775 ton hoard of gold and could no longer convert its currency to gold as agreed under the Bretton Woods Agreements in 1944.

Note: What gold remains in US custody today remains only because in 1971 the US refused to transfer the remaining gold owed to others; as its obligations were far greater than its capacity to settle.

Because at the time the gold-backed US currency anchored all world currencies, when the US dollar became fiat, all currencies also became fiat. For the first time in history, no currency was backed by either gold or silver including the international reserve currency, the US dollar. The destructive consequences of that act have remained contained for 35 years. They are no longer.

The sudden global switch from gold backed money to fiat paper money was not by design; it was the by-product of excessive US post-WWII military spending and corporate overseas expansion. Throughout history, the downfall of most paper money economies can be directly tied to wars and the military. The US is no exception.

The late central banker John Exter called today's money *IOU-nothing money*, the best description yet of today's constantly degrading paper currencies. Trillions of dollars are

bet daily on FOREX markets as speculators bet on the value of government issued coupons masquerading as money. Someday, perhaps sooner than later, speculators will bet the coupons have no value at all.

THE DAY GOLD CORNERS PAPER MONEY

On that day, according to Professor Antal E. Fekete, a spontaneous gold corner could develop; but the corner would not be driven by speculators cornering a commodity to drive up its price. The corner will be caused by the refusal of those who own gold to exchange their increasingly precious metal for increasingly worthless paper currencies.

Since 1913 when the Federal Reserve first issued its debt based paper money in the US, the paper US dollar has lost 95 % of its value, a loss of 95 % over 95 years. Perhaps in five more years, 100 years after the creation of the Federal Reserve, the US dollar will have lost 100 % of its value—which means in five years the US paper dollar will be worth nothing.

Throughout history, no fiat money system has stood the test of time. All attempts to substitute paper money for gold and silver have ended in the total destruction and debasement of the currency.

This time will be no different. It is hubris to think otherwise but unfortunately the vast majority do—which is a clear sign they're not thinking at all.

ALAN GREENSPAN'S REAL CONUNDRUM THE GAME IS OVER WHEN PAPER MONEY LOSES ITS VALUE

This is the real conundrum of Alan Greenspan and all central bankers. When paper money loses its value, it can no longer function as a medium of exchange. Today, money is losing value faster than at any time in recent history. The end game, the end of fiat money in our time is approaching.

Inflation is reflected not only in the increasing costs of goods and services, it's reflected in the corresponding decline in the value of paper money; and as money increasingly loses value, commodities, e.g. gold, silver, oil, gas, food etc. inversely become increasingly expensive measured in depreciating currencies.

Hyperinflation is merely an extended condition of inflation. In a hyperinflation, the value of paper money declines so quickly that costs rise exponentially in shorter and shorter periods of time. The end cycle of paper currencies is first inflation, then hyperinflation, then the collapse and destruction of the currency.

Today, inflation is rising everywhere as central bank printing of money is increasing everywhere. Hyperinflation is now a distinct possibility even as deflationary forces, *sic* collapsing and slowing demand, are themselves also in motion.

Inflation and deflation are not mutually exclusive phenomena as they have been in the past. Even now, we are experiencing higher prices along with decreasing demand, *sic*. stagflation. Stagflation is merely a less virulent version of the unthinkable—a simultaneous hyperinflationary deflationary collapse.

We are at a critical moment in history. Never before has money been debased on such a grand scale. Never before has so much debt been owed and never before have monetary authorities been so helpless to control the destructive forces they themselves set in motion.

THE FUTURE SOVEREIGN DEFAULT

While it may appear to most that we are having a credit crisis or a liquidity crisis or a solvency crisis etc., the actuality is that we are having a monetary crisis—a crisis whose root cause is the increasingly pathological state of money itself.

Money is a medium of exchange and a storehouse of value. When money no longer serves those functions, its usefulness is over; and while the experience will be new to us, it will not be new to others.

History is littered with cast-off currencies, discarded attempts by nations to pay for excessive government expenditures with increasing amounts of paper money, sourced from an apparently limitless supply of paper, ink and human hubris; and while such are indeed limitless, the tolerance of such is not.

Economists Kenneth Rogoff (Harvard) and Carmen Reinhart (University of Maryland) have recently done seminal research in this area. Their findings are a disturbing sign of what now lies directly ahead. Sovereign currency collapse and defaults are not uncommon, they come in waves.

Sovereign defaults come in waves and while the present trough has been unusually quiescent, the future may not be so kind. What lies ahead may be *the mother of all monetary defaults*—because for the first time in history, all currencies including the world reserve currency are fiat; and, when the US dollar, the lynchpin of the current fiat regime collapses, all currencies may fall as well.

The very ubiquity of paper money portends a level of economic chaos never before experienced. All nations are now using paper money without the constraint and backing of gold or silver. Indeed, that is the very reason why governments substitute limitless paper for limited supplies of gold and silver.

The ambitions of government are always greater than their resources, especially when it comes to war and geopolitical ambitions. Since the end of WWII, the US has spent more money on its military than any nation in history.

EISENHOWER'S PROPHECY

Retired US General Dwight D. Eisenhower was President of the United States from 1953 to 1961. In 1961, in his historic farewell address to the nation, Eisenhower, a highly decorated general and former Supreme Commander of the Allied Forces in Europe, took the unprecedented step of warning America about the dangerous influence of what he called the *military-industrial complex*.

Our military organization today bears little relation to that known by any of my predecessors... Until the latest of our world conflicts, the United States had no armaments industry....[Now] We annually spend on military security more than the net income of all United States corporations.

This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence -- economic, political, even spiritual -- is felt in every city, every State house, every office of the Federal government

*...In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. **The potential for the disastrous rise of misplaced power exists and will persist.***

Eisenhower's prophetic warnings went unheeded; and today, the US and the world will bear the consequences. Throughout history, war and military expenditures have been the leading cause of currency collapse and history is about to repeat itself. The past is again prologue.

Since WWII, the US government has spent money like it grew on trees and now unfortunately it literally does (albeit with the addition of a bit of ink and issuance from a central bank); and as President of the United States for eight years, Eisenhower clearly understood the consequences of continued US profligacy.

...As we peer into society's future, we -- you and I, and our government -- must avoid the impulse to live only for today, plundering, for our own ease and convenience, the precious resources of tomorrow. We cannot mortgage the material assets of our grandchildren without risking the loss also of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow.

Unmindful of Eisenhower's warning, the US accelerated its spending and now its assets are mortgaged beyond of the ability of America's grandchildren's to repay. Since Eisenhower's presidency, the US has gone from being the world's only creditor to the world's foremost debtor.

In but five decades, the US squandered not only its extraordinary patrimony (21,775 tons of gold), but the income and assets of future generations. Today US obligations, in excess of \$70 trillion, are incapable of ever being paid back.

During the Eisenhower presidency, the US was the wealthiest nation and most productive economy in the world. Now, only five decades later, the US has become the insolvent phantom of which Eisenhower warned.

EISENHOWER'S LONG AWAITED ANSWER

For fifty years, we in America have proceeded down an aisle of destruction without meaningful debate or concern for the consequences. Neither the press nor the nation's scholars addressed and pressed the issues that would someday destroy the economy of the most powerful nation in the world—and many of us in the US have wondered why.

In his farewell address to the country in 1961, Eisenhower gave the answer to that question. It is not, as I had feared, that Americans by nature are not inquiring, or are too afraid to ask hard questions, or are unable to accept uncomfortable truths.

Americans have not asked critical questions because those in positions of authority *have been bribed not to do so*. Eisenhower's answer is as follows:

...A steadily increasing share [of research] is conducted for, by, or at the direction of, the Federal government...the free university, historically the fountainhead of free ideas and scientific discovery, has experienced a revolution in the conduct of research. Partly because of the huge costs involved, a government contract becomes virtually a substitute for intellectual curiosity...The prospect of domination of the nation's scholars by Federal employment, project allocations, and the power of money is ever present ..and is gravely to be regarded... we must also be alert..that public policy could itself become the captive of a scientific technological elite.

Issues such as the legality of the Federal Reserve Bank, or the transformation of America into a quasi-police state (the US is now the world's number one jailor), or the inability to demand answers to questions such as why thousands of put options were placed just prior to 9/11—bets on shares of American and United Airlines (the planes involved in the 9/11)) and on Morgan Stanley and Merrill Lynch (occupants of the World Trade Center) have not been asked or answered by those in authority and control.

The put options were traced to former US investment firm, A.E. Brown now a unit of Deutsche Bank. Perhaps it is only coincidence that in 1997, A. E. Brown was headed by Buzz Krongard who in 1998 became counsel to CIA Director George Tenet and in 2001 was appointed to the number three position of Executive Director of the CIA, see <http://www.hereinreality.com/insidertrading.html>.

Perhaps such are coincidence, perhaps they are not. What we do know is that we do not know—that such relevant and important questions have been assiduously avoided by the Congress, the press, and the nation's scholars.

But, now, because of Eisenhower's words we now know why today meaningful public inquiry is non-existent in America—it has been bought and paid for with US taxpayer dollars.

Seen in the light of the founding fathers' dreams, the US is a failed experiment; and while it is true the experiment is not yet over, it may be uncomfortably close to its end. It is important to remember that not all experiments turn out as intended.

America's debased democratic process has shown itself woefully impotent to resist the powers of which President Eisenhower so presciently and explicitly warned—powers so dangerously formidable that Eisenhower spoke of them only days before he was to leave office.

His successor, President John F. Kennedy was not to be so lucky. Just six months after authorizing US dollars to be backed by silver bullion instead of debt-based money from the Federal Reserve, JFK was killed by a "lone gunman" whose bullet followed a route almost as circuitous as the Warren Commission's pathetic attempts to explain his assassination to a grieving and unquestioning nation.

Time has shown Eisenhower to be a prophet ignored by the nation he led. The future he warned about is now here and, unfortunately, so, too, are we. It would be a tragedy if the sacrifices of previous Americans and the founding fathers were to end like this.

THE GOLDEN PARACHUTE WITH A SILVER LINING

Because the root problem is monetary in nature, so, too, is the cure. Because paper money is the cause, real money, e.g. gold and silver, is the answer. This is true for nations as well as individuals. We can protect ourselves from the economic chaos that is about to happen if we possess gold or silver and faith—the first two can be bought, the latter cannot.

Throughout history, whenever a currency collapse occurs, in the ensuing chaos gold and silver can be exchanged for goods and services. It will be no different if and when this happens again in the not too distant future.

In July when Martha and I were in Hungary attending Session IV of Professor Fekete's Gold Standard University Live (GSUL), we saw a branch of Erste Bank, an Austrian bank, in the town of Szmobathely where GSUL was being held.

Just days before while sitting on the tarmac in Austin, Texas, waiting for our plane to be refueled, I had read a well researched in-depth report on gold forwarded to me by Ronald-Peter Stöferle of Erste Bank, headquartered in Vienna. See <https://www.sparkasse.at/erstebank>, Firmensitz Wien FN 33209 m Handelsgericht Wien.

Stöferle's report is one of the best technical overviews on gold that I have recently read. Its analysis of gold's history and future in relevant sectors, e.g. mining, bullion, central banks etc, is both focused and far-reaching, a not inconsiderable feat.

Quite positive about gold's prospects, the title of Erste Bank's analysis reads: *Special Report: Gold—A Shiny Outlook*. The report concludes:

- Secular bull market still intact
- Strongly increased investor interest in 2008 and beyond
- Central banks will want to achieve a higher degree of diversification of their dollar holdings
- Necessary correction following an overbought scenario
- First target price: \$1,200: long term target: inflation-adjusted all-time high of \$2,300

It is now one year after August 2007 when the historic credit contraction shook the confidence of global financial markets. Today, the ground still appears firm beneath our feet. It is not.

Note: Session V of Professor Fekete's Gold Standard University Live (GSUL) will held November 11th through the 14th at Australian National University in Canberra, Australia. I will be delivering a talk during the session. Inquiries can be addressed to Philip Barton at feketeaustralia@yahoo.com.

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