

GREENBACK GASES, GOLD & THE COMING SHIFT

Bankers in charge of our economies makes as much sense as candy makers being in charge of our diets

At the end of a good movie, oftentimes apparently unrelated events are woven together and it becomes clear how and why things happened. If, today, it feels as if we are at the end of an era, it is because we are; and, just like the movies, only at the end do certain events and the reasons for them become clear.

The removal of gold from the global monetary system was not by accident. It allowed governments to do what they could not otherwise do. Gold cannot be printed. Paper money can. Therein lays the cause and consequence of what is happening today.

BEFORE THE WELFARE STATE WAS THE WARFARE STATE

The introduction of paper money allowed war to be conducted on credit with credit-based paper money. In return for allowing bankers to issue England's money in the form of paper script, bankers allowed King William, England's king, to wage war on credit, giving England an advantage over other nations which England parlayed into world dominion.

Good ideas spread and the idea of waging war on credit also spread. Prior to World War I, both France and Germany went off the gold standard in order to go to war backed by limitless amounts of paper money, instead of being constrained by limited amounts of gold.

The resultant carnage would not have been as extreme had France and Germany been forced to pay good money, instead of bad, for their arms. But even after WWI and WWII, in the wake of the greatest suffering humanity ever endured, the desire to wage war on credit continued.

When WWII ended, the US emerged as a world power. Unlike Europe and Asia on whose continents the conflict was waged, the US emerged relatively unscathed and realizing it was now the world's only superpower, the US decided to insure its new found status by maintaining and enlarging its already formidable military machine.

It did so by spending all the gold it had accumulated; up to that time, the largest amount of gold ever owned by any nation in history. In 25 years, from 1946 to 1971, the US overspent its entire gold reserves of 21,775 tons in the pursuit of world dominion.

During those 25 years, the US had a positive balance of trade with the rest of the world so its gold reserves should have substantially increased, not disappeared. Prior to 1971, gold was used by nations to settle trade imbalances but the US imbalance was not caused by trade, it was caused by the costs of maintaining a worldwide military presence and the overseas expansion of US corporations.

GOLD—THE LAST STRAW

The complete removal of gold from the world monetary system finally occurred in 1971 when the US refused to pay other nations in gold what it then owed. The US refused to do so because the US no longer had enough gold to redeem the vast amount of US dollars it had printed and spent (the US did keep what gold it had).

To this day, what was set in motion in 1971 has yet to be fully grasped and understood. Lack of understanding, however, will not prevent its consequences and the US and, indeed, the world, are now about to experience what was then set in motion, an economic meltdown of epic proportions.

When the US removed gold from the world's monetary system, it removed the one critical element upon which the entire world economy was based. Because the removal had been gradual, the essential role gold performed had been forgotten—but forgetting gold's role did not mean it had none as many believed, e.g. Keynes, Friedman, Krugman, Volcker, Bernanke, etc.

A description of the critical role of gold and the gold standard was written by Professor Antal Fekete in his essay *The Gold Standard Strikes Back.....With A 36-Year Lag*

...Gold has the same role to play in the monetary system as the fly-wheel regulator does in an engine, the brake does in a train, and circuit-breakers do in an electrical network. Gold is the regulator of the *quantity* of debt in the economy that can be safely created and carried. It is also safeguarding *quality* by rejecting toxic debt before it can start metastasis. Debt-based currency utterly lacks safeguards limiting quantity and vouching for quality of debt. Debt-based currency is an invitation to disaster, that of the toppling of the Tower of Babel. Its effects are far from being instantaneous. There is a threshold and there is a critical mass involved. We have long since crossed that threshold and passed that critical mass. By no rational calculus can the outstanding debt be expected to be repaid without inflationary or deflationary adventures, even if further increase were stopped dead in its track. The discussion of the present financial crisis by academia and media avoids all reference to this fact. Under the gold standard a fast-breeder of debt was unthinkable, and debt was retired in an orderly manner.

Using Professor Fekete's metaphors, with the regulator of debt now disabled, the brakes discarded, and the circuit breakers removed, it is now understandable, as the last and final

act of our financial drama plays out, why we now find ourselves buried beneath unbearable and unpayable quantities of toxic debt.

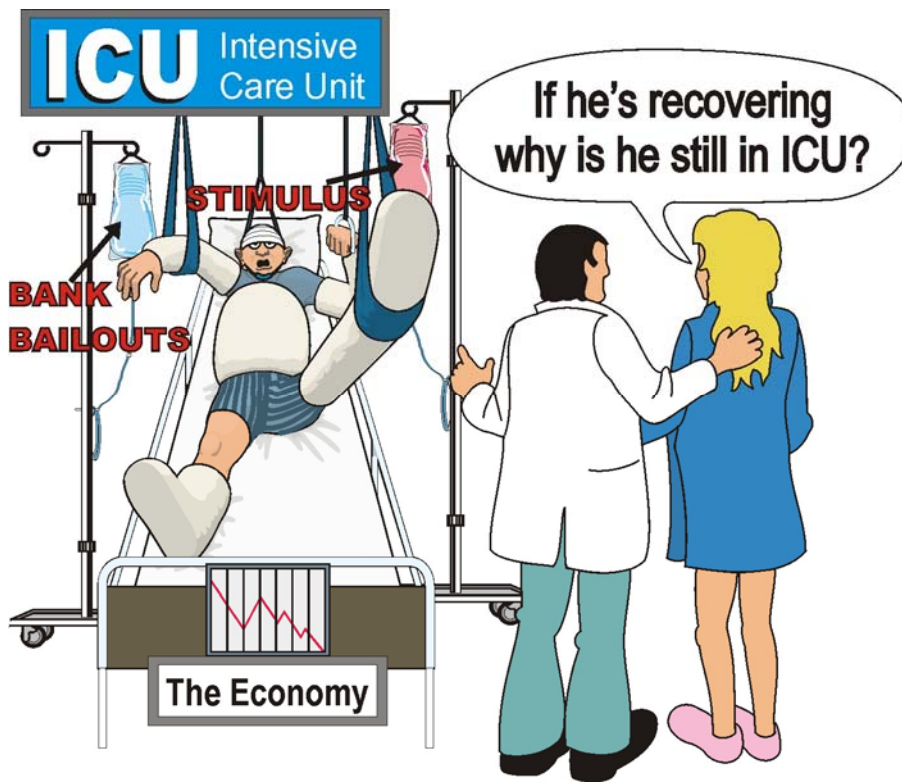
Removing gold from the international monetary system in 1971 allowed the US to then begin issuing US dollars in increasingly excessive amounts as the US was no longer constrained by gold to maintain any semblance of fiscal restraint.

While consequences may be delayed they cannot be avoided. It's been 38 years since the US removed gold from the international monetary system. As a consequence, the system is now beginning to collapse. Someday, it will collapse completely.

FEAR-BASED OPTIMISM

Increasingly, the sound-bites of politicians, economists and the media are becoming more positive, indicating that an economic recovery is underway. It is not. If it were, governments would be able to slow or stop the spending they are desperately hoping will rescue their respective economies. None are so doing.

But despite trillions of dollars, the global economy is still contracting. Signs of improvement are due only to the massive amounts of government aid being spent in the hopes of reviving private demand, demand irrevocably crippled by now unpayable levels of debt.



GREENBACK GASES AND THE MELTDOWN OF THE WORLD FINANCIAL SYSTEM

As China in particular has now observed, the US is increasingly exhibiting signs of monetary incontinence. The US has been unable to control its spending for decades, it is clearly incapable of balancing its budget, and fiscal restraint in the US has gone the way of the Constitution and the Geneva Accords.

China is especially distressed at the apparent inability of the US to control itself. China is holding the vast majority of US debt and, as a self-declared socialist state, finds itself in the incongruous position of having underwritten US wars in Iraq and in Afghanistan along with tax cuts George Bush dispensed to the wealthy.

China and the world has, in effect, been held hostage by the US as a result of the US dollar still being the world reserve currency even after the US defaulted on its gold obligations in 1971.

The world's acceptance of a fiat currency as a world reserve currency has now destabilized the global economy beyond its ability to recover. For decades, the US has been able to buy goods and services and to repay its extensive borrowings with increasingly worthless paper script. Those days are numbered.

The increasingly fragile house of cards constructed of credit and paper money is now in its final stages of collapse. The global economy is lurching from one bubble to another and we are approaching the end of bankers' and governments' ability to pass off their paper money as a store of value. Gold is a store of value. Paper money is not.

GOLD'S ASCENT

In the last two weeks, gold moved strongly upwards. It did so as the US dollar fell. Perhaps the two events are linked, perhaps not. But over the last decade, the price of gold has quadrupled in terms of US dollars, rising as the US dollar has fallen.

No longer having to play the part of the monkey dancing to the tune of government organ grinders, Alan Greenspan recently remarked on gold's sudden ascent:

Sept. 9 (Bloomberg) -- Gold prices that jumped above \$1,000 an ounce this week are signaling that investors are buying metals to hedge against declines in currencies, former Federal Reserve Chairman [Alan Greenspan](#) said.

The gains are "strictly a monetary phenomenon," Greenspan said today at an investment conference in New York. Rising prices of precious metals

and other commodities are “an indication of a very early stage of an endeavor to move away from paper currencies,” he said.

A recent study showed why Greenspan and other economists did not predict the greatest economic collapse in recent history. As befits the profession, the reason for economists’ poor judgment was money.

To succeed in the field of economics, it is virtually necessary that economists support the policies of the Fed. The following is from “How The Federal Reserve Bought The Economics Profession”, http://www.huffingtonpost.com/2009/09/07/priceless-how-the-federal_n_278805.html :

One critical way the Fed exerts control on academic economists is through its relationships with the field's gatekeepers. For instance, at the Journal of Monetary Economics, a must-publish venue for rising economists, more than half of the editorial board members are currently on the Fed payroll -- and the rest have been in the past.

The Fed failed to see the housing bubble as it happened, insisting that the rise in housing prices was normal. In 2004, after "flipping" had become a term cops and janitors were using to describe the way to get rich in real estate, then-Federal Reserve Chairman Alan Greenspan said that "a national severe price distortion [is] most unlikely." A year later, current Chairman Ben Bernanke said that the boom "largely reflect strong economic fundamentals."

The Fed also failed to sufficiently regulate major financial institutions, with Greenspan -- and the dominant economists -- believing that the banks would regulate themselves in their own self-interest.

It is clear the lure of money is as seductive to economists as it is to those they study. Money, while a very powerful incentive, rarely improves the quality of truth. It is erroneous to believe, however, that all economists who agree with the Fed’s role and mission have been bought. Others may be sincerely mistaken in their beliefs.

One of the primary reasons I attend Professor Fekete’s seminars is the opportunity to hear academically rigorous discourse untainted by the all-too-common orthodoxy that passes today for economics. As I have previously written, the study of modern economics is like studying religion in a time of idolatry.

It is the Fed and its stranglehold on economic debate that has confined discussion within the bounds that do not threaten the Fed or its interests. This is tantamount to discussing religion during the Middle Ages without discussing the power and ambition of the Church. Such discussions leave much to be desired.

November 2-5, Professor Fekete will be speaking in Australia on “The World Financial Crisis and the Vanishing Gold Basis”. For those wishing to know more about the professor, the wikipedia reference, http://en.wikipedia.org/wiki/Antal_E._Fekete, is invaluable. I also discuss Professor Fekete on my YouTube channel, <http://www.youtube.com/user/SchoonWorks>. For information about the event in Australia, see <http://www.professorfekete.com/gsul.asp>. I, and others, will be speaking as well.

THE LAST WALTZ

The current economic crisis is now moving quickly towards resolution. How and when it will end is as uncertain as that it will. Systemic death is never easy and the banker’s paper money, like the fatal virus it is, is now everywhere. Its end will not be easy.

Severe climate change, food shortages, and the possibility of a pandemic are taking their place beside the ever-present possibility of military conflict. The collapse of the financial system will not be the only crisis that confronts humanity in the near future.

We are moving from one era into the next. Change is never easy and significant change is significantly more difficult. The bankers’ credit was responsible for much of what happened in the last three hundred years. It is impossible to imagine what life will be like in its absence.

Only one thing is certain—it will be better.

Buy gold, buy silver, have faith.

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