# THE GREAT CREDIT CONTRACTION

"The system does not collapse but evaporate." Trace Mayer, J.D.

## About the author

TRACE MAYER IS AN ENTREPRENEUR, INVESTOR, JOURNALIST, AND MONETARY SCIENTIST. He holds a degree in Accounting from Brigham Young University and a law degree from California Western School of Law. He has also studied Austrian economics, focusing on the work of Murray Rothbard and Ludwig von Mises. He is a member of the Society of Professional Journalists and the San Diego County Bar Association. He operates: **RunToGold.com, CreditContraction.com and HowToVanish.com.**

## Dedication

To those luminous, insurgent peacemakers who valiantly sacrificed so much for the Philosophy of Liberty while obeying the Non-Aggression Axiom including Jesus Christ, Thomas Jefferson, and Dr. Ron Paul.

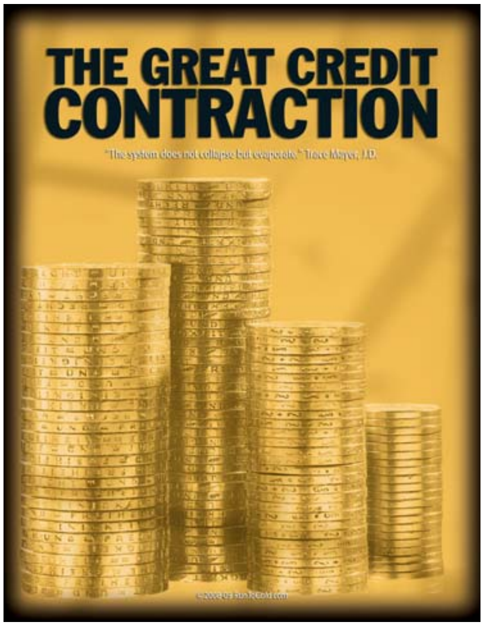
Also, in the words of President Abraham Lincoln, "all that I am, or ever hope to be, I owe to my angel mother."

## Preface

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." A rabid adherence to the Philosophy of Liberty and Non-Aggression Axiom is not only our right, but it is also our duty. Therefore, each generation has both the goal and moral duty to "pledge... our Lives, our Fortunes, and our sacred Honor" to better carry out and realize this supernal declaration.

Although ideas are bulletproof, individuals are not. Sadly, some adherents to inferior ideas lack moral character and tend to make the battle personal by resorting to coercion, force, intimidation, theft, and violence. Often these violations of the Non-Aggression Axiom harm unprotected innocents.

This book's intent is to provide the unprotected innocents, according to their means and desire, easy access to the available legal armor to guard against these attacks.



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## Overview

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THE GLOBAL ECONOMY IS BUILT ON A DERIVATIVE ILLUSION. As the great credit contraction grinds on, the importance of performing accurate mental calculations of value will become more and more important. Every major country, including the United States, uses a fiat currency illusion as its legal tender. Even more troubling is that the world's reserve currency—the United States Federal Reserve Note Dollar (FRN$)—is a currency illusion. This system is evaporating before our very eyes. This book describes the background leading to this evaporation, which I call the Great Credit Contraction, sorts through complicated economic nomenclature, determines the root causes of the credit contraction evaporation, and suggests ways to maintain wealth during this global economic crisis.

This book opens by discussing the development of money in the market. Understanding the historical landscape will provide the reader a perspective of where we currently are and what is likely to happen to the market in the future. To date, the development and rise of fractional reserve banking has perpetuated the inflationary credit expansion. During this process, fiat currency has risen to dominance with the culmination of FRN$ as the world's reserve currency.

This system has been perpetuated by and has helped perpetuate the political structures of the earth. A deep philosophical foundation protected by sound money undergirds personal and financial privacy. Autonomy, personal independence, and the capacity to make and act upon moral decisions is a permanent state of the individual. Sound money protects autonomy.

The next section discusses the inflationary credit expansion and the corresponding deflationary credit contraction. This will lay the foundation for how to profit and generate wealth during the great deflationary credit contraction.

While theory and history may be interesting, without practical implementation, what difference do they make? As Wayne Gretzky is often credited with saying, "I do not skate where the puck is, but where it is going to be." Similarly, a vision of the future financial landscape provides strategic thinking for capital allocation. With this foundation laid, it is possible to develop a strategy for generating and preserving wealth in these changing and challenging times.

This book is intended to be a general roadmap and is not intended to be exhaustive. Gold's monetary role is extensively discussed. This, of course, is a completely different issue from whether one should buy or own gold.

Throughout this book, I will cite other sources where additional information and strategies can be obtained. Consequently, there are extensive endnotes, sources, and citations from some of the most brilliant minds through the corridors of time.

For example, during the 20th century, there were three main economic thinkers: John Maynard Keynes, Irving Fischer, and Ludwig von Mises. Keynesian economics asserts that private sector decisions sometimes lead to inefficient macroeconomic outcomes and that public sector action can correct these inefficiencies. Despite President Nixon's 1971 statement that "we're all Keynesians now," several alternative schools of thought exist. Within the Fischer camp is John Exter, who presented a debt deflation argument. Mises laid the foundation for the Austrian School of economics, which involves analyzing human action from the perspective of individual agents.

I attempt to synthesize some of Exter's assertions with the Austrian School. There may be harmony, or at least common ground, between Exter and the Austrian School because of the fundamental changes in the environment after the Nixon Shock in 1971, when President Nixon unilaterally canceled the Bretton Woods system and stopped the direct convertibility of the United States dollar to gold. For the first time in recorded history, this resulted in the world's reserve currency being an illusion.

Tax issues and privacy laws vary widely throughout the world and are in a state of constant flux. Each tax case is individual based upon the unique facts and may require the help of a competent professional. This book does not address either legal tax avoidance or illegal tax evasion.

In summary, this book is an autopsy of the current worldwide monetary and financial system beginning with a brief overview of financial history, the current great deflationary credit contraction, and projecting the future environment. It concludes with suggestions on how to generate and preserve wealth in this challenging time, and the appendix contains a deeper analysis of important topics.

## Disclaimer

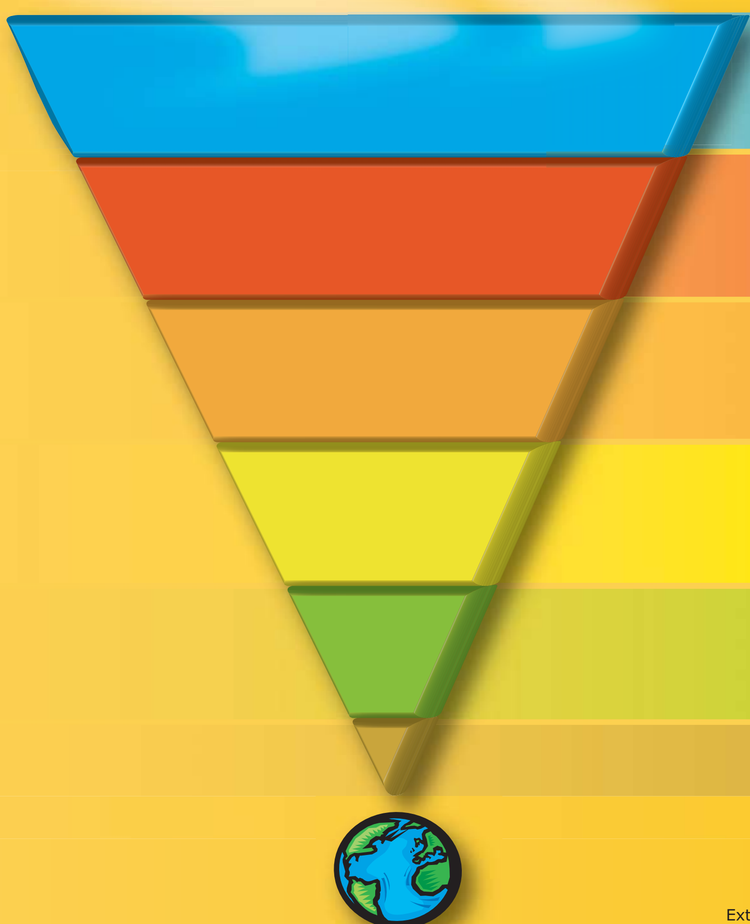
This book is intended to function as general information, not as legal or investment advice. It is a cursory overview of the topics of monetary science and economic law, and thus it speaks in generalities and not specific instances. No action discussed in this book should be taken without the sound advice of a trustworthy, competent, and trained legal or investment professional.

This book is sold with the intent of an international readership. The author recommends readers use this book in compliance with local law. If you do not like the local law, work through the appropriate channels to have it changed.

# The Great Credit Contraction

*"The system does not collapse but evaporate."*
Trace Mayer, J.D.





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|---|---|
| **DERIVATIVES:** | **$1,600T** |
| *Shadow Derivatives* | *$800T* |
| *Reported Derivatives* | *$683T* |
| *Unfunded Gov't Liabilities* | *$250T* |
| **MISCELLANEOUS ASSETS:** | **$125T** |
| *Private Business* | *$10T* |
| *Commercial Real Estate* | *$30T* |
| *Residential Real Estate* | *$80T* |
| *Non-Monetary Commodities* | *$4T* |
| **SECURITIZED DEBT/STOCKS:** | **$100T** |
| *Corporate & MUNI Bonds* | *$25T* |
| *World Listed Stocks* | *$51T* |
| *U.S. Listed Stocks* | *$15T* |
| **BROAD CURRENCY ILLUSIONS:** | **$65T** |
| *World Treasury Bills/Govt Bonds* | *$15.5T* |
| *U.S. Debt/Treasury Bills* | *$11T* |
| **POWER CURRENCY ILLUSIONS:** | **$4T** |
| *Physical Notes (£, €, ¥, C$, A$, etc.)* | *$2T* |
| *FRN$ (physical paper notes)* | *$800B* |
| **POWER MONEY:** | **150,000 tons** |
| *Gold and Silver* | *$2-4T* |
| **WORLD GDP:** | **$55T** |

Exter's pyramid updated and adapted. All amounts estimated approximations.

# PART 1

*Financial history*

## Spilling ink

WHEN I GRADUATED FROM ACCOUNTING SCHOOL, THE PROGRAM'S DIRECTOR imparted some sage advice. He joked that when a potential employer asked, "what is 2+2," we should respond, "whatever you want it to be."

One of my favorite law professors shared a similar joke with my class. He asked, "do you know what the difference between medical school and law school is? In medical school, you learn and memorize all twenty-three parts of the hand. In law school, you learn to ask whether the item presented is even a hand."

Just like these examples, monetary science, finance, and economics are mired in convoluted language. Economics experts propagate multiple terms and multiple definitions for those terms. This quagmire hinders the ability of individuals outside the economic elite to come to reasonable conclusions as to the meaning of terms associated with these subjects. Because the current system is inherently unsound, unstable, and unethical, those who perpetuate it must attempt to keep those it abuses in ignorance, ensuring they are confounded and misdirected from the true issues.

Since I am the doctor, I will frame the definitions in this book. As the various schools of economics already clash over the definitions of many important words, I will not be surprised if my definitions stir the pot even more.

There are plenty of ways to spill ink, so if anyone attempts to confront my assertions, it would only be courteous for him or her to use the definitions I propose without deflecting the discussion to a different and possibly tangential or irrelevant issue. In the event of rebuttals to my assertions in this book, I will limit my participation to substantive issues and not semantic arguments.

## What is money?

AS THIS IS A BOOK ABOUT MONETARY SCIENCE AND THEORY, it may as well lead off with this fundamental question. People often use the terms **money, money substitutes, illusions, and currency** interchangeably. Since they do not mean the same thing, this misuse can be extremely confusing.

For example, even the venerable Alan Greenspan, Chairman of the Federal Reserve from 1987 to 2006, does not define money. In testimony before Congress, Greenspan testified as follows:

> Let me suggest to you that the monetary aggregates as we measure them are getting increasingly complex and difficult to integrate into a set of forecasts.
>
> The problem we have is not that money is unimportant, but **how we define it**. By definition, **all** prices are indeed the ratio of exchange of a good for money. And what we seek is what that is. Our problem is, we used M1 at one point as the proxy for money, and it turned out to be very difficult as an indicator of any financial state. We then went to M2 and had a similar problem. We have never done it with M3 per se, because it largely reflects the extent of the expansion of the banking industry, and when, in effect, banks expand, in and of itself it **doesn't tell you terribly much about what the real money is.**
>
> So our problem is not that we do not believe in sound money; we do. **We very much believe that if you have a debased currency that you will have a debased economy.** The difficulty is in defining what part of our liquidity structure is truly money. We have had trouble ferreting out proxies for that for a number of years. And the standard we employ is whether it gives us a good forward indicator of the direction of finance and the economy. Regrettably **none** of those that we have been able to develop, including MZM, have done that. That does not mean that we think that money is irrelevant; it means that **we think that our measures of money have been inadequate** and as a consequence of that we, as I have mentioned previously, have downgraded the use of the monetary aggregates for monetary policy purposes until we are able to find a **more stable proxy** for what we believe is the underlying money in the economy.

> Congressman Ron Paul: So it is hard to manage something you can't define.
> Alan Greenspan: It is not possible to manage something you cannot define.[1]

Is this doctor of economics, chief manager of the world's reserve currency, and perhaps the most influential central banker in the world unintelligibly babbling about being unable to define, let alone manage, something as simple and basic as money?

The problem is two competing views exist on how to define "money": (1) the market determines money[2] and (2) chartalism, which asserts "money is a creature of law."[3,4] Chartalism is a fallacy, since governments can only manage money if they create it. Obviously, then, the market must determine money because money existed before governments were created. Therefore, Dr. Greenspan is attempting to do the impossible in managing money.

Chartalism is neither financial analysis nor economics; rather, it is ideology undergirding political theory to advance human management livestock practices[5]. Money arises naturally in the market through voluntary transactions to fulfill the need for currency, regardless of whether a government or criminal gang exists. Keynes wrote, "it is when this stage in the *evolution* of Money has been reached that Knapp's Chartalism—the doctrine that money is peculiarly a creation of the State—is fully realized... The State claimed the right to declare what thing should answer as money to the current money-of-account—when it claimed the right not only to enforce the dictionary but also to write the dictionary."[6]

It is true that legal assistance from the State can greatly augment market share of the currency market. For example, patents, copyrights, and the like assist in gaining and maintaining market share. But short of eradicating the entire human race, which is the dream of chartalist despots, the State cannot repeal the basic economic law that the market determines money.

Let's take a look at how money is used in transactions. Before a transaction occurs between parties, they must agree to a legal contract. A contract is an exchange of promises between two or more parties to do, or refrain from doing, an act that is enforceable in a court of law. Four elements are required to form a contract. They are (1) an offer, (2) an acceptance, (3) consideration, and (4) no applicable defenses.[7]

After parties enter into a contract, a transaction takes place. For example, when A agrees to sell a pizza to B, and B agrees to buy a pizza from A, they form a contract. The transaction begins when A delivers the pizza and is settled when B delivers payment. When A receives value in exchange for the consideration used in the transaction, the transaction is **extinguished**.

In ordinary daily transactions, currency, which can be a good or service, is used as the medium of exchange for transactions. Currency has developed over thousands of years to meet the market's needs in facilitating transactions. Plenty of instruments have been and are used as currency, ranging from giant round stones, tobacco, cattle, salt, gold, silver, copper, paper promises for payment of gold or silver, paper that promises nothing like physical FRN$ and Euros, to digits in a database that promise nothing like most FRN$, Euros, and so forth.

Currencies are much like languages. The more people who speak English, the more valuable it is to an individual to speak English. Likewise, the more people who are willing to accept a currency in transactions for contractual purposes, the more value the currency is generally given. The more a particular currency is used, the greater its velocity and market share of the currency market. The greater a currency's velocity, the more value individuals usually place on it.

The world's reserve currency is the FRN$. Of the world's currencies, the FRN$ has the fastest velocity and largest market share. There are other competing currencies with a smaller market share, such as the Euro (€), British Pound (£), Japanese Yen (¥), Southwest Airlines Rapid Rewards, Delta SkyMiles, and Circuit City gift cards (until the company went bankrupt). Fiat currencies with legal tender status are like the common stock of nations. Additional forms of currency laid upon currency also exist, such as Euros processed through the medium of a Visa credit card network.

The **currencies** above all take the form of money, money substitutes, or illusions. The conflation of these terms causes great problems in understanding monetary science. Therefore, I will separate and distinguish each.




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**Money** must have intrinsic value by being a tangible asset. This is because when A gives B the pizza, the pizza has intrinsic value. For the transaction to be extinguished, A must receive from B an asset with intrinsic value. If B exchanges a 1 oz. American Silver Eagle for the pizza, then at the time of the transaction, a pizza and a silver coin would change hands. **Value** would be exchanged for value at the time of **settlement**, and the transaction would be **extinguished**.

A **money substitute**, on the other hand, is a negotiable instrument that promises the payment of money. An example would be a silver certificate that reads: "This certifies that there have/has been deposited in the Treasury of the United States of America (number) silver dollar(s) payable to the bearer on demand."

Chartalism, the State theory of money, asserts the government gives money or currency its value. As we have discussed, this theory completely opposes basic economic law. In reality, the backing of government-issued money *substitutes* with bullion gives the currency value.

If A exchanged the pizza with B for a silver certificate, then the transaction would be settled but not extinguished until A passed on the silver certificate in exchange for value. While A holds the silver certificate, its value could change and it could become worthless. This happened on June 24, 1968, when the Treasury of the United States of America declared it would no longer honor redemption of silver certificates.

The use of a money substitute introduces risk to A in the transaction with B because A relinquishes value when he tenders the pizza to B but does not receive an asset with intrinsic value in exchange at settlement. Instead, A must use the instrument in another transaction to receive value.

An **illusion** is a negotiable instrument that promises nothing and has no intrinsic value. It is like a silver certificate that promises the bearer no silver. It has value only because individuals are willing to bear the payment risk and other risks of the illusion. The bearer usually tolerates the risks because their cost is lower than the value placed on the utility derived from the service the currency provides to the market participants.

In conclusion, currency is primarily used to settle transactions. When money is used to settle a transaction, then the transaction is extinguished. However, if either illusions or money substitutes are used, then the transaction is not extinguished and one or more parties to the contract are left to bear the risk of extinguishing the transaction. This risk often leads to errors in accurately assessing the value and utility from the underlying consideration in determining the price for the transaction.

## Fundamental economic law

PHYSICAL LAW PRESENTS CONFLICTS THAT REQUIRE AN EITHER/OR ANSWER. For example, either the sun revolves around the earth or the earth revolves around the sun. Both cannot be correct.

This same immutable law applies directly to determining which asset—the FRN$ or gold—is the risk-free allocation of capital. **This is the single most important decision an investor can make.**

When the United States packs the emergency kits for Navy fighter pilots, it includes hundred-year-old quarter-ounce British Sovereigns. Why? Because at all times and in all circumstances, gold remains money. However, with the FRN$ as the world's reserve currency, most financial professionals assert the FRN$ is the risk-free asset.

Throughout thousands and thousands of years of human history, gold has never been worthless because it has intrinsic value. Greenspan agrees with this proposition. On May 20, 1999, he testified before Congress that "gold is always accepted and is the ultimate means of payment and is perceived to be an element of stability in the currency and in the ultimate value of the currency and that historically has always been the reason why governments hold gold."[8]

On the other hand, tens of thousands of paper currencies, either money substitutes or illusions, no longer exist. The FRN$ is an illusion: it has no intrinsic value, it has no claim on an asset with intrinsic value, it can become worthless, and it has the potential to not be accepted. Because of these risks, which are not associated with gold, by definition the FRN$ cannot be the risk-free asset.

Only gold or some other commodity can function as the center of the financial universe. Because of its large, aboveground stockpiles, gold is the current monetary commodity. **Therefore, the earth (FRN$) revolves around the sun (gold).**

Neither Austrian economics nor this type of analysis are taught in the leading business schools. Therefore, it is fairly predictable that so many otherwise intelligent people have recently lost themselves and their clients so much purchasing power. Many are infected with the Financial Insanity Virus (FIV) and are in denial about how things really work. They believe the derivative illusion of the FRN$ and sincerely think the sun revolves around the earth. In effect, they live in a cocoon of self-satisfied self-deception, enmeshed in their own delusions. They think things will return to normal—but "normal" is the derivative illusion that is rapidly dissipating.

## -Flations

A MAJOR PROBLEM IS THE LACK OF CONCURRENCE ON THE FUNDAMENTAL DEFINITIONS of money, money substitutes, currency, and illusions. With the convoluted topics of fractional reserve banking, credit instruments, and other complications, the task becomes extremely perplexing.

Court economists love to play in the sandbox and coin, define, and redefine any word with the suffix of -flation: inflation, hyperinflation, deflation, stagflation, disinflation, etc. There are probably twice as many terms and twice as many definitions for each of those terms as there are court economists. The more words and definitions, the greater demand and employment for court economists. Certain parties benefit from the use of currency illusions. They rely on the court economists to help perpetuate the use of currency illusions and the court economists gladly oblige for a paycheck.

As the -flation terms are derivatives of money, money substitutes, illusions and currency, it is impossible to properly define them without properly defining the underlying terms. Consequently, the inflation and deflation debate that has spilled too much ink is within the box. My assertions and argument are outside the box.

The issue is not whether there will be inflation or deflation but whether there will be a complete monetary, financial, and currency collapse. Should that happen, which this book asserts is currently in process, the system will not so much collapse as evaporate. This type of talk has come from some of the insiders and the wealthy.

For example, in 2004, billionaire Peter G. Peterson, current Chairman of The Blackstone Group, former Chairman of the Council on Foreign Relations, and former Chairman, Federal Reserve Bank of New York, opined:

> The world is increasingly alarmed by America's profligacy. It's not just the staff of the International Monetary Fund who lecture us as if we were a banana republic. Global leaders at the Davos World Economic Forum and other venues speculate openly about how long the dollar will remain the world's reserve currency, and about whether the U.S. financial system will take down the global economy when it implodes.[9]

Similarly, in 2005, Paul Volcker, former Chairman of the Federal Reserve, said:

> I don't know whether change will come with a bang or a whimper, whether sooner or later. But as things stand, it is more likely than not that it will be financial crises rather than policy foresight that will force the change... I think we are skating on increasingly thin ice. On the present trajectory, the deficits and imbalances will increase. At some point, the sense of confidence in capital markets that today so benignly supports the flow of funds to the United States and the growing world economy could fade. Then some event, or combination of events, could come along to disturb markets, with damaging volatility in both exchange markets and interest rates.[10]

Rather than spill bottle after bottle of ink, I will provide a general roadmap for this area. I will tend to stick to the fundamental Austrian School of economics. They define inflation as an increase in the money [conflating money, money substitutes and illusions] supply and deflation as a decrease in the money supply. This can be called the True Money Supply but even it is problematic.[11]

According to the Austrian School, rising prices are merely consequences of inflation[12]. This semantic difference is important in defining inflation. Austrian economists measure the inflation rate by calculating the growth of new units of money available for immediate use in exchange that have been created over time.[13, 14, 15]

This interpretation implies inflation is always a distinct action the central government or its central bank takes that permits or allows an increase in the money supply.[16] In addition to State-induced monetary expansion, the Austrian School also maintains credit expansion magnifies the effects of increasing the money supply as a result of the fractional-reserve banking system employed in most economic and financial systems in the world.[17]

Austrians argue the State uses inflation as one of the three means by which it can fund its activities (inflation tax), with the other two being taxation and borrowing. Various forms of military spending are often a reason desperate and indebted governments resort to inflation and borrowing, which provide a short-term way of acquiring marketable resources.[18]

While the Federal Reserve, close to the root cause of all the financial problems, attempts to "pass the buck," even the current Federal Reserve Chairman, Ben Bernanke, has publicly stated, "of course, one can never get something for nothing; from a public finance perspective, increased monetization of government debt simply amounts to replacing other forms of taxes with an inflation tax."[19]

## Purpose of currency v. purpose of money

WHAT IS THE PURPOSE OF CURRENCY, AND HOW DOES ITS PURPOSE contrast with money's purpose? Essentially, currency's purpose is to grease the engine of economic activity by providing an instrument for ordinary daily transactions. Remember, either money, money substitutes, or illusions can function as currency.

Money must be a commodity, a tangible asset. Commodities are produced because they add value to society. Wheat and rice are grown for food, steel is produced to build things, and oil is produced to be used as the primary energy source. Because there are over 150,000 tons of aboveground stockpiles of gold, it is the world's primary form of money.

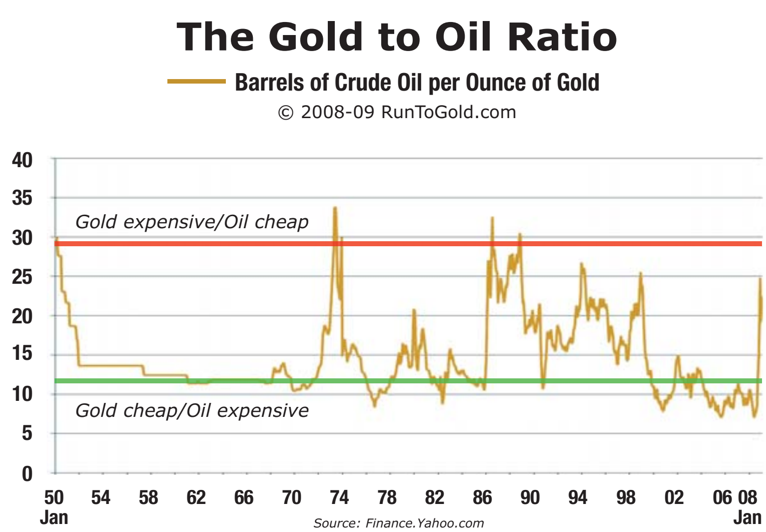
Why do miners burrow like moles miles below the earth's surface, many to never return, to produce what the ancient Peruvians nicknamed the "sweat of the sun"? This primary monetary commodity, that risk-free asset, is the asset produced to be **hoarded**. In the digital age, multiple assets may emerge as monetary assets.

But for now, the value money, currently gold, adds to society is in having a tool to perform mental calculations of value, or in other words, the pricing mechanism. If gold were to cease to exist, the market would find another commodity to function as money. It would seek the asset that has the lowest store of capital expense. The gold to oil ratio is a single example of why gold's monetary nature matters.

## Why the gold to oil ratio matters

THE GOLD TO OIL RATIO IS CRITICAL BECAUSE OIL IS THE WORLD'S PRIMARY ENERGY SOURCE. It is important to keep in mind that both gold and oil are still, as of 2009, in strong, secular bull markets. The FRN$ is in a strong, secular bear market as are the Dow Jones Industrial Average (the Dow) and real estate. The gold to oil ratio is now about 22 barrels of oil per ounce of gold. The 200 day moving average (DMA) is about 9.5, and the historic average is around 15.

In 1974, 1986, and 1988, the ratio approached a zenith of 30. In 1977, 2001, 2008, the ratio dropped to about 8, and it hit bottom in 2006 at around 6. For these relative prices to return to normal ratios, something has to give. Oil is either going to go up, gold is going to go down, or to move into some sneaky calculus, the rate of oil's rise will be faster than gold's.




This is where geopolitics comes into play. Are the oil producers willing to take so little value in exchange for their precious black gold? With Peak Oil,[20] the point when we reach the maximum rate of global petroleum extraction, after which the rate of oil production is expected to enter a terminal decline, the oil producers should hold the bargaining power. The latest Institute of Economic Affairs (IEA) numbers threaten a steeper than expected 9.1% decline rate. Yes, the Canadian Oil Trusts will likely rise in value as a safe, secure, and stable source of oil. But perhaps the oil exporters should sit on their oil and let the importers roil and writhe in pain as E. M. Forster's 1909 essay The Machine Stops is played out. After all, a barrel in the future will be worth more than a barrel today.

At all times and in all circumstances, gold remains money. Therefore, it is the most powerful currency in the world and the most effective tool humans have to perform mental calculations of value. Ultimately, money is about energy. By analogy, it is the tool used to determine how many calories an apple provides and how many calories it takes to collect and process the apple so you can eat it. Producing gold is essentially converting energy into bullion. In some cases, hundreds of tons of rock are moved to produce a single ounce.

How many calories go into producing a one-ounce gold coin? To make it personal, how much value should you put on that nice steak dinner or bottle of water from Fiji? Think through the supply chain and how much energy the good or service represents.

Using our apple analogy, no one knew or calculated either how many calories the apple supplied or how many calories it took to procure and process the apple. Similarly, the world's entire infrastructure was built using mental calculations of value based on a derivative illusion.

Thus, the world has a very serious problem. A fiat currency attempts to sustain the unsustainable, while a commodity-based currency employs the strict laws of reality to ensure the unsustainable is not encouraged. Because it has used a fiat currency, an illusion, with no definition or basis in reality for nearly 100 years, and because oil production was constantly increasing during that time, the effects of unwise capital investment were masked. Energy Return On Energy Invested (EROEI) calculations were not even performed.

As natural and economic law continue asserting themselves and gold begins circulating as currency in ordinary daily transactions, the distortions will be removed and the gross misallocations of capital will be revealed. I wonder what such a world will look like. Will the energy available per capita decline?

## Value calculation

THE VALUE GOLD ADDS TO SOCIETY IS IN PERFORMING MENTAL CALCULATIONS OF VALUE. The constant marginal utility is unmatched by any other commodity. Therefore, gold is money and a currency.

Most people perform mental calculations of value, the pricing mechanism, in FRN$, C$, Euros, or some other national currency. However, all are "bills of credit," or illusions, and therefore subject to risk because transactions are not extinguished at the time of settlement. Those who disagree, and most financial professionals do, are like those who disagreed with Copernicus.

Politicians who disagree can no more change this fact than vote to repeal the law of gravity. The earth (FRN$) revolves around the sun (gold). Either gold is a portfolio asset or everything else is. This is monetary law. This principle has been taught for centuries.

As early as 1802, Henry Thornton, an economist and governor of the Bank of England, wrote: "We assume that the currency which is in all our hands is fixed, and that the price of bullion moves; whereas in truth, it is the currency of each nation that moves, and it is bullion which is the more fixed."[21]

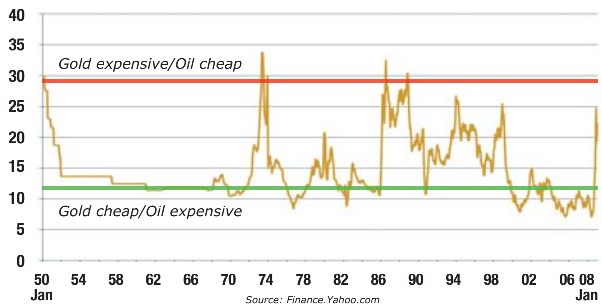
Later, in 1857, Charles Carroll observed, "what we fancy to be a rise in value of our products, is merely an alteration of the name in money that we exchange them by; they are not altered thereby, in their exchange value, with regard to each other."[22]

Gold is currently the center of the financial universe because of its large, aboveground stockpiles. But gold is not the only commodity that can function as a currency. If gold ceased to exist, the free market would quickly find a substitute. Only a commodity-based currency can be "risk-free," or in other words, subject only to exchange-rate risk. For these reasons, I recommend using gold to calculate prices and perhaps even as a presentation currency for your financial statements.

## Charts

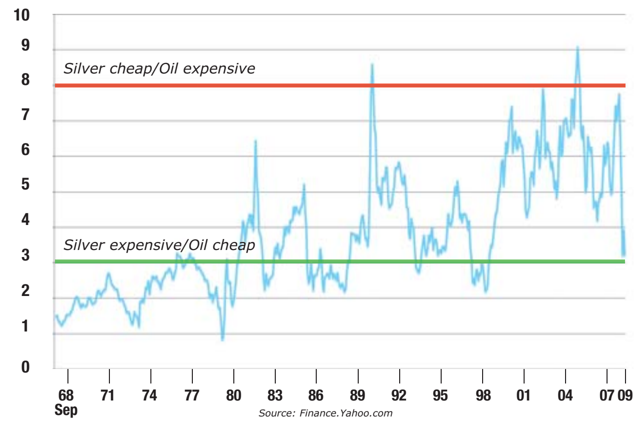
### The Gold to Oil Ratio

Barrels of Crude Oil per Ounce of Gold

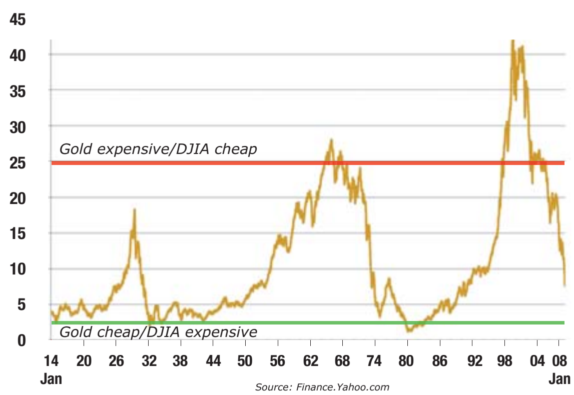

### The Silver to Oil Ratio

Ounces of Silver per Crude Oil Barrel


### The DJIA Priced in Gold

Gold Ounces per DJIA Unit


### The S&P 500 Priced in Gold

Gold Ounces per S&P 500 Unit



### US Median Home Prices in Gold Ounces




### Silver In Backwardation

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Money. People lust after it, wars are fought for it, and almost everyone's life is focused on it, whether either consciously or subconsciously. Though this tool plays an essential role in our daily lives, few have but a superficial understanding of it.

Money, politics, and religion are all intertwined in a coagulated mess akin to a bowl of spaghetti.

American Nobel Prize-winning economist Milton Friedman warns students of money and currency that "in monetary matters, appearances are deceiving; the important relationships are often precisely the reverse of those that strike the eye."[1] Thus, it is always important for us to remember the differences between money, money substitutes, illusions, and currency. We also should examine the evolution of money and currency in American jurisprudential history. Without the permission of the government, which is created by the action and consent of The People, no great wealth has ever been created.

Tradition has largely shaped how money is used. According to The Economist's take on classical economic theory, money has three main qualities: "(1) as a medium of exchange, buyers can give it to sellers to pay for goods and services; (2) as a unit of account, it can be used to add up apples and oranges in some common value; (3) as a store of value, it can be used to transfer purchasing power into the future."[2] Currency is only valuable for what it will purchase.[3]

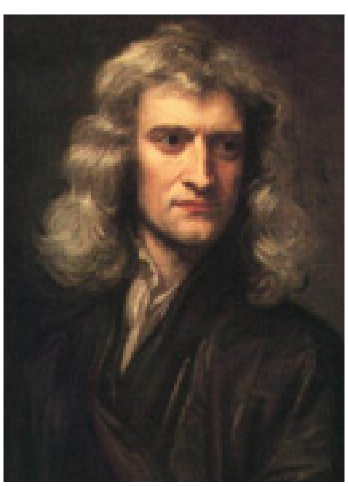
Throughout history, "people have used a wide variety of items for money, such as seashells, beads, tea, fish hooks, fur, cattle and even tobacco."[4] Since these were unwieldy to carry and use in transactions, people eventually turned to precious metals, including gold, pressed into coin form as the preferred form of money. As early as 700 B.C., the Lydians began minting coins.[5] Not until the T'ang Dynasty (from 618 to 907 A.D.) did the Chinese began using paper for money.[6]

When governments use money and currency properly, the currency contributes greatly to humanity's economic progress. But when abused, the people society has entrusted as sentinels have instead become tyrants.

As a result of industry and thriftiness, an individual may have excess wealth stored as money. To promote the efficient allocation of resources, the market may provide those with excess capital incentives to lend to those without. These incentives usually take the form of usury (interest). Buddhism, Hinduism, Islam, Judaism and Christian r eligions all oppose this imposition of exorbitant interest on religious, moral, ethical, and legal grounds.[7]

As money filled a useful role in commerce, it continued to evolve. Precious metals were stamped into coins. Despots like Caesar had their ghoulish visages imprinted on coins and required their acceptance. Over time, the precious metal content of the coins were usually debased by mixing in baser metals.

During the Five Dynasties period from 907-960 A.D., the Chinese experimented with money substitutes. With the advent of the Gutenberg press in 1439, European nations conducted similar experiments. Both eventually contributed to **inflationary credit expansions** and the inevitable **deflationary credit contractions.**



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## A brilliant monetary scientist

In the 1690s, King William III and Queen Mary II faced a natural, predictable consequence of their meddling with currency to create an inflationary credit expansion: a particularly vicious deflationary credit contraction. Seeking out the brightest minds to help correct the problem, they settled on Isaac Newton and installed him as the Warden of the Royal Mint in 1696, where he served for decades.

Applying his brilliant scientific mind to the monetary problem, he helped stabilize the British economy. In 1705, Queen Anne knighted Newton. In 1717, about a decade before his death, Newton developed the gold standard that functioned for decade after decade, forming the foundation for monetary markets.[8] He was a brilliant physical and monetary scientist whose contributions have immensely affected our lives today.

## Scoundrels

Around the same time, an infamous con man and economist, John Law, wiggled his way into power in France as the Controller General of Finances. This inflationary credit expansion was like a single person being in charge of the Federal Reserve, United States Treasury and all the S&P 500 corporations.[9] This inflationary credit expansion reached a predictable top, and then it began to dissipate through a deflationary credit contraction.

While Law controlled French finances, those in political power predictably used compulsion, force, and coercion to maintain the fundamentally flawed, inherently unstable, and unethical monetary system they benefited from. They made money substitutes and eventually illusions legal tender while banning the export and production of gold and silver under penalty of death along with granting extensive powers, akin to General Warrants Voltaire called this "the most unjust edict ever rendered" and "the final limit of a tyrannical absurdity."[10]

**As is common during a deflationary credit contraction, a critical question was posed: repression or regeneration.**

The French did not like their version of "bailouts" for the rich and elite while the men on the street were told to "eat cake." The immoral, unethical, and unjust violence used to perpetuate the failed system was destined to fail. As a result, the French engaged in regeneration with the Reign of Terror, during which 20,000 to 40,000 of the immoral, unethical, and violent rich and elite received justice with an appointment at the guillotine.

Interestingly, billionaire Rene-Thierry Magon de la Villehuchet, who was descended from French nobility, invested and recently lost his family fortune with Bernard Madoff, perpetrator of the largest individual investment fraud in history. Villehuchet committed suicide in December 2008. At least he managed to avoid the same fate as his rich and prominent ancestors who loaned money to Louis XIV. Their alliance with the King, who ennobled them as thanks for their loans, proved their death sentence. Their elite status was no protection from the merciless guillotine.

England and France are not the only countries that have experienced deflationary credit contractions. Indeed, the United States Founders dealt with a similar issue. James Madison wrote in the Federalist Papers that "government is instituted no less for protection of the property, than of the persons, of individuals."[11] He further resolved the issue of whether money belonged to the government or the people.

Madison highly favored the protection of private property and considered money substitutes or illusions, functioning as currency, to be a powerful infringement and devious mischief. He believed granting states the right to issue paper money would intrude on personal security and private rights because it could erode the wealth of the owner. Therefore, the Constitutional Convention erected many defenses, for the people and by the people, against the dangers of paper money substitutes and illusions. He wrote:

> No one of these mischiefs is less incident to a power in the States to emit paper money, than to coin gold or silver. The power to make anything but gold and silver a tender in payment of debts is withdrawn from the States on the same principle with that of issuing a paper currency.

> Bills of attainder, ex post facto laws, and laws impairing the obligation of contracts, are contrary to the first principles of the social compact and to every principle of sound legislation. The two former are expressly prohibited by the declarations prefixed to some of the State constitutions, and all of them are prohibited by the spirit and scope of these fundamental charters. Our own experience has taught us, nevertheless, that additional fences against these dangers ought not to be omitted. Very properly, therefore, have the convention added this constitutional bulwark in favor of personal security and private rights.[12]

King George did not like the idea of the colonists having this type of economic freedom. He wanted control, particularly the ability to tax, and he was willing to violate the Non-Aggression Axiom to retain his stronghold over the colonies. As his power waned, he followed Law's example and attempted to govern by aggressive force, coercion, and violence.

King George empowered his servants with Writs of Assistance to enforce the Stamp Act of 1765 and the Townshend Acts of 1767. These acts and the general warrants used to enforce them greatly agitated the Americans, who complained, "he has erected a Multitude of new Offices, and sent hither Swarms of Officers to harass our People, and eat out their Substance. . . For imposing taxes on us without our Consent."[13]

Several prominent colonial leaders took action opposing the acts. One was James Otis, Jr., a Boston attorney, who argued in Paxton's Case the general writs authorizing government officials to search for contraband in colonists' homes and businesses violated the unwritten British constitution stemming from the Magna Carta. He asserted that any law that violated the constitution or the "natural law" that underlay it, was void. His argument technically failed, but he won the hearts and minds of the people, including a young John Adams. Adams witnessed Otis publicly speaking against the general writs and recalled:

> But Otis was a flame of fire!… American Independence was then and there born. The seeds of Patriots and Heroes, to defend the non sine Diis animosus infans;—to defend the vigorous youth were then and there sown. Every man, of an immense crowded audience, appeared to me to go away as I did, ready to take arms against writs of assistance.* Then, and there, was the first scene of the first act of opposition to the arbitrary claims of Great Britain—then and there the child Independence was born. In fifteen years, i.e. in 1776, he grew up to manhood, and declared himself free.[14]

The Constitution contains a bulwark against these types of tyrannical infringements on autonomy. The Fourth Amendment establishes "the right of the people to be secure in their person, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the person or things to be seized."[15]

King George, like John Law, attempted repression and was met with powerful resistance. Eventually his unethical, immoral, and tyrannical oppression was defeated. Other examples of failed repression include the hyperinflation of the Reich mark in Germany, which resulted in Hitler's ascent to power, and the recent hyperinflation in Zimbabwe, which led to Mugabe's retreat from enforcing the use of the Z$ and allowing foreign currencies for use in daily transactions.

## Monetary names

What is a dollar, mark, or franc? Money, a commodity currency, is traded in units according to weight and purity. While different parts of the world may prefer to use different weights such as grains, grams, ounces, or pounds, they are all convertible. For example, two pounds equals thirty-two ounces; two ounces equals 875 grains or 56.7 grams, etc. The terms dollar, mark, and franc are names representing units of weights of gold or silver.

For example, "the dollar began as the generally applied name of an ounce weight of silver coined by a Bohemian Count named Schlick, in the sixteenth century. The Count of Schlick lived in Joachim's Valley or Jaochimsthal. The

Count's coins earned a great reputation for their uniformity and fineness, and they were widely called 'Joachim's thalers,' or finally, 'thaler.' The name 'dollar' eventually emerged from 'thaler.'"[16]

Remember the jokes about 2+2 and what is 2? Similarly, American constitutional law expert Dr. Edwin Vieira asks the question:


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## What is a dollar?[17]

The United States Constitution is the "supreme Law of the Land." The Constitution uses the term "dollar" in Article 1, Section 9, Clause 1 and the Seventh Amendment just like it uses the term "year" in Article 1, Section 2, Clause 2 and Article 2, Section 1, Clause 5. Because both 'dollar' and 'year' had a commonly accepted definition therefore neither term was defined anywhere in the Constitution.

But federal law, like most governmental things, is unintelligible regarding this question. The "dollar" unlike something as seemingly obvious as a "year" appears to have an inconsistent definition—or at least one that is routinely violated.

Under federal law, a "One Dollar" Federal Reserve Note is not defined as the dollar. The United States Code provides that "the said notes… shall be redeemed in lawful money on demand at the Treasury Department of the United States."[18]

The law further provides that the base-metallic coinage, composed of copper, nickel, and zinc, consists of "a dollar coin," weighing "8.1 grams," "a half dollar coin," weighing "11.34 grams"; "a quarter coin," weighing "5.67 grams": and "a dime coin," weighing "2.268 grams."[19]

According to the law, the gold coinage includes "[a] fifty dollar gold coin" that "weighs 33.931 grams, and contains one troy ounce of fine gold"; "[a] twenty-five dollar gold coin" that "contains one-half ounce of fine gold"; "[a] ten dollar gold coin" that "contains one fourth ounce of fine gold"; and "[a] five dollar gold coin" that "contains one tenth ounce of fine gold."[20]


Finally, the silver coinage consists of a coin inscribed "One Dollar," weighs "31.103 grams," and contains one ounce of ".999 fine silver."[21]

Based on these measures, Dr. Vieira questions, "what is the rational relationship between this 'dollar' of '31.103 grams' of '.999 fine silver,' a 'dollar' containing 0.679 grams of gold alloy, and a 'dollar' containing '8.1 grams' of base metals? Obviously, these are not the amounts of the metals that exchange against each other in the free market—that is, the different weights of different metals do not reflect equivalent purchasing powers. So, on what theory are each of these disparate weights, and purchasing powers, equally 'dollars'?"

Despite bitter differences, both Jefferson and Hamilton agreed on the need to define the monetary unit. Congress received Hamilton's report and under section 9 of the 1792 Coinage Act,[22] Congress defined a half dollar as "HALF DOLLARS—each to be of half the value of the dollar or unit, and to contain one hundred and eighty-five grains and ten sixteenth parts of a grain of pure, or two hundred and eight grains of standard silver" ($0.50 = 185 13/16 grains .999 fine silver or 208 .893 fine silver) and a "QUARTER DOLLAR—each to be of one fourth the value of the dollar or unit, and to contain ninety-two grains and thirteen sixteenth parts of a grain of pure, or one hundred and four grains of standard silver” ($0.25 = 92 13/16 grain .999 fine silver or 104 grains .893 fine silver). As a simple mathematical calculation will show, 104 x 2 = 208, so 208 x 2 = 416. Therefore, a dollar is 416 grains of .893 fine silver or 371 5/8 grains .999 fine silver.

## Obfuscation of the monetary unit

During the inflationary credit expansion, capital has assumed less safe and less risky assets. As a result, holders of capital have moved from their currency being (1) money such as a dollar being 371.625 grains of .999 fine silver to (2) money substitutes such as silver certificates redeemable for money to (3) illusions like FRN$s that are not redeemable for anything of intrinsic value. Each move has resulted in exposure to increasing layers of risk.

The overall effect is that 2+2 is whatever the bankers want it to be, and there is no definition of 2.

This political illusion currency is destined either to implode in a deflationary depression or explode though hyperinflation. Government-sponsored illusion currency, as diabolical as it may be, is a relatively straightforward form of counterfeiting. But this is only a very small part of the beginning to understanding the inflationary credit expansion.

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## Religion, ethics, and morals

All major religions appear to have an aversion toward or rejection of debt in the monetary system. The Muslims appear to be commanded not to exact interest from others. The Koran declares "Allah does not bless usury."[1]

The Jews and Christians appear commanded not to exact interest from fellow believers but may exact usury from others. They are counseled about the status of lenders being masters to borrowers. Moses commanded the Israelites "thou shalt not lend upon usury to thy brother."[2] Ezekiel spoke on the moral and ethical decay associated with debt by declaring those "given forth upon usury, and hath taken increase: shall he then live? He shall not live: he hath done all these abominations; he shall surely die; his blood shall be upon him."[3] The Proverbs suggest reasoning behind avoiding debt with "the rich ruleth over the poor, and the borrower is servant to the lender."[4]

The Christians alone appear charged not to become financially indebted. The Apostle Paul commanded the Christians to "owe no man any thing."[5]

The Jews seem to have a long history as money changers. Christ was upset with them and drove them from the temple.[6] Even though not afforded complete rights, they still managed to be extremely successful in banking. Over hundreds of years from the Lydians, to the 12th century, to the Medici of Italy, to financing city-states, the Jews rose to prominence in Western Europe due to their role in banking.

During this period, money circulated as currency. Banks began to grow to facilitate transactions over long distances. Bank notes, a form of money substitutes, began to become an accepted tool of commerce. This led to the rise of a practice known as fractional reserve banking.

## Fractional reserve banking

**Fractional reserve banking** is a practice in which banks keep only a fraction of their deposits in reserve (as cash and other highly liquid assets) and lend out the remainder, while maintaining the **simultaneous** obligation to redeem all deposits immediately upon demand.

The practice differs markedly from a **bailment** contract, in which a bailor leaves property in trust with a bailee. Examples of bailments include taking a suit to the dry cleaner or leaving grain in a warehouse. In that circumstance, neither the suit nor the grain belongs on the asset portion of the dry cleaner's or warehouse operator's balance sheet.

## Criminal law

**Embezzlement** is the act of dishonestly appropriating or secreting assets, usually financial in nature, by one or more individuals to whom such assets have been entrusted.

For example, if you were to leave your suit with a dry cleaner who then either sold or rented your suit to another individual, you would have a tort cause of action against the dry cleaner for trespass to chattels or conversion, and the State could prosecute the dry cleaner under most criminal law theft statutes for embezzlement.

For hundreds of years, when gold was entrusted to a bank, it was considered a bailment. In 1848, Lord Cottenham decided the perplexing case of Foley v. Hill and Others, stating:

The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with as he pleases, he is guilty of no breach of trust in employing it; he is not answerable to the principal if he puts it into jeopardy, if he engages in a hazardous speculation; he is not bound to keep it or deal with it as the property of his principal; but he is of course, answerable for the amount, because he has contracted.[7]

I wonder how much Lord Cottenham's bribe cost? This ex post facto case legalized fractional reserve banking—embezzlement in partnership with government—which is now a universal practice in modern banking.

Using these institutions requires holders of capital to take more risk and render their assets less liquid. Because fractional reserve institutions are inherently unstable, immoral, and unethical, they are prone to constant failures. To prevent these failures, central banks are often organized in partnership with governments. For example, the Federal Reserve System is the largest Ponzi scam in the history of the world.[8]

For example, although not authorized under the United States Constituion the First Bank of the United States grew up like a rogue weed. After its charter expired in 1811, Congress established The Second Bank of the United States. Andrew Jackson opposed the renewal of the bank charter and made demolishing it the central issue of his reelection campaign in 1832. He vetoed a congressional bill seeking its renewal that same year. By 1836, Jackson finally routed out the "den of vipers and thieves" when the charter for the Second Bank of the United States was not renewed. Due in part to his opposition to the bank, in 1835, Jackson was the first President targeted for an assassination attempt. Jackson survived when both of the would-be assassin's pistols misfired. He was so proud of his accomplishment that the epitaph on his tombstone reads, "I killed the bank."

Thomas Jefferson warned of the dangers central banks pose to free societies:

> The [Bank of the United States] is one of the most deadly hostility existing against the principles and form of our Constitution. The nation is, at this time, so strong & united in its sentiments that it cannot be shaken at this moment. But suppose a series of untoward events should occur sufficient to bring into doubt the competency of a republican government to meet a crisis of great danger, or to unhinge the confidence of the people in the public functionaries; an institution like this, penetrating by its branches every part of the Union, acting by command and in phalanx may, in a critical moment, upset the government. I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation or its regular functionaries.[9]

Because of the tremendous danger these types of institutions posed to society, the Founding Fathers instituted extremely cautious yet easily understandable provisions into the Constitution and the Coinage Act of 1792.

The Constitution both gives and restricts governmental power regarding money. It provides that "Congress shall have the power to… coin Money."[10] It also states "no State shall… emit Bills of Credit, make any Thing but gold and silver Coin a Tender in Payment of Debts… or Law impairing the Obligation of Contracts."[11]

The Fifth Amendment also prohibits the government from acting to "nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken'"[12]

The Constitution does not grant the Federal Government any authority to make anything legal tender. The States or people retain that power under the Tenth Amendment[13] but if the States make anything legal tender it must be gold and silver. Thus, a free market in currency is protected.

Mises stated, "it is impossible to grasp the meaning of the idea of sound money if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with political constitutions and bills of rights."[14]

Mises and Smith agree. Similarly, shortly before his assassination, 1844 presidential candidate Joseph Smith, Jr.

declared, "I consider that it is not only prudential, but **absolutely necessary** to protect the inhabitants of this city from being imposed upon by a **spurious currency**… I think it much safer to go upon the **hard money system** altogether. **I have examined the Constitution upon this subject and find my doubts removed**."[15]

The federal government has declared the FRN$ "legal tender." Since it does not have the power to declare the FRN$ legal tender and since the FRN$ is not gold or silver, the federal government has violated the Constitution by acting outside the scope of its enumerated powers under Article 1, Section 8.[16]

## Illegal taxation without representation

In Alan Greenspan's 1966 landmark essay Gold and Economic Freedom, he elucidated the relationship between gold, deficit spending, the protection of private property, inflation, currency, and the confiscation of private property.

> In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.
>
> This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard.[17]

Consequently, confiscation through inflation is a form of theft and of taxation without representation without due process of law. Thus, inflation violates the "supreme Law of the Land."

This pernicious inflation tax is compounded when a bank fraudulently takes deposits and issues demand ability. By definition, the bank is engaged in embezzlement. This leads to a multiplication effect of the currency supply. However, most of the supply is illusory and will eventually evaporate because it is an apparition of wealth based on a lie.

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# PART 2

## *Equal and Opposite Reactions*

## Inflationary credit expansion

An **inflationary credit expansion** occurs when general market sentiment is moving capital, both real and fictitious, up the liquidity pyramid into less safe and less liquid assets. This results in the creation of "fictitious capital," which in turn results in inflated but illusory asset prices. Often, one party allocates capital unwisely because another party bears the cost. Governmental intervention often creates nasty incentives through shifting the cost burden and creating moral hazard.

**Moral hazard** is the prospect that a party insulated from risk may behave differently from the way it would behave if it were fully exposed to the risk.[1] Moral hazard arises because an individual or institution does not bear the full consequences of actions and therefore has a tendency to act less carefully than he, she, or it otherwise would, leaving another party to bear some responsibility for the consequences of those actions.

For example, when Fannie Mae guarantees an individual's mortgage, the government also implicitly guarantees that mortgage. With these dual layers of guarantees in place, a bank will not bear the full consequences of its actions and will be more inclined to loan money to an individual who poses a significant credit risk. If the individual defaults on the mortgage, the bank will still receive its principal from either Fannie Mae or the government. Therefore, the government has created a moral hazard.

## The great inflationary credit expansion

As we have discussed, thousands of years ago, the market developed currency that was money. As the great inflationary credit expansion began hundreds of years ago, the practice of fractional reserve banking became prominent. This led to the use of money substitutes as currency. Governments became involved with legal tender laws requiring money substitutes as payment for debt.

Because of the inherently fraudulent and criminal nature of fractional reserve banking, the inflationary credit expansion continued. As the banks were prone to politically unsettling bank runs, central banks infested the economic landscape. With the assistance of government, a large degree of moral hazard developed.

While localized deflationary credit contractions took place in some countries, including France, America, Argentina, Bolivia, Zimbabwe, and Germany, as a whole, the world continued its upward trajectory and the Great Inflationary Credit Expansion continued.

When the International Monetary Fund, Bank for International Settlements (the central bank for the central banks), Bretton Woods agreement, etc. were created after World War II, the foundation was set for further expansion. In 1971, President Nixon's cancellation of the Bretton Woods system that stopped the direct convertibility of the United States dollar to gold created fundamental changes in the monetary environment.

For the **first time** in the world's history, the primary currency used in all nations was an illusion instead of either money or a money substitute. Since then, the world has been in uncharted waters.

For millennia, bankers and despots had dreamed of the thrill and exhilaration of being in a "zero-gravity" monetary environment. They now possessed the ability to confiscate through inflation without restraint. They thought the Reaper had dispatched gold.

But gold, the faithful sentinel of the ages, is immortal. At all times and in all circumstances, gold remains money. Gold stands in the way of this insidious process. Gold, ever faithful, stands as a protector of property rights. Gold, the Ancient Metal of Kings, is bearing down with its sword of justice upon the chains of illusions that bind mankind.

There will be collateral damage. Like gravity, gold's sword cleaves with blind justice. The tectonic plates of the world's financial system are shifting. Many of the largest structures, like Enron, WorldCom, Bear Stearns, Lehman Brothers, AIG, Iceland, Greece, England, and America have either been completely decimated or are currently under extreme pressure. The tremendous power of the Great Deflationary Credit Contraction has only begun.

## Endnotes

[1] Wikipedia, Moral Hazard, *available at* http://en.wikipedia.org/wiki/Moral_Hazard (last visited Feb. 2, 2009).

## Deflationary credit contraction

A **deflationary credit contraction** is the opposite reaction to the unsustainable excesses of an inflationary credit expansion. During a deflationary credit contraction, capital, both real and fictitious, burrow down the liquidity pyramid, seeking safety and liquidity.

By analogy, during a deflationary credit contraction, the system does not so much collapse as evaporate. When a house of cards collapses, cards are still left on the table. When a pan of water boils, very little if anything is left at the bottom of the pan.

Likewise, very little of the perceived wealth in the world's economy will be left after this deflationary credit contraction because most of the credit will have evaporated away. Sometimes deflationary credit contractions are referred to as "panics" because no one wants to be left with the illusory, evaporated wealth since they then have nothing, or worse. In essence, deflationary credit contractions, even if through panic, do not decimate real wealth or capital but merely reveal its destruction through worthless and unproductive allocations during the inflationary credit expansion.

## Current mother of all crises

Earlier, I quoted Paul Volcker's 2005 statement that "we are skating on increasingly thin ice." In 2009, the ice has broken and the world economy has fallen into the frigid water. The Great Deflationary Credit Contraction is here and it is an epic mess.

On April 8, 2008, Volcker described this situation when he spoke at the Economic Club of New York:

The sure complexity, opaqueness, and systemic risks embedded in the new market complexities and risks little understood, even by most of those with management responsibilities has enormously complicated both official and private responses to this **current mother of all crises**. Even previously normal trading relationships among long-established institutions are questioned. What has plainly been at risk is the disorderly unraveling of the mutual trust among respected trusted market participants, upon which any strong efficient financial system must rest.[1]

## The great deflationary credit contraction

As I mentioned earlier, Queen Anne knighted Isaac Newton in 1705. Why did he deserve this honor? In 1694, a deflationary credit contraction wrecked the entire English economy. Newton was put in as the master of the mint, developed the gold standard, and helped stabilize the economy and government. So we might ask the same question during the current great credit contraction, does the sun (gold) revolve around the earth (FRN$) or does the earth revolve around the sun?

What is the sun in the financial world? As we said earlier, determining the risk-free asset is the single most important investment decision. What is the risk-free allocation of capital?

If individuals are unable to make that decision, they will make poor measurements resulting in faulty value calculations when they allocate capital. Unfortunately, many otherwise very intelligent people who, like the establishment hundreds of years ago, think the sun revolves around the earth.

Remember the differences between money, money substitutes, illusions, and currency. Because these distinctions are so important, I will repeat the assertions made earlier.

**Currency** can be either (1) money, (2) a money substitute, or (3) an illusion.

**Money** must have intrinsic value by being a tangible asset. This is because when A gives B the pizza, the pizza has intrinsic value. For the transaction to be extinguished, A must receive from B an asset with intrinsic value. If B exchanges a 1 oz. American Silver Eagle for the pizza, then at the time of the transaction, a pizza and a silver coin would change hands. Value would be exchanged for value at the time of settlement, and the transaction would be **extinguished**.

A **money substitute** on the other hand, is a negotiable instrument that promises the payment of money. An example would be a silver certificate that reads: "This certifies that there have/has been deposited in the Treasury of the United States of America (number) silver dollar(s) payable to the bearer on demand."

If A exchanged the pizza with B for a silver certificate, then the transaction would not be settled but not extinguished until A passed on the silver certificate in exchange for value. A could extinguish the transaction by demanding the silver from the Treasury or passing on the silver certificate in a transaction for a hamburger.

The use of a money substitute introduces risk to A in the transaction with B because A relinquishes value when he tenders the pizza to B but does not receive an asset with intrinsic value in exchange. We shall call this "payment risk."

An **illusion** is a negotiable instrument that promises nothing and has no intrinsic value. It is like a silver certificate that promises the bearer no silver. It has value only because individuals are willing to bear the payment risk and other risks of the illusion. The bearer usually tolerates the risks because their cost is lower than the value placed on the utility derived from the service the currency provides to the market participants.

## Cash versus like-cash assets

The terms "cash" and "like-cash" are distinguishable. Cash is money, and something that is like-cash could be either a money substitute or an illusion. What we currently call "cash" is actually currency, merely an illusion, and therefore "like-cash."

For example, the balance sheets of all major publicly-traded corporations hold a lot of illusions, but they do not hold very much cash. By comparison, the entire eligible New York Mercantile Exchange and Commodity Exchange, Inc. (COMEX) gold stockpile represents approximately an immaterial 0.35% of the current assets of the five major publicly traded oil companies.

The interesting things about like-cash assets is that the confidence in them can rapidly be lost. For example, for twenty-five years, auctions were held without failure for auction-rate securities. Then one week, in January 2008, over 90% of the auctions failed because holders of capital decided they wanted safer and more liquid assets.

Suddenly, individuals realized while they thought they had cash, they really do not. Instead, they owned an asset with a completely different liquidity and risk profile that is neither as safe nor as liquid as cash.

## The intrinsic value of gold

Why do humans produce commodities? They do so because they add value to society. Humans produce wheat and rice for food, steel to build things, and oil for fuel and everything else. For example, everything you wear probably derives from oil somehow. All of your clothes, shoes, eyeglasses, water from Fiji, grapes from Chile, etc..

The value money adds to society is in having a tool to perform mental calculations of value, or in other words, the pricing mechanism. The primary monetary commodity, that risk-free asset, is the asset produced to be hoarded. In the digital age, multiple assets may emerge as monetary assets.

Why use gold as money? The primary reason is because it is the only monetary commodity on the earth today because of the 150,000 tons of aboveground stocks. Gold is produced to be hoarded, not consumed like all other commodities.

If, for some reason, gold ceased to exist or the aboveground stockpile were reduced to uselessness, the market would find some other commodity to perform this function. Probable alternatives include silver, platinum, palladium, and copper.

But one of the reasons gold functions as money is because of the slower rate of decline for utility derived from ownership of additional units (diminishing returns) and because gold's storage costs are usually extremely low.

For example, silver is not as dense or as highly valued as gold, and therefore it costs more to transport and store. This does not imply that silver is not a wise asset in which to allocate capital, but only that it does not function as **purely** as money as gold does. Gold's effective real return is usually higher than the other commodities. In other words, gold is the **most efficient** commodity to function as money.

## The liquidity pyramid

The liquidity pyramid is only a simple general roadmap to the current economic and financial environment. Any asset can quickly be placed somewhere in the liquidity pyramid. Individual human action based on unique value, utility, and pricing decisions often determines the exact placement in the pyramid.

Gold is at the tip because it is the safest and most liquid of all assets. Gold is cash. Gold can never become worthless, is always accepted and is the ultimate means of payment. Therefore, gold's safety and liquidity profile makes it the ultimate asset.

Above gold, you have physical Federal Reserve notes, followed by Treasury Bills, government bonds, listed stocks, corporate bonds, municipal bonds, and so forth. Because the FRN$ is the world's reserve currency, the other major currencies are above the FRN$ in the liquidity pyramid. Consequently, they will most likely evaporate before the FRN$.

While not generally considered in the pyramid, even assets like books, computers, and projectors could be placed into it. Advances in technology including Ebay or Craigslist have allowed them to become more liquid.

Other assets like Southwest Airlines Rapid Rewards, Delta SkyMiles, and retail gift cards function like money substitutes. Sure, their currency market share is extremely limited, they are subject to exchange controls and are "derivative" assets. **Derivatives** are financial instruments whose value changes in response to the changes in underlying variables.

A Southwest Airlines Rapid Reward is subject to performance and counterparty risk. Counterparty risk is the risk the other party to an agreement will default. **Counterparty risk** usually rears its ugly head when a party intends to perform but is financially unable to do so because of insolvency. **Performance risk** is the risk a counterparty will complete the tasks the contract requires where the completion is **not contingent** upon the counterparty's financial ability.

The value of a Southwest Airlines Rapid Reward changes based on the underlying value of Southwest Airlines because the rewards are subject to counter-party and performance risk. Additionally, this "money substitute" can have its "purchasing power" degraded through "inflation." For example, airlines may impose additional blackout dates, restrictions, and cancellations.

The current financial system is littered with toxic counterparty risk. In 2002, Warren Buffet, billionaire and CEO of Berkshire Hathaway opined, "we try to be alert to any sort of megacatastrophe risk, and may make us unduly apprehensive about the burgeoning quantities of long-term derivatives contracts and the massive amount of uncollateralized receivables that are growing alongside. In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."[2]

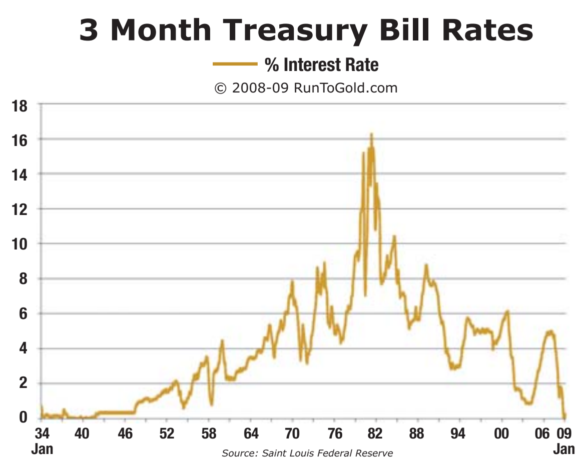
In the aggregate, during an inflationary credit expansion, capital, both real and fictitious, moves up the liquidity pyramid. In the aggregate, during a deflationary credit contraction, capital, both real and fictitious, moves down the liquidity pyramid. The fictitious capital unable to be converted into real capital evaporates.

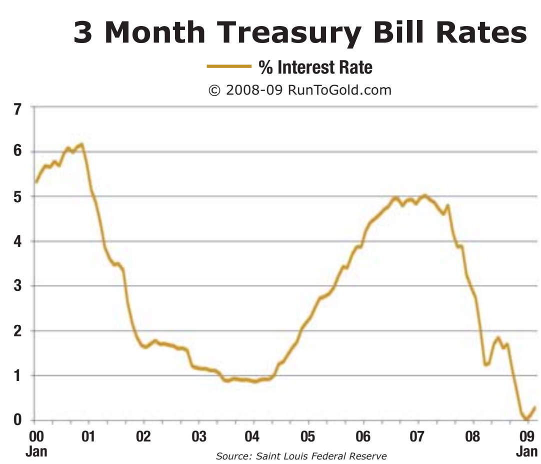
## Assessment as of 1 February 2009

As capital has been burrowing down the liquidity pyramid, it has driven up demand for Treasury bills. As a result, yields have been pushed extremely low. In the short-term, there will be fluctuations in the yields. But this section will only discuss the mega-trends currently operating.

To best allocate their capital, individuals will need to determine whether they think the deflationary credit contraction has shifted to an inflationary credit expansion and allocate their capital. The market will mete out the consequences.

## Daily Treasury yield curve rates[3]




Because yields have been pushed so low, the $64,000 question is whether capital will move up or down the liquidity pyramid.

An essential element of counterparty risk is reliance on the counterparty's financial ability. For example, if your house burns down, your receipt of proceeds to rebuild is contingent upon the insurance company's ability to pay. By contrast, if you drop off a suit at a dry cleaner that goes bankrupt, you get your suit back and do not need to get in line with creditors because the suit was held in bailment.

As counterparty risk increases, holders of capital become increasingly suspicious of their brokers, custodian banks, and so on through the food chain. As holders of capital seek safety and liquidity, they remove the layers of risk between them and their purchasing power.

People run to Treasury bills seeking safety and liquidity because they are lower in the liquidity pyramid. However, as more capital piles into them it drives yields lower and lower. Eventually Treasury bill rates will reach 0% or even go negative. This presents a problem.

**Why hold a Treasury bill with a bank, broker, custodian bank, or the Federal Reserve itself when you could take possession of physical Federal Reserve Notes?**

Taking possession eliminates at least two types of risks. First, it removes any potential counterparty risk with whomever is holding the Treasury bill for you. Second, it eliminates political risk, which is a much larger threat. For example, Treasury bills have a maturity date and new bills are usually issued to redeem those coming due. What if the Treasury Bills cannot be rolled over? What if the government does not redeem the Treasury bills? What if the government decides to transmute the Treasury Bills into 1-2% perpetual bonds, as other governments have done?

As the yields approach 0%, Treasury bills have the return of cash but do not have the benefits of cash, as they may be impregnated with counterparty risk or may have decreased liquidity. In other words, Treasury bills and cash have the same benefit profile but not the same safety and liquidity profile. This analysis also applies to demand deposits with banks such as checking accounts or CDs. They have **all the downside but none of the upside.**

Holders of capital seek to eliminate their downside while maintaining the same upside, resulting in less demand for government debt. To entice capital up the liquidity pyramid, yields must rise but cannot because so much capital is moving down the pyramid. The decline in mortgage-backed securities, auction-rate securities, asset-backed commercial paper, the Dow, and S&P 500 all show that to date, enticements up the pyramid have failed, as asset price deflation continues and intensifies.

Here, no cards are left on the table. The current system is not collapsing but evaporating as capital seeks safer and more liquid assets.

The deflationary credit contraction is intensifying. Holders of capital seeking safety and liquidity have driven down yields on Treasury bills. As holders of capital seek to eliminate the downside for which they are not being adequately compensated, demand for government debt will decline. For these reasons, the U.S. Treasury bubble is destined to burst.

We cannot predict when it will burst, since its timing is based on the individual action of millions of people. Perhaps the yields on Treasury bills have to go negative or even go negative to such a degree it makes more sense to hold the FRN$, even with the additional vaulting cost of the physical notes, instead of the Treasury bill. All we know is eventually, it will happen.

Because so much capital exists above the Treasury bill in the liquidity pyramid, and because those assets are being liquidated and the capital is migrating down the liquidity pyramid, yields are being driven lower and lower. Politicians are attempting to force capital up the liquidity pyramid, but they are unwilling or unable to adequately compensate the holders of capital for assuming that risk. The great credit contraction, capital burrowing to the safest and most liquid assets, is economic law at work.

## Hyperinflation

As a derivative of inflation, hyperinflation is similarly challenging to define. It is usually defined as "out of control" inflation. Definitions range from inflation rates of 50% per month to the International Accounting Standard (IAS) 29, where one factor is a cumulative inflation rate approaching 100% over the past three years. See Appendix 3 for a persuasive argument that under IAS 29, the FRN$ is currently in hyperinflation when using gold as the presentation currency.

Hyperinflation is a rapid loss in the value or purchasing power of an asset through either (1) a rapid increase in the notional amounts of a currency or asset without a corresponding increase in purchasing power, (2) a rapid decrease in the liquidity of a currency or asset with a corresponding decrease in purchasing power, or (3) a combination of both. This definition is broad enough to apply to currencies such as the Reich mark, stock such as Bear Stearns, or houses that burn down.

As an example of the Reich mark information in Weimar Germany, Walter Levy recounts, "My father was a lawyer, and he had taken out an insurance policy in 1903. Every month he had made the payments faithfully. It was a 20-year policy, and when it came due, he cashed it in and bought a single loaf of bread."[4]

By late 1923, the Weimar Republic of Germany was issuing fifty-million Mark banknotes and postage stamps with a face value of fifty-billion Mark. The highest value banknote the Weimar government's Reich bank issued had a face value of 100 trillion Mark (100,000,000,000,000). The Mark had evaporated over a couple years because of a rapid and tremendous increase in the notional amount without a corresponding increase in purchasing power.

Another example is auction-rate securities, which traded like-cash for about 25 years. Banks sold them to their clients as like-cash investments akin to money market funds or Treasury bills. One week in January 2008, all the auctions went "as normal," but the next week, over 90% of them failed. Auction-rate securities had hyperinflated, or evaporated, because of illiquidity and a decline in purchasing power because they could not be easily converted to cash.

Many investors were caught unaware holding assets they thought were like-cash that had become extremely illiquid and less safe. In some cases, they held forty-year student loan bonds that did not pay interest.

## How hyperinflation will likely play out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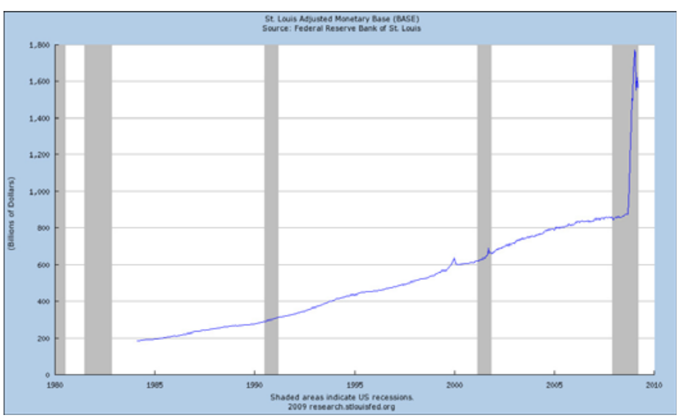
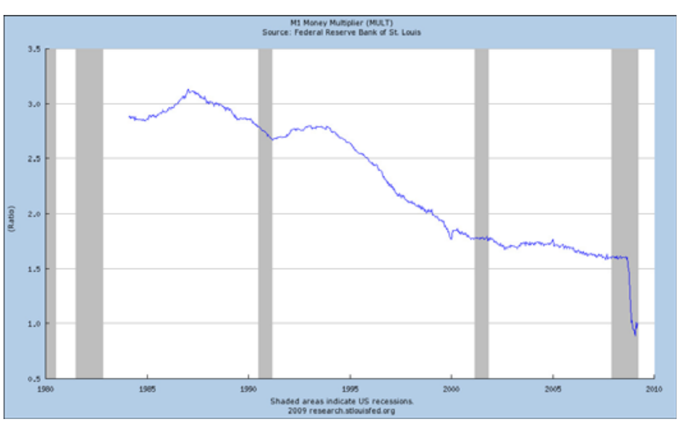
The last layer of credit to evaporate will most likely be the physical FRN$ because it abuts gold in the liquidity pyramid. Backwardation[5] may issue a warning, much like the canary in the gold mine. As the world's reserve currency, FRN$ effectively makes all other fiat currency illusions. Thus, the other currencies will probably break down first, as the Pound's loss of 30% of its value in 2008 and the current weakness in the Euro evidence.

While it may be difficult to predict the timing, the basic economic law is known: the FRN$, an illusion, will eventually dissipate in the currency event of hyperinflation.

The forty-odd years of "demonetization" of gold with the FRN$ as the world's reserve currency will turn out to be a footnote in the broad view of monetary history. It will be yet another example of the many suspensions of specie that have occurred from time to time, all with ruinous consequences.




In the past, most hyperinflationary events usually resulted in a flurry of economic activity that sped up the currency's velocity, while its supply increased at a breakneck pace. But there need not be an increase in the velocity of the FRN$ to precipitate this hyperinflation.

All that is required for the FRN$ to enter hyperinflation is for the market psychology to change enough that capital burrows from the FRN$ to physical gold. Because of the advances in technology in the Information Age, this transformation could happen almost instantaneously. The currency does not need to be printed but only digits added to the computer entry by pressing 0's to rapidly and tremendously increase the notional amount without a corresponding increase in purchasing power.

The rates at which the FRN$'s velocity is slowing and its supply increasing are epic. In a way, they help offset each other and stem the rise of prices. This has an effect of hiding the effects of such rapid inflation or increase in the money supply. But make no mistake about it: inflation is happening at monstrous rates.

Sure, a lot of fictitious and illusory capital has evaporated and will continue to evaporate from the liquidity pyramid. But creating so much currency near the bottom of the pyramid in the hope it will migrate up instead of down is complete insanity. Indeed, the inmates infected with the Financial Insanity Virus are running the asylum.

In the meantime, capital will continue seeking safe and liquid assets. The Treasury bill will likely be the prime beneficiary. But make no mistake about it; the FRN$ is an illusion, is only like-cash, and is not **the** safest and most liquid asset. Gold holds that title under monetary science and basic economic law.

Because the FRN$ is the world's reserve currency, all the other fiat currencies "are" the FRN$. All fiat currencies as forms of credit have an appointment with the Reaper during The Great Credit Contraction. Consequently, the FRN$ will likely be the last fiat currency illusion to evaporate through hyperinflation as capital burrows into gold.

## Size & scope of the great credit contraction

The current worldwide currency system is based on free-floating illusions and fractional reserve banking. These currencies offer no claim on any underlying asset of value. This inherently unstable, immoral, and unethical system has taken centuries to develop.

For hundreds and hundreds of years, capital has been moving up the liquidity pyramid into less safe and less liquid assets. The development of fractional reserve banking; illegal, immoral, and unethical behavior legalized ex post facto; and the rise of money substitute currencies that have morphed into illusions, the use of which is enforced by violence through legal tender laws, all show this upward movement.

There have been localized deflationary credit contractions, like England in 1694, America in 1776, France in 1796, Germany in 1923, Argentina in 2001, etc. However, small-scale, **localized** credit contractions have failed to stop the great **worldwide** inflationary credit expansion. The actions of the gold cartel engaged in the gold price suppression scheme have exacerbated these actions.

As the Gold Anti-Trust Action Committee's (GATA) advertisement in the Wall Street Journal declared, "the objective of this manipulation is to conceal the mismanagement of the U.S. dollar so that it might retain its function as the world's reserve currency. But to suppress the price of gold is to disable the barometer of the international financial system so that all markets may be more easily manipulated. This manipulation has been a primary cause of the catastrophic excesses in the markets that now threaten the whole world."[6]

*Do you have a silver or golden parachute?'*

Much like a ball thrown into the air that eventually reaches a zenith and begins falling, The Great Deflationary Credit Contraction has begun. For hundreds and hundreds of years, the ball (the worldwide economy) has been moving up (the inflationary credit expansion) the liquidity pyramid, has reached the zenith (Peak Credit), and has now begun falling, being pulled down to the earth by economic law.

Despite the self-satisfied self-deception of many court economists, politicians, journalists, and thieves, the gravitational pull of gold is too strong and the world economy has been unable to break free. The consequences are beginning to be felt.

At the risk of sounding melodramatic, we are talking about the collapse and evaporation of a global monetary system that has been expanding in an inflationary credit expansion for hundreds of years.

Nobody can predict how the great credit contraction and worldwide economy will ultimately play out. A lot of what we take for granted will be up for grabs all at once. The bailouts are the opening scene. There will likely be a widespread impulse to surrender whatever remains of individual liberty in return for an empty promise of security. There will be no shortage of dangerous quack remedies on offer for change. Perhaps the prescient E. M. Forster was correct about the machine stopping.[7]

Although possible, the great credit contraction will probably not be easily played to make a profit. We fool ourselves thinking the great credit contraction will be survived, liberty and property intact, by climbing inside our bunker. Monetary breakdown at the heart of a worldwide empire may even leave those who had the foresight to protect themselves with sleepless nights atop their stash.

Given the propensity of desperate politicians to do or say anything to preserve their power, those who spoke the truth before the collapse could well find themselves scapegoated as parasites or profiteers.

Nevertheless, the future is not etched in gold. While much of the illusory wealth will evaporate, the underlying world economy, the productive capacity of individuals, is extremely strong. Never before in the history of the world have so many people been so educated in so many areas with access to such tools. There is tremendous productive capacity with automation in many factories.

The great credit contraction and the accompanying liquidation of malinvestment is to be embraced and not feared. As Murray Rothbard observed, "It is true that credit contraction may overcompensate, and, while contraction proceeds, it may cause interest rates to be higher than free-market levels, and investment lower than in the free market. But since contraction causes no positive malinvestments, it will not lead to any painful period of depression and adjustment."[8]

Humanity is rapidly approaching decision time: repression or regeneration. If we choose regeneration and liberty remains, we can easily produce wealth again. If we choose repression and surrender liberty, it will be very difficult to produce wealth. Indeed, this is the "best of times and the worst of times,"[9] and humanity stands at a crossroads. In the long journey from the swamps of tyranny to the stars of liberty, humanity has been, generally, on an upward trajectory we will hopefully continue.

## Endnotes

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## Intent

This book's primary purpose has been to educate on monetary science and basic economic law. Please remember the disclaimer at the beginning that every individual has different utility and value preferences in determining his or her price for goods, services, and assets. Nevertheless, providing some guidance on how to turn this education into practical personal implementation is important.

First, each individual should confront some pointed questions:

(1)Do I believe it is at least possible that the fiat dollar illusion will someday collapse? If yes, then I should own gold as the safest and most liquid asset—as cash.

(2)How much gold should I own? As much as I can comfortably rationalize, perhaps using some sort of calculation of the gravity of the harm—i.e., financial wipeout—discounted by my sense of the probability of its occurrence.

(3)Do I think it inevitable that the fiat currency illusion, the FRN$, will suffer the same fate of all fiat currency illusions and money substitutes throughout history? If yes, then it is one's dollar exposure, not gold "investment," that I must rationalize.

As each individual has unique utility and value preferences, it is impossible for an author to recommend how a reader should apply this information. But the issue whether one should buy gold is a completely separate issue from whether one should use gold to perform mental calculations of value. Using gold as a mental calculation of value allows one to determine whether gold is expensive or cheap.

If you decide to purchase gold or silver, you may wish to visit http://www.runtogold.com/buy-gold for the latest recommendations regarding companies to use or avoid. The last thing you want to do is fall victim to a disreputable company's unethical behavior.

## Digital commodity currency

With the advent of the Internet, alternative monetary systems began to develop. The most reputable and safest digital gold currencies remove counterparty risk from cash balances.

They function by placing gold or another commodity of a defined quality in a vault and digitizing a number of electronic digits that represent the ownership of the gold in the vault. This new digital gold currency can then circulate as currency in ordinary daily transactions over the Internet, cell phones, and so forth. This technology flawlessly merges the best of money, currency and technology.

The use of this technology mitigates many types of risk inherent in the current financial system. As capital seeks the safest and most liquid assets, digital commodity currency will be a prime beneficiary. With the ability of technology to be rapidly adopted by any individual via the Internet, the growth of digital currencies will likely be extremely fast.

Why use an illusion or money substitute also subject to counterparty risk when both of those risks can be completely eliminated through the use of a digital commodity currency? While this infant industry a little over a decade old still needs to grow up, likely after the culling of less reputable firms, the survivors will prove trusted providers. For further discussion and the latest updates visit: http://www.runtogold.com/goldmoney.

The great credit contraction may result in a mass extinction of firms in the financial world.[1]

## Gold clause contracts

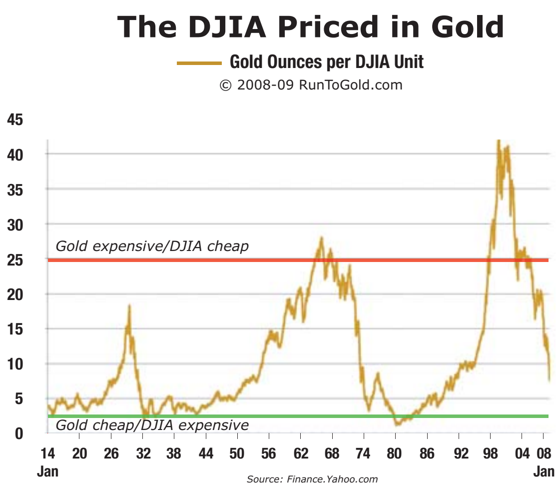
With the use of digital commodity currencies, it is possible to easily engage in ordinary daily transactions using gold. Under 31 U.S.C. §§ 5101–5122, the government provides for the monetary system and asserts that gold clauses are valid and enforceable in contracts.[2]

Instead of using consumer price index adjustments or some other metric, why not include a simple gold clause in contracts? If you have real estate, a life insurance policy, or another type of agreement, it may be wise to include this type of a clause.

Remember Levy's tale about his father who took out an insurance policy he cashed in twenty years later?[3] If a gold clause had been properly built into the insurance policy, when he cashed it in, he would have been able to purchase more than a single loaf of bread.

On August 27, 2008, the Sixth Circuit, a court one level below the United States Supreme Court, decided a significant case involving and upholding a gold clause in a lease agreement signed in 1912.[4]

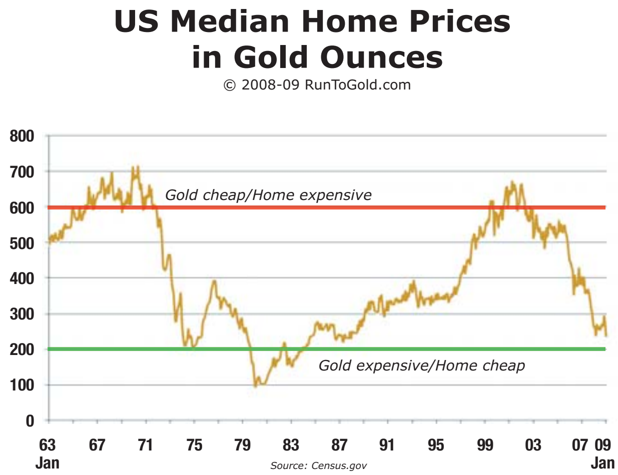
## Real estate and stocks

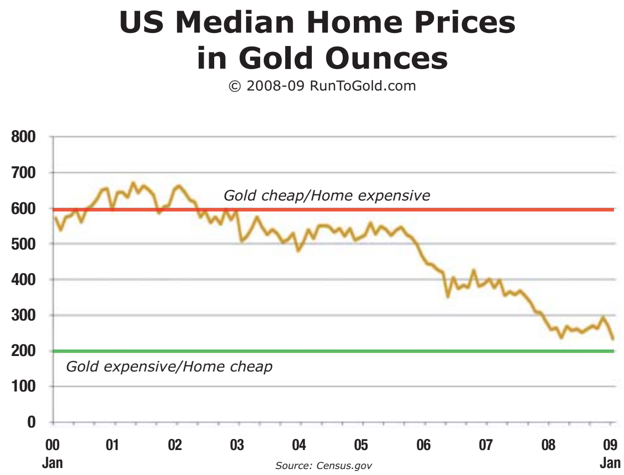




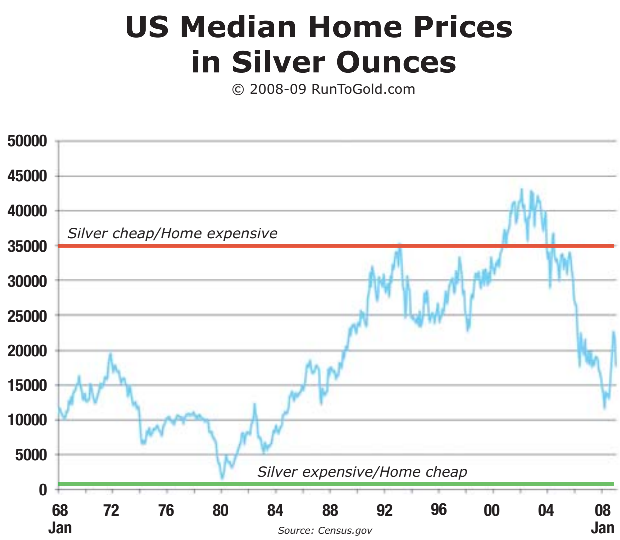
Real estate has always been an asset class in which to store wealth. The rise of credit markets has greatly impacted and distorted the price of both commercial and residential real estate. All assets can be priced in the monetary metals which yields a much more accurate valuation. Without going into too much detail because it would be outside the scope of this book, I will suggest some rough valuation guidelines.

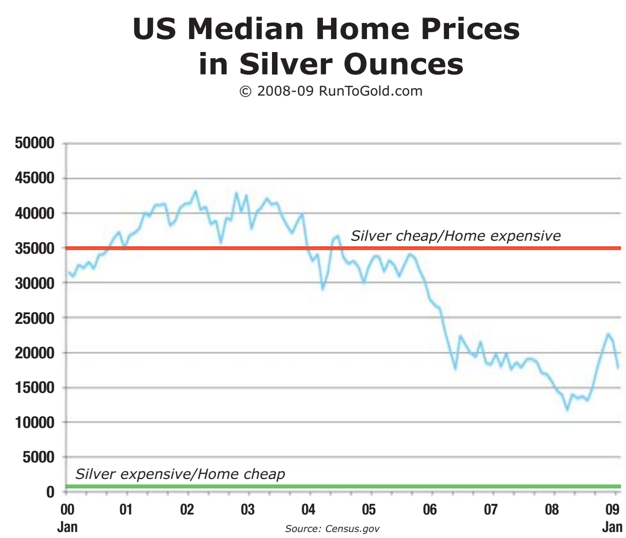
Likewise, the pricing mechanism for the average American home can be calculated in gold:




Based on the Case-Shiller Home Price Index, the following chart provides the approximate price of an average American home in silver:




Therefore, it appears the Dow is expensive when it costs about 30 ounces of gold or more and cheap when it costs five ounces of gold or less. So likewise, an average American home appears expensive when it costs 20,000 ounces of silver or more and appears cheap when it costs 1,500 ounces of silver or less.

## The last plane account

Here is a question many individuals cannot answer: if you had to take the last plane out of your city or country, where would you go, and how would you maintain your standard of living?

In these uncertain times, it is wise to implement a lifeboat strategy.[5]

## Political risk and the five flag theory

The Declaration of Independence states, "we hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights."[6] Unfortunately, many costumed criminals in government regalia think of citizens as livestock.[7] Consequently, if you do not consider yourself someone's livestock and wish to assert your sovereignty, you might want to consider implementing a five flag theory to protect yourself, your family, and your assets. The Five Flag Theory asserts sovereign individuals should attempt to organize and arrange their affairs for different facets of their lives to fall under the jurisdiction of separate countries, or flags.

Whether to minimize risk of identity theft, governmental interference, decrease expenses, increase privacy, or a variety of other personal reasons, the theory proposes that you should arrange for each of the following to be in a separate country or jurisdiction:

(1) **Passport and Citizenship** – a country that does not tax money earned outside the country
(2) **Legal Residence** – a low tax rate jurisdiction
(3) **Business Base** – where you earn your money; ideally somewhere with low corporate tax rates[8]
(4) **Assets** – where you keep your money; ideally somewhere with low taxation of savings interest and capital gains
(5) **Playgrounds** – where you spend your money; ideally a jurisdiction with low consumption, value-added tax, or sales tax

Organizing your affairs using this methodology allows you to decrease your exposure to political risk and increase the stability of your financial castle. As it can be overwhelming, you can take small, incremental steps to make this easier.

For example, California has a personal income tax rate of nearly 10%, while Florida, Nevada, and numerous countries have no personal income tax. If you can source your income in Florida or Nevada and stay as far away from California's tax system as possible, you can decrease your tax expenses. You can still vacation in California, so long as you have "no intent to remain" there.

Another example involves Oregon, which does not charge sales tax. If you choose Oregon as a playground and avoid, for example Tennessee, which charges more than 9% sales tax, you can lower your tax expenses.

## Reduce junction points

Large buildings in urban environments are often constructed in such a way to minimize outside distractions, such as sound. Sitting in perfect silence without any sound to be heard coming from the bustling outside streets can be inspiring. How is this silence possible with the hustle and bustle of a metropolis only a few yards away?

The answer lies in the building's architectural engineering. For example, an architect can design an inner building surrounded by an existing building, with the walls of the two buildings connected at only a few junction points. This structure limits the sound effects of the hustling and bustling metropolis.

Investors can learn from this architecture. Reducing junction points with businesses, organizations, and governments can greatly reduce various risks to your capital and the effect on your personal life. You should be able to quickly sever any attachment when the relationship is no longer mutually advantageous.

Defining one's throughput and then implementing the Theory of Constraints,[9,10,11] thinking process can be extremely helpful in developing the Four-Hour Workweek[12] and allowing you the freedom to live where, when, and how you want. The transitions accompanying the great credit contraction will provide tremendous opportunity for wealth generation and accumulation. Being able to understand the environment will allow one to swim with, not against, the current.

## Potential pitfalls

The Seventeenth Amendment states, "The Congress shall have power to lay and collect taxes on incomes, from whatever sources derived, without apportionment among the several States, and without regard to any census or enumeration."[13] United States citizens are taxed on worldwide income.[14]

Everyone bellyaches about taxes and hates paying them. There is plenty of philosophy throughout this book. Each individual must make a personal decision how to implement the information provided based on his or her own circumstances.

Tax avoidance, or tax mitigation, is the legal use of the tax regime to one's own advantage to reduce the amount of tax payable. The costumed Justices on the United States Supreme Court have decreed, "the legal right of an individual to decrease the amount of what would otherwise be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted."[15]

By contrast, tax evasion is the general term for illegal efforts to not pay taxes. As President Obama's nominations of Timothy Geithner as Secretary of the Treasury, Tom Daschle as Secretary of the Department of Health and Human Services, Hilda Solis as Secretary of Labor, and Nancy Killefer as Chief Performance Officer have shown, it is possible to engage in tax evasion and still be installed in high governmental positions. Thus comes the irony that these criminal gangs costumed in government regalia who willfully evade taxes may attempt to prosecute you for similar behavior. Remember, they are dangerous and venomous snakes: deal with them appropriately.

Although you have no moral or ethical responsibility it may be prudent to appease the immoral and unethical murdering extorter by paying those taxes the government claims you supposedly owe because then you need not look over your shoulder. The IRS does demand its painful pound of flesh, but it usually satiates the beast. If you attempt to use the Five Flag Theory for tax evasion, you will **most likely** fail and the results will probably be much more expensive than the pound of flesh the IRS originally wanted.

United States citizens are taxed on worldwide income.[16] However, citizens can avoid some income tax using a foreign earned income exclusion for which the IRS has a substantial presence test.[17] A serious solution to reducing junction points is expatriation.

Should you open foreign bank accounts or other financial accounts, you may be required to file form TD F 90-22.1.[18] The IRS imposes draconian penalties for failure to file, such as a ten-year jail sentence or $250,000 fine per account for each year not filed.

Expect neither your accountant nor your lawyer to be either your friend or a professional as they have been turned into spies[19] under U.S. federal law, UK law, and international treaties. For example, attorneys who fail to disclose information protected under the attorney-client privilege in one jurisdiction can be convicted of money laundering, imprisoned, fined, and disbarred in another jurisdiction.

If a client cannot be honest with and disclose all of the facts to his or her attorney without the threat of those facts being disclosed, then how can a client obtain effective, competent representation? This conflict of interest results in the serious erosion of the rule of law, but it is what it is.

Remember, countries are merely brands like Coke or Pepsi. As an intelligent shopper, you should look for the highest value from your equity and justice provider. If you consider a particular country to offer an inferior product for too high a cost, there are several options to kick-start[20] a shrugging Atlas who may be considering relocating to Galt's Gulch.[21] These actions may not be as difficult as they sound.[22]

This chapter is only meant to give you a few suggestions that may spark some thinking and is by no means intended to be comprehensive, although the endnotes should provide you with some excellent sources for further research. With the advent of ghost addresses,[23] the Internet, and other technology, the implementation of the Five Flag Theory to reduce junction points has never been easier.

## Endnotes

[1] NIALL FERGUSON, THE ASCENT OF MONEY 14 (Penguin 2008).

[2] 31 U.S.C. 5118.

[3] GEORGE J.W. GOODMAN, PAPER MONEY (1982).

[4] 216 Jamaica Avenue, LLC v. S & R Playhouse Realty Co., No. 07-3967, *available at* http://www.ca6.uscourts.gov/opinions.pdf/08a0322p-06.pdf (last visited Feb. 6, 2009).

[5] MARK NESTMANN, THE LIFEBOAT STRATEGY 290 (3d ed. 2007).

[6] THE DECLARATION OF INDEPENDENCE para 2. (U.S. 1776).

[7] Stefan Molyneux, Statism is Dead Part 3, available at http://fdrurl.com/Matrix (last visited Feb. 4, 2009).

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[9] ELIYAHU GOLDRATT, THE GOAL (3d ed. 2004).

[10] ELIYAHU GOLDRATT, CRITICAL CHAIN (1997).

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[12] TIMOTHY FERRIS, 4-HOUR WORK WEEK (2007).

[13] U.S. CONST. amend. XVII.

[14] ROBERT E. BAUMAN, FORBIDDEN KNOWLEDGE 278 (5th ed., 2004).

[15] Gregory v. Helvering, 293 U.S. 465 (1935).

[16] BAUMAN, supra n. xiv at 278.

[17] IRS Publication 519, U.S. Tax Guide for Aliens, *available at* http://www.irs.gov/publications/p519/ch01.html (last visited Feb. 6, 2009).

[18] TD F 90-22.1, Report of Foreign Bank and Foreign Accounts, *available at* http://www.irs.gov/pub/irs-pdf/f90221.pdf (last visited Feb. 6, 2009).

[19] NESTMANN, supra n. v, at 270.

[20] Sovereign Life, How to Give Yourself a Kick Start to Freedom, *available at* http://www.sovereignlife.com/kick-start.html (last visited Feb. 7, 2009).

[21] AYN RAND, ATLAS SHRUGGED (Dutton Adult 2005).

[22] ROBERT E. BAUMAN, THE COMPLETE GUIDE TO OFFSHORE RESIDENCY, DUAL CITIZENSHIP & SECOND PASSPORTS (2007).

[23] http://www.myearthclassmail.com (last visited Feb. 6, 2009).

## Trace: How can I help you?

Chicken Little: The sky is falling! The sky is falling! The identity thieves are after me! I have only just begun to think about protecting my privacy. What should I do?

T: Well, you have to weigh the costs and the benefits. What degree of protection do you want, and how much are you willing to pay for it?

CL: I have no idea! I just want to be safe.

T: In that case, how about we start with some simple, cheap tips for beginners. You can begin implementing these actions today. Doing so will help you protect your privacy.

CL: Oh good—something I can do today. Please tell me!

Protecting your privacy is a balancing act. Depending on the amount of protection you desire, it may cost you significant resources, including either time or money. This appendix will focus on low-cost tactics. I suppose one could become completely invisible by disappearing into the Amazon jungle. Modern society, which includes the most invasive entity of all – the government, provides utility. You will likely have to come to a comprimise. Remember, money and time are the fuel that will drive any desire to invade your autonomy.

Each individual has a different desire for privacy. For example, I generally choose to use the bathroom stall instead of the urinal that is available for all to see. Still others streak naked across stadium fields in front of tens of thousands of people with cameras broadcasting their every move on national television.

Obviously, some nefarious individuals seek privacy to conceal criminal activity. Nevertheless, I agree with Thomas Jefferson and "would rather be exposed to the inconveniences attending too much liberty, than those attending too small a degree of it."[1] While I endorse freedom, do not infer or attempt to imply that I endorse what people do with that freedom. I do not, and my suggestions herein are not intended to condone or support any illegal or criminal activity.

1. The first step is to keep your mouth shut about private affairs. Simply do not disclose personal information unless the person has a bona fide reason to know it. Guide discussions about personal or financial matters to another subject and talk in generalities. As the common saying goes, "it is better to be thought a fool than to open your mouth and remove all doubt."

2. Pay cash. Only disclose information if there is a good reason to do so. Understand how personal information will be used and secured. Check your credit reports on a regular basis. Consider using a ghost address.[2]

3. Use encryption. Using encryption may sound complicated, but it is actually pretty easy. TrueCrypt (http://www.truecrypt.com) is a free open-source encryption program. Start storing your files within encrypted directories. This is good computer hygiene. Should you desire to send an encrypted message via e-mail, you can do so by placing the message into an encrypted folder you create with TrueCrypt and then mailing the file. The recipient can use TrueCrypt to open the folder and access the message. Thus, without costing any money, you can use TrueCrypt to send e-mails, attachments, etc. and know your information is fairly secure.

4. Be cautious about your garbage, which can be a treasure trove of information for an identity thief. If you use checks for payments, do not write the full account number. Keep your account statements in a locked, secure location. Be careful about information disclosed on social networking sites. Avoid using discount shopper's cards as they reveal your purchasing patterns, and your personal information may be purchased by a health or life insurance company, turned over to government officials, or published to the world.

5. Learn how to appropriately handle your encounters with law enforcement. If more individuals knew how to properly assert their rights and constitutional protections, a significant number would not find themselves entangled in the criminal justice system. Many law schools have innocence programs where they work to free the wrongfully convicted. Law enforcement officers are not your friends. Often they lie and the evidence gained through fraud is admissible against individuals. Aside from convenience, I can think of no good or legitimate reason to consent to a search.

Some people argue that if you have nothing to hide, you have no reason to resist consenting to a search. A 2001 U.S. Department of Justice statistics report found some interesting results, however.[3]

•During 1999, an estimated 43.8 million people 16 years or older—or about 21% of the population that age—had at least one face-to-face contact with the police. About 52% of these interactions occurred during traffic stops.[4]

•Police pulled over about 19.3 million drivers, or about 10.3% of licensed drivers. Of those pulled over, about 1.3 million motorists said either their person or vehicle was searched. And in almost 90% of those searches, police found no evidence of criminal wrongdoing.[5]

•Of the 1.3 million searches of motorists, the likelihood of police finding criminal evidence did not differ significantly between the 845,000 searches without consent (12.9%) and the 427,000 searches with consent (14.2%).[6]

•During a traffic stop, police were nearly twice as likely to carry out some type of search on an African American (11.0%) or Hispanic (11.3%) than a white motorist (5.4%). Yet searches of vehicles with white drivers were twice as likely to find criminal evidence (17%) than searches of vehicles with black drivers (8%).[7]

•Of the nearly 1.3 million drivers who experienced either a vehicle search, a driver search, or both, about 66% did not feel it was for a legitimate reason.[8]

•Persons age 18 to 19 had a per capita rate of contact arising from a motor vehicle stop of 225 per 1,000, which is more than 4 times the rate of traffic stops experienced by those ages 50 or older.[9]

Even if you think you have nothing to hide, it is still wise to refuse consent to a search. Refusing to consent to a search does not indicate guilt. Below, I provide three reasons you should consider refusing an officer's request to search you or your person.

First, if you know you have nothing to hide, why would you consent to a search and give the law enforcement officer permission to waste valuable time and resources searching you and your property when you know he will find nothing? The only reason an officer would ask permission to search is if he did not have enough evidence to search. Wouldn't a responsible citizen want to save the taxpayer expenses by preventing such a fruitless search and instead have the officer engaging a legitimate threat? Why pay higher property taxes to fund "a Multitude of new Offices, and sent hither Swarms of Officers to harass our People, and eat out their Substance'?[10]

Second, by exercising your rights, you become a responsible and informed citizen. Good citizenship is important if the governmental structures are to operate in an efficient, moral, and ethical manner.

Third, the officer may find something illegal that you thought was perfectly legal. Then you are in a precarious situation.

The Flex Your Rights Foundation is a 501(c)(3) nonprofit dedicated to teaching the public about their constitutional rights. It has produced an educational video entitled BUSTED: The Civilian's Guide To Police Encounters, which provides examples of how to properly handle an encounter with law enforcement during a traffic stop, pedestrian stop, and home search. I highly recommend this video. It is available on YouTube or its website (http://www.flexyourrights.org).

When engaged with law enforcement, I stay calm, respond in a cordial manner, never physically resist, and assert my rights. In one instance where it was appropriate, I reported abuse, threatened legal action, and settled the case. Often law enforcement officers have severe emotional issues, below average intelligence, and an insecurity causing them a need to feel respected because of their authority.

Key phrases I use include "Officer, how may I help?," "Officer, why am I being stopped?," "Officer, I have to be on my way, am I free to go?," "Officer, I know you want to do your job, but I do not consent to any searches," and "Officer, do you have a warrant?"

The most important phrases are: "Officer, I do not consent to any searches," "Officer, you may not enter without a warrant," and "Officer, I have nothing to say until I speak with my attorney." Hopefully these phrases will keep your privacy protected and keep you away from the incredibly invasive criminal justice system.

The above constitutes general advice for general situations. For particular advice on specific situations, you will need to consult a licensed attorney.

6. Make a copy of or scan all documents in your wallet or purse. Then you can easily cancel any cards should they be lost or stolen.

7. Avoid lawsuits. Most lawsuits arise because someone feels wronged and he or she seeks justice. If you keep your word, perform your contracts, and do not infringe on another's autonomy, you greatly diminish the risk of a lawsuit. Should you have a disagreement with anyone, you may want to employ this teaching from the Bible: "But I say unto you, That ye resist not evil: but whosoever shall smite thee on thy right cheek, turn to him the other also. And if any man will sue thee at the law, and take away thy coat, let him have thy cloak also."[11]

I am not suggesting getting in situations where you are easily abused—just recommending that if you are in an uncomfortable situation, get away from the danger in the easiest and least painful way possible. Sadly, many lawsuits end up being emotional grudge matches where two people are arguing over the cow while the lawyers are milking it to death.

8. Avoid divorce. It is one of the most difficult and invasive legal actions. An impeccable way to avoid divorce is to never marry. However, marriage and family may add utility, joy, and happiness for some people.

You can have an honest and frank discussion with your spouse or potential spouse about money and privacy issues. Perhaps you will keep separate bank accounts, mail drops, safety deposit boxes, tax returns, and trusts.

Prenuptial and postnuptial agreements are extremely powerful and useful tools. Civil marriage and domestic partnerships are simply contractual arrangements between consenting individuals. A pre- or postnuptial agreement is simply a modification of the default statutory terms of that contract. In many cases, these agreements can provide greater protection for each spouse than the default statutory terms. Neither party should assume such an agreement indicates mistrust or deceit.

In summary, a great deal of personal privacy may be preserved through the use of ghost addresses, encryption, honest business dealings, the appropriate assertion of constitutional rights, careful personal and family relationships, and a willingness to settle disputes quickly and quietly.

## Checklist

Free Credit Report – www.annualcreditreport.com

Get Off Databases – www.optoutprescreen.com

Ghost Address – www.myearthclassmail.com

TrueCrypt – www.truecrypt.com

Flex Your Rights – www.flexyourrights.org

## Endnotes

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[2] To register for a ghost address, visit http://www.myearthclassmail.com (last visited February 6, 2009).

[3] Patrick Langan et al., Contacts between Police and the Public—Findings from the 1999 National Survey , at 2 (Mar. 11, 2001), *available at* http://www.ojp.usdoj.gov/bjs/pub/pdf/cpp99.pdf (last visited Oct. 21, 2008).

[4] *See id.*

[5] *See id.*

[6] *See id.*

[7] *See id.*

[8] *See id.* at 22-23.

[9] *See id.*

[10] THE DECLARATION OF INDEPENDENCE para XX. (U.S. 1776).

[11] Matthew 5:39-40.

## Excerpts from the Coinage Act of 1792

1 Statutes at Large 246

CHAPTER XVI – An Act establishing a Mint, and regulating the Coins of the United States.

**SECTION 1**. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, and it is hereby enacted and declared, That a mint for the purpose of a national coinage be, and the same is established, to be situate and carried on at the seat of the government of the United States, for the time being; and that for the well conducting of the business of the said mint, there shall be the following officers and persons, namely, a Director, an Assayer, a Chief Coiner, an Engraver, a Treasurer.

**SECTION. 9.** And be it further enacted, That there shall be from time to time struck and coined at the said mint, coins of gold, silver, and copper, of the following denominations, values and descriptions, viz.,

EAGLES—each to be of the value of ten dollars or units, and to contain two hundred and forty-seven grains and four eighths of a grain of pure, or two hundred and seventy grains of standard gold.

HALF EAGLES—each to be of the value of five dollars, and to contain one hundred and twenty-three grains and six eighths of a grain of pure, or one hundred and thirty-five grains of standard gold.

QUARTER EAGLES—each to be of the value of two dollars and a half dollar, and to contain sixty-one grains and seven eighths of a grain of pure, or sixty-seven grains and four eighths of a grain of standard gold.

DOLLARS or UNITS—each to be of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy-one grains and four sixteenth parts of a grain of pure, or four hundred and sixteen grains of standard silver.

HALF DOLLARS—each to be of half the value of the dollar or unit, and to contain one hundred and eighty-five grains and ten sixteenth parts of a grain of pure, or two hundred and eight grains of standard silver.

QUARTER DOLLAR—each to be of one fourth the value of the dollar or unit, and to contain ninety-two grains and thirteen sixteenth parts of a grain of pure, or one hundred and four grains of standard silver.

DISMES—each to be of the value of one tenth of a dollar or unit, and to contain thirty-seven grains and two sixteenth parts of a grain of pure, or forty-one grains and three fifths parts of a grain of standard silver.

HALF DISMES—each to be of the value of one twentieth of a dollar, and to contain eighteen grains and nine sixteenth parts of a grain of pure, or twenty grains and four fifth parts of a grain of standard silver.

CENTS—each to be of the value of the one hundredth part of a dollar, and to contain eleven penny-weights of copper.

HALF CENTS—each to be of the value of half a cent, and to contain five penny-weights and a half penny-weight of copper.

**SECTION 10.** And be it further enacted, That, upon the said coins respectively, there shall be the following devices and legends, namely: Upon one side of each of the said coins there shall be an impression emblematic of liberty, with an inscription of the word Liberty, and the year of the coinage; and upon the reverse of each of the gold and silver coins there shall be the figure or representation of an eagle, with this inscription, "UNITED STATES OF AMERICA" and upon the reverse of each of the copper coins, there shall be an inscription which shall express the denomination of the piece, namely, cent or half cent, as the case may require.

**SECTION 11.** And be it further enacted, That the proportional value of gold and silver in all coins which shall by law be current as money within the United States, shall be as fifteen to one, according to quantity in weight, of pure gold or pure silver; that is to say, every fifteen pounds weight of pure silver shall be of equal value in all payments, with one pound weight of pure gold, and so in proportion as to any greater or less quantities of the respective metals.

**SECTION 12.** And be it further enacted, That the standard for all gold coins of the United States shall be eleven parts fine to one part alloy; and accordingly that eleven parts in twelve of the entire weight of each of the said coins shall consist of pure gold, and the remaining one twelfth part of alloy; and the said alloy shall be composed of silver and copper, in such proportions not exceeding one half silver as shall be found convenient; to be regulated by the director of the mint, for the time being, with the approbation of the President of the United States, until further provision shall be made by law.

**SECTION 13.** And be it further enacted, That the standard for all silver coins of the United States, shall be one thousand four hundred and eighty-five parts fine to one hundred and seventy-nine parts alloy; and accordingly that one thousand four hundred and eighty-five parts in one thousand six hundred and sixty-four parts of the entire weight of each of the said coins shall consist of pure silver, and the remaining one hundred and seventy-nine parts of alloy; which alloy shall be wholly of copper.

**SECTION 14.** And be it further enacted, That it shall be lawful for any person or persons to bring to the said mint gold and silver bullion in order to their being coined; and that the bullion so brought shall be there assayed and coined as speedily as may be after the receipt thereof, and free of expense to the person or persons by whom the same shall have been brought. And as soon as the said bullion shall have been coined, the person or persons by whom the same shall have been delivered, shall upon demand receive in lieu thereof coins of the same species of bullion which shall have been delivered, weight for weight, of the pure gold or pure silver therein contained: Provided nevertheless, That it shall be at the mutual option of the party or parties bringing such bullion, and of the director of said mint, to make an immediate exchange of coins for standard bullion, with a deduction of one half percent from the weight of the pure gold, or pure silver contained in the said bullion, as an indemnification to the mint for the time which will necessarily be required for coining the said bullion, and for the advance which shall have been so made in coins.

**SECTION 16.** And be it further enacted, That all the gold and silver coins which shall have been struck at, and issued from the said mint, shall be a lawful tender in all payments whatsoever, those of full weight according to the respective values herein before described, and those of less than full weight at values proportional to their respective weights.

**SECTION 17.** And be it further enacted, That it shall be the duty of the respective officers of the said mint carefully and faithfully to use their best endeavors that all the gold and silver coins which shall be struck at the said mint shall be, as nearly as may be, conformable to the several standards and weights aforesaid.

**SECTION 19.** And be it further enacted, That if any of the gold or silver coins which shall be struck or coined at the said mint shall be debased or made worse as to the proportion of fine gold or fine silver therein contained, or shall be of less weight or value than the same out to be pursuant to the directions of this act, through the default or with the connivance of any of the officers or persons who shall be employed at the said mint, for the purpose of profit or gain, or otherwise with a fraudulent intent . . . Every such officer or person who shall commit any or either of the said offenses, shall be deemed guilty of felony, and **shall suffer death**.

**SECTION 20.** And be it further enacted, That the money of account of the United States shall be expressed in dollars or units, dismes or tenths, cents or hundredths, and the milles or thousandths, a disme being the tenth part of a dollar, a cent the hundredth part of a dollar, a mille the thousandth part of a dollar, and that all accounts in the public offices and all proceedings in the courts of the United States shall be kept and had in conformity to this regulation.

APPROVED, April 2, 1792

This article was originally published 19 August 2008 at http://www.runtogold.com/2008/08/us-dollar-in-hyperinflation/[1]

When I graduated from accounting school, the program's director imparted some sage advice. He joked that when a potential employer asked, "what is 2+2," we should respond, "whatever you want it to be."

One of my favorite law professors shared a similar joke with my class. He asked, "do you know what the difference between medical school and law school is? In medical school, you learn and memorize all twenty-three parts of the hand. In law school, you learn to ask whether the item presented is even a hand."

A critical question to answer: **whether the FRN$ is in hyperinflation?**

A key element of financial statements is comparability. The International Accounting Standards (IAS) provide the accounting rules and are comparable to Generally Accepted Accounting Principles (GAAP). Standard 1 requires a presentation currency. Standard 21 provides for translation between functional and presentation currencies. The Bank for International Settlements treats gold as a financial instrument in its annual report. For this analysis, I will use gold as the presentation currency and the FRN$ as a functional currency and persuasively apply the relevant Standards.

Standard 29 sets "specific standards for enterprises reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful… The basic principle in IAS 29 is that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date."

What are the elements and factors for hyperinflation? Under IAS 29.3, the four factors are (1) the general population flees the local currency, (2) dual currency pricing is practiced, (3) prices for purchases on credit incorporate the loss of purchasing power and (4) the cumulative inflation rate over three years approaches, or exceeds, 100%.

**First**, under IAS 29.3, "the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power." Under 31 U.S.C. § 5112, the United States Mint is required to provide gold and silver coins "in quantities sufficient to meet public demand." Due to exceptional demand, contrary to federal law, the Mint has suspended both gold and silver coin sales. It appears a significant amount of the United States general population is demanding the inflation hedge currencies, gold and silver, in large amounts. Therefore, it appears this first factor is satisfied.

**Second**, under IAS 29.3, "the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency." In New York, some merchants have begun pricing in and accepting other currencies. A February 2008 article reported that "we had decided that money is money and we'll take it and just do the exchange whenever we can with our bank… We didn't realize we would take so much in and there were that many people traveling or having Euros to bring in. But some days, you'd be surprised at how many Euros you get." Robert Chu, owner of East Village Wines, told Reuters television. Similarly, gas station owner Gary Mallicoat accepts silver quarters. While the practice of pricing and accepting alternative currencies does not appear widespread among the general population, the trend is starting to surface.

**Third**, under IAS 29.3, "sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short." One of the easiest ways for businesses to compensate for the loss of purchasing power through the use of credit is to stop extending credit and require cash.

This steep decline in the rate of growth of M3 has likely resulted from lines of credit being tapped out when the credit crisis began, lines of credit being revoked, and an unwillingness or inability to borrow or extend credit. Therefore, it appears that, indirectly, the price of both sales and purchases are being modified to compensate for the expected loss of purchasing power of the FRN$.

**Fourth**, under IAS 29.3, "the cumulative inflation rate over three years approaches, or exceeds, 100%." Because central banks have a conflict of interest and often shroud their operations in secrecy, using their official numbers is unreliable. The only reliable currency is gold. It is subject to only exchange-rate risk, and large aboveground stockpiles suggest its primary use as money. Therefore, the relative price of national currencies and gold, absent central bank manipulation to the downside, should reliably indicate the national currency's inflation rate because of the purchasing power difference.

The average price of gold in:
2004 - $409.72
2005 - $444.74
2006 - $603.46
2007 - $695.39
2008 - $912.90 (Jan.-Aug.)

Thus the "inflation rate" of the FRN$, relative to gold, is:
2005 - 8.5%
2006 - 35.7%
2007 - 15.2%
2008 - 31.3% (Jan.-Aug. 2008)

The cumulative inflation rate, as measured by change in purchasing power or exchange rate, from the 2005 average price of $444.74 to the 2008 average price of $912.90 equates to a rate of 105.3%. Because 105.3% exceeds the 100% IAS 29 requires, the inflation rate of the FRN$ relative to the stable and reliable gold currency indicates hyperinflation.

## Conclusion

With gold as the presentation currency, the FRN$ appears to be in a hyperinflationary environment under the elements set forth in IAS 29. The FRN$ meets all four elements IAS 29 sets forth: a large segment of the population of the United States has fled from the FRN$, goods and services are being priced in foreign and metal currencies, credit terms are changing to account for purchasing power differences, and the dollar has experienced a cumulative three-year "inflation rate" of 105.3%.

If you are a CEO or CFO of a publicly-traded company subject to SOX, you may want to consult your general counsel and auditors concerning this issue. I doubt I need to remind you that SOX penalties include fines up to $25 million dollars and imprisonment for up to 20 years. Better to be safe than sorry.

As the Weimar experience evidences, the rate of inflation rapidly accelerates. Like a jet engine, the faster it goes, the faster it goes.

In a deflationary credit contraction, the last layer of credit to evaporate is the national illusion currency through hyperinflation. This evaporation of the FRN$ through hyperinflation appears to be heating up.

## Endnotes

[1] Citations and hyperlinks are available in the original article. Any emphasis may or may not have been present in the original sources.

This article was originally published 13 December 2008 at:
http://www.runtogold.com/2008/12/a-problem-with-gld-and-slv-etfs/ [1]

The "sweat of the sun" and "tears of the moon" are singularly unique commodities. They function as unencumbered equity and as a presentation currency. For this reason, they are largely hoarded, not consumed, and protect against despotic government inroads by preventing confiscation through inflation, which is a form of taxation without representation.

The exchange-traded funds (ETFs) for gold (GLD) and silver (SLV) are commonly represented as being bullion. Accepting this assertion is naive and fraught with potentially lethal financial consequences. While GLD and SLV track the relative bullion prices, that is where the similarities with bullion end.

On May 20, 1999, Alan Greenspan testified before Congress, "gold is **always accepted** and is the **ultimate means of payment** and is perceived to be an element of stability in the currency and in the ultimate value of the currency and that historically has always been the reason why governments hold gold."

GLD and SLV are not this ultimate form of currency. I will raise only a few essential issues, although there are many.

## Quality of gold

Gold is a physical substance with a specific definition and is listed as element 79 in the periodic table. Gold is not subject to any risks and serves with complete fidelity only its owner. Drafted by securities attorneys usually earning $500+/hour, the GLD prospectus, which is similar to SLV's prospectus, states, "Investing in the Shares involves significant risks. See 'Risk Factors' starting on page 6." It also states "neither the Trustee nor the Custodian independently confirms the fineness of the gold allocated to the Trust in connection with the creation of a Basket." "**In issuing Baskets, the Trustee relies on certain information received from the Custodian which is subject to confirmation after the Trustee has relied on the information**. If such information turns out to be incorrect, Baskets may be issued in exchange for an amount of gold which is more or less than the amount of gold which is required to be deposited with the Trust." Thus, there is no assurance the "gold" held in the ETFs is actually the same gold as defined under the periodic table.

"In addition, the ability of the Trustee to monitor the performance of the Custodian may be limited because under the Custody Agreement the Trustee has only limited rights to visit the premises of the Custodian for the purpose of examining the Trust's gold." Therefore, it appears an audit of the actual physical gold is precluded. In other words, the authors of the prospectus suggest "**just trust us, the gold is there.**"

## Counterparty risk

The reassertion of counterparty risk drives much of the risk in the current markets. For example, the prospectus states the following:

- "The Trust does not insure its gold."
- "If the Trust's gold is lost, damaged, stolen or destroyed under circumstances rendering a party liable to the Trust, the responsible party may not have the **financial resources** sufficient to satisfy the Trust's claim."
- "Gold held in the Trust's unallocated gold account and any Authorized Participant's unallocated gold account **will not be segregated** from the Custodian's assets. If the Custodian becomes **insolvent**, its assets may **not be adequate** to satisfy a claim by the Trust or any Authorized Participant. In addition, in the event of the Custodian's insolvency, there may be a delay and costs incurred in identifying the bullion held in the Trust's allocated gold account."

Gold is not subject to counterparty risk, or in other words, a counterparty's ability to pay. Clearly, GLD is impregnated with counterparty risk that may instantly and violently appear from within like the Alien.

## Conflict of interest

Custodians have economic incentive to loot the ETFs. According to the prospectus, "under the Custody Agreements, the Custodian is **only** liable for losses that are the direct result of its **own** negligence, fraud or willful default in the performance of its duties. Any such liability is **further limited**, in the case of the Allocated Bullion Account Agreement, to the market value of the gold held in the Trust's allocated gold account with the Custodian, or the Trust Allocated Account, **at the time** such negligence, fraud or willful default is discovered by the Custodian." Not only does the Custodian attempt to disrobe itself of liability, but even if it is found liable, it will try to assert damages accounted at the time of discovery of the default. The probability of such damages being woefully understated relative to the potential future market value in the event of such a default is extremely high. In effect, this provision gives the Custodian a perpetual call option on the GLD hoard.

Who are these parties that say, "**just trust us, the gold is there**"? Authorized Participants include such venerable, safe, and secure Wall Street behemoths as Bear, Stearns & Co. Inc., Lehman Brothers Inc., Citigroup Global Markets Inc., Merrill Lynch Professional Clearing Corp., Goldman, Sachs & Co., J.P. Morgan Securities Inc., UBS Securities LLC, and Morgan Stanley & Co. Inc. Given the past actions of these firms, I am not sure I would want them anywhere near my gold.

For example, in June 2007, Morgan Stanley settled a class action lawsuit for $4.4 million where the Silberblatt complaint alleged "that Morgan Stanley told clients it was selling them precious metals that they would own in full and that the company would store. But Morgan Stanley either made no investment specifically on behalf of those clients, or it made entirely different investments of lesser value and security." While the efficacy of the claim may still be at issue, the Better Business Bureau-like complaint from unsatisfied customers who initiated litigation does not inspire confidence for those seeking to reduce risk.

During a credit contraction and liquidity crisis, the relationship goes out the window. On December 12, 2008, UBS "announced today it has frozen one of its real estate funds until the end of next year, due to an inability to keep up with redemption requests from wealth management clients." Why? According to the company's spokeswoman, the company "closed the fund temporarily for the protection of the investor." It would be most unfortunate to have one's gold in the sticky fingers of such fine and upstanding firms that refuse to deliver.

Additionally, the GLD and SLV hoards may pose a convenient source of bullion for the United States government to steal. Given prior tyrannical history with FDR's Executive Order 6102, which "prohibit[ed] the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations and corporations," this may be a material threat. On the other hand, Section 19 of the 1792 Coinage Act stated those who "debased, or made worse as to the proportion of fine gold or fine silver therein contained . . . shall suffer death." Perhaps the Americans were more civilized than their French counterparts and preferred the appearance of due process of law when executing their bankers and politicians for destroying their economies with fiat currency and fractional reserve banking.

## Accomplices to central bank gold price suppression scheme

During the 1990s, Treasury Secretary Rubin had devised the gold leasing scheme. Dr. Greenspan elucidated the intent of this scheme in his 1998 testimony before Congress: "Nor can private counterparties restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, where central banks stand ready to **lease gold** in increasing quantities **should** the price rise."

Many of the Authorized Participants to the prospectus are firms the Gold Anti-Trust Action Committee (GATA) has alleged to be complicit players in the central bank gold price suppression scheme. Mr. Robert Landis, managing partner for Golden Sextant, GATA consultant, graduate of Princeton University, Harvard Law School, and member of the New York Bar, has asserted "any rational person who continues to dispute the existence of the rig after exposure to the evidence is either in denial or is complicit."

Is it possible that GLD and SLV hoards are being surreptitiously used to continue the gold price suppression scheme?

## Conclusion

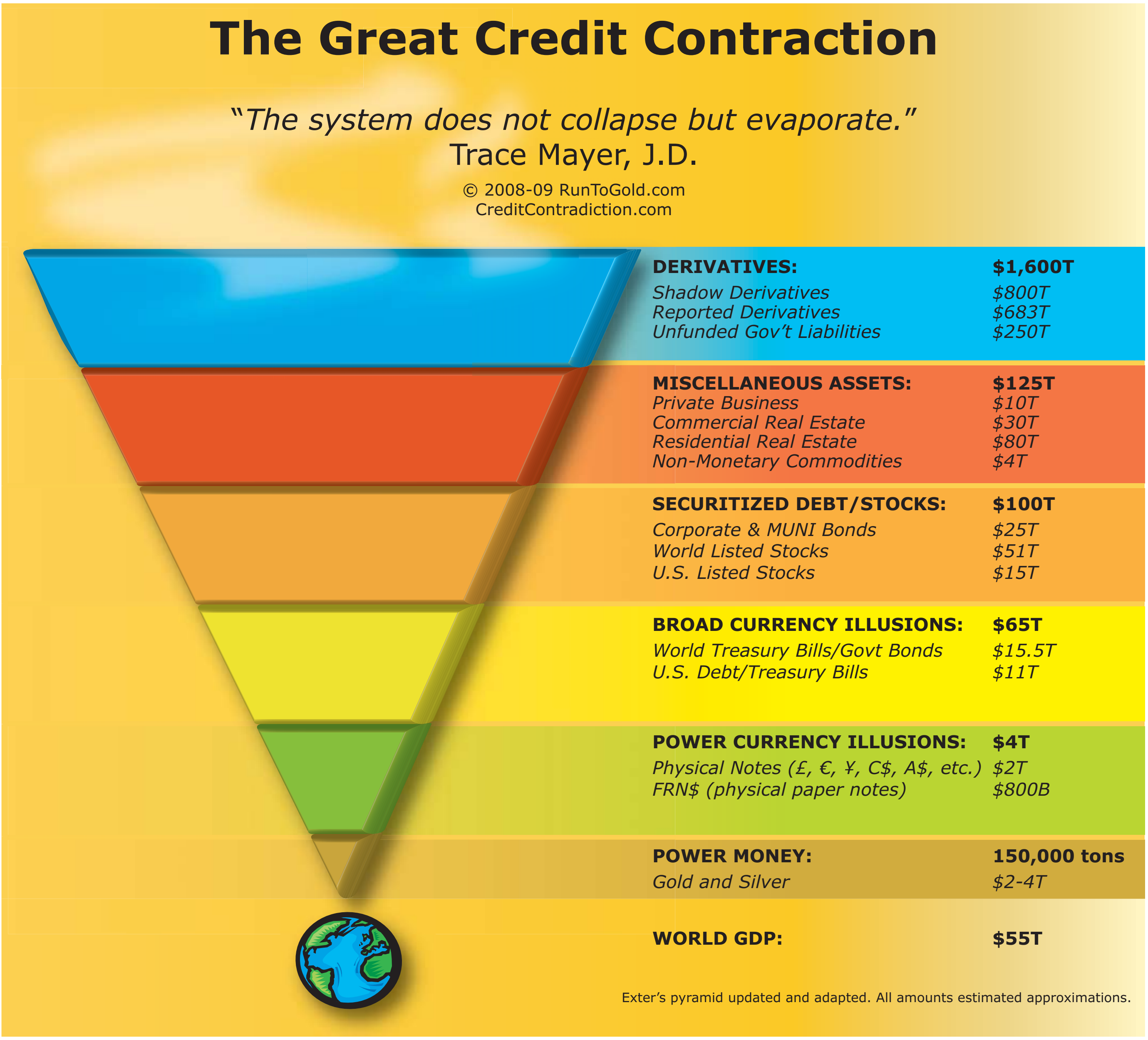
For those desiring to trade paper gold, the GLD and SLV vehicles may satisfy those requirements. But for those who desire the "sweat of the sun" or "tears of the moon" to own the ultimate form of payment, and therefore heed Chicken Little's warnings and protect their assets, the GLD and SLV vehicles appear extremely deficient. Alternative forms of holding allocated gold bullion exist that are affordable, secure, convenient, trustworthy, and not subject to counterparty risk.

For these reasons, including (1) the suspect quality of the gold, (2) the failure to permit an audit of the physical metal, (3) the counterparty risk that impregnates the investment vehicle and (4) strong conflicts of interest that exist with complicit players in the central bank gold price suppression scheme, GLD and SLV appear impotent in reducing inflation or counterparty risk.

## Endnotes

[1] Citations and hyperlinks are available in the original article. Any emphasis may or may not have been present in the original sources.

This article was originally published 3 January 2009 at:
http://www.runtogold.com/2009/01/united-states-treasuries-are-the-biggest-bubble-of-all/[1]




The current environment is a deflationary credit contraction rather than an inflationary credit expansion. The inflationary credit expansion lasted for at least sixty years and perhaps even as long as one hundred to six hundred years. Change is here and change is now.

The zenith of the expansion was reached, and the deflationary credit contraction began a few years ago. What happened in **2008 was simply the aroma of the appetizers being prepared**. Soon we will get our first course of at least a nine-course meal. Oh, the anticipation.

Those who fail to adapt will see entire fortunes of staggering amounts vaporized. For example, former billionaires Björgólfur Gudmundsson and Luis Portillio, whose net worth in March 2008 were $1.1B and $1.2B respectively, have current net worth of nothing and $15M respectively. Riches have become extremely slippery and hard to retain

During 2008, the forgotten four letter word reasserted itself in the minds of holders of capital. R-I-S-K, which was thought to have been understood and calculated for, flew in like the Nazgûl riding on a flock of black swans. Instead of taking lessons from history and running for cover, most people are still analyzing the situation under the tools they learned for measuring risk when all the swans were white.

As the Austrian School of economics is not taught in the leading business schools, it is fairly predictable that so many otherwise intelligent people lost themselves and their clients so much purchasing power. Many are infected with the Financial Insanity Virus (FIV) and are in denial of how things really work. They believe the derivative illusion and live in their own delusions, thinking things will return to "normal" where all the swans are white again. If anything, there will be a lot of grey swans, but make no mistake about it: the world will not be returning to an all-white swan environment again.

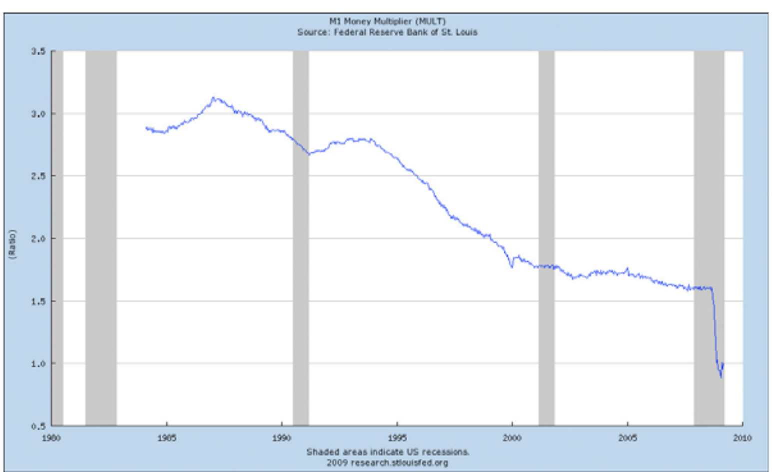
## Treasuries are the bubble

During 2008, one of the better asset classes in which to allocate capital in was the Treasury bond. During 2008, gold in FRN$ was up about 6%, gold in £ was up 44%, while gold in ¥ was down about 15%. This gain is because the FRN$ and ¥ are considered by many to be safe and liquid. During an inflationary credit expansion, capital moves up the liquidity pyramid. During a deflationary credit contraction, capital moves down the liquidity pyramid.

Because the FRN$ is the world's reserve currency and because Treasury bonds are considered safe and liquid, it is predictable that capital would flow into the Treasury bond and it would perform well during 2008. But the Treasury bond is fraught with risk, and that risk will eventually be made apparent. At the same time, gold's purchasing power is increasing as revealed by the gold to oil ratio and the gold to the Dow ratio being near highs.

The FRN$ is the largest bubble and Ponzi scam of them all. This fiat currency bubble exacerbated by fractional reserve banking has swollen for sixty, one hundred, and perhaps even six hundred years. The FRN$ bubble is in search of a golden pin and is going to find one.

## Velocity of treasuries is slowing




As the deflationary credit contraction continues and intensifies, the economy will continue to slow down. Like many, over the past few days I have gorged myself on football. One of my private bankers even got me tickets right next to the field at the fifty-yard line for the Gator Bowl. It is great to be on the receiving end of all this TARP bailout money! I even got to see Lil' Red.

During the Chairman's Brunch, I was talking with an interesting fellow who owns a respectable truck parts store his grandfather started in 1919. He mentioned that "October and November were the worst months ever" for his business. Hopefully this solid family business does not see Big Red on the income statement like Toyota (TM) did for the first time in seventy years.

**The velocity of the FRN$ is slowing**. Empty ships betray the fact that the economy is grinding to a halt. There is no bottom line without a top line. The spending cycle has metamorphosed into a savings cycle, and many businesses are going to have a tough time. There will be many casualties.

## Velocity of gold is rising

At all times and in all places, gold remains money and is potentially the most powerful currency in the world. The FRN$ is not money but an illusion that functions as currency. FRN$s are "bills of credit," prohibited by the Constitution, and will continue evaporating through hyperinflation during this deflationary credit contraction.

With the advent of the Internet, the entire nature and function of currency is evolving. Credit and debit cards are like the early attempts at transportation using the engine that resembled a horse-drawn buggy. The use of digital gold currencies is increasing, even while the velocity of the FRN$ is declining. Gold is to currencies what Latin is to languages, but these technological innovations breathe new life into the previously "dead" currency. Gold is only now beginning to awaken from its long slumber and increase in velocity. As the FRN$'s velocity slows, the value of the FRN$ will decline. As gold's velocity increases, the value of gold will increase.

Dr. Au Buygold suggests frequent contact with gold bullion to prevent the onset of FIV. He tells individuals to buy two ounces and call him in the morning. Dr. Buygold's suggestion applies to buying real gold, not apparitions like the problematic GLD or SLV. Implementing his advice may prove difficult because there are only about 0.8 ounces per person of available gold for sale. With riches so slippery, why would those who have the gold allow it to slip out of their hands?

## Conclusion

As Henry Thornton, economist and governor of the Bank of England, observed in his 1802 book, An Enquiry into the Paper Credit of Great Britain, "we assume that the currency which is in all our hands is fixed, and that the price of bullion moves; whereas in truth, it is the currency of each nation that moves, and it is bullion which is the more fixed."

The normal and natural way for money and currency to function is with gold and silver or some other physical commodity. This allows for useful and accurate value calculation. Years from now, financial historians may very well view the ninety-five year FRN$ bubble as an anomaly and wonder how so many people were so ignorant, much like we view the culture who thought the earth was flat.

As Ludwig von Mises predicted decades ago in Human Action, "the boom can last only as long as the credit expansion progresses at an ever-accelerated pace… But then finally the masses wake up… A breakdown occurs. The crack-up boom appears."

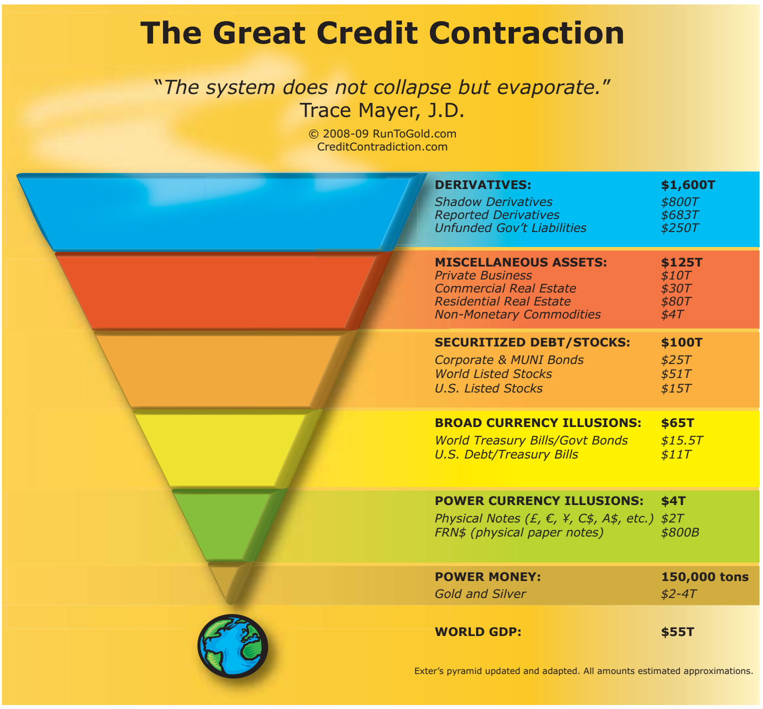
The sharp decline of the M1 Money Multiplier ratio portends saner times are coming when mankind will enjoy the fruits of its labor because gold and silver will circulate as currency in ordinary daily transactions. If you thought 2008 was a fun year, 2009 will be even better.

## Endnotes

1 Citations and hyperlinks are available in the original article. Any emphasis may or may not have been present in the original sources.

This article was originally published 18 January 2009 at:
http://www.runtogold.com/2009/01/why-and-how-the-treasury-bubble-will-burst/[1]

## Winter intensifies




The deflationary credit contraction, which some call a Kondratieff winter, is intensifying. For the time being, the worldwide financial and monetary systems have taken a step back from complete oblivion. The usual measurements such as the TED spread (the difference between the interest rates on interbank loans and Treasury bills), three-month LIBOR (London Interbank Offered Rate, a daily reference rate based on the interest rates at which banks borrow unsecured funds from banks in the interbank market), and the two-year swap spread have shown improvement. This improvement should not be mistaken for a miraculous healing, because the fiat currency fractional reserve banking system is terminally wounded. Eventually a commodity currency with 100% reserves and no counterparty risk will replace it.

The system does not collapse but evaporate. These measurements show only a decline in the evaporation rate. For the most part, the financial crisis of 2008 only affected Wall Street. In 2009, Main Street will start feeling its effects. With a predicted unemployment rate of 17.5%, according to John Williams of ShadowStats, the Greater Depression has arrived and only begun.

## U.S. Treasuries are the biggest bubble of all

A few weeks ago, I explained why U.S. Treasuries are the Biggest Bubble of All. In summary, gold is the risk-free asset, and the normal and natural way for currency to function is being grounded in gold and silver or some other physical commodity. Using a physical commodity allows for useful, accurate value calculation instead of the current derivative illusion. Years from now, financial historians may very well view the ninety-five year FRN$ bubble as an anomaly and wonder how so many people were so ignorant, much like we view the cultures who thought that the earth was flat or that the sun revolved around the earth.

Currently, as evidenced in the M1 Money Multiplier, the velocity of the FRN$ is slowing tremendously. As Ludwig von Mises predicted decades ago in Human Action, 'the boom can last only as long as the credit expansion progresses at an ever-accelerated pace… But then finally the masses wake up… A breakdown occurs. The crack-up boom appears." His insight begs the question:

## How and why will the U.S. Treasury bubble burst?

As long as the U.S. can pay and issue debt, the currency event of hyperinflation cannot happen. Because the U.S. has no internal savings, foreigners must absorb the debt. When foreign demand for U.S. debt subsides, at least two scenarios are possible: (1) printing the currency with the accompanying hyperinflation or (2) a default that may not result in hyperinflation. Either option will cause capital to burrow down the liquidity pyramid.

Seeking safety and liquidity, capital has moved from derivatives, to real estate, to commodities, to MUNI bonds, to listed stocks, to Treasury bills, to gold, and to all the financial or tangible assets in between. The liquidity pyramid is not set in stone, but it is mainly a large scale roadmap. Most assets can easily be placed in the liquidity pyramid somewhere.

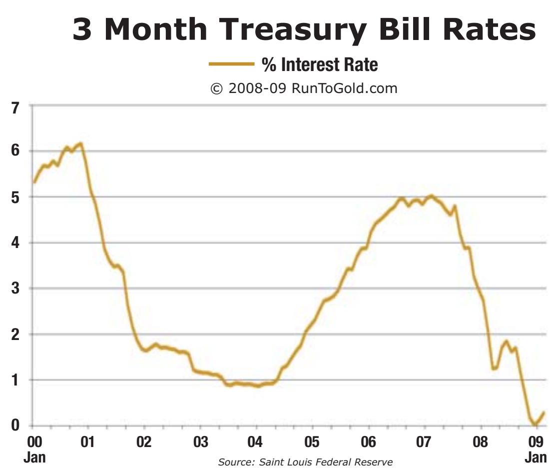
At all times and in all circumstances, gold remains money. Therefore, the Ancient Metal of Kings belongs at the very tip of the pyramid. Gold has been and is in tight supply because holders of capital want to avoid counterparty or custodial risk. Finding a trusted third party, like GoldMoney (http://www.mygoldmoney.com), to hold one's bullion in a proper way is extremely hard. As a result, spreads on both coins and bars have risen significantly. People want physical possession of the "sweat of the sun" and not "paper gold" like the problematic GLD or SLV ETFs.

## Counterparty and custodial risk

An essential element of counterparty risk is the reliance on the counterparty's financial ability. For example, if your house burns down, receiving proceeds to rebuild the house is contingent upon the insurance company's ability to pay. By contrast, if you drop off a suit at the dry cleaner and it goes bankrupt, you get your suit back and do not need to get in line with the creditors because the suit was subject only to performance risk as it was held in bailment.

As counterparty risk increases, holders of capital become more suspicious of their brokers, custodian banks, and so on through the food chain. As holders of capital seek safety and liquidity, they remove the layers of risk between them and their purchasing power.

## Why treasury bills will burst




People run to Treasury bills seeking safety and liquidity because they are lower in the liquidity pyramid. However, as more capital piles into them, it drives yields lower and lower. Eventually Treasury bill rates will reach 0% or even go negative. This decline presents a problem.

Why hold a Treasury bill with a bank, broker, custodian bank, or the Federal Reserve itself when you could take possession of physical Federal Reserve Notes?

Taking possession eliminates at least two types of risks. **First**, it removes any potential counterparty risk with whomever is holding the Treasury bill for you. **Second**, it eliminates political risk, which is a much larger threat. For example, Treasury bills have a maturity date and news bills are usually issued to redeem those coming due. What if the Treasury bills cannot be rolled over? What if the government does not redeem the Treasury bills? What if the government decides to transmute the Treasury bills into 1-2% perpetual bonds, as other governments have done?

## How treasury bills will burst

As their yields approach 0%, Treasury bills have the return but not the benefits of cash, as they may be impregnated with counterparty risk or may have decreased liquidity. In other words, Treasury bills and cash have the same benefit profile but not the same safety and liquidity profile. This analysis also applies to demand deposits with banks such as checking accounts or CDs. They have **all the downside but none of the upside.**

Holders of capital seek to eliminate their downside while maintaining the same upside, resulting in less demand for government debt. To entice capital up the liquidity pyramid, yields must rise but cannot because so much capital is moving down the pyramid. The decline in mortgage-backed securities, auction-rate securities, asset-backed commercial paper, the Dow, and the S&P 500 all show that to date, enticements up the pyramid have failed as asset price deflation continues and intensifies.

When a house of cards collapses, cards are at least left on the table. In the current case, no cards remain on the table. Thus, the current system is not collapsing but evaporating.

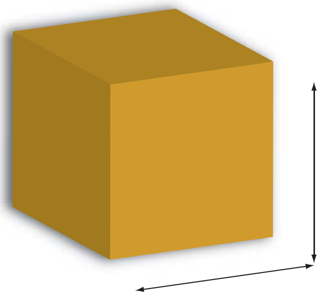
## Conclusion

The deflationary credit contraction is intensifying. Holders of capital seeking safety and liquidity have driven down yields on Treasury bills. Treasury bills have the same upside as physical Federal Reserve Notes but additional downside. As holders of capital seek to eliminate the downside for which they are not being adequately compensated, demand for government debt will decline. For these reasons, the U.S. Treasury bubble is destined to burst.

## Endnotes

1 Citations and hyperlinks are available in the original article. Any emphasis may or may not have been present in the original sources.

This article was originally published 22 October 2008 at:
http://www.runtogold.com/2008/10/derivative-illusion/




The assertion that there is "not enough" gold to return to a gold-based monetary system is fallacious. The counter-argument is that there is too much paper. The picture above illustrates the point perfectly.

The dollar-based monetary system is the largest bubble in the history of the world. **Gold has been, is, and will most likely always be the center of the financial universe**. In 1971, most people were too gullible and accepted the thinking that the earth (FRN$) revolves around the sun (gold).

Today, by luck, I ran into a friend who was the Chairman and founder of a respectable bank in Nevada. He is extremely well-connected. We spent some time talking shop. He remarked that "oil is going to $50 and gold to $500," and in about two years, gold will probably begin performing well. I would not be surprised if both assertions are proven correct over time because of the nature of the deflationary credit contraction as gold abuts T-bills. Nevertheless, my bullion is not for sale.

Why is that? Because the current monetary system is an illusion. The gold market is tiny compared to the Tower of Babel that has been constructed on top of it. **The pricing mechanism is completely broken.**

My friend, who often teases me for being a "gold bug," does not understand some basic monetary science and theory. He views gold as a portfolio asset; I view everything except gold as a portfolio asset. **We hold opposite views about what is the center of the financial universe**. While speaking with him, I launched a calculated rebuttal about credit default swaps vaporizing firms. He **revealed his ignorance** by responding, "yes, is there going to be any end?" I responded, "there are $**1,400T** of derivatives, and central banks use some of them to manipulate the gold price. The great thing about gold is it is either in my hand or not, and $850B of it cannot just be created out of thin air."

I then briefly explained the future of currency, like GoldMoney, and how it eliminates counterparty, settlement, credit, payment, and Herstatt risk from the medium of exchange and store of value. The monetary system is only beginning to change. Change always encounters pugnacious opposition from the status quo establishment. However, like the Catholic Church was powerless against the ideas of Copernicus and Galileo, so likewise is the establishment powerless against the ideas of digital commodity money.

Most importantly, digital gold will ultimately explode onto the international monetary scene whether bankers or governments like it or not! However, some ideas still need to be implemented. When the systems are implemented and the time is right, **digital gold will go viral and the illusion will dissipate.**

My strategy is to acquire gold on a consistent regular basis with a constant percentage of proceeds from cash-flowing assets. When you own an unencumbered ounce of gold, your wealth is sovereign. Hoard it. **Humanity's gold lust has been dormant for nearly a century, and when it awakens it will be extremely vehement and go viral**. Those who own gold know of what I speak. The yellow metal seems to call out to the inner conscience and resonate with our DNA. The central banks will be overrun.

This article was originally published 29 November 2008 at:
http://www.runtogold.com/2008/11/gold-confiscation/[1]

Usually, whenever gold is mentioned, the specter of the confiscation hydra rears its ugly head. In my opinion, those who consider confiscation a probable threat typically are biased.

I think gold confiscation is improbable for three main reasons. First, great structural differences exist between the gold environment of 1933 and today. Second, confiscating gold again would release the guillotine blade on the fragile U.S. dollar's neck. Third, such a move would be a form of political suicide even a tyrant of Abraham Lincoln or Franklin Roosevelt's stature would shy away from.

Many coin dealers who raise the confiscation issue have a profit motive in doing so. Many "collectible coins" not subject to confiscation in 1933 sell for significant premiums, which means the coin dealers make a larger profit on the transaction. This conflict of interest only reveals the bias—it does not vitiate the substantive argument.

For example, I have a beneficial financial interest in gold. If you ask me to contrast the advantages and disadvantages of gold and fiat currency, what do you think I will say? While I write both objectively and persuasively depending on the occasion, my conflict of interest does not vitiate the substantive basis of my argument.

The same is true for the tenured university professor who derives his salary from taxation through inflation without representation via the instrumentality of fiat currency. Of course the professor is going to extol and indoctrinate his students with the virtues of a fiat currency system because his livelihood depends on it. When it comes to money and wealth, everyone is biased.

## Structural differences

In 1933, the world was still on a gold standard, and the U.S. dollar was convertible to gold at an exchange rate of $20.67 for 1 ounce of gold. If you showed up at the United States Treasury with a paper dollar, you could demand payment in gold bullion. Most American banks kept gold in their vaults. On Saturday, March 4, 1933, the day after his inauguration, the second great American tyrant Franklin Roosevelt broke his solemn campaign promises and unilaterally declared a four-day "bank holiday" during which he shut down all the banks.

A month later, he issued Executive Order 6102, which provided for the confiscation of gold. Shortly after confiscating the gold at $20.67 per ounce, the dollar was devalued to $35 per ounce. These drastic actions by a desperate tyrant effectively demonetized gold in Americans' daily transactions and decoupled it from the banking system.

Though gold clauses in contracts are legal and enforceable, under the current United States code 31 U.S.C. 5,101-5,118, no links, legal or contractual, exist between gold and the FRN$ legal tender currency, the Federal Reserve System or United States banks. If some tyrant wanted to outdo Roosevelt, how could he or she possibly rationalize his or her actions to the markets and general population?

I agree that governments act irrationally, such as perpetually lying, cheating, stealing, and murdering. But they do have a common purpose: inertia. Very rarely do those in power wish to surrender any of it, but instead they seek to maintain the status quo of attached themselves like gluttonous parasites to the public's wealth.

## Guillotine for the dollar

Confiscating gold from the American public would almost instantly vaporize the dollar. A fiat currency is valued only by the confidence in it. There is no difference between the intrinsic value of $1, $20, or $100 bills, and with no link to a commodity like gold, the dollar is no different from the bills found in a Monopoly game.

Foreigners invest in America because of their Judeo-Christian principles in U.S. law evidenced in property rights. If the government tries to seize property like gold in an arbitrary way, foreigners will bolt for the exit. Countries that violate the sanctity of private property are punished for their theft by international investors because their unpredictability increases political risk.

Much of the federal debt is owned by foreign investors who watch the dollar gold price for any sign of weakness. A gold confiscation order would shock their faith to the very core, and they would most likely immediately dump their dollar holdings.

A new gold confiscation order would be a serious, seminal clarion call of political risk within the United States and of an imminent dollar devaluation. The deluge of dollar sellers would probably drown even Noah, and the dollar would probably lose 20 to 80% of its value in a single day. The dollar system would evaporate almost instantly. I seriously doubt any of the government parasites would intentionally instantly evaporate the dollar system.

## Political suicide

Such a move would also create tremendous sociopolitical implications. Suppose Chris Wallace on Lockheed Martin Nightly News declares that all gold owners are required to take their inert yellow metal to the local Federal Reserve exchange it for worthless paper. What will the reaction be?

Suppose of the 400 million Americans, there are 150 million investors. Suppose only 3% or 4,500,000 own the yellow metal. We will assume half of them voluntarily comply with a confiscation order. That leaves 2,250,000 with their yellow metal. What is this group like?

So in this hypothetical situation, the government has issued a confiscation order for physical bullion and suspects about 2 million highly-armed, distrustful, respected community leaders have it. What does the government do?

I once ran into a couple "gold bugs" at the local fair. I spotted them because each wore an African Krugerrand around his neck. I found out both were highly intelligent, upstanding, and active members of their business and religious community.

They were both ardent defenders of unalienable rights as found within the Declaration of Independence and protected by the United States Constitution. Both were strong advocates of the Second Amendment and were highly trained as snipers for the Army Rangers. They were both wary of government abuses and knew the role gold played in protecting against despotic inroads by government. They were gold standard advocates.

First, the government has to track down who owns the gold. Often, transactions are carried out in cash and do not leave much of a paper trail. Besides, even if someone purchased gold in the past, why would he or she currently possess it? Going door-to-door looking for gold is extremely costly, disorderly, dangerous, and politically suicidal. The government can do it nicely or meanly. If the search is done nicely, then a single agent may go and kindly ask the 2,250,000 highly-armed individuals who willfully and deliberately ignored the first gold confiscation order to please turn in their yellow metal.

If it is done meanly, the government may send a squad of jackbooted Blackwater mercenaries, because no self-respecting federal agents, local police, or Armed Services members would desecrate their honor by going door-to-door and stealing from their fellow countrymen and perhaps even "become the executioners of their friends and Brethren." Even then, the searches would have to be done slowly, house by house, gold investor by gold investor. It would be terribly personnel-intensive with six mercenaries in the entry squad and another six to seal the perimeter.

In perhaps 10% of these unreasonable searches and seizures, which would be gross violations of the United States Constitution, worse evil than even King George was able to work, the mercenaries would run into a stubborn gold investor who would resist with physical force. The gold investor would most likely die in the Waco or Ruby Ridge-like firefight.

But this atrocity of invading the homes of upstanding, peaceful community leaders, resulting in murder, would only need to happen a few dozen times across America before the viral YouTubes and public outrage would foment a fervent political inferno. If any Armed Services, federal agents, or local police were engaging in this horrendous massacre, they would quickly be demonized and perhaps become demoralized. The Blackwater mercenaries would be considered apparitions of Satan. The volcanic political response would result in the heads of politicians rolling. If not through elections, then perhaps literally, like the Reign of Terror.

## Taxation more likely

The government is far more likely to impose a draconian capital gains tax on gold or other bullion. Then the difficulty will become converting gold into bread or other goods.

## Conclusion

Certain political boundaries exist that no representative-republic government dares cross. Stealing private gold in a decoupled gold world is such a boundary. Digital gold currencies, like GoldMoney (http://www.mygoldmoney.com), safely nestled in offshore jurisdictions like Switzerland make physical confiscation much more difficult. Although not discussed in this article, easier targets exist for pillaging wealth like 401Ks, IRAs, etc. A more likely avenue would be increasing the currently confiscatory 28% collectibles rate gain tax. For these reasons, I consider the probability of a future gold confiscation extremely low.

## Endnotes

[1] Citations and hyperlinks are available in the original article. Any emphasis may or may not have been present in the original sources.

This article was originally published 7 December 2008 at:
http://www.runtogold.com/2008/12/gold-in-backwardation/

There has been quite a bit of chatter about gold going into backwardation instead of being in its regular state of contango. These are adjectives describing the movement of futures contracts on commodities, not types of dances. Gold has been in backwardation briefly as of late, but it will **need to remain** in that condition for a significant amount of time for things to get particularly interesting.

I received a question from DP, who said, "love your site… I am sending this email because I am currently trying to figure out all the details regarding gold's recent backwardation. Is there any way you could perhaps do an article on backwardation, as I have been looking over the internet for explanations but none really do a thorough job explaining it… I find that most forums or internet sites either explain it in one-liners, or go into more technical jargon like yield curves and such (I find this more difficult as my degree is in engineering and not economics)" I wanted to write an article on backwardation, but thought my readers would not want to read about such an esoteric subject. Thanks to DP, I will attempt to explain this topic.

**Backwardation** is a situation where a commodity's fiat currency price is pregnant with a premium the buyer is willing to pay for immediate delivery. The commodity's price for future delivery is **lower** than the spot price. This situation contrasts with **contango**, in which the spot price is lower than the futures price. Backwardation seldom arises in the monetary commodity gold or the quasi-monetary commodity silver.

Most economists and finance professors are completely wrong on this topic. Why? Because they start off with a **fundamentally flawed premise**, just like those who believed the sun revolved around the earth were wrong.

What is the risk-free rate?

**Gold is a currency**. Commodities like gold, wheat, and oil are produced because they add value to society. Wheat is food, oil is for everything, and gold is used to perform mental calculations of value. Unlike wheat or oil, gold is hoarded, not consumed. Just like the leading schools of the time taught the fallacy that the sun revolved around the earth, financial management classes at all major business schools teach the fallacy of the time value of money with present and future value calculations based on a faulty, risk-free rate based on a government treasury bill.

Wealth and purchasing power are distinct. The concept of having more wealth in the future simply by holding wealth now is an **illusion**. This idea is deeply ingrained in the psyches of most people, particularly economists and finance professors who feed off the teat of the welfare state funded by the theft derived from confiscation through inflation, which is taxation without representation via fiat currency. Most commonly, people think if they have $100 in their savings accounts today, they should have at least $100+x in their savings accounts a year from now. Never should they have less than $100 just for storing their capital. The problem is there is no definition of what a dollar is. When there is **no definition**, how can one make accurate calculations?

Contrary to their belief, the real nature of interest is **negative**. Wealth should always atrophy because wealth **requires** production. The trick is finding **the** store of capital with the lowest store of capital expense. For example, GoldMoney's (http://www.mygoldmoney.com) storage fees are .18% APY, which is the **lowest store of capital expense** I am aware of. Just set some bananas on the counter for a few days and you will notice they have a much higher atrophy rate. I estimate the dollar's store of capital expense has been around 25-30% per year over the past 5 years. This rate will probably increase over the next 5 years.

Contango is supposed to exist because of gold's inherently negative interest rate. The future price of gold is generally the spot price plus the future value based on the currency's interest rate plus a premium for counterparty risk. For example, if the interest rate is 12% APY and gold is $100/ounce, then gold's futures price for delivery in one month would be $101 + CPR = $100 + (.12/12 * 100) + CPR. As counterparty risk or the perception thereof increases, like an exchange's potential failure to deliver, there is greater demand for present delivery of gold.

Without getting into yield curves, the central banks' recent move to lower interest rates is leading to interesting developments in the monetary arena. If I earn no interest on my Dollars, Euros, Yen, etc. and lose purchasing power from inflation then I have a negative real rate of return. **If I have a negative real rate of return, why should I hold cash balances in dollars instead of gold?**

As evaporation of the monetary system continues during this deflationary credit contraction, capital piles into the national currencies by moving down the liquidity pyramid into the safest and most liquid assets. As the national currency interest rates continue to fall, they evaporate faster, driving them towards a zero-interest rate policy environment.

However, the **last** currency to eventually evaporate will be the Federal Reserve Note Dollar through its continued hyperinflation. This evaporation will occur when negative real rates of return are painful enough that holders of capital decide to own gold instead of dollars. The gold for present delivery will carry such a premium over gold for future delivery that it will be in a permanent state of backwardation because the dollar and all its babies, the other fiat currencies, are headed to join their ancestors in the fiat currency graveyard. In other words, it will be like the gold price in $Z: it is not for sale at any price.

During a credit contraction, it **goes against** economic law for capital, in aggregate, to move up the liquidity pyramid. That is what happens during a credit expansion. Gravity is a useful metaphor: what goes up must come down. When gold goes into permanent backwardation against the dollar, the price of other assets, like homes or stocks, in gold will **accelerate** their decline. For example, based on historical trends like the Case-Shiller index, the average American home will fall in price from its high of about 38,000 ounces of silver or about 525 ounces of gold, to a much cheaper price of 500-1,000 ounces of silver or about 25 ounces of gold.

We are participating in the collapse (evaporation) of a worldwide monetary system: the largest collapse in history. No one knows how it will play out or how long it will take. I recommend migrating, during these **stable** times, to a new sound monetary system like GoldMoney (http://www.mygoldmoney.com) for ordinary daily transactions in an effort to reduce the shock to one's businesses and way of life.

This article was originally published 3 February 2009 at:
http://www.runtogold.com/2009/02/voracious-indian-silver-appetite/

Lately, there have been some strange happenings in the silver market. As Shakespeare wrote in Macbeth, "by the pricking of my thumbs, / Something wicked this way comes."

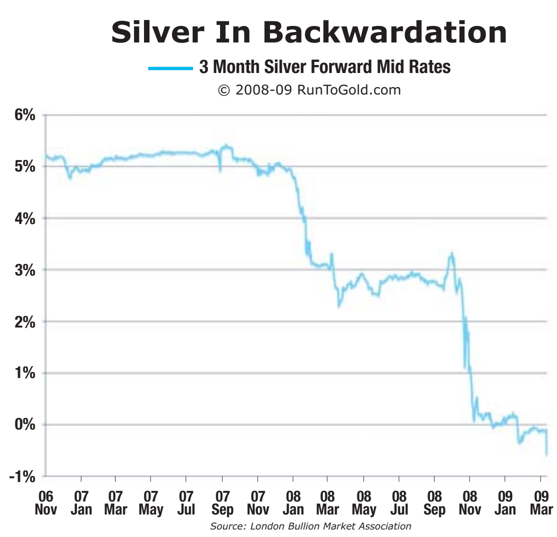
My article Gold In Backwardation objectively explains what happens in the markets when monetary commodities enter backwardation. **Backwardation** is a situation where a commodity's fiat currency price is pregnant with a premium the buyer is willing to pay for immediate delivery. The commodity's price for future delivery is lower than the spot price. This situation contrasts with **contango**, in which the spot price is lower than the futures price. Backwardation seldom arises in the monetary commodity gold or the **quasi**-monetary commodity silver.

Contango is supposed to exist because of silver's inherently negative interest rate. The future price of silver is generally the spot price plus the future value based on the currency's interest rate and a premium for counterparty risk. For example, if the interest rate is 12% APY and silver is $100/ounce, then silver's futures price for delivery in one month would be $101 + CPR = $100 + (.12/12 * 100) + CPR. As counterparty risk or the perception thereof increases, like an exchange's potential failure to deliver, there is greater demand for present delivery of silver.

Without getting into yield curves, the central banks' recent move to lower interest rates is leading to interesting developments in the monetary arena. If I earn no interest on my Dollars, Euros, Yen, Rupees, etc. and lose purchasing power from inflation, I have a negative real rate of return. **If I have a negative real rate of return, why should I own national currencies instead of silver?**

## Silver in backwardation

While the gold lease rate and silver lease rate have calmed down slightly, from 8 Dec 2008 to 23 Dec 2008 the SIFO (Silver Forward Mid Rate) was negative for 1- and 2-month and from 9 December 2008 to 12 December 2008 the 3-month. From 21 January 2009 until the present, 3 February 2009, the rate has turned negative for all months: 1, 2, 3, 6, and 12 months. This is a **highly** unusual event.



What if silver trades in backwardation for an extended period? Well, I already answered this question. It means individuals are unwilling to take the risk of holding national currency illusions or the risk of an exchange's failure to deliver. The national currency illusions might be pulled into the event horizon leading to the fiat currency graveyard. Watching the gold and silver prices in Euros and Pounds is getting exciting.

## The love hate relationship between silver and gold

Gold and silver are both monetary commodities. If you think the gold bugs are kooks, you should meet the silver bugs. During the 1896 election, advocates of both proudly wore their respective pins to display their political preference.

While gold and silver perform a similar function, they always compete with each other. At all times and in all circumstances, gold and silver remain money. They are both immortal monetary instruments. Therefore, the only risk they are subject to is exchange-rate risk.

## Gold to silver exchange rate

The gold to silver ratio is getting interesting. Silver appears to be extremely cheap in terms of gold. The ratio tends to drop lower as the bull market progresses. Should the ratio drop to the 200dma, then gold would be about $900/ounce and silver would be about $14/ounce. If the ratio went even lower towards 50, that would put silver around $18/ounce. Keep in mind that silver lies dormant most of the time and almost all of its gains are made in a very short period and the timing is extremely difficult to predict.

## Interest silver market news


Silver is an odd monetary instrument because it is also consumed. Much of the silver in the world is in landfills after being used in cell phones, CDs, etc. Supposedly the SLV ETF hit a new inventory high of almost 7,500 tons, but as mentioned earlier, there are problems with the GLD and SLV ETFs.

Indians in India, being fairly smart, have a voracious appetite for both **physical** gold and silver. They are a lot smarter than most Westerners who clutch their paper instruments with such blind, misplaced faith. The Indians are satisfied only if they get the cold, hard **physical** bullion in their warm hands. Indians consume/import an estimate 3,000 tons of physical silver per year. Each year the central bank, the Reserve Bank of India (RBI), issues a circular that gives banks a license to import **physical** gold and **physical** silver.

According to the India Times, for 2009, the RBI has renewed the license to import **physical** gold but not physical silver. Therefore, it appears most Indians will have to either purchase their physical silver overseas with a reputable source like GoldMoney (http://www.mygoldmoney.com), turn to the black market via smuggling, or face shortages.

As I have quite a few extremely wealthy Indian readers, I hope they are able to purchase all the silver they want. For those who have the ability to purchase silver, you may want to reflect on the value of that economic freedom. Given that an ounce costs about the same as a nice dinner, and because the **physical** silver market appears very stressed, why not pick up one or two… or a few thousand ounces?

To understand the importance of privacy and property, one must understand a few basic principles: that man[1] is "endowed by their Creator" with autonomy, the proper role of government, and that the individual is superior to government.

Man was born to be autonomous, or in other words, free and independent to act "according to the dictates of his conscience."[2] The simplest statement of the rule is "love thy neighbor as thyself."[3] As all men were endowed with autonomy and love their own autonomy, they should therefore respect their neighbor's autonomy just as they desire their own autonomy to be respected.

The autonomy of humans may have two sources. Man is either "endowed by their Creator" with autonomy, or autonomy is granted by governments according to the political framework. If we accept the premise that governments grant individuals autonomy, the corollary must be accepted: that governments can deny individuals autonomy.

Certain self-evident rights and abilities result from man's autonomy. To exercise their autonomy, man must have life, liberty, property, and knowledge of nature's laws.

These three liberty interests represent man's autonomy in the three time periods of the future, the present, and the past. The interest one has in his or her life protects his or her ability to make autonomous choices in the future and is protected by statutes that prohibit murder and criminal homicide. The interest one has in the present is his or her liberty interest and is protected by prohibitions on involuntary servitude or slavery and the habeas corpus clause, which allows an individual to challenge his or her illegal detention. How one has exercised his or her autonomy in the past is evidenced in the fruits of his or her labor or property. The property interest is protected by prohibitions against theft, fraud, and the monetary provisions in the United States Constitution.

The Constitution provides that "Congress shall have the power to… coin Money"[4] and that "No State shall… emit Bills of Credit, make any Thing but gold and silver Coin a Tender in Payment of Debts… or pass… any Law impairing the Obligation of Contracts."[5] The Fifth Amendment also protects all three of these autonomy interests, declaring "no person shall… be deprived of life, liberty or property without due process of law; nor shall private property be taken."[6]

The Constitution does not grant the federal government any authority to make anything legal tender. Under the Tenth Amendment, the states or people retain that power so long as they use gold and silver.[7] Thus, a free market in currency is protected. On this subject, James Madison wrote:

> No one of these mischiefs is less incident to the power in the States to emit paper money, than to coin gold or silver. The power to make any thing but gold and silver a tender in payment of debts, is withdrawn from the States, on the same principle with that of issuing a paper currency.
>
> Bills of attainder, ex post facto laws, and laws impairing the obligation of contracts, are contrary to the first principles of the social compact, and to every principle of sound legislation. The two former are expressly prohibited by the declarations prefixed to some of the State constitutions, and all of them are prohibited by the spirit and scope of these fundamental charters. Our own experience has taught us, nevertheless, that additional fences against these dangers ought not to be omitted. Very properly, therefore, have the convention added this constitutional bulwark in favor of personal security and private rights.[8]

Additionally, no central bank is authorized in the Constitution, and the institution is contrary to the principles of autonomy. Thomas Jefferson issued this warning about the Bank of the United States:

This institution is one of the most deadly hostility existing against the principles and form of our Constitution. The nation is, at this time, so strong and united in its sentiments that it cannot be shaken at this moment. But suppose a series of untoward events should occur sufficient to bring into doubt the competency of a republican government to meet a crisis of great danger, or to unhinge the confidence of the people in the public functionaries; an institution like this, penetrating by its branches every part of the Union, acting by command and in phalanx may, in a critical moment, upset the government. I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation or its regular functionaries.'[9]

Similarly, shortly before his assassination, Joseph Smith, a United States presidential candidate in 1844, declared, "I consider that it is not only prudential, but **absolutely necessary** to protect the inhabitants of this city from being imposed upon by a spurious currency… I think it **much safer** to go upon the hard money system altogether. I have examined the Constitution upon this subject and find my doubts removed."[10]

Ludwig von Mises and Smith agree. Mises stated, "it is impossible to grasp the meaning of the idea of sound money if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with political constitutions and bills of rights."[11]

Consequently, taxation without representation via confiscation through inflation is to be abhorred as a serious aggression against an individual's autonomy.

The habeas corpus clause is critically important. Habeas corpus is Latin for "we command that you have the body." This writ was defended at Runnymede and arose under the 1215 Magna Carta in clauses 36, 38, 39, and 40. The Great Writ is enshrined in the Constitution under Article 1, Section 9, which reads "the privilege of the writ of habeas corpus shall not be suspended, unless when in cases of rebellion or invasion, the public safety may require it." Jefferson noted that "the Habeas Corpus secures every man here, alien or citizen, against everything which is not law, whatever shape it may assume."[12]

All men are endowed with conscience that suggests right or wrong: morality or immorality. But this conscience may be dulled.

The central issue in determining right from wrong or morality from immorality is **whether another's autonomy is unjustifiably infringed**. The Non-Aggression Axiom prohibits the use of force, intimidation, and fraud against an individual or his or her legitimately acquired property without a justified defense. Violation of the Non-Aggression Axiom is wrong, unethical, and immoral.

For example, if Joe owns a tie, Bob can acquire Joe's tie in two ways. He can persuade Joe to voluntarily give or trade the tie to Bob, or he can attack Joe and steal the tie. If Joe voluntarily gives the tie to Bob, then both men comply with the Non-Aggression Axiom. If Bob, through force, threat of force, or fraud obtains the tie from Joe, then he violates the Non-Aggression Axiom. If Bob violates or attempts to violate the Non-Aggression Axiom, Joe is justified in using reasonable force or the threat of force in self-defense.

Almost every major religion encapsulates this supreme moral code. The wisdom of the ages realizes compliance with the Non-Aggression Axiom results in peace.

In Judeo-Christian teachings, the prohibitions against murder[13] (life interest), stealing[14] (property interest), and lying[15] (property interest) sustain and protect autonomy. The Hippocratic Oath, primum non nocere, means "above all else, do no harm." The Noble Eightfold Path of Buddhism requires (1) *vac*, which is speaking in a truthful and non-hurtful way, and (2) *karman*, which is acting in a non-harmful way.

Violation of the Non-Aggression Axiom may eventually result in violence and terror. An individual who violates the Non-Aggression Axiom is a criminal. A provoked victim may lash out against the criminal offender of natural law. This self-defense is a natural and probable consequence, as reflected in the wisdom of the Tao: "He who would assist a lord of men in harmony with the Tao will not assert his mastery in the kingdom by force of arms. Such a course is sure to meet with its proper return."[16]

To promote man's autonomy, the 54th Federalist Paper argues "government is instituted no less for protection of the property, than of the persons, of individuals."[17]

Since individuals are "endowed by their Creator with certain unalienable rights" and because individuals form government to protect property, life, and liberty, it follows that individuals are superior to their creation of government. **Individuals can grant to their creation at most only those rights they possess**. No individual possesses the right to unjustifiably infringe on another individual's autonomy, and because individuals create governments, no government can possibly be justified in the possession of such a right. **Therefore, government must act within the constraints of the Non-Aggression Axiom.**

Government represents one of the most powerful forces on earth. Therefore, an individual's political beliefs reveal with perfect clarity his or her moral character.

It further follows that individuals acting as or through government officials who violate the Non-Aggression Axiom under the "color of law" are merely individual criminals. Therefore, individuals who support government policies that violate the Non-Aggression Axiom and natural law are engaged in and accomplices to a criminal conspiracy to aggress against the autonomy of individuals. This is a serious crime. Those officials are merely criminal gangs costumed in government regalia.

A courageous individual may dissociate from the criminal conspiracy and criminal liability through the exertion of political pain. This dissociation may lead to a feeling of peace of conscience through the knowledge of knowing he or she is good and moral.

If money and currency, as a unit of account that serves as a medium of exchange and store of value, is property, then a crucial issue arises—whose property is it, the individual's or the government's? The Founding Fathers were highly protective of and regarded money and currency as a private property right.

Politics is the art of confrontation. "War is the health of the state." Most elections are merely advanced auctions on stolen goods. Compromise is what politicians do under pressure. The political economy is influenced by the will of the people.

However, the greatest force in politics is inertia. The most powerful influence is ideas. This is because "ideas are bulletproof" and can only be defeated by other ideas. Money, coercion, force, and power are impotent against the power of ideas. Nothing can stop an idea whose time has come. When criminal tyrants attempt to use force, eventually those being aggressed against rise up against the criminals and destroy them.

Politicians function fairly simply. They are ruled by their ambition and are therefore fairly predictable. They are either in office or not. Figuratively, they exist in only two states, being either alive or dead.

When a politician is alive, he or she has two different stimuli: pleasure and pain. Political pleasure can manifest itself in a myriad of ways, such as campaign donations, volunteers, yard signs, bumper stickers, good press, positive letters or emails, etc. Political pain is also manifested in a myriad of ways, such as bad press, negative letters, e-mails, or phone calls requesting written responses to a registered voter within a politician's voting area, lack of volunteers, slumping campaign donations, riots, revolution, etc.

In some cases, this political pain is turned into physical pain. For example, in la Grande Terreur, the political elite like Marie-Antoinette said to let the people "eat cake" and implemented broad dictatorial powers. This action prompted the Thermidorian Reaction, where the national razor, or guillotine, was used on Marie Antoinette and many other leaders during the Reign of Terror. Somewhere between 20,000 and 40,000 individuals perished in this political purge through mass execution. Such violent events tend to get the point across to politicians.

In the 1700s, the British attempted to exert a similar level of control over the American colonists. King George empowered his servants with Writs of Assistance to enforce the Stamp Act of 1765 and the Townshend Acts of 1767. These acts and the general warrants used to enforce them greatly agitated the Americans, who complained, "he has erected a Multitude of new Offices, and sent hither Swarms of Officers to harass our People, and eat out their Substance… For imposing taxes on us without our Consent."[18]

Boston attorney James Otis, Jr. unsuccessfully argued against the writs in Paxton's Case. Otis argued the general writs authorizing government officials to search for contraband in colonists' homes and businesses violated the unwritten British constitution stemming from the Magna Carta. He asserted that any law that violated the constitution or the "natural law" that underlay it was void. While Otis lost the case, he won the hearts and minds of the people, including a young John Adams. Adams witnessed Otis publicly speaking against the general writs and recalled:

> But Otis was a flame of fire!… American Independence was then and there born. The seeds of Patriots and Heroes, to defend the non sine Diis animosus infans;—to defend the vigorous youth were then and there sown. Every man, of an immense crowded audience, appeared to me to go away as I did, ready to take arms against writs of assistance.* Then, and there, was the first scene of the first act of opposition to the arbitrary claims of Great Britain—then and there the child Independence was born. In fifteen years, i.e. in 1776, he grew up to manhood, and declared himself free.[19]

The Constitution contains a bulwark against these types of tyrannical infringements on autonomy. The Fourth Amendment establishes "the right of the people to be secure in their person, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the person or things to be seized."[20]

A fearful politician advances a political agenda. Politicians will not respect an individual, constituency, or agenda unless they are fearful. Politicians will not be fearful unless political pain can be inflicted. Therefore, to advance a political agenda, one must be able to cause politicians political pain. There must be a price for bad political behavior.

Whenever dealing with politicians or lobbyists, etc., it is always wise to consider this question: how do they stand to gain if I believe what they say?

The number and effectiveness of activists on either side determine political success. While ideas can only be defeated by other ideas, some individuals attempt to take the temporarily easier route and make the attack personal.

When first confronted, politicians will often threaten you. If you are persistent and do not leave, they will explain "it" to you. "It" is the alleged political reality and how things "really" work. If you continue being persistent, they will attempt to defuse you. They may attempt to form a citizen's advisory panel, a committee, etc. to placate your desire. They may even put you in charge of it. But the bottom line is still the same: nothing changes.

It is important to keep in mind that a very small percentage of eligible voters are needed to effect change. For example, we will assume there are a hundred total people in a voting area. Of those, typically only sixty people can vote as some are not residents, are children, or are felons, etc. Of those, usually about forty people are registered to vote and only twenty-four actually vote. Of these twenty-four, about 8 people will vote Democrat and 8 people will vote Republican, with 2 people voting third party. This leaves about six out of one hundred people to swing the vote.

Elections tend to swing on whoever gets the 51% of that 6% area that is in play. Therefore, a small group of dedicated, skilled, and loyal activists focused on that small group can significantly change election results.

Many incumbent politicians have no challenger. Simply running against an incumbent politician causes political pain. An uncontested seat is always easier and cheaper to win than a contested seat. Thus, an incumbent politician, much like a piñata, is extremely easy to inflict political pain upon. Take your best shot!

The best time to attack an incumbent is in the primary election. This is because the electorate is extremely small and the voter turnout is usually anemic, hovering around 7%. Your only intent in running can be to cause political pain, and you will still be successful. You do not need to run with the intent to win. Remember, if you can cause a politician political pain and he or she knows you are responsible, you will be feared and respected politically.

The more political pain you can cause a politician, the more feared and thus respected you will become. They must understand you are not joking but are a serious and capable person with serious business. The more people you can mobilize and confront the politician with, the more serious you will be perceived. Inflict as much pain as possible during the election season, and let it be known that you will return the next year.

The name of the political game is political pain, and the more pain you can cause, the more feared and respected you will be. Ultimately, freedom like the gold standard and all other civil liberties must bubble up from the people.

## Endnotes

1 The usage of "man" is gender-neutral.

2 GEORGE WASHINGTON, IN GOD WE TRUST 59 (Norman Cousins, ed., Harper Brothers 1958).

3 *Matthew* 22:39

4 U.S. CONST. art. 1, § 8, cl. 5.

5 U.S. CONST. art. 1, § 10 cl. 1.

6 U.S. CONST. amend. 5.

7 U.S. CONST. amend. 10.

8 THE FEDERALIST No. 44 (James Madison).

9 THE WORKS OF THOMAS JEFFERSON IN TWELVE VOLUMES (Fed. Ed., Paul Leicester Ford ed. 1904), *available at* http://memory.loc.gov/cgi-bin/query/r?ammem/mtj:@field(DOCID%2B@lit(tj010010)) (last visited Oct. 14, 2008).

10 JOSEPH SMITH, JR., SCRIPTURAL TEACHINGS OF THE PROPHET JOSEPH SMITH 314 (Richard C. Galbraith ed., Deseret Book 1993) (1843).

11 LUDWIG VON MISES, THE THEORY OF MONEY AND CREDIT Ch. 21, *available at* http://mises.org/story/2276 (last visited Feb. 6, 2009).

12 3 MEMOIR, CORRESPONDENCE, AND MISCELLANIES, FROM THE PAPERS OF THOMAS JEFFERSON 402 (Thomas Jefferson Randolph ed. 1829).

13 Exodus 20:13

14 Exodus 20:15

15 Exodus 20:14-16

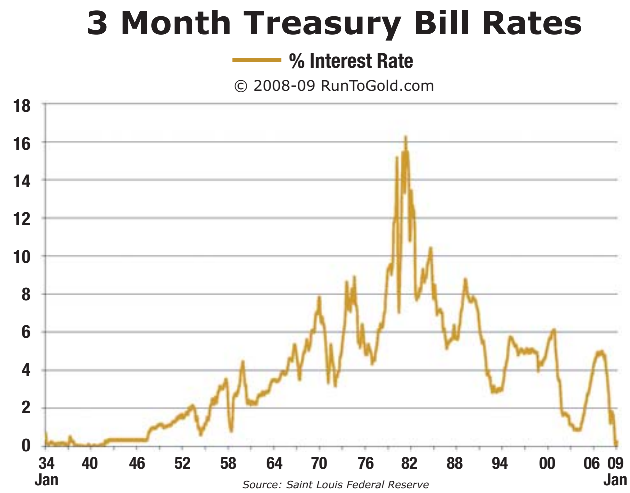
16 THE TEXTS OF TAOISM 72 (James Legge, trans. 1962).

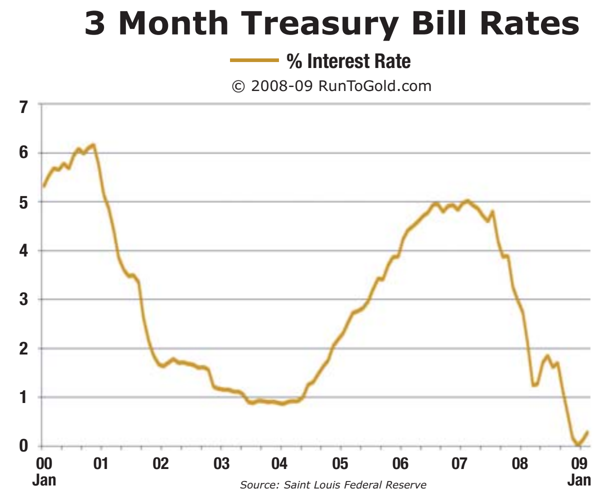
17 THE FEDERALIST No. 54 (James Madison).

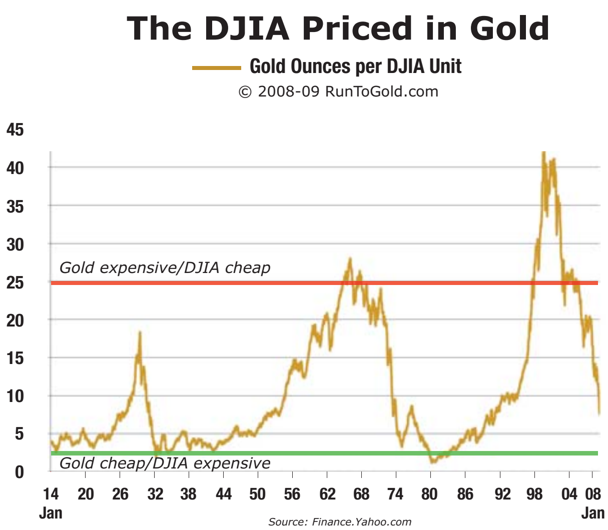
18 THE DECLARATION OF INDEPENDENCE (U.S. 1776).

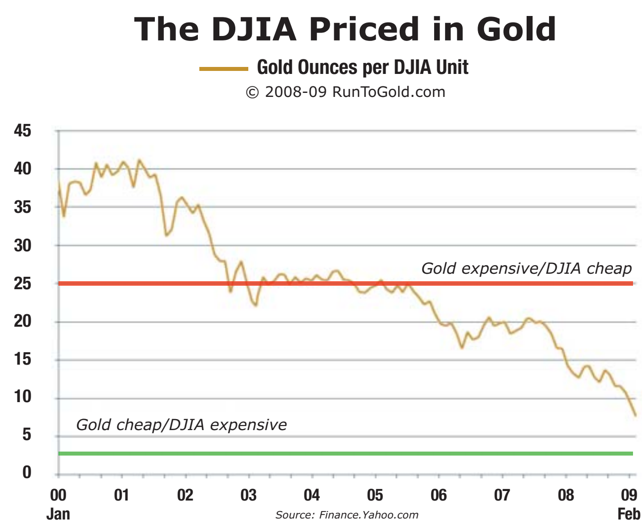
19 ADAMS, JOHN WITH JEDIDIAH MORSE ED., ANNALS OF THE AMERICAN REVOLUTION OR A RECORD OF THE CAUSES AND EVENTS, 225, Hartford 1824, (1818).

20 U.S. CONST. amend. 4.

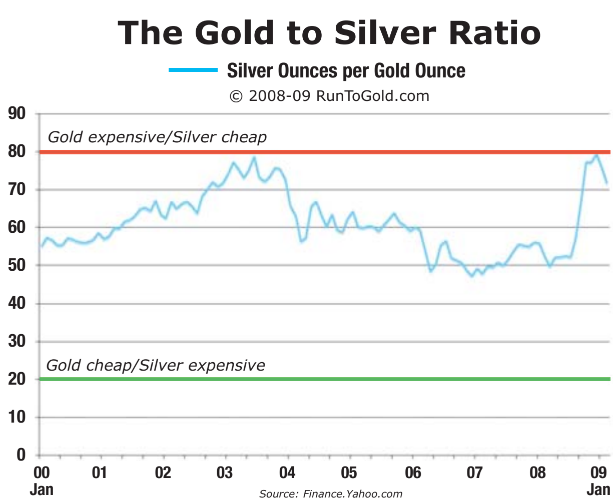

3 Month Treasury Bill Rates
% Interest Rate
© 2008-09 RunToGold.com
18
16
14
12
10
8
6
4
2
0
34 Jan
40
46
52
58
64
70
76
82
88
94
00
06
09 Jan
Source: Saint Louis Federal Reserve

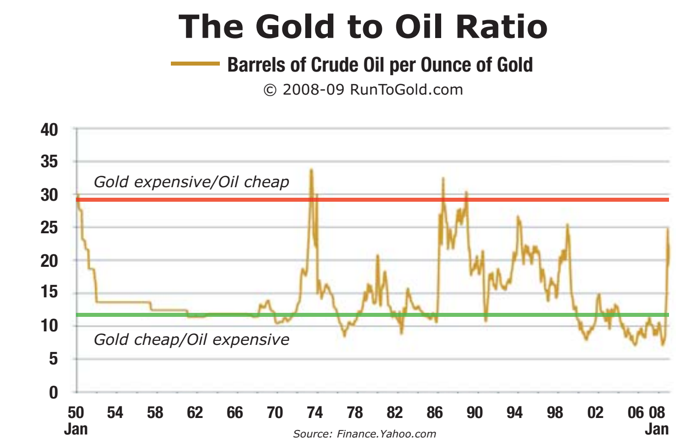

3 Month Treasury Bill Rates
% Interest Rate
© 2008-09 RunToGold.com
7
6
5
4
3
2
1
0
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Saint Louis Federal Reserve

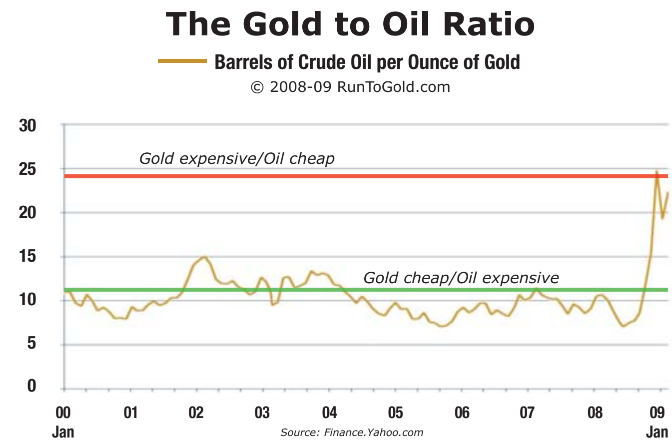

The DJIA Priced in Gold
Gold Ounces per DJIA Unit
© 2008-09 RunToGold.com
45
40
35
30
25
20
15
10
5
0
Gold expensive/DJIA cheap
Gold cheap/DJIA expensive
14 Jan
20
26
32
38
44
50
56
62
68
74
80
86
92
98
04
08 Jan
Source: Finance.Yahoo.com

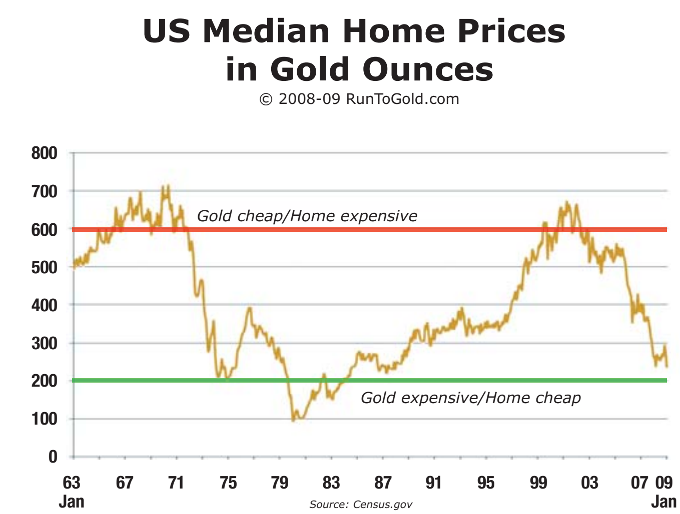

The DJIA Priced in Gold
Gold Ounces per DJIA Unit
© 2008-09 RunToGold.com
45
40
35
30
25
20
15
10
5
0
Gold expensive/DJIA cheap
Gold cheap/DJIA expensive
00 Jan
01
02
03
04
05
06
07
08
09 Feb
Source: Finance.Yahoo.com

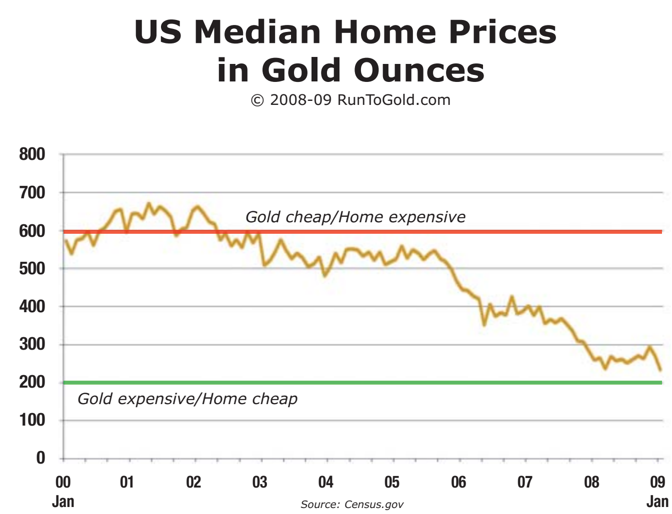

The Gold to Silver Ratio
Silver Ounces per Gold Ounce
© 2008-09 RunToGold.com
120
100
80
60
40
20
0
Gold expensive/Silver cheap
Gold cheap/Silver expensive
67 Dec
71
75
79
83
87
91
95
99
03
07 Dec
Source: Finance.Yahoo.com

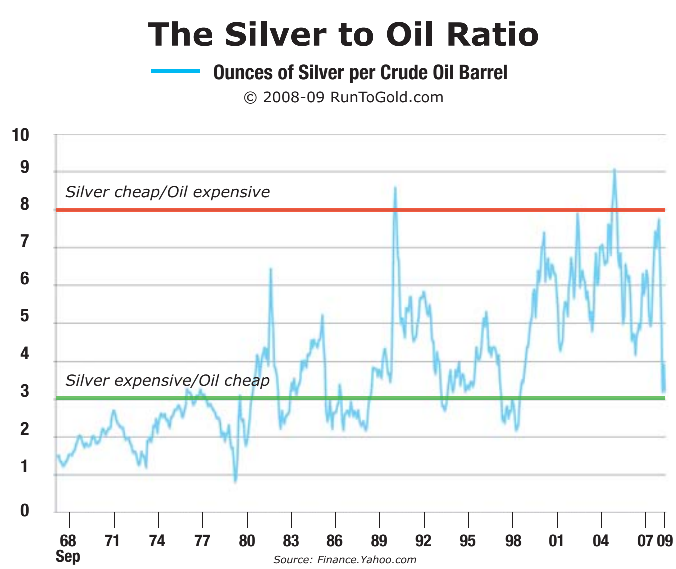

The Gold to Silver Ratio
Silver Ounces per Gold Ounce
© 2008-09 RunToGold.com
90
80
70
60
50
40
30
20
10
0
Gold expensive/Silver cheap
Gold cheap/Silver expensive
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Finance.Yahoo.com

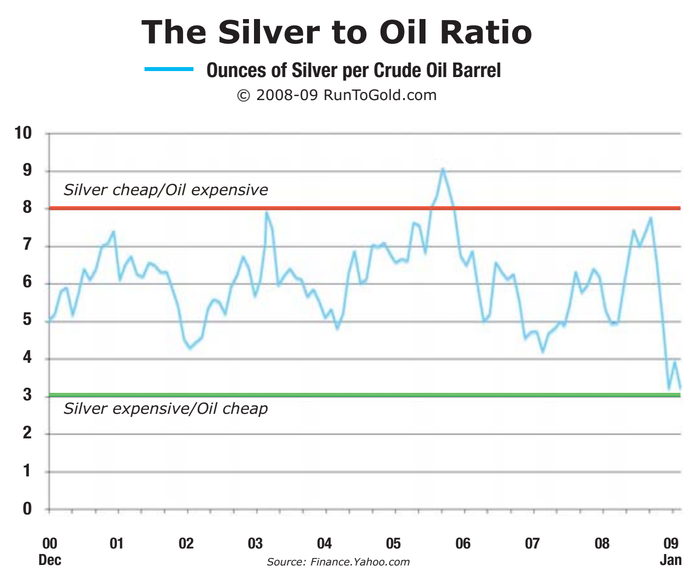

The Gold to Oil Ratio
Barrels of Crude Oil per Ounce of Gold
© 2008-09 RunToGold.com
Gold expensive/Oil cheap
Gold cheap/Oil expensive
40
35
30
25
20
15
10
5
0
50 Jan
54
58
62
66
70
74
78
82
86
90
94
98
02
06 08 Jan
Source: Finance.Yahoo.com

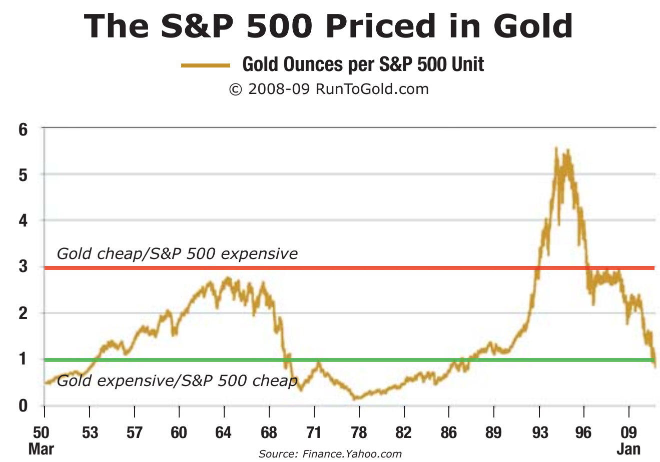

The Gold to Oil Ratio
Barrels of Crude Oil per Ounce of Gold
© 2008-09 RunToGold.com
Gold expensive/Oil cheap
Gold cheap/Oil expensive
30
25
20
15
10
5
0
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Finance.Yahoo.com

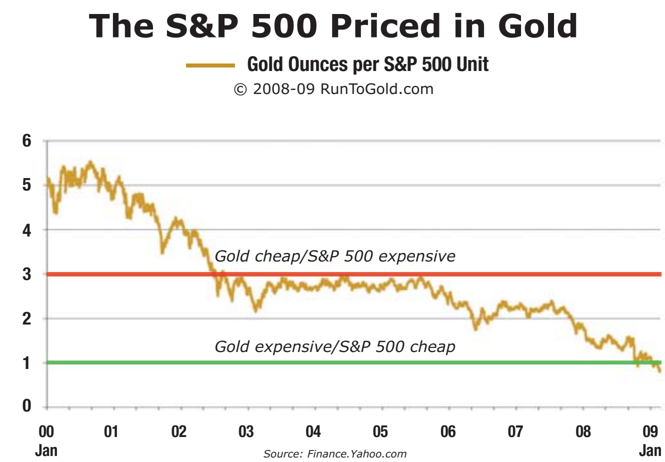

US Median Home Prices in Gold Ounces
© 2008-09 RunToGold.com
Gold cheap/Home expensive
Gold expensive/Home cheap
800
700
600
500
400
300
200
100
0
63 Jan
67
71
75
79
83
87
91
95
99
03
07 09 Jan
Source: Census.gov

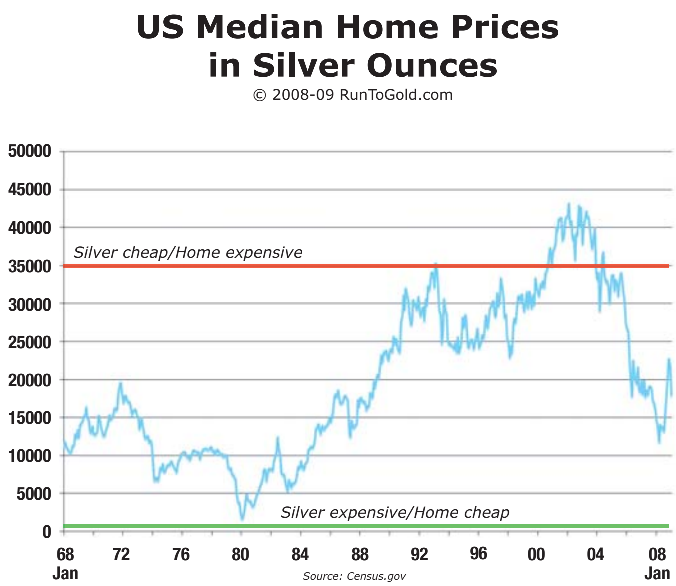

US Median Home Prices in Gold Ounces
© 2008-09 RunToGold.com
Gold cheap/Home expensive
Gold expensive/Home cheap
800
700
600
500
400
300
200
100
0
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Census.gov

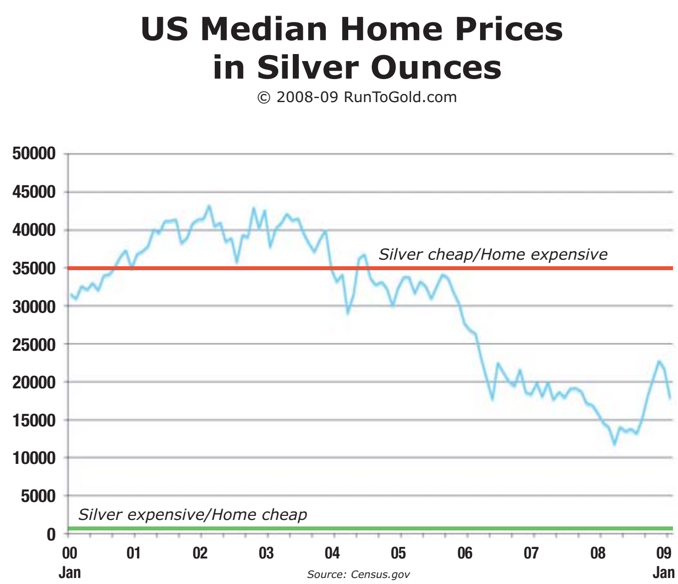

The Silver to Oil Ratio
Ounces of Silver per Crude Oil Barrel
© 2008-09 RunToGold.com
Silver cheap/Oil expensive
Silver expensive/Oil cheap
10
9
8
7
6
5
4
3
2
1
0
68 Sep
71
74
77
80
83
86
89
92
95
98
01
04
07 09
Source: Finance.Yahoo.com

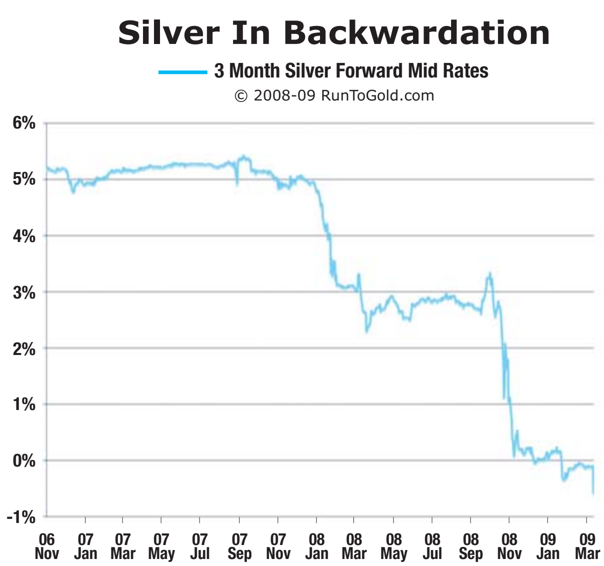

The Silver to Oil Ratio
Ounces of Silver per Crude Oil Barrel
© 2008-09 RunToGold.com
Silver cheap/Oil expensive
Silver expensive/Oil cheap
10
9
8
7
6
5
4
3
2
1
0
00 Dec
01
02
03
04
05
06
07
08
09 Jan
Source: Finance.Yahoo.com


The S&P 500 Priced in Gold
Gold Ounces per S&P 500 Unit
© 2008-09 RunToGold.com
6
5
4
3
2
1
0
Gold cheap/S&P 500 expensive
Gold expensive/S&P 500 cheap
50 Mar
53
57
60
64
68
71
78
82
86
89
93
96
09 Jan
Source: Finance.Yahoo.com


The S&P 500 Priced in Gold
Gold Ounces per S&P 500 Unit
© 2008-09 RunToGold.com
6
5
4
3
2
1
0
Gold cheap/S&P 500 expensive
Gold expensive/S&P 500 cheap
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Finance.Yahoo.com


US Median Home Prices
in Silver Ounces
© 2008-09 RunToGold.com
50000
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
Silver cheap/Home expensive
Silver expensive/Home cheap
68 Jan
72
76
80
84
88
92
96
00
04
08 Jan
Source: Census.gov


US Median Home Prices
in Silver Ounces
© 2008-09 RunToGold.com
50000
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
Silver cheap/Home expensive
Silver expensive/Home cheap
00 Jan
01
02
03
04
05
06
07
08
09 Jan
Source: Census.gov


Silver In Backwardation
3 Month Silver Forward Mid Rates
© 2008-09 RunToGold.com
6%
5%
4%
3%
2%
1%
0%
-1%
06 Nov
07 Jan
07 Mar
07 May
07 Jul
07 Sep
07 Nov
08 Jan
08 Mar
08 May
08 Jul
08 Sep
08 Nov
09 Jan
09 Mar
Source: London Bullion Market Association

## Return form (http://www.creditcontraction/returnform.pdf)

If you are not satisfied with your purchase of The Great Credit Contraction for any reason, simply complete and return this form to the address below within 90 days of the transaction date.

I do not take anyone's time or attention for granted. The reason I offer a **150% Guarantee** is because I understand the frustration with bad products and the time involved returning them. For that inconvenience, I am willing to compensate you. Nevertheless, I do not want to have my generosity abused and create an incentive for the unwarranted return of The Great Credit Contraction. Therefore, an affidavit is required.

State of ____________________; County of ____________________

Before me, the undersigned notary public, this day, personally, appeared ____________________, to me known, who being duly sworn according to law, deposes the following:

I declare under penalty of perjury that neither any agent nor I have returned any other copy of The Great Credit Contraction nor have I received a beneficial interest in the return of any other copy.

*For the returned purchase:*

Name: ____________________ Email: ____________________

Date: ____________________ PayPal Transaction ID: ____________________

Executed by: ____________________

Address: ____________________

Sworn to before me this __________ day of __________, 20__________.

____________________ Notary Public

*Return address:*
Premier Ark, LLC
Attn: THE GREAT CREDIT CONTRACTION RETURN
P.O. BOX 29502 #78274
Las Vegas, NV 89126-9502