

# GOLD & THE NEW ERA

## The Financial Times They Are A'changin'

*Change is never easy and extreme change is the most difficult of all*

Twelve years ago, the esteemed Financial Times in an editorial announced *The Death of Gold*; and, in 2004, another contributor to FT noted, *the end of gold as an investment has come a little closer*.

Recently, however, on January 5, 2009 the Financial Times published David Hale's *There Is Only One Alternative To The Dollar*. Long-time subscribers to FT may be surprised to find that alternative to be gold—or, then again, they may not be surprised at all.

Prevailing and commonly-held beliefs do not have to be right. They merely have to prevail and to be common; and in the 1990s, the prevailing and common belief was that gold as an investment was dead. But as in the Bible where Jesus and Lazarus arose from the dead, so, too, in this new millennium, has gold.

### THE ASSASSINATION OF GOLD THE MIRACLE OF THE RESURRECTION

The question, what caused gold's resurrection, cannot be considered without first considering, what caused its death. If the truth be someday known—for today it isn't—gold did not die of natural causes in the 1980s and 1990s. Gold was murdered.

The most successful murders are done in plain sight. If hidden, suspicion naturally arises. But if done in daylight and in plain view, the murder instead can appear to be a result of natural causes, much to the delight and relief of the murderers.

Like the assassinations of Julius Caesar, JFK and Robert Kennedy and Martin Luther King, the murder of gold was planned and carried out by a conspiracy of powerful men; and, like most conspiracies, power and profit were the underlying motives.

Also, like most conspiracies, the conspirators were other powerful men who viewed the power of others as a threat to their own. The more power and profit at stake, the greater the incentive to act.

Usually, and certainly in the case of the above, the guilty are never brought to justice although sometimes a convenient patsy takes the blame; instead, the assassination successful, the conspirators are rewarded with the continuation of their power and later rewarded with more.

This is true with political assassinations and it is certainly true in the case of gold. One of the central figures responsible for gold's demise in the 1990s is none other than Lawrence

Summers, now about to take yet another seat at the table of power as the newly appointed incoming US Secretary of the Treasury.

This is not to say that Lawrence Summers actually wielded the knife in the death of gold or helped bury the body—that was done by Goldman Sachs, JP Morgan Chase, Barrick Gold, and Anglo-Gold Ashanti, etc. Mr. Summers was only responsible for supplying the written reason to do so.

Those overseeing the modern global economy are not ignorant men. In fact, the very opposite is true. They are instead highly intelligent and very quick. They tend, however, to be too quick for their own—and our collective—good.

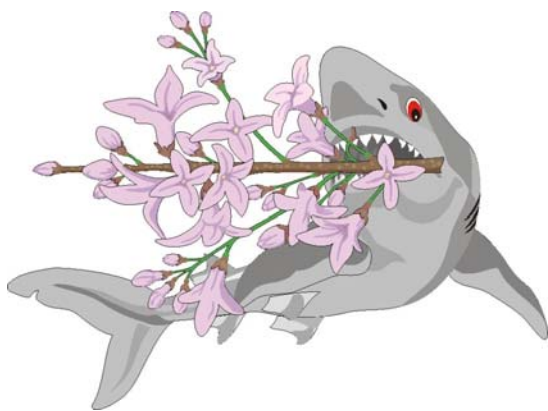
Intellect is a “heady” gift in more ways than one. One of its failings is that the intellect has great difficulty in differentiating between the truth and what the ego surmises or wishes to be true—for when the ego’s interests are involved, the intellect is the last to detect fraud, the possibility of profit further distorting the process.

In 1988, Lawrence Summer co-authored a curious paper, *Gibson’s Paradox and the Gold Standard*, a paper that posited among other things, an inverse relationship between the price of gold and the return on financial assets such as stocks and bonds

*The willingness to hold the stock of gold depends on the rate of return available on alternative assets. We assume the alternative assets are physical capital and bonds.*

Summer’s assertion of an inverse relationship between the two is somewhat akin to believing the power of men is inverse to the power of women. That the rise of one is threatened by the rise of the other (perhaps the reason for Summer’s later dismissal as President of Harvard University over his belief that women are intellectually inferior to men).

In *Gibson’s Paradox and the Gold Standard*, Summer’s theory of the inverse relationship between the price of gold and the price of paper assets was like the smell of blood to the barracudas of Wall Street and The City, a smell that was as irresistible to them as is the scent of lilacs in the springtime to the rest of us.



The idea that when the price of gold falls, the price of stocks and bonds rise, was too good to be always true (though it is often true in fiat systems); but, nonetheless, the idea was far too tempting for the financially dissolute and easily tempted to resist.

In the economically distorted era after 1980 when it appeared that money aggregates no longer affected the rate of inflation (an

apparency best explained by Peter Warburton's extraordinary book *Debt & Delusion*, see <http://www.amazon.com/Debt-Delusion-Threaten-Economic-Disaster/dp/product-description/0977079333>), Summer's thesis in 1988 found fertile soil; and with greed as the fertilizer, gold's demise in the next decade was effectively sealed.

When Summer's thesis caught the attention of the investment community, it added fuel to a fire already well in progress. Central bankers had been trying to suppress the price of gold since the 1970s in order to protect the "value" of their suddenly fiat currencies after the US dollar—and consequently all currencies—went off the gold standard. Now, they had powerful allies.

Believing that if the price of gold went down, the prices of stocks and bonds would rise, investment bankers put their considerable resources behind the central banks' war on gold; and, as a result, in the 1990s investment banks were to reap billions in profits, the price of gold was to collapse, central banks were to lose most of their reserves of gold and the markets would give rise to largest bubble in history.

The next decade was to reveal far more destructive consequences of what central banks and investment banks had set in motion. In the new millennium, the central bankers' search for monetary control and investment bankers' search for profits was to result in the collapse of the very system that had given rise to both.

In 2000, the dot.com bubble created by the mixture of central bank policy and investment bank greed collapsed; and, in their attempt to resuscitate the markets, the US central bank drastically cut interest rates to 1 %—and with the assistance of investment bank subprime CDOs—reflated the markets by creating yet another bubble, the largest bubble in history, the 2002-2007 US real estate bubble.

The collapse of the 2002-2007 US real estate bubble worsened an already bad situation, caused the collapse of confidence in global markets, the loss of trillions of dollars of wealth and more importantly, the freezing up of credit, the lifeblood of capitalism (in truth but a poor plasma substitute for gold and silver, *gratis* of central banks).

As a result, attempting to undo the damage they had done, US central bankers have now again cut interest rates—this time to zero—and preemptively bailed out their co-conspirators, the investment banks with taxpayer money in a last ditch effort to save themselves and the system by which government and bankers jointly profit.

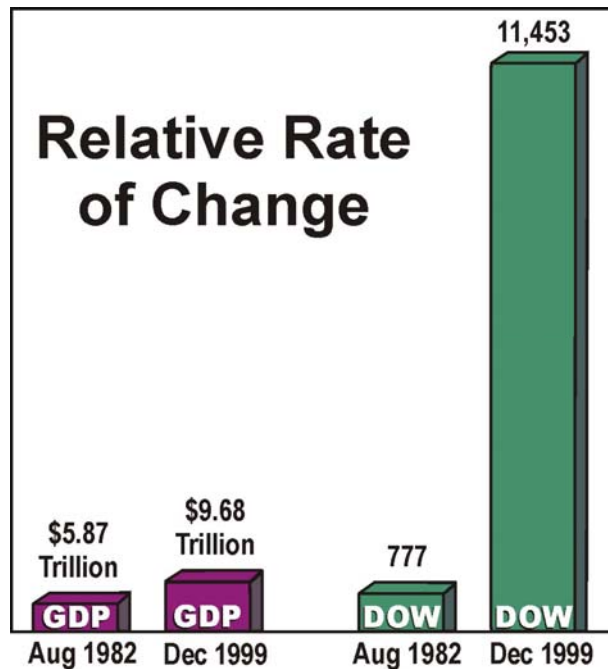
#### THE EXPANSION OF THE 1980s AND 1990s THE MYTH THE TRUTH & THE CONSEQUENCES

Between 1980 and 1999, the price of stocks had skyrocketed as the price of gold dropped. In January 1980, the price of gold was \$850 per ounce. In December 1999, the price of gold was only \$290.

In August 1982, the Dow was at 777. In December 28, 1999 the Dow was 11,453. The campaign of central banks and investment banks to lower the price of gold and thereby raise the price of paper assets had succeeded, but at a tremendous cost.

Over time, the distortion of free markets by central bank credit and government policy intervention prevented investors from ascertaining the actual valuation and risk of assets, a distortion that was to later prove fatal to both the markets and to the economies upon which they depended.

The increase in US stock prices between 1982 and 1999 was not caused by US economic expansion as measured by GDP (gross domestic product). What was heralded as the greatest expansion in this history of capitalism was but an engineered bubble, a bubble whose collapse set in motion yet another bubble whose current collapse is now in the process of destroying global wealth at an unprecedented rate (Warburton's *Debt & Delusion* points out the causal role of central bankers in these bubbles).



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THE WISE MAN BUILT HIS HOUSE ON A FOUNDATION OF ROCK  
THE FOOLISH MAN BUILT HIS HOUSE ON A FOUNDATION OF SAND

In economic terms, a foundation of rock is a system of money with intrinsic value such as gold or silver; whereas a foundation of sand is a system such as paper money based on credit backed by personal, corporate, or government IOUs.

As in finance and as well as in matters of faith, a foundation is discovered to be of rock or sand only in times of stress. In good times, all believe their foundations to be of rock. In bad times, the truth becomes known.

## MARKET DISTORTION POLITICAL COVER & SOCIAL CONSEQUENCES

I have friends both conservative and liberal who remember fondly the political careers of those who professed the beliefs they each hold dearly. Conservatives nostalgically remember Ronald Reagan, the “great communicator”, who ably voiced their frustrations and hopes while liberals fondly remember Bill Clinton who did for them what Reagan did for conservatives. What both choose not to remember is the damage each man did to all of us.

The economic collapse and carnage now in progress could not have happened without policies enacted under both Reagan and Clinton. Reagan devotees who are free-market advocates conveniently forget that Reagan created the plunge protection team that now intervenes and distorts markets prices with unrestrained impunity while Clinton supporters assiduously avoid the knowledge that Clinton knowingly signed the Graham-Leach-Bliley act repealing the safeguards of 1933 Glass-Steagall Act designed to prevent another depression.

I care little for what each said. I care about what each did. The political process in America is now so compromised by power brokers that “the will of the people” is but a convenient slogan, used by those in power to achieve their selfish ends; and until the American people wake up to how they are kept in ignorance in order to be used by those in power, the downward spiral of America will only continue to accelerate with the fate of the world in the balance.

Just as the quality of restaurants reflect the tastes of their patrons, so too does politics today reflect the awareness and demands of the electorate. Up until now, the American electorate has only asked that their fears and concerns be voiced. When that is done to their satisfaction, they care little about the subsequent actions of those they voted for.

If restaurant fare were to be compared to the US political process, the menu, while quite tempting and accordingly high-priced would actually be composed of slop, doled out to those who demand little and settle for far less—the American electorate. Once elected, politicians work for the lobbyists who provide them with more funds to again solicit the votes needed to for re-election.

We did not come to this junction by accident nor will we arrive at another by the current route. The destruction of America’s economy happened in plain view of Americans and yet the political process failed to prevent what all could see was happening.

The present process serves those in power. This is not to say that all politicians are compromised. It is to say that all politicians must work within a compromised system, a

system that encourages politicians to lie to an electorate that will punish them at the polls for telling the truth.

*La vérité est morte. Bientôt, ce seront également les mensonges.*

The truth is dead. Soon, so too, will be the lies.

We are in the midst of a systemic breakdown, a breakdown not confined to the economy, politics or other now failing systems, e.g. healthcare, education, etc. Such breakdowns always occur at the end of eras, when one epoch gives way to another. Such are the times in which we live.

#### THE FUTURE

*Give me back the Berlin wall*

*give me Stalin and St Paul*

*I've seen the future, brother:*

*it is murder.*

*Things are going to slide, slide in all directions*

*Won't be nothing*

*Nothing you can measure anymore*

*The blizzard, the blizzard of the world*

*has crossed the threshold*

*and it has overturned*

*the order of the soul*

From *The Future*, lyrics by Leonard Cohen, 1992

We are at a great gate in history. What brought us here will not take us to another destination. If we want change, we must want the change that will bring the change that we want. Sound bites and slogans until now have been sufficient for most. In the future, when food, water, and shelter become more important, the difference between sound bites, slogans and the truth will become more apparent.

These historic times have been predicted by some just as the current economic collapse has also been predicted. Though predicted only by a few, such predictions are the only road maps we have in these consequential times.

In the 1990s, American historians William Strauss and Neil Howe made the following prediction in *The Fourth Turning* published in 1997:

The next Fourth Turning is due to begin shortly after the new millennium. Around the year 2005, a sudden spark will catalyze a crisis mood. Remnants of the old social order will disintegrate. Political and economic trust will implode. Real hardship will beset the land, with severe distress that could involve questions of class, race, nation, and empire.

Yet this time of trouble will bring seeds of social rebirth. Americans will share a regret about recent mistakes -- and a resolute new consensus about what to do.

The very survival of the nation will feel at stake. Sometime before the year 2025, America will pass through a great gate in history, commensurate with the American Revolution, Civil War, and twin emergencies of the Great Depression and World War II.

The risk of catastrophe will be very high. The nation could erupt into insurrection or civil violence, crack up geographically, or succumb to authoritarian rule. If there is a war, it is likely to be one of maximum risk and efforts -- in other words, *a total war*.

David Hackett Fisher in *The Great Wave* (published 1996) and Buckminster Fuller in *The Critical Path* (published 1981) also predicted this current crisis and collapse. In the early 1900s, Ludwig von Mises predicted the collapse of today's credit-based economies; and, more recently, John Exter in the 1950s and 1960s warned of the same as did Antal Fekete and others.

Those surprised by current events are now in charge. Expect accordingly.

#### WHY GOLD?

Lawrence Summers, Ben Bernanke, Alan Greenspan, Henry Paulson, et. al. achieved their positions in the current power structure because they serve those who profit by the current system of credit, paper money and paper markets.

The present system was built on a monetary fraud, paper money backed by irredeemable promises circulating between savers and IOUs. This system primarily served the interests of bankers and government. Bankers profited by loaning and charging interest on money they did not have and governments were able to spend money that did not exist.

Gold and the gold standard are the barriers that stood in the way of bankers and government; and, as such, gold and the gold standard were dismantled and discarded in the bankers' search for more profits and in governments' search for more power.

Now, at the end of this remarkable era, the longest running confidence game in history built on the false promises of paper money is coming to an end. No fiat money system has every lasted in the history of man. It has been hubris to believe this time it would be different.

We are between two eras. One epoch is ending and another has not yet begun. This crisis predicted by Ludwig von Mises and Antal Fekete was also seen as perhaps the gateway to a better world by David Hackett Fisher and Buckminster Fuller.

In *The Fourth Turning*, William Strauss and Neil Howe wrote:  
*..this time of trouble will bring seeds of social rebirth. Americans will share a regret about recent mistakes -- and a resolute new consensus about what to do.*

The regret and consensus has not yet happened. When it does, a new America will rise on a new foundation, perhaps this time one of rock instead of sand. When the new America appears, regrets about the old will pass.

Professor Antal Fekete will be presenting a series of lectures on March 27, 28, and 29<sup>th</sup> in Hungary on the topics: “Great Depression II”, “Is There Life After Backwardation?”, “Basis, Contango and Backwardation: Beginning and Advanced”, “Will The Gold Standard Be Released From Quarantine?”, and “The Vaporization of the Derivatives Tower”. I and others will be speaking at the event. Those interested in attending, please contact [GSUL@t-online.hu](mailto:GSUL@t-online.hu).

These are significant and increasingly difficult times. We are in these times together and community will become increasingly important. Faith, gold and silver will help in the transit to the other side of the abyss.

Darryl Robert Schoon

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