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GOLDBUG!

“The Bible of the Goldbugs”

By James Dines
The Original Goldbug

Abridged edition. To order the unabridged version of *Goldbug!* Please visit www.dinesletter.com

Goldbug!

“The bible of the goldbugs”

By James Dines,
The Original Goldbug

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Foreword to Special Abridged Edition

(October 2016)

Keynesian economics is the opium of economists. This book is intended to ignite an economic revolution against the current dominant Keynesian method used by government economists nearly everywhere. The world is now increasingly afflicted by a financial unease, with many countries desperately promising jobs, and even promoting the inflation they once hated. Interest rates in America are at historic lows, not seen since even before President George Washington. Debts are at all-time highs for governments, students and households, totaling untold trillions of dollars, and rising uncontrollably. Currencies worldwide are gyrating senselessly, manipulated for export advantages, and murmurings of the resulting trade wars are already emerging. Central government bankers control their economies. Washington's so-called "stimulus" has not stimulated economic growth for the last eight years and governments have no idea why not; backed into a corner of their making, they have no constructive idea about how to move their economies forward.

Having predicted the current situation in the two previous editions of this book, I still foresee that something is going to break, unless changes are made before it is too late.

For those who believe the world's currencies and economies are already perfect, there is no point reading this book. Nothing can be solved unless it is acknowledged that the current currency and economic systems do not work as well as they could, evidenced by continual boom-and-bust cycles. The solutions, which are crucial to get into the hands of our business and political leaders, are in this book.

First, we must start with basic facts on which could all agree. Money itself is a key, as it permeates transactions worldwide. Banking could be said to have begun when people brought gold to be held in safekeeping with the village blacksmith, for which he gave the owner a written receipt – the first negotiable paper money, literally as good as gold. This new paper money represented actual work and created prosperity partially because it replaced inefficient barter. When there was more left over than was needed for current expenses, representing postponed pleasures, it became "capital" – the foundation of the capitalist system. Since some people left their gold undisturbed for long periods, the smiths loaned out a percentage, perhaps 10% of the gold, for a fee, or "interest," the basis of our banking system.

The US dollar was at first "as good as gold" because anyone could take that paper currency to a bank and swap it for gold. *Goldbug!* carefully outlines how this devolved in the 1800s, including when President Lincoln seized the gold collateral held by banks in order to pay for the Civil War, bankrupting those banks – which was blamed on gold! Gold was the scapegoat time and again.

Goldbug! then lays out how politicians later severed the paper currency's link with gold so that they could print all the paper they wanted, unhindered by the function of gold acting as a break switch. The underpinning of the currency was replaced by the current unbridled debt that in the past has always led to inflations, deflations and depressions. Or even hyperinflations.

One key event, difficult for me to have brought to the modern world's meaningful attention, was the Genoa Conference (10 April 1922), convened because Germany was unable to pay World War I's reparations that had been agreed to at Versailles on 28 Jun 1919. Since Germany had used up all its gold for payments yet was still deeply in debt, the country ran the printing presses untethered by the restraint of the link to gold. Germany's resultant hyperinflation wreaked political and social turmoil sufficient to have subsequently spawned World War II.

WWI's victors at Genoa in 1922, wondering who would assume Germany's burden of paying for the war, looked at the pile of gold in London's vaults backing England's currency, ostensibly "doing nothing, just lying there." So they counted it and *also* printed enough money to equal that gold – **essentially doubling the money supply** – a new currency system cleverly named the "Gold Exchange Standard," accepted by the public because it still deceptively sounded like the former gold standard. The result of so much cash suddenly flooding in – more money chasing the same goods and services – led to the legendary boom of the 1920s – and the infamous 1929 crash to wipe out that debt.

Inflation, correctly defined as an excess creation of money and debt, resulted. Historically, all inflations have been corrected naturally by deflations, to wipe out the paper money unbacked by gold or silver, although sometimes by hyperinflations that arrive first, as covered in this book.

After the 1930s “Great Depression” had corrected the inflation of the 1920s, a new generation of economists, led by John M Keynes, advocated the “cure” of yet again printing more paper money and borrowing excessively. So the 1922 cycle began again in 1932! Keynesian economics created the world’s current system of central bankers, who have increased the money supply and debts to such astronomical heights **that they are completely unpayable**.

Something is going to break: in my first printing of this book, *The Invisible Crash* in 1975, I made the daring prediction that “The Coming Second Great Deflation” would begin in 2008 – in writing – with no opportunity to have updated it. I believe that that crash indeed began in 2008, as the recovery has in subsequent years been glaringly anemic, concealed by stupendous amounts of printed money and debt in amounts better suited to astronomy than sound finance. Meanwhile, as noted, Keynesian economists are now milling around in confusion with no idea where to go next – the dead end we predicted in *The Invisible Crash*.

This abridged edition consists of the first 120 pages of *Goldbug!*. The full edition would be better suited for a textbook. I have spent an entire business career struggling to reveal the truth of what is happening to currencies. I hope you pass this on after having read it, to anyone who might help to change the world – business leaders, politicians, or loved ones – which would be a more-than-adequate reward for me.

James Dines,
San Francisco,
October 2016

Preface

(From *Goldbug!*, 2009)

Facts do not cease to exist because they are ignored.

Aldous Huxley

How fortunate the people who could create a life's work that might be useful to the world.

The first edition of *The Invisible Crash* (completed in 1975) predicted a coming crash that would be “in slow motion and invisible,” which has come true. Adjusted for inflation, the stock market has been declining for years, a truth that finally broke into the open during the “Crash of 2008.” accordingly, this revolutionary third edition of *The Invisible Crash* has been renamed “*Goldbug!*” because The Invisible Crash foreseen in the earlier editions is no longer “invisible.”

This book refutes the conclusion by nearly everybody that the causes of what we call “The First Great Depression” of the 1930s could be learned by studying the 1930s, a fundamental economic fallacy of our time, one that the first edition of this book in 1975 predicted would be punished by “The coming Second Great depression.” In fact, the secrets of the 1930's depression are concealed in the 1920s, so scholars who know the 1930s thoroughly are basically concluding that wet sidewalks cause rain. The Second Great Depression will affect everybody and those who prepare now could improve their chances of survival.

The first edition of *The Invisible Crash* included the incredible prediction that the Crash would actually begin in the year 2008, believe it or not. Here's the actual passage from *The Invisible Crash* back in 1975, predicting a “catastrophe in 2008,” the year it might have begun:

“A truth of financial reality is that any prosperity built on paper money has usually been fun for a while, but has always ended in catastrophe. In the 1920s (as in the 1960s) the stock market was fueled by surplus paper spilling over from banks, which borrowed it from the US Treasury, which had borrowed it from itself. It is inconceivable that the same unwise mistakes made in the 1920s were repeated in the 1960s. The question that remains is, will I be able, in some slight way, to help prevent it in the year 2008”?

James Dines, *The Invisible Crash*, First Edition, 1975,
(published by Random House and Ballantine Books)

This book contains many revolutionary predictions, but first one must be clear as to the truth, the reality, the way things really are, rather than blindly following what we are told they are. For example, the word “inflation” is now used by nearly everybody as a synonym for higher prices. The press is saturated with describing any increase in prices as “inflation,” but that is not the truth. Checking the dictionary reveals that inflation is “an increase in the supply of money and credit,” the result of which is often – but not always – higher prices. To avoid unnecessary word clutter, since the “higher prices” that are the result of inflation are often called “inflation,” please be clear that in this book the word is used to mean either actual inflation or the higher prices resulting from inflation; strictly speaking, they are not actually interchangeable.

Furthermore, inflations are invariably followed by deflationary corrections, albeit sometimes interrupted by a hyperinflation, which we baptized “The Supernova of Inflations” in the first edition (an example of which is Germany between 1920–1923, also Zimbabwe's hyperinflation that actually reached 2,000,000% a month in 2008, believe it or not).

The real cause of inflation confuses many levels of the press and media, but it has only one source: when a government prints more money (and generates credit) than true wealth being created in the real world, then more money chases the same goods and services and true inflation must result, according to

the iron law of supply and demand of money. Our use of the phrase “printing money” in this book includes expanding credit backed by nothing of tangible value. It is misleading when the media reports that inflation is the result of higher wages, greedy executives or hoarders. Governments cannot print wealth, and to conclude otherwise is an insidious lie. The future cannot be appropriately prepared for unless this point, along with many others in this book, is clearly understood.

When we first comprehended that gold was about to begin what we call a “Super Major Bull Market” from its price at \$35/oz, the yellow metal was the single most-hated investment idea on the planet, the mere mention of which would get a Wall Street Security Analyst pejoratively labeled a “dirty goldbug” and summarily fired. As was the author who, instead of apologizing, defiantly called himself “The Original Goldbug.” We decided to become a whistleblower because of the realization that gold was headed for a multi-generational, long-term rise that would end in tears by those who did not own it at the right time.

One of our inspirations was the history book *Extraordinary Popular Delusions*, by Charles Mackay (published in 1841) from which it could be gleaned that past severings of the link between paper money and gold had led to inflations followed by deflations. At what would later be looked back on as the very peak of the inflation that started in the 1970s, as Keynote Speaker at the James Blanchard annual convention in New Orleans (on 5 November 1980), the author shocked the audience of thousands by predicting “The Coming Great Deflation.” The gradual decline in the inflation rate in subsequent years was mistakenly described as “controlling inflation,” with undue credit given to a falsely-knighted Fedhead Greenspan, even while we undauntedly insisted that the country was in the early stages of “The Coming Great Deflation.” We are cognizant that our prediction, generally disbelieved even as this is written, is a radical one, completely unsupported by what we call the Washington Economic Establishment (WEE).

Of the numerous predictions in the first edition, many have already come true. Gold was at \$35/oz and silver at 92.5 cents/oz when the first issues of *The Dines Letter* were published, at the dawn of what we still predict will be looked back on as the greatest bull market in history.

As a Junior Security Analyst trainee on Wall Street, first at that time both to comprehend and also speak out forcefully on the vital importance of linking gold to currencies, refusing to be silenced when confronted by the choice of either surrendering to total peer disapproval or struggling to sound a warning and get fired, at that very moment, the author “Flashforwarded” that it would be looked back on as a defining moment of a lifetime, a victory or a career blunder, but chose to suffer getting fired and began publishing *The Dines Letter* (TDL) independently without any further protection and support by Wall Street’s A M Kidder & Company.

At that time, not fully realizing the prior situation of gold as laid out in this book, the ironclad negativity toward the metal was baffling. So began an “odyssey” that was to lead to a business lifetime’s struggle. Looking back it was understandable that nobody wanted to agree with the author’s prediction of “The Coming Gold Boom” because the law was against ever raising the price of gold from its then \$35/oz; in fact, mere gold possession was actually a criminal offense in America (!), and following the crowd looked safer than our precarious beginning. Wall Street blindly backed the US Government, so our stance unwittingly confronted the elephantine WEE itself. We took on the seemingly hopeless task of blocking unlimited deficit spending by governments and had to brave ferocious opposition by politicians who knew that the right to print unlimited paper money provided them with virtually limitless power.

Realizing that that path would inexorably lead to America’s financial ruin comparable with 1929, the author founded the “Hard Money Movement” to face the great challenge of inducing society to reverse that course, and held Wall Street’s first financial seminars to explain gold’s role. While those efforts are failing in this cycle, hopefully a subsequent generation might use these writings someday as a blueprint to forge a new world with a currency in alignment with its truthful value. The bottom line is, there must be an approximately equal connection between creating paper money and the true wealth created by work and services enshrined by our Founding Fathers in the gold and silver clause in our constitution and bypassed by some clever politicians:

“No state shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make anything but gold and silver Coin a Tender in Payment of debts.” *The United States Constitution Article I, Section 10, Clause 1*

After the deficit spending that financed World War I, a vengeful Europe demanded that Germany pay for it. Germany could not possibly have met the sky-high reparations inflicted on it by the infamous 1919 Treaty of Versailles, so that nation had no choice but to abandon its gold standard and print unbacked paper marks. It led to Germany’s horrendous hyperinflation by 1923 that eventually spawned World War II and much of the 20th century’s subsequent grief.

To properly comprehend the 1930s, *Goldbug!* carefully traces the reaction of European powers to Germany’s inability to pay, also England’s solution to comparably unpayable obligations in gold, by a clever legal artifice that switched the “gold standard” to a so-called “gold-exchange standard.” It was quietly slipped past the people of the world, and the eventual price to be paid will be great.

The world cries out for a realistic history of the 1929 Crash, pioneered by this book, or crashes will recur relentlessly. However, instead of starting with 1930 we go back to the Genoa Conference of 1922. the roots of “The Coming Currency Crisis” go very deep, actually to a meeting on 23 November 1910, once a secret, one century ago, that included representatives of JP Morgan and National City Bank of New York (now Citigroup), at an out-of-the-way place in the American state of Georgia, called Jekyll Island. Those earliest stages are described in the book *The Creature From Jekyll Island*, by G Edward Griffin, to which we will return below. Roots of this history go so deep that they might even trace back to the Knights Templar. When other knights were about to go on their Crusades, not wishing to risk bringing valuables, they were deposited for safety with the Knights Templar, who became the first bankers, and then grew sophisticated in finance. After the Crusades, kings wanted to get rid of that wealthy armed force. The Templars fled for their lives into exile – nobody knows to where – there is a suspicion that they wound up in Switzerland at a time when the natives were country folk. There is a possibility that the Knights Templar brought their financial sophistication with them, retrovirally blending it into Switzerland’s bucolic people and inspiring its banking system to become a cynosure of the banking world in subsequent centuries.

James Dines
July 2009

Dedication

This book is my very deep appreciation and dedication to everybody who ever supported my Hard Money Movement's struggle for an honest currency system that rejects unlimited and irresponsible printing of paper money backed by nothing tangible and valuable.

I am deeply indebted to the brilliant mentors in my life.

I especially commend my loyal and supportive staff.

This work is the production of a business lifetime, so it will be my third and final edition on gold. Please get this book into the hands of opinion leaders, editors, reporters, politicians, corporate officers, and loved ones who might help.

Now it is your turn.

What we call the beginning is often the end
And to make an end is to make a beginning.
The end is where we start from.
Every phrase and every sentence is an end and a beginning.

We shall not cease from explorations
And the end of all our exploring
Will be to arrive where we started
And know the place for the first time.

T S Eliot, *Little Gidding*

INTRODUCTION

How to Use This Book to Protect Yourself

Gold can make its way through the midst of guards, and break through the strongest barriers more easily than the lightning's bolt.

Horace, *Carmina*, III, c 20 BC

Many naturally think of the “price of gold,” whereas the counterintuitive truth is the other way around. Gold is the real money, and it commands different quantities of paper in various countries, depending on how much some politicians decide to print for their self-aggrandizement. A chart of the price of gold expressed in different currencies reveals that they have all been rising, over the years, meaning that gold is rising against all of them. It is not any individual country that is running the printing presses too much, but all of them, which is why “The Coming Great Deflation” could be horrific.

In other words, with the so-called “price of gold” having already risen to more than 26 times our original recommendation at \$35/oz, the reality is that the paper dollar has crashed proportionally because there are so many more dollars chasing each ounce of gold.

In the early days of the gold bull market, even the few who eventually agreed with us that the yellow metal’s price would rise could not stomach silver and brushed it aside as an “industrial metal,” which was partially true, but ambivalent silver nonetheless remains a monetary metal. Silver coins are good anywhere in the world that gold coins would be acceptable, no matter what is stamped on them, and this author is still proud to be “The Original Goldbug” as well as “The Original Silverbug!” We were incredulous that our initial targets for \$35 gold would be achieved at “over \$400” yet at the same time silver could remain ignored and lagging at 92.5 cents/oz; indeed, many made fortunes when silver subsequently skyrocketed 5,305% to \$50/oz. In order to convince people to buy silver along with gold, *The Dines Letter* (TDL) originated the phrase “Silver is the poor man’s gold.”

TDL also favored platinum and palladium, and came up with the phrases “Platinum is the rich man’s gold” and “Palladium is the poor man’s platinum.” Early in TDL’s publishing history we formulated the Dines Wolfpack Theory for the precious metals, predicting that they would tend to move together: not merely gold and silver, but also platinum and palladium – conceivably someday rhodium, iridium and ruthenium. Since the latter are not yet monetary metals we expect the correlation to be general for some time.

Blindly holding gold and silver “long-term” is not what we otherwise scornfully describe as “zombie investing,” because nobody knows for sure when a monetary upheaval might erupt that would provide sellers with a great profit-taking opportunity. Meanwhile more paper money printed keeps building tectonic pressures of rising value for precious metals because each ounce represents more paper money. There are times when golds and silvers have near-term declines that provide opportunities for investors to use core gold and silver positions as a receptacle for what we label your “Attack Capital.” This century’s first decade was a profitable example, as precious metals soared.

A chart of the Ratio of Gold to the Dow-Jones Industrials Average (DJI) (to which we will return later) shows the penetration of its Downtrendline (D) in the year 2000 that was one of our key clues that there would be a new bull market phase in nearly all metals, but especially gold and silver. That is the strategic overview and part of our rationale for recommending retaining a core investment position in precious metals.

As this is written, the so-called Consumer Price Index “inflation rate” – that we believe is manipulatively understated anyway – has dropped toward the zero level, which the WEE thus considers a

success in terms of having “controlled inflation,” but which we are concerned is merely the eye of the storm and that America is still slipping toward “The Coming Great Deflation” comparable with the ongoing one we predicted would begin in America in 1980, and for Japan starting in 1989.

Which brings us to “The Coming Currency Crisis,” inevitable when Mass Fear gets ignited. Large holders of US dollars (China, Japan, Russia and Saudi Arabia) are already quietly “diversifying” out of them, but unfortunately for them often into other paper currencies, in a classic out-of-the-frying-pan-into-the-fire maneuver.

Even now there are pitifully few who dare brave the hostility of the WEE and Wall Street by warning how corrupt the world’s currency system is, and dangerous to the world’s economic wellbeing, so all that could be done is to sound a warning to help others and then protect yourself.

At some point we expect a tragic crash in the US dollar and bonds, and we would like to think that we would be able to see its imminent advent, but Mass Psychology can be so sneaky that nobody could provide assurances of any kind whatsoever. The safest route is always to hold some precious metals, hoping to buy more when a possible crisis grows nearer. It is extremely difficult even to dare to try to anticipate currency movements because they are so largely controlled by governments; the WEE and their foreign counterparts do not notify us in advance.

The risk of a panicky flight from the dollar, based on a Mass Fear that it might drop further, is that our currency would lose its privileged status as the world’s “reserve currency of choice.” The euro has already moved toward acceptability alongside the American dollar as an international currency, but the main reason America is able to continue running mind-numbingly astronomical deficits is that foreign governments need a place to “park” their vast hoards of dollars and so they buy America’s bonds – thus also funding our profligacies. In a worst-case scenario America would be forced to raise interest rates dramatically to stabilize the dollar’s fall, which would not be good for our economy. Plus, many commodities are denominated in US dollars, so part of their price increases will have been the result of the dollar’s decline, and cheated sellers of those commodities might decide to switch to another currency. Venezuela for example already sells its oil denominated in euros. America’s currency is at risk of TDL’s worst monetary fears being realized, yet another sad sign of this nation’s peaking planetary power due to gold abuse.

We prefer owning gold-mining shares rather than actual gold bullion because there is more leverage investing in a mine. Why? As the price goes up more of its marginal ore becomes mineable, although mines in countries with sticky-fingered politicians should be avoided. We do not exclude owning some gold coins. For example, not only is the St Gaudens Double Eagle beautiful art, but it might be useful in buying your way across a border someday. On the other hand, we are adamantly against leaving gold – or any valuables – anywhere near your home or on your person because a crash in the dollar might bring uninvited visitors. Best to leave those in your safe-deposit box, although those concerned about government seizure might want to leave some in a different country.

Goldbug! is written for beginners, but it also contains depth for advanced professionals, so we expect it to be reread annually until it stops “looking different.” The first reading should not be at bedtime, but when fully alert, because survival might depend on it. This is definitely not meant to be a dull history book. It is instead a vibrantly factual recounting of how the world really got to what will someday be called “The Crash Of 2008” and, based on that, our predictions of what the future might hold, what we call a Trajectory Analysis of how to improve your chances of financial survival. If knowledge is a source of power, then this book should help prepare the reader to cope with the future’s uncertainties.

Goldbug! is written in layers. **Part One**, is the truthful history of money leading to the 1929 Crash and its aftermath, the reality that we have never seen comparably published elsewhere. Unless the actual past is known we all have less of a chance of getting clear on the present, much less what is probably waiting ahead. We are cognizant that *Goldbug!* might induce some politicians and economists to hurl this book against a wall, because the truth can hurt.

Part Two consists of unique charts, from our Master Library, their revealing longterm Uptrends as confirmation from the marketplace of this book’s conclusions. Some of our charts were begun before computers and were laboriously compiled by the author by hand, daily, digging out daily price histories from dusty library stacks, some going back a century, tirelessly adjusting prices for splits. Without having

actually gone through the personal experience of all the ups and downs, some of these never-before-published charts enable the reader to perceive long-term trends more clearly, bequeathing a priceless substitute for actual experience. Unique charts include the Dines Gold Stock Average (DIGSA), the Dines Silver Stock Average (DISSA) and the Dines Gold and Silver Junior Stock Average (DIGSJUN), which provide the proverbial eye in the kingdom of the blind because we know of no other comparable averages.

Part Three is the “Odyssey,” (not included in this abridged version of *Goldbug!*) which contains germane excerpts from *The Dines Letter*, including many from the first edition of *The Invisible Crash*, enabling *Goldbug!* to be used as a textbook-in-motion by future generations to glean additional insights, hopefully to avoid the blunders of their predecessors. Examples include seizing the gold and silver from Americans by their government, sales of gold and silver from the US Treasury, so-called “Special Drawing Rights” (SDRs), the two-tier gold pricing system, and other nightmarish artifices used by politicians that our struggle endured, never losing sight of the fact that money must represent true wealth so that it could be stored (in a bank, for example) without fear that dilutively printing more paper money would result in its being able to buy less and less despite money’s unchanged face value. After having assimilated the history in Part One, *The Dines Letter*’s excerpts in the Part Three show how the author reacted to current events at the time even as we ourselves were trying to figure it all out, the methodology in real time so that financial archaeologists could hopefully draw useful conclusions beyond ours.

At a time when governments worldwide are printing paper money in recklessly large quantities, our policy is to invest in “wealth in the ground” that keeps its value: oil or metals, for example. Investing in gold, might be suitable for your “Attack Capital,” but would also be for your “Defensive Capital.” While uranium and Rare Earth metals will be needed in the future’s world economy regardless of how much paper is printed, gold prices will fluctuate with the vagaries of Mass Psychology and fears generated by governmental follies. Money allocated to gold and silver should be viewed as one would fire insurance, buying them for protection and hoping never to collect on that investment.

Not everybody is aware that gold-mining shares had spectacular rises **during the 1929 Crash** and what we call the “First Great Depression” of the 1930s, so we view holding gold-mining shares as acting in self-defense against irresponsible overprinting of paper money which, for the first time in history, is done at the same time by virtually every government in the world.

Many politicians understandably hate and fear gold (and goldbugs) because a link between paper money and gold would restrict their ability to print enough money to “give” the public sufficient goodies to buy their votes. But piggishness has no limit and, even with all that extra printed money to spend, many politicians still run horrendous deficits and demand high taxes. Nobody could stop what we call “Taxpigs” at the trough – or even help the masses understand who is paying for those deficits – so some rail against federal deficits with the futility of a fly battling a windowpane without grasping that the key to stopping them cold is linking paper money to gold.

America’s government in 2008 printed unbacked paper money to bail out private companies and banks—illegal under America’s Constitution—and who knows how that might end? Some Wall Street titans were ruined in 2008, but who knows how many more will follow? The world is at an economic crossroads at which everything could change forever. Most people still seem to assume that a government guarantee is a valid guarantee, but even the first edition of this book (*The Invisible Crash*) dared to inquire: “If the government bailed everybody out, who might be there to bail out the US Government itself”?, disquieting as that querulous query might seem. And what might evolve next, described in 1975 as an “Invisible Crash,” while it becomes increasingly visible?

Benefiting from *Goldbug!* would be enhanced by also reading the author’s third book, *Mass Psychology*, about external opinions controlling us, including individuals and collective groups of people, the press, media, and Internet. For example how we all reacted to 9/11, or were tempted by booms in Internet stocks and real estate. The author’s fifth book *Secrets of High States* studies the internal baggage of our past experiences with money becoming a barrier to our wealth, to round out the champion investor who has a better chance to survive and thrive. Those who wish to learn about our investment strategy are advised to view our Master Course Investment Strategy Instructional DVD.

This book is the result of a business lifetime's intense stock-market study, analysis, learning and conclusions, also at the feet of some of the great minds who were your author's mentors. Hopefully it will be useful to you.

James Dines

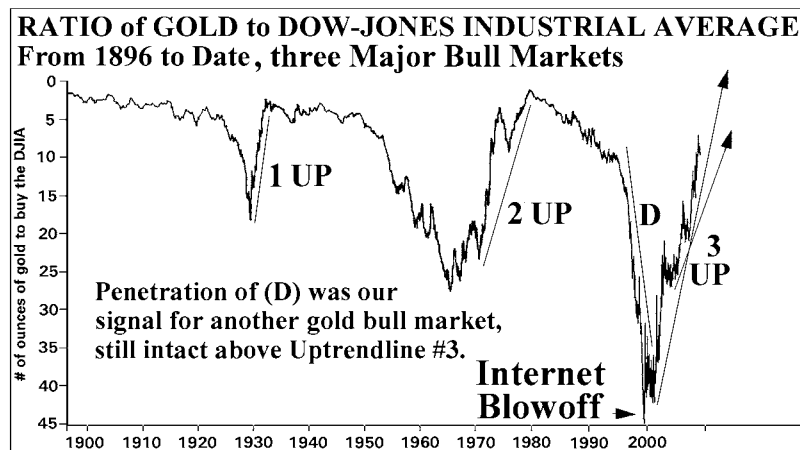
Secrets

The Gathering Storm

Let us all be happy, and live within our means, even if we have to borrow the money to do it with. **Artemus Ward**, *Artemus Ward in London*

“The greatest drama of this century continues to unfold in the currency arena. What we have been calling ‘The Mother of All Bull Markets’ all the way up in the 1990s will eventually end in what we now baptized ‘The Father of All Bear Markets.’ The Dines Letter continues to predict ‘The Coming Gold Crisis’ and ‘The Coming Competing Currency Devaluations,’ which could end the Dow’s bull market, perhaps in some kind of international currency or banking calamity.”

James Dines, *The Invisible Crash*, Second Edition, April 2000 (Page 5), at the market’s Top, adjusted for inflation, seven years before a banking calamity became visible. The currency calamity is yet ahead.



The accompanying chart proves that there is something very wrong with the economic world today. Beginners are urged not to be intimidated by this chart, or any others in this book. This is a simple ratio of the price of gold to the stock market, going all the way back to 1896, nakedly revealing that gold has outperformed the stock market only three times (UP) in over a century. The first two times, above Lines (UP), represented the calamitous deflation of the 1930s and then the horrendous inflation of the 1970s, and we will return to both in this book. Penetration of Line (D) after the Internet blowoff in 2000, and the fact that the chart remains in its third sustained upswing above (Line UP), means that the world is headed for another economic upheaval. Therefore, the eventual penetration of Line “3 UP” will be an important event.

This is a “whistle-blowing” book, the purpose of which is to save the world from a horrendous economic Depression because, even at this late date, it could be ameliorated. Simply stated, all nations in the world are recklessly printing money in varying quantities at their whimsical choosing, and nearly everybody accepts this as natural. If a government could really create prosperity by printing more money and creating credit, why not double the money supply every day and give everybody a million dollars? Running the printing presses is not a new trick. It has been perpetrated before, many times actually,

although never throughout the whole world. *But currency abuse has ended in a deflation every time* and often an economic Depression! Our thesis is that the world is at risk of a similar result.

As evidence, we cite the previously mentioned book with the delicious title of *Extraordinary Popular Delusions* first published in 1841. That book documented more than one occasion during which the printing press brought glorious prosperity, only to be followed by a crash. We discovered Mackay's book many years ago, when we learned that Bernard Baruch was rumored to have read it while formulating his decision to sell out before the 1929 Crash.

As noted in the Introduction, one daring thesis of the first edition of *The Invisible Crash* was that the true cause of the 1929 Crash has been totally misinterpreted by nearly everybody – that it was not caused by “speculation,” or thievery, but by abuse of gold! As previously mentioned, it relates to the little-known Genoa Conference on 10 Apr 1922, when the world started to ease off the gold standard by doubling the money supply to pay World War I's debts. That new flood of liquidity gushed into stocks and real estate in the legendary boom of the 1920s and was followed by the inevitable deflation and Depression in the 1930s. The tragedy is that all the so-called “experts” study the First Great Depression of the 1930s itself rather than its inflationary cause in 1922!

Not having truly understood what had caused the previous calamity, the world lurched away from the gold standard again on 15 Aug 1971, and yet another inflation ensued, this time explicitly predicted by *The Dines Letter* (TDL) based on the above reasoning.

In November 1980, we made the disbelieved prediction of “The Coming Great Deflation.” After inflation's peak was reached in 1980 – at a time of sky-high interest rates, a soaring gold price, astronomical commodity prices and plunging bond markets – the subsequent deflation manifested itself as slowly decelerating inflation. Fedhead Alan Greenspan was given credit for having “tamed inflation” in the 1990s, but that deflation was ongoing and, instead of him having tamed inflation, it is one of the shocking predictions in this book that 1980 was actually the onset of a deflation that has yet to run its course. *Goldbug!* thus challenges the entire economic forecasting community as having completely misdiagnosed what happened and subsequently what is surely ahead. If a deflation of historic dimensions ensues, let there be no doubt that this book contains a crucial economic revelation that will be useful to the world in the future.

Leading Up To “The Coming Currency Crisis”

*Sunlight's a thing that needs a window
Before it enters a dark room.
Windows don't happen.*
R S Thomas, *Poetry for Supper*

As noted, our original gold “Buy” signal at \$35 was so bitterly disbelieved at the time that the author was fired by a Wall Street broker and thrown out on the street as “unemployable.” It did not help that our gold targets were outrageously high at “above \$400 an ounce,” and that silver was also recommended at 92.5 cents with targets “above \$20.” Or that the American president at the time swore “the dollar will never be devalued.” In fact, our predictions came true by 1980 when gold reached \$850 and silver \$50 respectively! That was a spectacular confirmation of this book’s thesis that *gold is a crucial component of the economic world*.

The first edition of *The Invisible Crash* has become a collector's item and, as it was one of the very first books recommending the inclusion of precious metals in portfolios (at a time when they were actually hated), we were gratified that so many reviewers at the time called it a "classic" and that it subsequently became "The bible of the goldbugs."

The first edition of *The Invisible Crash* warned of a “stock-market crash that would be in slow motion and invisible,” hence the name of that book. The top chart shows the blue-chip Dow-Jones Industrial Average (DJI) as the world saw it, and beneath it the DJI adjusted for inflation. There was the crash under Line (D) that *The Invisible Crash* had foreseen, and it actually paralleled the depth of the one in the 1930s (see Line B). It was “invisible” because people did not deduct inflation rates of 10% or 20% from their salaries, yet there was nonetheless a decline in real terms, manifested in rising prices for the things they purchased.



As already noted, near inflation's very peak on 5 Nov 1980, in the author's keynote address at the James Blanchard Annual Convention in New Orleans, the shocking prediction was made that inflation hedges were destined to fall – everything from real estate and farmland to diamonds and especially crude oil, which was then around \$36 a barrel. When nearly everybody else believed crude was headed for \$100, our keynote address specifically warned of a decline to “below \$10” a barrel – a prediction that came true six years later (in March 1986).

On 15 June 1982 we concluded that the precious metals were destined to lie flat for many years while the rest of the market was to soar skyward, so we switched out of gold (at a price nearly ten times higher than first recommended) and into the Dow on that same day in 1982, a lucky call indeed. Looking back, this switch out of gold and into our Dow-Jones Industrial Average “Buy” at 796 was one of the luckiest predictions in *The Dines Letter’s* publishing history, a prelude to the DJI’s 1,376% rise to 11,750.

Commodities also began a long Depression in 1980, finally reversed by our above mentioned “Buy” signal for natural resources in 2000, which subsequently led the market higher until 2007.

Inflation is the expansion of the money supply, so when more money chases the same goods, prices usually rise. Aside from the obvious price controls during wartime, *inflation will not result in higher prices during periods of great oversupply and competition*. For example, the growth of the Internet made competing pricing of airline tickets so brutally low that some airlines were challenged to survive. The difference might seem small, our macerating apart “inflation” from “rising prices,” but it is crucial for understanding what went wrong in the past and in identifying how to fix it.

A currency crisis has been brewing since the Genoa Conference that started 10 Apr 1922, even back to Jekyll Island in 1910, and is the biggest currency bubble in economic history. Why does virtually nobody see this as a “bubble”? Of our 65 Dinesisms, Number 20 is one of the more important: “Bubbles are invisible to those inside the bubbles” (DIBUBBLE). All currencies are fiat these days, backed by nothing but misplaced trust, and all governments are irresponsibly printing paper like junkies hooked on heroin.

America got away with its money printing because only a small percentage of the total money supply was diluted each year, so prices usually increased gradually enough to have been generally tolerated. But the cracks have begun to show behind that thoughtless façade. For example, when we discovered around 1995 that some Asian governments were increasing their money supplies by over 50% *annually* (!), we predicted in writing, on television and in press interviews, that Asia would suffer a currency upheaval. Indeed, the predicted Asian currency crisis erupted in July 1997 and by 1998 desperate mutual-fund managers were dumping their Asian holdings *during* plunging stock markets to meet the redemptions of sellers driven by Mass Fear; corporations were wiped out, governments teetered on the edge of bankruptcy and they barely escaped that fate only because they were bailed out by the international banking community, which weakened itself in the process. The world’s currency bubble subsequently grew even larger when currency printers resumed their addiction.

The causes of currency instability have not been corrected and the printing presses roar ahead, so additional currency crises are inevitable. There were currency upheavals in Mexico in 1995, Asia in 1997, Russia in 1998, Brazil in 1999, and Ecuador and the European Union in 2000. In 2001 it was Zimbabwe, and in 2002 Argentina, Turkey and Uruguay were the victims. Even the U.S. dollar plunged 42% after July 2001. The Australian dollar fell 38% by October 2008, the Mexican peso was down 37% by March 2009, and the pound sterling dropped 36% by January 2009. *The Dines Letter* baptized such drops “Vesuvian tremors” because we don’t know a better way to get the world to realize that *these are warnings of the same organic phenomenon of an approaching crash, in slow motion and invisible!* There’s no telling how big any bubble is likely to get because that is a function of Mass Psychology, although the Gold to Dow Ratio chart at the beginning of this chapter, revealing the flight to gold, suggests that it is getting nearer in time, especially since *The Dines Letter* predicted on 15 Jan 1999 (page 17) that the Dow-Jones Industrial Average would develop a Major Top Formation in 2000 – and, adjusted for inflation, it did, as seen in the inflation-adjusted Dow chart.

Many people worldwide mistrusted their own fiat currencies and instead relied on the U.S. dollar, but apparently did not perceive that the greenback was likewise a fiat currency and that there would come a time when it too would finally cave in. At that dreaded future moment we expect a “flight to safety” into gold and silver whose soaring prices will be awesome to behold because it will be driven by Mass Fear. As outlined in our *Mass Psychology* book, whereas most bull markets are driven by Mass Greed, a gold bull market is unique in that it is driven by the intensity of survival-based Mass Fear. Based on that, we have long predicted “The Coming Gold Crisis” and shepherded *Dines Letter* subscribers out of high-techs in 2000, then into precious metals and uranium stocks starting in September 2001. Even as golds rose in 2002 many other investors were harmed by that year’s market plunge. The fact that we could make such predictions, predicated on a relatively unknown theory, confirmed to us its validity.

Based on the above, in the first edition of *The Invisible Crash*, we also predicted “The Coming Competing Currency Devaluations” that would end the Dow’s bull market, precipitated by some kind of international currency or banking calamity. After the 1929 Crash, each nation sought to export its way out of trouble while blocking imports (enshrined in the U.S. by the infamous Smoot-Hawley Tariff Act of 17 June 1930), which led to gridlock and an eventual collapse of international trade. Something similar has

been happening in recent years, only in disguise. **Nations have been cutting their interest rates so much that their currencies have become less attractive to income-seeking investors and thus declined, which aided their exporters and inhibited imports!** The United States did not play that game, instead generously (or unwisely) allowing foreign nations to grab American market share with their cheaper currencies. American workers were laid off and had no idea that their job losses were related to gold, only possible in a currency world without a gold anchor. We also described competing currency devaluations in *The Dines Letter* as “a fool’s race to the bottom” because, sooner or later, interest rates would be at zero,* could go no lower and then what? We duly turned extremely pessimistic on Japanese stocks near their 1989 highs around 38,000, and have remained unwaveringly bearish all the way down to below 10,000, as we kept an iron hand on that tiller.

* Author’s Note for this edition, October 2016: This amazing prediction came true in 2016, but even I did not foresee that they would go below zero, that the unwise would actually buy bonds not only with zero income, but at a guaranteed loss! This will not end well.

How Our Understanding of Gold and Currencies Enabled Us To Make Stock Market Predictions

Punishment is lame, but it comes.
George Herbert, Outlandish Proverbs

By the 1990s there was no longer any pretense of a link between paper money and gold. The exuberant printing of paper money, crowned by fears about all computers crashing at the end of the millennium, provided Fedhead Greenspan with the excuse to accelerate the printing presses. All that paper money led to a speculative boom in technology stocks in the late 1990s that was punished with a serious crash by 2000 when the air finally burst out of that bubble. Fortunately, *The Dines Letter* got stopped out of Internet and high-tech stocks, especially debt-ridden telecoms, before the 2000 Top, yet we know of nobody else who blames that technology-stock crash on an abuse of gold. Nonetheless, that's partially how we foresaw it.

Not everybody who has money will survive with their finances intact by the end of the coming bear market. As this is written, debts are at frighteningly high levels (personal, corporate and government) and there is no early prospect that they could be paid off soon other than through bankruptcies or a hyperinflation. Real estate was hailed as the investor's salvation after the Internet bubble crashed, so housing prices were driven to historic heights, but *The Dines Letter* adamantly insisted that "real estate is the final bubble." Why? Because much of the buying was due to Fedhead Greenspan's ultra-low interest rates that resulted in mortgage payments often lower than rents. Homebuyers got deeper in debt and, while borrowing feels wonderful during inflations because it gets inflated away, debts magnify during deflations so that they are more difficult to pay off.

The world's banking system has been grievously wounded by bank loans made in over-priced real estate, sky-high prices of which are now gone with the wind.

Another specific prediction in this book is that **the banking system itself is at further risk** when "The Coming Currency Crisis" finally arrives, and we urge our followers to carefully consider what that might mean to their wealth.

Some trust their mutual funds, innocently believing that they own shares in their portfolios when instead *they actually own a share of the mutual fund that owns the portfolio and which contains a buffer of only a few percent in cash*. Urgent demand by mutual-fund investors for redemptions all at once will someday force money managers to dump their stocks into a declining market, sending stocks much lower than they would have otherwise gone and wiping out many. That has been our prediction all along and indeed is what almost happened during the Asian financial crisis of 1997 and 1998.* **We explicitly advise all readers always to own their stocks directly rather than in a fund, and NEVER ON MARGIN.**

Bonds are not the answer either, especially those that will become illiquid during frightening times, such as tax-exempt municipal bonds, when holders dump them at any price "just for the money." Not only municipalities, but even American states will go broke, which might be difficult to believe now that interest rates are at their lowest levels in decades. The last time there was a currency crisis, in 1974, the prime rate got as high as 12% and wage and price controls were imposed – even though they had always failed in the past – resulting in material shortages and economic dislocations. The same people who create a problem cannot be entirely trusted to solve it.

It is still difficult to discern everything that might happen during the currency crisis we envision because there has never been one so internationally encompassing, but one thing we do expect is "exchange controls," although many innocents have no idea what that might mean. Governments

* Author's Note for this edition, October 2016: Written in 2006, and published in 2007, this prediction came true in the plunge of 2008, but instead of recognizing it as "The Coming Great Depression," it is now called "The Great Recession," a form of whistling past the graveyard. Next will be our "The Coming Great Deflation," with governments actually seeking to raise what they call "inflation," a former enemy suddenly a friend, and being baffled that they cannot push prices up! Not a clue.

worldwide, in order to stop outflows of wealth, will prohibit citizens from taking—or even keeping—money out of the country, as happened in Asia in 1997-98. That is why we have advised *Dines Letter* subscribers (TDLrs) to *leave assets in more than one country. Never give the state a legitimate pretext to intrude into your day, so follow your laws scrupulously or abandon the country.*

We have warned that the world was living under the growing shadow of an onrushing economic cataclysm. The crisis has been building since 1922, perhaps 1910, or even earlier, so there really has been no precedent for such monetary instability in the financial history of the world. Average investors have little concept of the financial panic and liquidity crisis that might lie ahead. The 1929 Crash was falsely blamed on beggar-thy-neighbor nationalism, floating exchange rates, “tight money,” high interest rates, Wall Street speculators, along with a myriad of other excuses, so leaders who are unaware of the crucial role of gold abuse are unprepared to handle another such deflationary crisis. Some think “a little inflation is good” perhaps acknowledged with a nudge and a wink, suggesting that they think they are benefiting from it somehow. But it is at a lender’s expense and stealing is inherently unethical. To knowingly accept inflation at all makes such people perhaps as guilty as those in wartime who knew of atrocities but said nothing. Nearly everybody is surrounded by the inherent immorality of inflation these days.

The following paragraph is a direct quote from the first edition of *The Invisible Crash*, as capitalism will again be blamed for what we already call the “2008 Crash”:

“The roots of most financial problems come from one source and one source only: the world has too much government. That is why our economic leaders appear to be milling around in confusion. The strategy is at a dead end. Our system is certainly not capitalism, and certainly not free enterprise, although the façade contains vestiges of both. When this semi-socialist system collapses some will say it was a ‘failure of capitalism,’ and those who believe that will be misled again in a future inflation.”

James Dines, The Invisible Crash, 1975

The real culprit, inflation, actually represents a governmental embezzlement of bank savings, life insurance, funds and pensions at the expense of the poor, the innocent, the aged and the weak. It is the most insidious form of economic imperialism. Even now, no government leader dares to stop it. In their speeches they merely want to “slow inflation down.” You cannot slow pregnancy down either. Are savings and thrift so cheap and greed so abundant that the smaller investor will be sacrificed on a cross of socialism?

Inflations have led to the spectacle of those who are already on relief conducting mass protests for higher benefits. There are fewer jobs for those people because the wages they seek are too high and inflexible, as rising wages over the years have led to built-in higher prices and non-productivity that must lead to a crash. Not to blame them, as most costs are generally inflexible, from taxes to bridge tolls. Once upon a time, one provider used to be able to support an entire family, but now not even two could always do so. Every effort to avoid another 1929 has Ironically led right back to it.*

We were the first to have flatly and very prominently predicted that the price of the U.S. dollar fixed at Bretton Woods could never last, *based on the brute logic that each country was printing different quantities of paper money against a limited quantity of gold.* Our conclusion was not the proverbial rocket science, yet for some mystifying reason it was totally resisted at the time. In turn, it was easy for us to make the then-radical prediction, explicitly, in the first edition of this book, that all currencies would float against each other, which of course came true with the advent of commodity currency markets. *But while that problem has been solved, the relationship of all paper currencies to gold has not, which is yet ahead and it will be the “Big Kaput” that ultimately resolves a primary source of the world’s current economic malaise.*

The long bull market (1932–2000) created its own excesses that needed to be corrected, but the stock market decline (adjusted for gold) since 2000 might drop further than a mere Correction. A basic cause of what we call “America’s Time of Troubles” was the Keynesian practice of printing unlimited paper

* See the Dines Nature of Paradox (DINOPA), ignorance of which is punished by Irony, explained in our *Mass Psychology* book (page 25) and also in our *Secrets of High States* book (page 28).

money while encouraging domestic and international debts. Many got overextended in debt hoping that inflation would bail them out; when it does not someday, the world will suffer a terrible recession, replete with radical political shifts and malinvestments in world trade. You will see in this book why we are concerned that social and political changes ahead could alter human history.

The disintegration of the international monetary system as we know it lies somewhere just ahead, the watershed of yet another new era, born in grief and perhaps blood. It will be difficult to avoid despairing for free-enterprise capitalism and freedom, but never give up trying. It is not too late. Save yourself and others by switching some money into gold, until its inevitable soaring, while you still can. Always persist. Never give up.

Think of the unlucky person who invented "Preparation G."

The History of Money

A devastating historical exposé; the real economic history that inexorably led America to the Crash of 1929 and could actually lead to much worse ahead; not to be found in current economic textbooks.

A. The Greek Disease and Frankenstein's Birth

There is nothing inherently wrong with fiat money, provided we get perfect authority and god-like intelligence for kings.

Aristotle, *The Nichomachean Ethics*, 340 BC

When venereal disease initially appeared in England it was promptly labeled “The French Disease.” Of course, when it initially appeared in France it was called “The English Disease.” Over the centuries, humans refined the concept of money only through painful trial and error. Many leaders realized the importance of money and attempted to seize control of it as a source of power. The question leaps to mind as to whether governments should ever be trusted to control the creation of money, or whether it should be the responsibility of private enterprise, but even the modern press does not include a full debate on that.

Over 2,000 years ago, Aristotle favored metallic money, while Plato advocated “fiat,” or paper money backed by nothing tangible. **“Fiat money” is paper currency not convertible into coin or equivalent value.** So this is an old and recurring issue, much like the perennial political struggle to determine whether the individual is more important than the state, or vice versa.

Trade was originally a function of barter, for example chickens for cattle, but that was so inefficient that a common denominator of some kind was needed and many things were tried. Around 1500 BC gold emerged as that substance, when wealthy Egypt used it as a standard medium of exchange in international trade. The shekel, originally 11.3 grams of gold, became the standard unit of measure in what is now the Middle East, made of “electrum,” a natural gold-silver alloy containing 40% to 75 % gold. Around 1200 BC, gold-bearing sands near the Black Sea were sluiced through unshorn sheepskins and gold got shaken out of the dried wool, purportedly the source of the phrase “golden fleece.” In 1091 BC China used small squares of gold as money. It’s unclear why, perhaps gold’s refusal to rust was often associated with the supposed nobility of the ruling class, so it became the “noble metal.”

Around 560 BC gold coins surfaced as money in Sardis, Turkey, which became a wealthy kingdom. King Croesus of Lydia came up with the idea of making an actual gold coin and guaranteed the value of that money. For example: one coin was guaranteed to be worth so many cattle, and anyone with that coin could go to the state and collect those ungulates. Gold is a more efficient way of transferring wealth in that it knows no geographical limits or boundaries, so a new coin, named the *dinar*, was the first currency accepted for trading silks and spices, and gold laid the foundation for much of civilization’s subsequent growth.

Also by 560 BC, the Greeks were using a gold coin called the *drachm* when that nation was the cynosure of the world. The ancient city-states created the first commercial middle class, and their voice in government was democracy. They elected leaders who could properly be described as the first politicians who discovered that an easy way to ensure their reelections was to give the people more in services than was demanded in taxes. Unfortunately, since politicians could not create gold, they soon resorted to

adding some copper to the gold dinars and eventually eliminated gold entirely, thereby inventing inflation, which could be called “The Greek Disease.” In 400 BC, Greece was struck by an inflation-induced Depression from which it never fully recovered, and it had by then lost its commercial advantage. “The currency Frankenstein,” created by politicians, had claimed its first victim.

Ancient Rome prospered when its currency had a fixed relationship to gold and silver coins. The Roman currency degenerated when Nero demanded that taxes be paid in gold and silver, spent the money and issued base-metal currency back to the people (just as was done in the United States starting in 1793). While inflation ruined the Roman middle class, the lower classes became totally dependent on the government and needed circuses to occupy their time – reminiscent of welfare states, television and the Internet nearly two millennia later. With the fall of Rome came the Dark Ages, and for nearly eight centuries barter dominated Europe’s feudal scene.

Early in the fourth century AD, the Byzantine Emperor Constantine created a new coin called the *bezant* and it would circulate unchanged for 700 years as the most common currency in the world. His capital was Constantinople (now Istanbul, Turkey), which prospered from the trade between Europe and Asia. The Eastern Roman Empire consolidated under Constantine lasted 1,000 years beyond the fall of Rome, we believe because the bezant maintained the same value for over 700 years without inflation. Destruction of that currency in 1282 AD coincided with the Eastern Roman Empire’s downfall.

During the Dark Ages Venice was Constantinople’s rival. In 1104 Venice began to build merchant ships that would dominate Mediterranean trade and Venetians grew rich, their wealth stored in the form of gold. When French knights came to Venice in 1202 to beg for money to finance their Crusades, the doge (duke) cut a deal with them to furnish the ships – but on the condition that he took control of the Crusade. The doge, instead of going directly to Palestine to save the Christian kingdom, chose to stop off at Constantinople, his arch-competitor and controller of the Silk Road linked to the riches of China. The French Crusaders united with the Venetians to conquer Constantinople in 1204, its first defeat in 900 years.

As the empire of Venice became the economic powerhouse of the world it introduced the gold *ducat*, and fixed the price of gold twice a day on the Rialto Bridge. The Venetian ducat was the world’s top currency in the known world for the next five centuries. By the twelfth century, the increasing development of cities created the need for money and a system beyond barter. With the creation of the respected *florin* in the mid-thirteenth century, the Republic of Florence flourished, not a coincidence. By the fifteenth century, the nation-state was viable because commerce was facilitated with an honest currency. This led to the emergence of uniform taxes, laws, weights and measures, military forces and transportation facilities.

In 1492 the Spanish monarchs financed Columbus’ voyage to the New World, and the gold he brought back to Spain launched its Golden Age. Then the English and Dutch vied with Spaniards for control of that New World gold, and from those conflicts emerged new coins for England that would last from 1489 to 1813. England issued its first important gold coin, the *sovereign*, in 1489, and later the *guinea*. As with the Venetian ducat, England’s gold coins were accepted everywhere.

By 1600, modern banking practices operated throughout the Mediterranean. **A strong business-minded state as a natural partner of a political state is known as mercantilism, which in those days gained silver and gold by emphasizing exports over imports.** That system’s subsequent expansion of commerce inspired the colonization of the New World, Asia and Africa. Mercantilism also furnished the drive behind the need for gold, which powered early explorers to explore for it in the four corners of the planet, the yellow metal again greatly affecting the world’s history.

By the seventeenth century, gold had become the dominant currency, culture flourished and humanity’s standard of living accelerated toward that of modernity. Gold was the only medium of exchange, but people did not want to carry all that heavy metal around with them, so some left it with trusted village smiths. In return they received gold receipts. People learned to sign those smith’s receipts over to others, so that paper became the forerunner of checks and paper money. Anyone could take a gold receipt and receive gold for it on demand.

However, village smiths became aware that people left their gold undisturbed for long periods of time, so they loaned out 10% more than the gold they held, thus beginning the so-called “**fractional reserve**

system,” a source of mischief for centuries to come. *For the first time there was more paper in existence than gold backing it.* Part of the enormous profits village smiths made on lending this money was paid to those depositors in the form of “interest.” Village smiths were the forerunners of modern banks, the middlemen between borrowers and lenders.

Unfortunately, this system was vulnerable to panics and runs on the “bank” because if the depositors were to demand their gold all at once, the last 10% could not possibly get all their gold. Worse, over the years, goldsmiths increased their fractional reserve lending to 20%, then 30% and more. To avoid runs, banks developed some reserves for one another, but maintained no protection against an all-out wave of bank failures.

In 1720 John Law, a Scottish financier and speculator, practically ruined France with his over issuance of paper currency. That story is well-documented in Charles Mackay’s already-mentioned classic, *Extraordinary Popular Delusions and the Madness of Crowds*.

The paper money Law created was first backed by confiscated church lands, later by French land in Louisiana and, finally, by hot air from some politicians’ lungs. People believed that they could trust this land-backed paper, but when the King needed more money, he simply had Law print more. When his currency finally crashed, Louis XV impoverished the French middle class and eventually ended his family’s reign during the subsequent Revolution. The King’s abuse of gold, a precipitant of the French Revolution, was washed away by the guillotine.

Having learned nothing and forgotten history, France’s newly-organized National Assembly issued paper money called *assignats* in 1790. This paper money was accepted despite John Law’s fiat currency having failed. The rationalization was that paper money under despotism is dangerous because it induces corruption, but in a nation constitutionally governed, which itself takes care in the issuance of its notes, that danger was supposed to no longer exist. As with Samuel Johnson’s remarriage, it was the proverbial triumph of hope over experience.

When this new paper money was first issued, trade and investment credit increased and a boom ensued that government economists insisted would never end – it was like the United States after 1922. Unfortunately, as the people began to doubt the *assignat* currency, they got rid of it by buying things they did not really want or need, but which they thought would retain value. Wage and price controls were established, while rationing and the black market proliferated. Cheaper foreign products proved to be unbeatable competition, and commerce began to slow down. Loans were avoided because moneylenders could not be properly recompensed for inflation, and speculation became more attractive than production. A period of corruption and tax cheating followed, and by 1796 prices of nearly everything in France were a thousand times higher than in 1789. Amidst this terrible misery, unemployment, moribund financial system and a failing government, a proverbial man on a white horse named Napoleon appeared who re-enthroned gold with the *Napoleon* coin in 1803. Prosperity duly followed.

B. The American Disease

I shall have more to say when I am dead.

Edward Arlington Robinson, John Brown (last line)

There is an interesting parallel between that French deflation and the American deflation in the 1930s: both deflations ended with a man on a figurative white horse (Napoleon Bonaparte and Franklin Delano Roosevelt). Other similarities suggest to us that all inflations are similar and involve the failure to grasp the same basic economic truth – that currencies must be honest. *Goldbug!* concludes that it is precisely the function of gold to keep currencies true, a financial circuit breaker, so to speak.

American revolutionaries started a radical new currency chapter in the early 1800s when the country was unable to expand without gold to buy everything it needed. Since America was importing more than it exported, it was losing to Europe what little gold it did own, so American banks began to print their

own paper money not fully backed by gold. Backed only partially by gold, it was a revolutionary idea. Paper money was issued by individual American banks to be redeemed in gold on demand from that issuing bank.

This was the beginning of the modern “paper money” that was not entirely exchangeable for gold at any time. However, as America expanded, it kept printing more and more money, until the amount of paper enormously exceeded the amount of gold required to back it fully—the original sin. The banks issued paper in a ratio of two or three paper to one gold. But if all the paper holders showed up at the same time to demand their gold, there would not be enough for them and the bank would fail. In the 1830s many banks did fail and the public unfairly blamed the losses on the link to gold instead of on the reckless and greedy government.

In 1848 gold was discovered in California, establishing America as a world power. For 43 trips a steamship named *SS Central America* carried gold from California to New York, and in the summer of 1857 Wall Street waited for trip number 44, on which 21 tons of gold was expected from San Francisco. But the *SS Central America* sank off the South Carolina coast on 12 Sep 1857, triggering the financial “Panic of 1857” and a major recession. Gold was again unfairly blamed and, as the recession deepened, the erroneous conclusion emerged that gold money, the economic life blood of the country, could not be counted on and threatened to take down the entire nation.

When the Civil War began on 12 Apr 1861 there was another shortage of cash, so banks created thousands of types of paper money, any of which could be brought to the issuing bank to be redeemed for gold. Unfortunately, *the government seized the banks’ gold to pay for the war*, so holders of paper money could no longer redeem it for gold. Banks were forced to put a halt to redemptions, and bank-issued paper backed by gold became the scapegoat for the shortage of money. People yet again unfairly blamed gold.

A New York congressman named Elbridge G Spaulding came up with the radical solution of issuing a *federal* paper note, called a *greenback*, but it could not be redeemed for gold. Until about a hundred years ago all money was just a promissory note, but this was the first time a government had created paper money with no backing other than the government’s promise. Ah, American ingenuity. It was issued by government fiat, which is why greenbacks were called “fiat money,” created by a printing press. It had value because the US government said it did. Paper greenbacks themselves represented nothing. This was quite a revolution. By the end of the war the government had issued some \$400 million in greenbacks, with a \$1 greenback equaling one gold dollar in theory but not in practice, a mistake that was to be repeated after the 1929 Crash by those who were ignorant of history.

A major obstacle to a gold-backed currency was the fluctuating price of gold, which depended on the quantity mined. So how could greenbacks be exchanged for gold? The solution was the Gold Room in New York that established a daily price defining how many greenback dollars it took to buy one gold dollar.

The situation inspired Jim Fisk and Jay Gould to corner the gold market in the spring of 1869. The more gold they bought the less the supply, so the price went up. Hoping to sell at the top, Fisk and Gould had to control the US government’s gold sales because Washington would occasionally sell some gold to bring the price down. Fisk and Gould tried to bribe Ulysses S Grant not to sell gold, but he was incorruptible. So Fisk and Gould schemed to keep the government from selling gold until it developed into a bubble. Once President Grant understood the scam he ordered the Treasury to unload \$4 million of gold to depress its price. But Fisk and Gould were already dumping their holdings and the gold price crashed; 24 Sep 1869 was called “Black Friday” when the price of gold tumbled and thousands of speculators got wiped out. As with the *SS Central America* disaster, many Americans blamed gold and again erroneously concluded that the government could not be at gold’s mercy. Nonetheless gold remained the world’s dominant currency.

C. What is a “Gold Standard”?

Of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with paper money.

Daniel Webster, *Congressional Record*, 4 Mar 1846

Let us digress for a moment to describe an international “gold standard.” It might seem complex, but **all a gold standard does is simply force a government to give to the world as much as it takes in, using gold as an international common denominator for all currencies.**

Specifically, over the centuries, countries were said to be on the gold standard when their currencies were exchangeable for gold at a fixed price. When a country ran a balance-of-payments deficit the difference had to be paid in gold (unless loans or credits were arranged). The amount of domestic currency in circulation was linked directly and precisely to the amount of gold owned by a particular country’s central bank. When a country had a payments deficit, gold flowed out in settlement and the subsequent reduction in the domestic money supply caused a contraction in internal demand for goods – which in turn caused prices of goods to fall. Imports declined as economic distress mounted, and exports rose as goods became cheaper. In those days, wages were flexible and fluctuated depending on the economic situation.

A return to some kind of link to gold is the way the world is going to develop sound currencies again, especially after disasters in the deflationary 1930s, the inflationary 1970s and the invisible-crash deflation after 1980. Nonetheless, the true-blue gold standard has been so bitterly criticized by modern economists that it will probably not return in its old form. The most serious charge against the gold standard is that it leads to economic ups and downs over the near term whereas in fact gold merely reflects *inevitable* business cycles. Modern economics purports to smooth cycles out “scientifically”; unfortunately, that alternative is worse. Is it not better to endure short-term fluctuations than longer-term speculative inflationary orgies followed by devastatingly deflationary Depressions?

D. The Nineteenth Century—A Brief Moment of Bliss

A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it.

Max Planck, *A Scientific Autobiography and Other Papers*, 1949

The nineteenth century saw an amazingly sound and self-regulating system based on gold, in which currencies were redeemable in gold at fixed exchange rates. A balance-of-payments deficit was settled quickly in gold and, since all paper was immediately convertible into gold, no government could get away with unlimited creation of money.

England went on the gold standard in 1816. Favorable conditions such as wage and price flexibility, untaxed goods, public acceptance of unemployment and relatively high political stability (partially due to the gold standard) allowed the system to work well. More gold was discovered in the nineteenth century in California, Australia and South Africa. Furthermore the invention of the cyanide process made possible the use of lower-grade ores. The newly-increased gold production led to an increase in the money supply, but based on the solid finding of a rare element rather than on the limitless fantasies of political greed.

The nineteenth century was a financial golden era, when all major industrial nations supported the gold standard, giving the world an economic stability it had never known before – or since. From 1816 to 1914, Europe saw no Depressions and no major wars. America’s currency was backed with both gold and silver by the Coinage Act of 1792 and throughout most of the nineteenth century. By 1900 the gold

standard was international and honest paper money was fully backed by gold. The United States' Gold Standard Act (1900) committed America to maintain a fixed exchange rate in relation to other currencies on a gold standard. Business flourished and there was great scientific and cultural progress. The word inflation almost ceased to exist. The automobile, airplane, electricity and steam engine were developed during the gold standard's reign.

But governments still feared and hated gold because it limited their spending, and the very expensive World War I was the excuse used to evade the gold standard. At the historic meeting on 23 Nov 1910, as stated earlier, America's most powerful bankers met at Jekyll Island, Georgia and used the excuse of anger at gold to structure a new system that would sever the tether of paper money to gold over a period of time. This well-documented meeting resulted in the formation of the Federal Reserve system and the establishment of the income tax in America. The banks and the government colluded to take control of the money supply and set the world on an economic course still followed to this day. An honest gold standard was suspended by America and England after World War I, inspiring a group of so-called "conspiracy theorists" to assert that that was the true purpose of World War I. We have no widely-accepted proof either way.

E. World War I Guaranteed the 1929 Crash

Government is the only agency that can take a useful commodity like paper, slap some ink on it and make it totally worthless.

Ludwig von Mises, attr.

The mistakes made around World War I haunt us a century later and are at the root of many of the evils in the world today. Not everybody would agree with that, so let us look at the facts.

As pointed out earlier, World War I was far more expensive than the governments involved could afford, so they abandoned the gold standard and resorted to the printing presses to pay for it. Thus, "The Currency Frankenstein" was resurrected. After the war, England valiantly tried to return to the gold standard and to the relative peace and progress of the nineteenth century. Unfortunately, England tried to do so with an overvalued exchange rate instead of hard work, which was a major cause of the 1929 disaster. How?

As noted in the Preface, beyond the printing-press mania used to finance World War I, an unreasonable peace settlement ruined Germany by rendering it capable of paying war debts only by running its printing presses, leading it to the legendary hyperinflation suffered in 1920-23. Germany was forced to ignore gold to meet insurmountable debts, and the hyperinflationary results were inevitable: the complete repudiation of the German mark that led to World War II. The peace and happiness of the nineteenth century had lulled many into trusting paper money and paved the way for the great inflations of the twentieth century.

Not having received German marks backed by gold meant that England had to do something to pay its debts and, **at the little-noticed Genoa Conference starting on 10 Apr 1922, the politicians slipped a profound change into the law by changing "the gold standard" into what they called "the gold-exchange standard."** Politicians drooled at the sight of gold sitting in England's vaults, seemingly "doing nothing," so they decided to count it twice (the gold itself and also the gold-backed currency), a stroke of a pen that doubled the money supply! **The unleashing of that much cash in 1922 was the true cause of the subsequent boom into 1929, an inflation that was punished by the subsequent deflation of the early 1930s, believe it or not, and a position almost totally disbelieved to this very day. You won't even readily locate that 1922 Conference in current history books!**

That downturn should have been brief, but the deficit spending of Keynesian economists in the 1930s basically tried to cure the excess of money by creating a lot more, resulting in the stagnation of the 1930s that since 1980 *The Dines Letter* has called "The **First** Great Depression." We will return to the Genoa Conference below.

This pioneering book repudiates all the so-called scholarship analyzing the Great Depression of the 1930s itself, especially when it purports to make a second one impossible. Studying the 1930s without stepping back to the Genoa Conference of 1922 that caused it has resulted in one of the greatest delusions of the entire twentieth century! And it will be punished by “The Coming Great Deflation.”

The rapid deterioration of the value of paper money snowballed and led more nations in the 1930s to encourage exports while resisting imports, so there resulted a virtual halt of world trade. The competitive devaluations of the 1930s and the stock-market crash itself were blamed on the stock market, Wall Street malfeasors and anyone or anything except the real culprits: namely, 1922’s anti-capitalist, gold-hating, governmental currency inflationists themselves.

World War I was the watershed that unleashed inflationary/deflationary forces that still prevail. By the time de Gaulle came to power in 1944 the franc was worth 1/200th of its 1914 value. However, England’s currency did not suffer nearly as much, while the United States had lost very little purchasing power. But the movement from a strict gold standard to various non-gold standards gave the printing presses a foothold that was relentlessly expanded *and will eventually lead to ruin*.

Even though the post-1922 boom ended in the infamous “Crash of 1929,” comparable mistakes were made at Bretton Woods in July 1944 and will again end badly. Hopefully this book will do some good by promulgating a better understanding of the crucial functions of honest currencies.

F. The United States—A New Factor in the Equation

*For three days after death, hair and fingernails continue to grow, but
phone calls taper off.*

Johnny Carson, Humorist

Since the United States dominated international monetary finance in the 1920s, and since it is vital to the world’s monetary future, let us return to America’s financial development and see how it began to intertwine with the European picture during the crucial years following World War I.

Because the American Constitution prohibited the states and the federal government from issuing paper money and did not allow for Congress to delegate currency regulation, our Founding Fathers believed that they didn’t have to worry about fiat money in the future. The Coinage Act of 1792 made our currency a “hard money,” that is, backed by precious metals with the value of 15 units of pure silver set to equal one unit of pure gold.

Such “bimetallism” did not work because the free-market price fluctuations of the gold and silver in their respective coins could not maintain a fixed ratio and one coin became overvalued as a currency. According to Gresham’s Law, bad money drove out the good and one of them became scarce. Good money escaped from the bad. The American people had not yet learned that strictly artificial ratios applied to precious metals cannot withstand the test of time. Thus, in the early 1800s, half the currency base was out of circulation and private bank notes began to circulate freely to fill the vacuum. Frequent bank failures led to many defaulted currencies, and those silly credit instruments eventually became discredited. This was the third group of Americans to have been ruined by a phony US currency, with more to come.

In an effort to make the US currency coherent, the Second Bank of the United States was chartered in 1816. Expansionary policies were favored by government as capital moved from the relatively developed east to the pioneering west, so the Second Bank ran into liquidity problems. Mistrusting the political “insiders” of the creditor class and suspecting them of price-fixing conspiracies, populist Andrew Jackson refused to renew the bank’s charter in 1832, so it closed. Jackson won reelection that year and permitted private banks to issue their own money, sowing the seeds for the great speculative financial orgy of 1834. In July 1836, inflation was so wild that Jackson demanded that all down payments for land had to be made in precious metals. In the ensuing panic, land values collapsed overnight. Government distribution of paper money to banks did not help because people had lost faith both in land and paper money. In 1839 the worst financial panic in American history struck. Counterfeit paper money began to circulate. By 1841

the devastation was complete and the country was at a virtual standstill. The United States did not fully recover until just before the Civil War, and many land values did not reach their former heights for a half century.

Greenbacks were printed in 1862 because Lincoln needed the money to finance the Civil War. He promised that this paper would be retired right after the war. By the time they were redeemed in 1879, inflation-reduced greenbacks were worth only a small portion of what they had been worth in 1862. Debtors who fought this redemption formed a political party called the Greenback Party that advocated fiat money and social security, radical ideas in those days. However, all forms of money were to be redeemable in gold by the Gold Standard Act of 1900 and, from the Civil War until the 1920s, America had no major economic setbacks on the scale of the First Great Depression. It was gold that had blocked politicians from inflationary policies and led to that economic security.

There were several banking downturns in the late nineteenth century (1873, 1884 and 1893) such that in 1907 the people demanded a solution. In 1908 Congress created the National Monetary Commission that in 1912 submitted a report suggesting changes in the US banking system to Congress. That report provided the basis for a new monster, evolving in Washington, DC, in the form of the Federal Reserve System,* founded by President Woodrow Wilson in 1913. The Fed was to act as a “fire department,” a decision that would bring trouble and destruction to the entire modern world almost as efficiently as if it had been intentional. When banks ran into trouble, the Fed printed money and loaned it to banks to bail them out. This new system, designed to stabilize prices and eliminate Depressions, went into effect after World War I had begun, and Americans were so preoccupied with the war that they barely grasped its tremendous significance.

The Fed’s purpose was to provide more money when business needed to expand, and contract the money supply when it needed less. It was falsely thought that the dollar would be sound because it was backed 40% by gold and 100% by cash reserves so that it was 140% secured. In theory, it must have sounded good.

Eventually, a sharp boost in the discount rate from 4% to 6% stopped the expansion because price increases that resulted from the printing press were becoming a problem. Higher interest rates led to a recession after World War I that hurt farmers and caused the money supply to contract. This pain was a result of having paid for World War I through inflation. At that time wages were dropping, since they were flexible and the economy was correcting naturally. US gold reserves were rising while Europe’s cash reserves were dropping, which made it more difficult for Europe to pay its debts, but of course it could always pay by selling goods to America. Unfortunately short-sighted voters elected tariff-erecting politicians, thus blocking Europe’s ability to pay. This was not free-enterprise capitalism. The Federal Reserve Board was supposedly designed to prevent it from becoming political or partisan, but it had become so.† Unbacked paper money is truly a root of great evil.

Elihu Root, then an opponent of Federal Reserve Notes, said the United States is basically optimistic so he predicted that the Fed’s power to create money would be abused and there would be a bias toward inflation. He was so right. In 1913, the Federal Reserve Act specified that Federal Reserve Notes be backed 40% by gold. It subsequently was suspended in 1919 to pay for World War I. It was restored in 1925, but by 1945 gold-backing had been reduced to 25.5%.

Prior to the creation of the Fed, banks could theoretically lend whatever they wanted, limited by the needs of business and by the amount of deposits on hand. *The Fed’s original purpose had been changed from meeting the needs of business to meeting the government’s need for war borrowing.* But when the government artificially lowered interest rates to make more deals profitable, it increased lending, an original sin because it created artificial demand for loans. This lowering of rates could be done by juggling the books. The marketplace was not quite the same. Suddenly, there were more buyers for the

* For the basic structure of the Federal Reserve System, see Wikipedia, but we will comment on it and the BIS (Bank for International Settlements) in the Conspiracy Chapter page 75.

† Author’s Note: These days the Fed resists an audit on the grounds it would make its decisions controllable by politicians, which they already are.

same amount of goods, which led to higher prices and misdirection of production. This was not capitalism.

When the United States assumed world financial leadership after World War II the Fed became an engine of inflation for the entire world – a Frankenstein monster bigger than anything that had yet been created by the imaginative folly of humanity. The intertwining of the American and European currency histories is an underlying factor in our sad conviction that the world's stock markets are vulnerable to a historic crash someday, that only honest currencies could circumvent.

G. A Closer Look at the Genoa Conference of 10 Apr 1922

Though paper money has no intrinsic value, yet by limiting the quantity, its value in exchange is as great as an equal denomination of coins, or of bullion in that coin. Experience, however, shows that neither a state nor a bank ever have had the unrestricted power of issuing paper money without abusing that power; in all states, therefore, the issue of paper money ought to be under some check and control and none seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes either in gold coins or bullion.

David Ricardo (written in 1817)

The Genoa Conference is important enough to delve into further. As previously mentioned, some politicians in 1922 were desperately trying to get back to the pre-World War I situation. Unfortunately, they chose the so-called “gold-exchange standard.” **Lloyd George convened a group of international bankers in Genoa, Italy, on 10 Apr 1922. It was decided at this Conference that each nation could issue its domestic currency against its gold reserves plus its holding of gold-backed British pounds.** (US dollars that were convertible into gold were later included.) It was rationalized that these pound and dollar reserves were superior to gold because they could earn an income when deposited in banks. This concept was the forerunner of 1969's Special Drawing Rights (SDRs), otherwise known as “paper gold” – an oxymoronic experiment that failed. Amazingly, there was talk of SDRs being resurrected from well-deserved obscurity (by the International Monetary Fund) in March 2008! Gold is gold and paper gold is paper, and the twain shall never meet.*

Unfortunately, what was needed in 1922 was a mild deflation to bring the money supply back down to reality. But since those politicians found it politically unacceptable to experience any deflation they favored the gold-exchange standard, which led to a new boom in the 1920s that was punished by the catastrophic deflation of the 1930s. By avoiding a spoonful of castor oil, they wound up with a pail full of currency arsenic.

The problem was that the gold-exchange standard counted the gold twice—once where it was stored and again in any country that held paper dollars or pounds backed by that gold. Thus sound banking was abandoned. Whereas the gold standard was automatic, the gold-exchange standard forced neither immediate payment, nor the export of gold that forced deflation. Nations kept printing more paper money instead of shipping gold, thereby postponing the day of reckoning. Thus the stick-it-to-the-next-generation syndrome allowed the poison to accumulate to toxic levels.

Currency should be no more than a “claim check” on all the goods and services of a society; no new real wealth being produced should mean no new paper money. The elimination of Keynesianism's perpetual inflation is the key to permanent long-term prosperity. In no way is avoiding a recession worth undergoing a Depression later. Yet, that was the path chosen at the fateful 1922 meeting in Genoa, still virtually unnoticed by the world.

As the inflation-induced boom began in 1922, the Fed was determined not to let things get out of hand. But since political parties seek prosperity before elections, the Fed used inflation to make the economy

* We will believe in paper gold more when women delight in jewelry gifts made of “paper gold!”

look rosy. *Unfortunately, any political connection between the Federal Reserve Board and a government in power is bound to be corrupt.* In 1923–24 the money supply rose again, but America's gold reserves did not. Interest rates in 1924, an election year, were held down, and this led to a false sense of prosperity. The Fed bought government bonds and printed paper money, so 1924 really marked the Fed's first aggressive and intentional act of inflating the money supply. The Fed was a tool to manipulate the economy. This was not free-enterprise capitalism. Frankenstein had been reincarnated.

In June 1924, in an effort to return to the pre-World War I gold standard, the Bank of England colluded with the US Federal Reserve to push interest rates lower in the United States and maintain higher rates in England – a violation of the free marketplace and capitalism. In December 1924, the Fed gave \$200 million in depositors' money to England and received nothing in return. The free-market price of the pound was \$4.40 at that time. All of this was kept secret from both Parliament and Congress. On 28 Apr 1925 England went back on the gold standard and the bank rate was raised from 4% to 5%. England tried to get the pound up 10% to its pre-war level of \$4.86, but the currency manipulators feared the United States would attract English gold unless interest rates were higher in America. The entire US economy and money supply were manipulated to help England at a time when the free market indicated that the pound was worth only \$4.40. Those politicians thought they were smarter than the marketplace, an intellectual arrogance that should be resisted when it reappears in the future.

Artificially low interest rates in the United States enabled banks to borrow money from the Fed at the low rate of 4% and lend it on Wall Street at 5% or 6%, and bankers were thrilled by the guaranteed profits. But when the Fed buys bonds, as it did in 1925, there is more paper in the marketplace competing with the depositors' original deposits. The Fed bought bonds to help the stock market, which worked short-term, but the surplus paper money spilled over into the real-estate markets (especially Florida's legendary land boom).*

On 26 Apr 1926, the United States lowered its discount rate from 4% to 3.33%, while all discussions with England were kept secret. The pound was valued at \$4.86 at this time. English prices were up 10% whereas lower costs were needed, but an overvalued pound and intractable labor unions blocked that path. Paradoxically, the refusal to accept lower wages can be a source of unemployment and no wages. *Instead of fussing about how high or low wages are, it is purchasing power that is really more meaningful.* A lower wage in a sound economy means more purchasing power than is possible from a higher wage in an inflationary period, but some pusillanimous politicians do not always fully explain this. Built-in inflexibility of wages tends to make higher prices inevitable. Seniority is an unfair practice because it gives older union members a guaranteed income at the expense of newer members. Unemployment compensation shifts the burden from the unions to the taxpayers. All of this is an inequitable and inefficient allocation of costs, with consequences.

In May 1927 it was announced that the 4% Liberty Loan would be refinanced at 3.5% the following November. The Fed was determined to hold interest rates below the free-market price until then. This action was not capitalism, and artificially forced prices to rise. Easy money was the answer then, and an artificial boom spread. That year, France withdrew gold from the Bank of England and sent it to the United States for safekeeping, causing England some economic heartache, and the United States printed money to make up for it. This was not a free market, as the Fed used depositors' money to support the English pound.†

The United States lowered its discount rate to 3.5% to aid England on the theory that England would then buy our food and other exports. It was even deceptively said this was done to help US farmers, without mentioning England. Nonetheless, 1927 saw an expanding money supply with remarkably stable prices. This early stage of inflation was masked by increased production, so it was not readily detected that inflation was distorting the economy.

* Note similarities with America's real-estate bubble after 2000.

† All this had a remarkable similarity to events nearly forty years later, when de Gaulle was roundly condemned for being suspicious of the US dollar, proving that the same abuse of gold has been causing trouble for many years.

There is always a good excuse for immorality. The government could not tighten the supply of money in 1928 because it was a presidential election year, again exposing the fallacy of allowing politicians to control the Fed. Brokers' loans were a record \$3.8 billion in January 1928. From 1922 to 1926, the money supply had increased a whopping 30% from \$33 billion to \$43 billion and more and more of it flowed into the stock market. Each time the market dipped some politicians would "jawbone" it higher, as President Nixon was to do in the 1970s and Fedhead Greenspan in the 1990s. Banks were borrowing at 5% from the Fed and lending at 8.6% to stock speculators, so who dared kill the golden goose? The Federal Reserve Bank of New York wanted to raise rates to 6% as the money supply rose to \$45.7 billion, but Washington refused. Brokers' loans were \$8.5 billion by the time of the 1929 Crash, which gives some idea of the shocking 124% rate of increase after January 1928. All this was done with the money of innocent depositors, and the subsequent collapse of the banks (that wiped out the savings of those depositors) meant that they were being hoisted by their own petards. It is astonishing that there are still people who favor so-called "easy money," two words that morphed to so-called "quantitative easing" by Washington's Orwellian Semantic Police in 2008 – it's all the same acceleration of the printing press. **Politicians should not be given the power to manipulate the money supply at all. America's beloved Constitution gives Congress the power to regulate the value of our currency, but does not give it the power to delegate control of monetary policy to a central bank or other institutions!**

H. Conclusions

Have we eaten on the insane root that takes the reason prisoner?
Shakespeare, Macbeth

A recession in the early 1920s should have been allowed to run its course to wipe out Europe's excesses of World War I. This was postponed by the gold-exchange standard at Genoa in 1922 that took the rotten structure to yet higher levels by 1929, where the collapse was to be even more devastating. Even the 1929 Crash could have, at that point, wiped out the mistakes of World War I's inflation and the errors created by the gold-exchange standard of the 1920s. If the government had resolved to reinstate an honest currency based on real value such as gold, which it ordinarily would have done, much subsequent grief could have been avoided.

Real-estate prices began to break down in 1926, but stocks continued to rise for three more years. The lack of real-estate opportunities caused speculators to look for greener pastures on Wall Street. In the 1970s the sequence was exactly the opposite. Since there was very little borrowed money in stocks compared with 1929, stocks began declining at the end of 1968. However, real estate, propelled by 90% loans in some cases, continued to rise for several more years, particularly as more people became disillusioned with the stock market.

In 2001 many investors fled from the Internet bubble's aftermath to real estate. In 2002, residential real estate kept rising after the stock market had already topped out in 2000 (adjusted for inflation) because interest rates had been driven so low by the Fed that mortgage rates were lower than rents. Commercial real estate began to break down in 2007. Real-estate debt at sky-high levels would later be seen to have been a Damoclean Sword overhanging markets. Thus does the history of gold abuse tirelessly repeat itself, albeit with some variations and alternations.

It was not capitalism that had failed, but self-serving politicians tampering with the money supply for the purpose of getting themselves elected that had succeeded. The gut cause of the misery of the little guy is politicians' Low State desire to get something for nothing. It is this immorality of an inflationary system that leads to economic distress as inevitably as the Earth revolves around its axis.

I. This Book Dares to Challenge the Definition of “Money Supply”

A lie can travel halfway around the world while the truth is putting on its pants.
Mark Twain

No informed adult needs the historic 1929 Crash and 1932 Depression described again. It was bad. It was *the* Depression. Yet, the entire world is at high risk of an even worse Depression in coming years.

Interestingly, the word “Depression,” when first used by Herbert Hoover in 1929, was actually a euphemism for what used to be known as “hard times.” Hoover treated the market crash as a psychological phenomenon instead of a gold crisis. He used the word Depression because it sounded less frightening than panic or crisis. By the 1950s the use of the word Depression was unofficially prohibited from all Wall Street advisories by the Semantic Police, and the euphemism “recession” (especially “extreme recession”) became “politically correct,” an even more depressing oxymoron. For the record, in mid-1974, and again in 2008, the word Depression began to be used publicly again. What that means in the larger scheme of things remains to be seen.

The stock market discounts the future, so when people refer to “1929” they mean not so much the market crash of that year but the terrible deflation that the barometric stock market had anticipated for the 1930s. While the stock market normally anticipates the future, *Depressionary crashes might be something distortive in that such sudden contractions of the money supply themselves actually aggravate the discounted downturn.*

We have always believed that stocks should be included in the definition of “money supply,” yet they are not. When most of us have rising stocks we feel wealthier and are mentally more willing to spend money. But when stocks drop we tend to cut back on spending for psychological reasons. Once, after a stock-market decline, we were asked where the lost money went and what had happened to it, and we came up with the phrase to “money heaven!” The money actually never really existed. Yet, when those shares were still high shareholders could not only borrow on them, but they were also psychologically considered assets. If a declining stock had been considered to be pledged as collateral for a loan, one could actually borrow less money on it, so it is a real loss in that sense. In a market crash pension plans that appeared to be “fully funded” to treasurers (that is they seemed to have had sufficient assets to meet the payments to retired employees) suddenly discover that their funds are insufficient. Money must then be pulled out of their corporation’s income streams to make up for the difference, which can be an unwelcome surprise. A rising stock in a strong market makes it easy for a company to raise money through the sale of new common shares, while in the opposite condition corporations need to borrow from banks and might become overburdened by debt. Another point to remember is that appreciated stock is frequently given to charity, which can be donated at market value for tax-reducing benefits.

For those reasons, in our opinion, *a stock-market crash reduces the “money supply” in the sense of Mass Psychology and could make its negative prophecies self-fulfilling to some extent.* Secondary effects from a decline in security values might conceivably bring about, or at least aggravate, a business slowdown.

At the bottom of the First Great Depression people began to look for scapegoats. Among others, they blamed Wall Street for having caused it, as was done again in 2008.

This accusation might have some merit in that Wall Street did collaborate, but of course *governmental inflation was the original cause.* Some who seek scapegoats will say later that gold caused a major bear market. They will also say that since gold is money, any increase in the gold price is inflationary. Both are untrue. When Roosevelt raised the gold price from \$20.67 to \$35 on 30 Jan 1934 there nonetheless followed a historic deflation.

The higher gold price merely helped wipe out the paper money binge of the 1920s, but there is no evidence it caused inflation.

Everything was blamed for the '29 Crash, including stockbrokers, politicians, Hoover, England, sun spots, *anything except some politicians' own greedy refusal to accept small economic downturns that*

risked their not getting reelected. Recessions are necessary to root out inefficiencies and to keep prices reasonable via competition, same as fires clear underbrush to maintain healthier forests.

Each economic cycle in history shows itself to be similar. Only through rigorous self-training can an investor gain enough control of the emotions in such cycles to remain the master of his/her own destiny. Many of those who were wiped out in the Crash could have saved themselves if they had mastered our *Mass Psychology* book. Knowledge aids survival.

J. Oh No, the Depression of the 1930s, Not Again!

The system of private property is the most important guarantee of freedom, not only for those who own property, but scarcely less for those who do not. **Friedrich von Hayek, *The Road to Serfdom***

At the bottom of the Depression in 1932 a unique and purportedly well-intentioned person arrived on the scene who was to start the same dreary cycle over again. We are still in that cycle, one that has been repeated time and again, a cycle which humanity stubbornly refuses to acknowledge and learn.

Franklin Delano Roosevelt was elected President in November 1932 when the economic world was prostrate. This is not a political book, so we remain strictly neutral. One could understand how anyone with compassion for the people devastated by the Depression would try to take direct action to help them, and in that sense many do not blame him. Yet all the excesses derived from the inflation to pay for World War I and all the errors made by the Federal Reserve Board had been liquidated violently, and FDR had been presented with a clean slate. A really sound currency established at that time would have changed the economic history of the rest of the century. On the other hand, since America was teetering on the brink of communism, also fascism, many say he had no choice. Whichever, gold abusers in his administration were the real culprits.

FDR's "New Deal" has always been controversial. Many have sworn by it or at it. A century from now there might be a consensus that both sides had points. The New Deal could go down as the greatest short-term success and the biggest long-term failure of any economic program the world has yet seen. Here was a great opportunity to liquidate the Federal Reserve, reduce taxes to virtually non-existent levels and establish a sound currency. The recovery would have been slow at first, but it would have been as profound and long-lasting as the halcyon days of the nineteenth century. Instead, because he was influenced by British economist John Maynard Keynes and Assistant Secretary of the US Treasury, Harry Dexter White,* Roosevelt took the opposite tack. Keynes focused on England's high unemployment in the 1920s, concluding that it was due to a failure of capitalism and therefore government had to step in. But Keynes was treating a symptom of gold abuse, a point evidently lost on him, and he lured the entire economic profession in after him. Even though his nostrums didn't work, economists keep returning to Keynes, making his identical error to this day. We dare to stand up to the entire economics profession on this point.

Let us carefully dissect the economic policies of that period so we can study where America went off track, for future generations that might be tempted to abandon gold again. To oversimplify Keynes' theories greatly, unless the government spent a lot of money, even more than it had, the Great Depression would never end. He convinced Roosevelt of this, even though all of America's previous Depressions had ended without governmental intervention. Keynes believed that during bad times the government should borrow money from itself by creating money and funnel it into the economy to stimulate business; then, when the economy recovered, the government should tax heavily and repay those deficits. This hope was supposedly like leaning into the wind, with the government becoming a balancing mechanism. Keynesian economics, as it came to be called, became the dominant economic theory of the world from then on, and

* White was a secret spy for the Soviet Union, according to Wikipedia. See Conspiracy Chapter (page 75).

in the 1960s it became the “new economics.” Actually, the history of currency cycles reveals that there was nothing new about Keynes at all. In fact, there were great parallels between Keynes and John Law in that both were speculators, gamblers, philosophers, intellectuals and neither conservative nor cautious. Both preferred sudden wealth over patience and frugality and where John Law misled Louis XV, Keynes misled Roosevelt (and Fedhead Greenspan was to mislead nearly everybody).

Unfortunately, Keynes’ theories had the same weakness as Law’s: that of human nature itself. Politicians did not like cutting back in good times, so the second half of Keynes’ philosophy was disguised, suppressed and conveniently overlooked at every opportunity. Could nations get along without gold? Could there be a sound currency without gold? Theoretically, the answer is yes. But until people become saints, they never will. The acceptance of Keynes’ ideas in 1932 became a one-way ticket toward a guaranteed inflation that would eventually bring ruin in the form of what we have long called “The Second Great Depression,” a phrase still not used today. America took a beating from the First Great Depression and, instead of avoiding its cause, went right back to currency’s heroin needle.

Perhaps Keynes, accused of being a socialist himself, understood that his theories would eventually fail. When asked about the long-term problems involved in his philosophies, Keynes famously replied, “In the long run we are all dead.” Did he mean that by the time he was brought to account for his disastrous policies he would be safely dead, or that the generation that had suffered the Great Depression would be dead? Did Keynes understand this? If he did, he is probably not in Heaven.

That is how America wholeheartedly accepted the concept of perpetual deficits without ever thinking about how to repay the ensuing debt, a debt that was to slowly wend its way around our collective necks.

K. The Son of Frankenstein

*The most decisive actions of our life – I mean those that are most likely
to decide the whole course of our future – are, more often than not,
unconsidered.*

André Gide, The Counterfeiters

It is our firm conviction that gold is the fulcrum, the very central lever within the deepest inner recesses of capitalism itself. Touch the golden lever, and its effects are so profound that they could surface many years later. It is the very pituitary gland of our economic organism, if you will. No politician should be readily permitted to get near this lever.

In March 1933 Americans were so frightened by the shakiness of banks that they demanded their gold all at once, so banks began to fail, yet again blamed on gold. Two days after Roosevelt became President, on 6 Mar 1933, a blazing *New York Times* headline declared: “Roosevelt Orders 4-Day Bank Holiday, Puts Embargo on Gold, Calls Congress.” Other headlines included: “Financiers Look for Little Interruption in Business”; “Emergency Step Praised – President Takes Steps Under Sweeping Law of Wartime”; and “Prison for Gold Hoarder.”

Roosevelt’s proclamation began, “*WHEREAS there have been heavy and unwarranted withdrawals of gold and currency from our banking institutions for the purposes of hoarding; and WHEREAS continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the nation’s stocks of gold; and WHEREAS these conditions have created a national emergency . . .*”

And so it went, blaming “hoarders,” “speculators” and especially gold, for having “created a national emergency” when exercising their Constitutional rights to private property, rather than the greedy politicians who had abused the yellow metal. At that time Frankenstein was resurrected yet again.

On 9 Mar 1933 Congress passed the Emergency Banking Act which, among other things, gave the Secretary of the Treasury the power to confiscate gold and allowed President Roosevelt to issue Executive Order 6102 on 5 Apr 1933 that forbade “the hoarding of Gold Coin, Gold Bullion and Gold Certificates,” all of which were unconstitutionally called in and the die was cast for a fiat-money currency inflation. Roosevelt might have accepted this long-term problem because he felt traditional methods of resurrecting the economy would be too slow, but we have often written that *history never reveals its alternatives*, so

we will never be certain of what might have happened had a different path been taken. As hard as it was to follow, or even envision at the time, the sound-currency path was the way to break the vicious cycle of inflationary booms and deflationary Depressions.

Instead of dissolving the Federal Reserve Board, Roosevelt made it a more powerful tool of government to implement his inflationary plans. FDR castrated gold by nationalizing it (that is, robbing it from Americans by threat of police force) and giving it as a gift to the Federal Reserve Bank. With the United States having severed an important link between paper money and gold, a chain reaction started that reached its climax on 15 Aug 1971, the Sunday President Nixon axed the final link between gold and paper. Gold did not cause anything: a penny was stuck in the fuse box so that gold could no longer function as the policeman. The sad part of it is, FDR's act not only flew in the face of history, but it was illegal. He might have done it because of intense public pressure on him to do something, anything, to get America out of that Depression. Voters often get the government they demand, sooner or later. Sometimes good and hard.

FDR's 1933 filching of the American public's gold at gunpoint was brilliantly discussed in a Winter 1973 *Brooklyn Law Review* article by Henry Mark Holzer entitled, "How Americans Lost their Right to Own Gold – And Became Criminals in the Process." Many knew this act was illegal at the time, but winked at it. Holzer's story of how Roosevelt rammed this legislation through the courts is worth studying by history scholars.

The government forced Americans to turn in all their gold under the threat of criminal penalties, except for coins with recognized numismatic value, and the robbed gold wound up in government vaults! Consolidating this illegal seizure of American wealth, remarkably, the government finagled it such that the First Great Depression was actually blamed on gold by many, instead of on its abuse resulting from the 1922 switch from the gold standard to the gold-exchange standard! The American public was so mired in the First Great Depression that it did not readily grasp what had been perpetrated on them, but its impact will reverberate for centuries to come.

As it turned out, hopefully due to agitation by The Hard Money Movement I had founded, legislation restored the right of Americans to own gold on 31 Dec 1974 *and it happily unleashed a great bull market – not a coincidence*. Consequently, the problem is moot now, except that the sequence will arise again in the future. If your government decides at any time to sell its robbed gold, protest as loudly as you can – your survival might depend on it.

The Federal Reserve System was originally required to set up a gold reserve of 35% against currency notes issued and 40% against member bank deposits. In addition, all parties entering into contracts had the Constitutional right to insert a gold clause guaranteeing payment in gold, which protected the lender against inflation and repayment in a debased currency. But Roosevelt continued chipping away at the power of gold by withdrawing gold coins from circulation and also the private ownership of non-numismatic gold by American citizens. One of the controls the individual had had over government was eliminated, and Americans no longer possessed any realistic domestic alternatives to paper money as their defense against inflation. Roosevelt also raised the price of the gold his administration had robbed from the public at \$20.67 to \$35 per fine ounce, and then sold it overseas at a 69% profit! To quiet critics, legislation was passed demanding that US currency be backed by at least 25% gold. Since the United States owned a large percentage of the world's gold at the time and, since foreigners (but not US citizens) could still convert US dollars into gold, the assumption persisted that the US dollar was still "as good as gold." For a while it effectively was. But this Frankenstein was merely an infant.

The Keynesians' runaway printing-press money in the 1930s failed to deliver prosperity because it was trying to cure the inflation of the 1920s with even more inflation! Amazingly, the delusion that Keynesian economics succeeded dominates the WEE (Washington Economic Establishment) thinking to this very day. Nobody knows how long America's First Great Depression might have lasted because World War II erupted on 7 Dec 1941 and changed everything, allowing even greater deficit spending in the emergency battle for survival. Indeed, some conspiracy theories subsequently arose that both World Wars were engineered to enable governments to wiggle entirely off the gold standard.

Roosevelt's inflationary policies seemed to work at first because few deducted his inflation from the economic numbers, so by 1936 what appeared to be a mild recovery had arrived. Unfortunately, a relapse

in 1937 due to Keynes' inflationary policies led to a stock market plunge and the return of massive layoffs. When Roosevelt took office there was a veritable army of 14-million unemployed and, as late as 1939, the unemployment rate was still around the 10-million mark, *so his New Deal never really brought back prosperity or greatly reduced unemployment*. All Roosevelt had done was to raise the national debt 250% from \$16 billion to \$56 billion by 1941. Roosevelt did not blame his own policies for the failure, but business itself, just as Presidents Eisenhower, Kennedy, Johnson, Nixon and others would later. Business was saved from Roosevelt's scapegoatism by the outbreak of World War II. The war devastated the other major industrial nations while America was building up its industrial capacity and accumulating 70% of the world's gold, perhaps a coincidence.

In what might have been meant as the final nail in gold's coffin, President Roosevelt closed all of America's gold mines in 1942, declaring that such American efforts were needed for the war, which bankrupted many gold-mining companies.

Germany needed all the gold it could get to build armaments, having lost almost all its gold during the hyperinflation of 1920–1923. Every time Germany conquered a country its gold reserves immediately flowed to Germany; in 1938 Czechoslovakia's and Austria's, in 1939 Poland's. By February 1945 Germany's huge gold hoard was hidden in a potassium mine. When Americans discovered it after the war, Generals Patton, Bradley and Eisenhower themselves took an elevator down to that mine to look at that incredible gold hoard. Exactly what happened to it might be an interesting story someday.

The United States had gold holdings of \$10 billion in 1935, which swelled 80% to \$18 billion in 1939 as a consequence of European gold having been moved to America for safety, and another \$5 billion of flight capital was added before the entry into World War II. This build-up did not stop until 1949; America had accumulated \$24.6 billion in gold at a time when the entire gold reserves of all governments in the free world totaled only \$35 billion! After World War II, a devastated Europe had to buy almost everything from America, the wealthiest country in history, so Europeans traded whatever gold they owned in order to buy dollars to rebuild, and America's gold reserves soared, safely buried in the Federal Reserve's vaults. The US dollar had become the world's strongest currency, like the bezant and the ducat before it. At the end of World War II, the United States was at the pinnacle of the world militarily, politically, economically and financially.

L. Bretton Woods—Frankenstein's Puberty

I'm amazed he was such a good shot.

Noel Coward (On being told that his accountant had blown his brains out.)

In 1944 the United States' gold called the shots, so it was another great opportunity to set the world's monetary system straight. Instead, the Bretton Woods Conference locked us on to a path ineluctably aimed at another Depression by trying to eliminate gold from our currency. Other nations were hungry for dollars that were freely convertible into gold, so the United States bought property in Europe with dollars, which Europeans used to buy American materials, and the dollar became the planetary medium of exchange. This racket could have lasted for a very long time had our money been inflated slowly, since the world had actually gotten used to the paper dollar. But US leadership somehow snatched defeat from the jaws of victory.

Harry Dexter White, Assistant Secretary of the United States Treasury, and John Maynard Keynes of the British Treasury, developed a new international monetary system. This fountainhead of financial troubles was convened at Bretton Woods, New Hampshire, on 1 Jul 1944, to launch the International Monetary Fund (IMF) and the World Bank. The IMF required countries to explicitly define the parities of their currencies in gold or US dollars and to keep exchange rates rigidly locked within one percent of "parity." To give countries time to adjust imbalances in their international payments, the Fund's resources extended credit. *This credit emasculated the power of gold to force countries to sell internationally in*

roughly equal amounts against what they were buying, a fatal flaw that threw the international balance wheel out of whack. The gold lever had been strapped down out of position. If a country could not restore its balance-of-payments without deflating its economy, or imposing restrictions on current trade and payments, the country could then change the parity of its currency, thereby eliminating all deflations and creating a perpetual “high.” So all the world’s currencies were expressed in terms of, and closely tied to, the US dollar, but in turn the dollar was still fixed to gold – so the dollar became the yardstick. Only the United States could change the price of gold, and all other nations were forced to increase the value or devalue their gold in terms of dollars. This dictatorial power seized by the United States would eventually be devastatingly abused.

It was also ruled at Bretton Woods that a nation’s reserves could be composed of either gold or any currency convertible into gold. This last one was the killer because it included the dollar (and later the pound when it was strong and freely convertible into gold), and did not appear to anticipate the way the dollar would be run into the ground. This subverted virtually every other currency in the world and launched an inflation the likes of which had never before been seen because it *encompassed the entire world*. Meanwhile, the United States solemnly pledged to maintain the value of the dollar by buying or selling unlimited quantities of gold at \$35/ounce so that it could not fluctuate. Since other countries did not have to make their currencies convertible into gold, but merely into dollars, their governments expanded the total amount of their paper currencies so freely that devaluations came casually, and the value of those currencies were so cheapened against the strong US dollar that foreigners were able to underprice America in the marketplace. Unbeknownst to many workers, America had been losing jobs because of gold abuse. Foreigners were taking America’s markets away because their currencies were underpriced; they kept interest rates so low that their currencies dropped.* Washington never retaliated, so nations began to exploit their currency advantages against the United States, starting with Volkswagen’s invasion of America’s auto market. To pay for such losses, the US government inflated even faster than others, which is partially why the United States began to lose gold after World War II: reserves fell from \$24.9 billion in 1949 to around \$10 billion in 1971.

The United States should have lost more gold than it did and, in fact, should have been cleaned out. This would have happened under the classic gold standard, which would have stopped the inflationary embezzlement long ago, again illustrating the crucial function of gold. However, other nations did not demand gold because they could readily include paper dollars in their own reserves under the dollar-exchange standard. While dollars were technically convertible into gold, the United States did not mind foreigners accumulating paper dollars because the WEE could always print more. And did they!

Thus it was that the IMF proved to be one of the greatest engines of inflation in the world’s monetary history. The United States alone had no restraint because it could simply print more paper money for other nations to include in their reserves, so America began to feel richer than it really was. When US inflation began to accelerate toward its terminal stages, the IMF forced other countries to buy even more dollars so as to keep their currencies from going to a premium against the dollar. Thus the United States induced the world to import inflation. West Germany, for example, had to buy billions of dollars to support the greenback in relation to marks and, in order to do so, issued billions of new marks. West Germany’s increased money supply added to its inflation, and the American dollars it absorbed were trusted to become reserves backing the mark; if the dollar failed, the mark would go down with the ship.

There is no evidence that the IMF, from 1946 to 1972, did anything to stop or reduce inflation. *It was a no-brainer for us to predict that the Bretton Woods system of fixed rates for paper currencies would fail because nations printed different amounts of paper currencies, yet our position was considered so outlandishly wrong by virtually everybody at the time that it was not always easy to keep publishing our newsletter.* We were baffled that our position was not immediately accepted by our leaders, but our prediction nonetheless came true when the system of fixed exchange rates was finally abandoned on 15 August 1971 and all currencies were allowed to float against the US dollar. Such a free market is by far a

* President George W Bush finally also let the US dollar float in 2008, sending it plunging and putting the world’s currencies on a more level playing field . . . of quicksand.

cheaper and more realistic solution than legislating, by fiat, what currencies are ostensibly worth. Floating calls attention to the need for each country to maintain a sound currency and immediately exposes individual weaknesses. Floating reveals true weaknesses that cannot be wallpapered over by “international cooperation,” or using strong currencies to buoy weak currencies. Attempts to eliminate Darwinism from currencies results in the survival of the unfittest and eventually requires a Depression to correct them.

The International Monetary Fund held a pool of currencies and gold, originally worth \$8 billion, designed to help countries over near-term imbalances in their international accounts; an “international Fed,” so to speak. The IMF was dedicated to the idea that currencies should have stable values and that nations should not be subjected to deflations in order to adjust to short-term imbalances in their flow of funds across their borders. Founded by Keynes and White at Bretton Woods in 1944, the IMF’s actual purpose was to help avoid the rigorous discipline of gold. The IMF was a desperate effort to legislate against the Great Depression while avoiding the discipline of gold. In a sense, America was fighting dinosaurs long after their extinction. Of course, the founding fathers of this useless organization ignored the consequences of what happens when currency values get fundamentally misaligned.

Handmaiden to the IMF was the World Bank, also born at Bretton Woods. This was a multinational mechanism by which developed countries could lend long-term money to underdeveloped areas of the world. The World Bank sold bonds in the United States and Europe and then loaned the proceeds to finance projects in agriculture, public utilities, education, transportation, and to some extent, industry. It was really a form of charity. This is not to criticize charity, merely to point out that it should honestly be called charity instead of a loan that would later be “forgiven.” If society spends more on charity than it should, everyone will end up paying more, so the choice should be up to an informed electorate.

M. Frankenstein’s Coronation

*The hand that signed the treaty bred a fever,
And famine grew, and locusts came;
Great is the hand that holds dominion over
Man by a scribbled name.*

Dylan Thomas, *New Verse*

Still overreacting to the haunting unemployment of the First Great Depression, the Employment Act of 1946 was dedicated to the idea that the government had an obligation to stabilize employment at a high level. Since wages consequently lacked the flexibility to decline, this cost to business could never drop, so long-term price pressures were always upward and rising prices were mistakenly called “inflation.” To a great extent, business did attempt to offset the rising cost of union-driven labor by various innovations, higher productivity, new machines, labor-saving devices and technologies. But it also forced commodities to be cheaper and less important than labor since commodity prices had the flexibility to decline and “something had to give” during economic downturns. In the end, nothing could really help and ineluctably rising wages had to come out of profits, then capital itself, eventually menacing the golden goose. Foreign nations, with much lower labor costs took American jobs, “hollowing out” an America deluding itself into thinking that it was still 1950 and that its manual labor making \$65 an hour could compete with foreign labor making \$100 a month. This was yet another path on which inflation and an eventual Depression became institutionalized by law.

As noted, foreign automobiles made deep inroads in the US automobile industry in the 1960s for the first time ever, primarily because foreign currencies were undervalued in relation to the US dollar. By 1974, two devaluations of the US dollar pushed the prices of many imported cars up 30% or more, wiping out their cost edge and leaving them with a sizeable price disadvantage. The heavy layoffs in 1974 at Volkswagen and Italy’s Fiat were casualties of gold, but it is doubtful that those car companies understood the real reasons behind what was happening.

N. Nixon Comes Up With a Weird Theory That Fails

Like liberty, gold never stays where it is undervalued.

J S Morrill, *Speech in the Senate, 28 Jan 1878*

The great boxer Joe Louis, when warned that his opponent had great footwork in the ring, famously replied that, “He can run, but he can’t hide.”

The basic idea of full employment was developed by Charles L Schultze and implemented by others well before President Nixon took office. Seeking to cope with the fiscal problems posed by an economy operating well beneath full capacity, with sluggish revenues (in other words, short of full employment), the budget was likely to be in deficit without being stimulative for the economy. So went the theory. In 1971 Nixon declared, “the full employment budget is in the nature of a self-fulfilling prophecy: By operating as if we were at full employment, we will help bring about that full employment.”

If, under this lunatic neo-Keynesian concept, it could be shown that existing taxes and spending would produce a large surplus if the economy were operating at capacity, the remedy would be a tax cut or more spending to stimulate the economy toward full employment. Thus, the idea of a tax cut or more spending became respectable even though the budget was already in deficit. The theory was that a tax cut could actually produce more revenue and reduce the deficit by stimulating the economy. *In other words, if you are going broke, spend more!* This was a delusory excuse for an inflationary budget policy that rationalized our overspending instead of returning to the solution of an honest currency.

The idea was discredited in the 1970s, not only because double-digit inflation outraged the American public, but also because a Brookings Institution budget study pointed out that government revenues are much more sensitive to inflation than expenditures, at least in the short run.

If the above is unclear, it is because of the illogical nature of the program. That is perhaps why Nixon junked it in mid-1974 and began talking about a huge full-employment surplus on the old basis. At the time of his resignation, Nixon still aimed for a balanced budget in the 1974–75 fiscal year based on actual receipts and expenditures, even though unemployment was likely to be well above 5%.

O. The '50s and '60s Were Only the '20s All Over Again; As Were to be the '80s and '90s

In April 1917 the illusion of isolation was destroyed, America came to the end of innocence, and of the exuberant freedom of bachelor independence. That the responsibilities of world power have not made us happier is no surprise. To help ourselves manage them, we have replaced the illusion of isolation with a new illusion of omnipotence.

Barbara W Tuchman, *How We Entered World War I*

In 1949, many European currencies were devalued on a broad scale to adjust for the wartime credit inflation used to pay World War II's debts. The United States did not devalue the dollar and, because of its resulting competitive trade disadvantage, plus a generally resurgent worldwide economy, the US dollar entered the 1950s with one hand tied behind its back. The US dollar was overvalued at that time, just as was the English pound in the 1920s, as history echoed itself.

In 1950, the US balance-of-payments surplus slipped into red ink and, with rare exceptions, it has remained in Keynesian deficits ever since. Most European currencies were inconvertible, so the dollar was widely sought as an international medium of exchange and temporarily displaced gold as an international currency. The United States got away with large balance-of-payments deficits because of the

great demand for dollars as a substitute for gold. From 1950 to 1957 only \$1.7 billion of our total accumulated deficit of \$12.5 billion was exchanged into gold by Europeans. The balance was financed by foreign central banks having acquired those dollars. This blunder was the beginning of the end for Europe (as Frankenstein went international) because dollars owned by foreigners are debts that the United States must eventually pay, but which Washington unethically never intended to pay – the Low State of Cheating via inflating debt away.

In 1958, leading European currencies became convertible again, providing alternatives to the dollar for the first time since World War II. Around that time, the US Government became more reckless in the amount of money it spent and gave away overseas. The US balance-of-payments deficit of \$3.4 billion was financed when 68%, or \$2.3 billion, was converted into gold. By 1960, the US gold supply declined to \$17.8 billion while liabilities against that hoard ballooned to \$20.9 billion.

We realized that trouble was brewing when comparing the amount of rising foreign claims overseas against the dwindling US gold holdings. To our horror, we discovered that they were almost in balance! In effect, the US dollar was approaching a currency bankruptcy! Never in our wildest dreams did we believe that the financial wastrels in Washington could postpone the gold crisis more than briefly. Frankenstein had laid the groundwork so well that *The Dines Letter's* alarms went unheeded by everybody. Washington succeeded in delaying it far longer, but also permitted the situation to worsen in the process as the bubble expanded exponentially. Had bankruptcy of the dollar been recognized then, the price of gold increased and a sound currency been instituted, many of the subsequent ills could have been eliminated. That fraudulent inflation could never have continued if the United States had accepted some kind of link to gold, and perhaps that explains why gold was so suppressed. But, as noted, history never reveals its alternatives. President John F Kennedy eventually slapped an Orwellian-sounding “Interest-Equalization Tax” on Americans that discouraged foreign investments, the first “exchange control” to stop Americans from escaping with their assets – **not to be the last**. The tax helped prevent dollars from leaving the United States so that citizens partially lost their freedom to invest or spend money overseas, thus allowing the US Government to do so instead. This was not free-enterprise capitalism. It was an open secret that Lyndon Johnson discouraged Germany, for example, from converting its dollars into gold by reminding it that our troops stood between it and the then-menacing Soviet Union. This was not free-enterprise capitalism. The amount of goods that American tourists in Europe brought back to the United States was reduced and new tourist taxes sprang up everywhere. Americans meekly submitted to this chipping away of freedoms. Pressure was placed on US corporations to repatriate US funds under the coaxing of patriotism. Actually this was an unconstitutionally totalitarian act, expropriating the assets of US stockholders so the government could spend that money instead. This was not capitalism. Such chicanery by people in high office is not demonstrative of the kind of fair government that can support capitalism. Economic freedom is the historic enemy of the totalitarian state.

Much of the blame for gold crises has been placed on “speculators” in the negative, modern sense of the word. Irresponsible, or worse, ignorant, journalism has often heaped great blame on speculators for “causing” some of the dollar’s problems. This is hardly surprising since most Americans have been educated and trained under Keynesian economics either to disregard gold or to despise it. There is not even a course in Capitalism 101 taught in US schools, nor even how to open a brokerage account. Actually, the word speculation derives from the Latin word *specular* which means “spy out, observe.” Bernard Baruch, who as we noted had sold out before the 1929 Crash, defined himself as a speculator who observes the future and acts before it arrives. Why put people down when they see trouble coming and try to protect themselves and others? Is it somehow more commendable to understand that your government is going to harm you, but then make no effort to protect yourself? There is nothing in the US Constitution prohibiting speculation. The Government, having completely misread gold’s rise, immediately blamed it on the so-called “gnomes of Zurich” (which startled and amused the Swiss at the time) and “currency speculators.” So far detached from reality were our leaders when gold was at \$35 that John Connally (then Secretary of the Treasury), Paul Volcker (then Undersecretary for Monetary Affairs), Rep Henry Reuss (Chairman of the Subcommittee of the Congressional Joint Economic Committee) and famous economist Milton Friedman all favored selling off America’s gold just to push the price down artificially so as to “punish speculators,” to prove that gold is “just another commodity, like pork bellies.”

They were all later proved wrong but subsequently honored and it was not always easy for a hard-money newsletter to stand up against that gang and survive.

It is important to understand the little-remembered **London Gold Pool** because it will happen again and forewarned is forearmed. The guilty parties, the creators of inflation, sought a scapegoat. They wanted to prolong the crisis because it concealed the true culprits. Washington was unable to suppress the price of gold on its own, starting in 1961, so it actually wheedled seven other countries to form the “London Gold Pool” designed to dump the yellow metal on the gold market whenever it began to rise. This suppression of free-market prices was not capitalism, yet actually enlisted the central banks of the United States, England, West Germany, France, Italy, the Netherlands, Switzerland and Belgium as accomplices in that nefarious scheme. The Pool’s specific intent to suppress the gold price at the \$35 official level succeeded for seven long years. Money was taken from bank depositors via printing-press inflation and used to suppress a natural market force. The losses eventually came out of the hides of those sheep-like bank depositors who never seemed to anger.

The United States provided 50% of the total net gold sales by the Gold Pool, which revealed the geographic location of the ringleader. In 1966, the losers in the Pool parted with \$991 million in gold. In June 1967, France wisely withdrew from the Pool despite heavy American pressure and criticism. France’s exit from the Gold Pool was the beginning of the end of that monetary scheme by central banks. The gold, a national treasure used to defend a non-market price, was squandered by those who refused to understand the function of price as a device for rationing scarce resources in a free marketplace. Sadly, some charlatans had legal possession of the gold lever and were using it selfishly to get themselves reelected.

Led by Lyndon Johnson’s announcements about the determination to maintain the official gold price, England was secretly preparing a fallback position. On Thanksgiving Day 1967, at a central bankers’ meeting in Frankfurt, Italy’s Guido Carli was busily finalizing his own fallback position. Europeans refused to accept more losses in the Gold Pool, so by March 1968 nearly all the increasingly large gold sales were unwisely supplied from the US gold stock. The US gold stock had plunged to around \$10.5 billion due to the US Treasury’s insistence on suppressing gold at the unnatural \$35 price, and Americans still did not complain. After having lost \$3.2 billion in gold between November 1967 and March 1968 in London Gold Pool sales, then-Secretary of the Treasury Henry Fowler decided to stop it. On 14 Mar 1968, near an important stock-market Top, Fowler and Chairman of the Federal Reserve William McChesney Martin went to the White House at 2 pm and persuaded the President to ask the Bank of England to close the gold market and convene an emergency weekend conference in Washington of the seven remaining Gold Pool partners. It was finally decided to accept Carli’s Thanksgiving proposal of a “two-tier gold price” system. With the ending of the Gold Pool, Washington established an abominable **“two-tier gold price,”*** a shameful last-ditch perversion by the currency manipulators of the Washington Economic Establishment to suppress the gold price.

These politicians were telling the free market that, even though gold was rising on its own, they knew better and would continue to suppress the price of gold. Their failure to do so, and the unnecessary losses

* As per www.infoplease.com: During the 1960s, as US commitments abroad drew gold reserves from America, confidence in the dollar weakened, leading some dollar-holding countries and speculators to exchange their dollars for gold. A severe drain on US gold reserves developed and, in order to correct the situation, the so-called two-tier system was created in 1968. In the official tier, consisting of central bank gold traders, the value of gold was set at \$35 an ounce, and gold payments to non-central bankers were prohibited. In the free-market tier, consisting of all nongovernmental gold traders, gold was completely demonetized, with its price set by supply and demand. Gold and the US dollar remained the major reserve assets for the world’s central banks, although Special Drawing Rights were created in the late 1960s as a new reserve currency. Despite such measures, the drain on US gold reserves continued into the 1970s, and in 1971 the United States was forced to abandon gold convertibility, leaving the world without a single, unified international monetary system. There would be consequences.

already taken, were concealed from the American public and paid for by money embezzled via inflation from American bank depositors. This was not capitalism. Don't let them say later that "capitalism failed."

The files fairly bulge with the repeated assurances of Secretary Henry Fowler and his predecessor on the imminent improvement, which somehow never came, in the nation's balance of payments. Again, just a few days before sterling was devalued, Secretary Fowler went out of his way to give the pound a rousing vote of confidence. The "two-tier" system, so the master financial craftsman recently boasted about his dubious handiwork, will endure for decades. Frederic L Deming, Undersecretary of the Treasury, outdid his boss by predicting that it could last 'til hell freezes over.
Robert Bleiberg, *Barron's*, Dow-Jones Company, 27 May 1968

The generals were ordering yet another attack while their troops were already in full retreat. The United States was attempting to suppress ever-stronger gold demand, increasingly weakening itself in the process, in turn unwittingly strengthening gold. By the Dines Nature of Paradox (DINOPA). The two-tier system ordered all gold frozen at the \$35 level, with bankers forbidden to use the free-market price. Result: the irrational government price of \$35, plus a much higher free-market price. This two-tier madness was the beginning of the end for the currency manipulators. Gold could be suppressed for only so long.

Starting in the 1960s Washington pathetically insisted that gold needed to be demonetized, even while crisis after crisis, devaluation after devaluation and floating currencies flouting demonetization of gold began to crop up in the financial news. More people around the world began to realize that America's paper money was not to be trusted, that it did not maintain its store of value and should not be used as a serious measure of value. This left gold as the unquestioned financial master of the financial world and the world's ultimate money to those who look and also see.

P. A Gold Crisis Becomes Conceivable

All the perplexities, confusion and distress in America arise not from defects in the Constitution or Confederation, not from a want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation.

John Adams, *at America's Constitutional Convention (1787)*

The Dines Letter turned bullish on gold at \$35/oz, and silver at 92.5¢ despite ferocious opposition to all those who believed the American president vowing that "the dollar will never be devalued." Despite absolute assurances that America would "never allow the price to rise above \$35/oz," on 11 Oct 1960 fears about the dollar drove the London gold bullion price to a new all-time high at \$36.50 on 20 Oct 1960. It was during this first gold crisis since the First Great Depression that a few people understood what was happening as dollars began accumulating overseas, becoming a kind of Damoclean Sword dangling over America's gold reserves, our national patrimony itself. Another run on the US Treasury (akin to a run on a bank) in May 1971 boosted the price of gold to over \$40 in London, a menacing message from the marketplace.

Throughout the 1940s, 1950s and 1960s, the hemorrhage of dollars had gushed into Europe. What had started out as an effort to help a ravaged Europe recover from World War II soon became an addiction difficult to kick. US gold reserves were lost due to foreign aid, wars, other military commitments abroad and tourism. America spent it, loaned it and gave it away in ingeniously devised ways. The process of paper money claims on America's gold pile has continued to grow steadily since then, and now approaches terrifying proportions because, when the world loses confidence in the US dollar and dumps them back on America while demanding goods and services that would not be delivered, "The Coming Gold Crisis" will end in a heartbreaking panic. We hope we are mistaken.

Starting after World War II, Americans were “taught” that frugality, hard work and the avoidance of debt were not smart qualities. Borrowers who paid back in cheap dollars and speculators making quick profits were highlighted in financial publications that led inevitably to the so-called “gunslingers of Wall Street” by 1968, and yet again by 2007 – both stock market Tops.

Despite currency “swaps,” all kinds of controls, a so-called Interest-Equalization Tax, “voluntary” programs, the Gold Pool, a two-tier gold price, devaluations, import-export controls, subsidies and an International Monetary Fund, nothing helped because *the basic underlying gold suppression had not been stopped*. Distorted currency relationships created strange effects and gave American tourists a terrific advantage in the years after World War II. However, when Europe’s dollars finally got dumped, mystified American tourists were shocked by what they perceived as higher prices overseas. Costs in all the world’s major cities should be around the same, barring unusual political phases; that they were not, unmasked unresolved currency distortions.

Q. The Coda

Unhappy the land that is in need of heroes.
Bertolt Brecht, *The Life of Galileo*

By the time Nixon took office in 1969, elected as a conservative Republican to balance the budget and restore solvency to our government, he was facing the economic fact of life that **inflation is cumulative and exponential**. Like an addiction, once begun it proceeds toward its logical destiny of deflation as more and more money has to be printed. Nixon’s first attempt to check inflation led to a credit “crunch” in 1970 that almost resulted in a stock-market crash. The consequences of all the reckless borrowing, lending and over-spending of previous decades were beginning to bring the capons home to roost. The sixth-largest business in the country, the Penn Central Railroad, declared bankruptcy, while other companies, such as Lockheed, Chrysler, TWA and Pan American Airways almost closed their doors. Brokers began to fail and prime rates affecting home loans soared to the then-shocking rate of 9%. Looking back, it seems clear that the United States was on the brink of financial disaster in the summer of 1970, to be echoed in 2008 from similar causes.

A fateful decision was made on 22 Jun 1970 by an alarmed Federal Reserve Board. Just as the Fed had done in 1929 when it refused to cut back for fear of destroying the dollar, it decided to pump fresh fuel on to the fire even though higher prices would return later with greater force. Combined with large budget deficits over the next few years, funds were pumped into the system even while average Americans had no idea what had almost happened. Instead, a declining stock market and higher interest rates were simply thought to be a “Nixon recession.”

The mass printing of dollars so inundated the world that the billions owed to foreigners began to exert meaningful foreign buying pressure on America’s gold supply. The Vietnam War, plus other overspending, moved so many more dollars back into overseas hands that foreigners began to demand gold for them. It was the steady loss of those gold reserves that led the author, an innocent trainee Junior Security Analyst on Wall Street, to stumble onto one of the greatest embezzlements in history, only now fully aware of the nature of the historic hatred toward gold, fear of it and the long-term manipulation of severing its link to money.

On 13 Aug 1971, Nixon received a note from the Bank of England requesting that its \$3 billion in dollar holdings be guaranteed against devaluation, so the jig was up and two days later he ended all conversion of dollars to gold. On 15 Aug 1971, a Sunday, a day that will live in monetary infamy, supposedly conservative President Nixon slammed the gold window shut and reneged on America’s promise to redeem its dollars held by foreigners for gold, a disgraceful betrayal that had been unflinchingly predicted in *The Dines Letter*, triggering an economic crisis and unleashing a wave of inflation. Nixon, who had proudly and defiantly declared after his election, “I am a Keynesian,” once again permitted the United States to print accelerated amounts of paper money. Nixon finished what some

bankers had begun in 1910. This action meant that the trusting foreigners who had accepted our dollars over the years were now stuck with fiat paper. Since then the US dollar has been backed only by trust in America, as was the greenback. Nixon extinguished the definition of money that had lasted for 2000 years, two millennia, which was bitterly resisted by this author because it was clear that it would someday lead to "The Coming Second Great Depression." That prediction was considered so unlikely, even impossible, that your author was fired from his job on Wall Street and was instead forced into the daunting challenge of writing Wall Street's first newsletter-for-pay even while at the same time competing with the free newsletters published by brokers. It became the author's business lifetime work to prevent the bear market of 2008 from degenerating into an all-out crash and, if it fails, hopefully this book will contribute to preventing yet another one someday.

It was an immoral action: 15 Aug 1971 signaled the beginning of the end of the reign of the dollar as the strongest currency on earth. World trade had been based on the guarantee of the dollar's convertibility, but now America was moving into the final phases of a destructive inflation that was to someday end in a deflationary Depression. Washington was a great supporter of gold when it had most of it and, like a sore loser, denigrated it when its gold was about to run out. The United States began to lose the moral, financial and, therefore, the political leadership it once owned. Somebody important in government must realize this because the remainder of America's gold is held in Fort Knox and Wall Street, **still not for sale.**

Foreigners tried to get rid of their dollars, but it was like a game of musical chairs. Those who would still accept them became inundated by dollars and, finally, they too refused to accept them at the old exchange rates that were based on a fixed relationship to gold. Thus it was in 1973 that all currencies began to float freely, making long-term contracts and trade relationships inexact in the absence of a currency futures market.

Free-floating currencies led to a race to see which country could print money quickest because the faster it is run off the presses the more it is in a sense devalued, which helps that country's exports and discourages imports; a grand prix of competing immoralities. Instead of race horses or trade barriers, they used printing presses. Around that time price inflation finally became increasingly obvious to the average American. The 1970 credit crunch restrained price inflation temporarily, but resorting to the printing press in 1971 and 1972 resulted in a subsequent price explosion. Frankenstein had become somewhat visible.

Governmental refusal to treat the public as mature adults regarding gold, and not educating people to the importance of facing up to recessions and a necessary weeding out of the inefficient, showed itself in other areas. In 1971, people began to demand some form of controls on prices and, instead of taking responsibility at the time, Nixon pandered to the masses and instituted wage-price controls for the first time in America's peacetime history. Nixon had often spoken out vehemently against wage-price controls as only leading to shortages, black markets and even higher prices, but he nonetheless patronized the American people as if they were incapable of rational choice. (Perhaps he was right, but no one will ever know for certain because his opportunity passed.) Shortages actually began to appear in the American economy after his fateful decision to distort the free market. This was not capitalism. While some went hungry in 1972, farmers killed baby chicks rather than going to the expense of feeding and raising them, reminiscent of the potato burning by farmers during the First Great Depression. Ironically, those unwanted surpluses occurred at the same time there was scarcity! By DINOPA.

The United States can be a spoiled nation, accustomed to cheap transportation, energy and raw materials. Because of the First Great Depression wages have been considered sacrosanct and kept inflexibly high. Manufacturers have adjusted to the situation because the materials they used were so cheap in relation to labor. However, America is finally running out of cheap domestic natural resources and in future decades will compete in the world's open market for them. That will result in chronically higher prices for the depleting raw material reserves of the world (especially oil and scarce metals such as gold, uranium, rare-earth metals, etc.) and will put long-term downward pressure on both wages and profits, out of whose hides this new source of higher prices will have to come. Concurrently, newly-competitive countries in Asia and Europe are working hard, but they must also compete for raw materials. Yet to be fully heard from are emerging competitors such as China, India, Russia, Brazil, Canada, South Africa and others.

The immorality of inflation began to corrupt other acts of government. Just as Nixon went back on America's word by refusing to honor the commitment to exchange gold for dollars for overseas holders and, just as Roosevelt refused to honor the gold contracts to American citizens in 1933, Nixon imposed export controls in 1973 on some farm commodities and steel scrap to hold down rocketing US prices. This startled the world and led them to consider that the United States would honor its word, except sometimes when it was inconvenient.

A century of immorality by President after President from both political parties was predicated on an unsound currency. If it is truly inevitable that this system will collapse, then would faster be better? It might at least bring us closer to the day when a new and more-sound economic system could be constructed on its ashes.

The author treasures a favorable book review of the first edition of his *The Invisible Crash* from Jacques Rueff of the prestigious Institut de France, who was the currency brains behind de Gaulle. Your author flew to Paris to meet him because he was one of the few people in the world also speaking out on gold at the time. We had long debates on how high gold would rise from \$35. He predicted "\$50" and your author "over \$400!" But we were both too conservative, as gold reached \$850 in 1980 and over \$1,000 in 2008.

In 1974, some major Wall Street brokerage houses finally began to notice gold (miracle of miracles) and joined *The Dines Letter's* bullishness. Even then, world-renowned economist Paul A Samuelson wrote in *Newsweek* magazine (8 Jul 1974): "For every two who in these last couple of years have profits to show in (gold) coins, bullion, or in South African mines shares, there are 10 who have yet to recoup the losses in yield and price taken over the last decade in gold speculations. From the standpoint of economics – jobs, income, interest rates, inflation, lifetime savings – gold has not the slightest importance." With gold having already gone from \$35 to \$190, and headed for \$850, he was later proved plain wrong. Despite his popularity, Samuelson's comments were shockingly mistaken, but the crowd followed him and it was again not always easy for TDL to have survived.

R. Will Our Banking System Collapse?

If you spent a million dollars every day since Jesus was born, you still wouldn't have spent a trillion dollars.

Senator Mitch McConnell, *quoted in Newsweek Magazine, 16 Feb 2009*

Banking is a dull topic – until the place where you left your life's savings closes its doors.

Bankers did not react markedly to America's inflationary crisis until the early 1960s. With our currency advantages, American businesses invested overseas and were followed by banks in hot pursuit. According to former Federal Reserve Board Governor Andrew F Brimmer, in 1964 there were only 11 US banks with foreign branches, and their combined assets were just \$7 billion. Eight years later there were 107 such banks, with assets of \$90 billion, a 1,190% increase. These days the figures are trillions of dollars higher and beyond the reach of the Federal Reserve.

We long ago predicted "The Coming Currency Devaluations" because we knew foreign central bankers would manipulate their interest rates lower to help their own exporters, even if it made their currencies less attractive to investors. It is a modern form of commercial warfare whereby nations compete to undermine their own currencies, in what we often call "a fool's race to the bottom," *as some of them actually buy dollars in the open market to buoy the greenback in relation to their own currencies*. Where do nations get the money to buy US dollars? They just print their own money to finance purchasing greenbacks! What do they do with the US dollars they've bought? They buy US Treasury bills to earn income on them! Paper built on paper, a house of cards mounted on sand. All fiat currencies are like a staggering bunch of arm-linked drunks. How could this end well?

When foreign central banks have acquired dollars through successful net exporting, they have also customarily invested them by buying US Treasury bills, thus supplying credit to the US economy and

expanding American banking liquidity. Massive purchases of US Treasury bills by foreign central banks still finance US budget deficits, thereby exporting an inflation/deflation cycle to foreign banks. Unfortunately, when foreign currencies are under selling pressure, these banks sell US Treasury bills to pay the currency sellers. This reduces liquidity and is deflationary in both the American and foreign banking systems!

All that money sloshing around world markets represents the Frankenstein monster getting bigger every year. It is now probably out of control and will emerge at some unpredictable moment to wreak havoc on us all.

In the old days, banks primarily loaned 60% of their depositors' money in demand deposits. Reserve requirements were so high against those demand deposits that expansion was limited. But "creative accounting" and other modern bookkeeping tricks enabled demand deposits to drop far lower against the amount of money loaned. Any given quantity of capital now supports much greater loans. Furthermore, retail credit has ballooned and companies extend more credit than many banks without being subject to Federal Reserve requirements. Nothing is subject to the discipline of gold anymore.

The menace of today's Great Deflation degenerating into "The Coming Great Hyperinflation" has never been greater, hurtling toward many so unaware of the nature of money that they see a dollar as a mere unit of information on a computer screen without any semblance of a relationship to true wealth. Paper money has only been used for around 200 years, but some governments still don't seem to know what to do with the gold in their vaults. Many still slough gold off as a useless commodity, yet those who don't trust paper money nonetheless want it. Governments denigrate gold, making it seem unworthy, having nothing to do with real money, with the US Treasury even today valuing its gold at a farcical \$42.22/oz while the market price is far higher (nobody could make this stuff up) in order to make gold seem to be worth less. Of course, they won't sell you that gold at \$42.22/oz and **we dare to unmask the ersatz dollar's mockery of an honest currency.**

Considering the above history, we have made clear that excess creation of unbacked money causes inflations as more paper chases the same goods and services, while subsequent deflations that wipe out debts shrink the money supply back down to reality. *The printing of trillions more in paper money in 2008 to cure such deflations will make "The Coming Great Deflation" even worse and it does not matter to us whether this book stands virtually alone in the world on that.* By late 2008 the US Government was wildly creating **trillions** of dollars to combat a little-comprehended deflation.

Here is an exact quote from the first edition of this book that began to come true in 2007: "the bank-stock owner today is accepting a lot more risk than several decades ago. Ditto for insurance-stock owners." But almost nobody took that warning seriously until banks and insurance companies crashed in 2008.

On 17 Dec 2008, a front-page headline in the *New York Times* proclaimed, "In a Bold Action, Fed Cuts Key Rate to Virtually Zero: **Plans to Print as Much Money as Needed** to Ease the Frozen Credit Markets." In other words, to cure an indigestible excess of fiat money, they'll print more – except now "as much as needed," without apparent limit! Our economic leaders know not what they do. The predictable punishment will be an historic deflation, perhaps interrupted by a horrifying hyperinflation featuring runaway price rises, depending on upcoming political decisions.

In the midst of this revolution against gold-backed money, we dare to predict that yet another upheaval is coming someday – a beneficial one, when once again money will be linked to gold and/or silver, a position still disbelieved by almost everybody. And a restructuring of society to a new economic system will be involved. That is our Flash-forward.

Forewarned is forearmed.

How Will All this End?

Beggars mounted run their horses to death.
Shakespeare, King Henry VI

A. The Painful Cure

*We arrive in the world naked, and we leave the world naked, so
stockbrokers are just doing God's work.*

Beneath all price inflations is a rising tide of resentment leading to suppressed frustration and anger, which are socially dangerous ingredients. When people on fixed incomes, who worked for pensions for decades, get their security knocked out from under them, incendiary social tensions are created. Frankenstein's insidious and cancerous tentacles eventually reach every last cell. Following this logic, even prices of illegal drugs will crash when "The Coming Great Deflation" is full blown, believe it or not!

American electorates insist that they would "no longer tolerate" high unemployment, Depressions, and stagnations. Instead, the public demands consistently high growth, not understanding the sine wave, the yin and yang, the inner harmony of the universe. And some politicians always spring up to pander to the masses. Because of that rigidity, downward movements of wages become "politically impossible." Even if workers were willing to accept lower wages, their higher costs make it unworkable. And why should workers have to pay for inflation when they had no part in causing it? Due to government assistance the unemployed put little effective downward pressure on general wages and costs. Thus, price levels have a built-in upward bias, uncontrollable under that system. Society has become riddled with inefficiencies that should have been rooted out by recessions long ago. America is suffering from a cumulation of all the mistakes since the Genoa Conference in 1922 and the 1930s' New Deal. There is too much government, too much paper money, some inflexibly selfish unions and drooling greedy corporate managements, resulting in too little left for profit and reinvestment. All these failings will have to be corrected before the United States can once again move on to great new heights. That is, unless our next political system aborts it.

There is little chance any US government will voluntarily adopt the economic policies necessary to remove the large amounts of inflationary purchasing power pumped into the economy over past decades. The deflation ahead will result in severe losses. The enormous amount of debt, a lack of adequate business capital, excessive borrowing on land and securities, and installment borrowing by individuals on an unprecedented scale, make the currently unstable situation vulnerable to what we have long called "The Coming Second Great Depression." *A possible international crisis justifies the immediate placement of funds abroad before "exchange controls" are imposed, which could come at any time, when governments block citizens from placing their savings in another country.*

All paper currencies have been steadily degraded by inflation. All leading currencies have lost nearly all their pre-World War II buying power, and the long-term downtrend toward worthlessness is intact. The world needs a monetary system that will justify confidence. Business must have a stable currency on which to base accounting and long-term planning. Instead it has been inundated by a continuous flood of paper "money" that is neither a reliable medium of exchange for long-term transactions because it fluctuates too much, nor does it offer assurance that it will retain future purchasing power when used as a store of value. Lack of currency confidence worldwide is increasing at a frightening rate. Eventually politicians will have to acknowledge that paper is not satisfactory as the basic unit of a monetary system.

With central bankers as accomplices, politicians have been buying their reelections with promises and “easy” credit, and expressing their gratitude by embezzling the savings and life insurance of the people who elected them. Sound money will return someday, but bitter lessons will have to be relearned. **Many will eventually turn to gold which, through the centuries, has proved to be unsurpassed as a standard of measurement, a medium of exchange, and a store of value.** The more desperate the situation becomes, the more politicians will try to tax whatever they can get their hands on (which is bad news for real estate, because of its visibility) and the more people will flee to invest in less-visible gold as a means of retaining their wealth while avoiding the greedy grasp of tax collectors.

“The Coming Great Deflation” that we predicted precisely at 1980’s inflationary peak could lead to food riots. The United States might turn in its green currency for another color, the government could force bank vaults open or otherwise make your assets inaccessible. A crash started in 1999, and only new Major Uptrends by leading stock-market averages (adjusted for true inflation) could begin to change our predictions. Hopefully our warnings will do some good, if not for this generation, then the next one.

The coming economic stresses will be profound, as the fantasies of several generations get liquidated. Many American politicians are accustomed to an unlimited amount of money, so expect them to try various new methods of raising money to continue their spending proclivities which, of course, will be the last thing to go – along with their salaries. Not all politicians yet seem aware that their “secret tax” of inflation is quietly disappearing as the new money printed goes to pay off debts. They will even eventually try *boosting* previously-despised inflation by buoying the price of gold, believe it or not! Many politicians are too weak-kneed for the Draconian measures that would be necessary at this late stage of the coming transition from inflation to “The Coming Great Deflation.”

This generation will finally learn that inflation is an enemy, the great destroyer of freedoms and societies, just as have all generations in previous inflationary cycles. Now Frankenstein is at such an advanced stage that a horrific collapse and Depression is probably inevitable to absolve America of its past economic sins.

We are at a great historical crossroads, as in 1776 or 1929, and current heroes will be future goats. The New Deal will probably be repudiated and John Maynard Keynes relegated to the trash can of history. Nearly all world leaders now believe in currencies un-backed by gold. Today’s generation will be as scarred as was the one of the First Great Depression. Gold will stand alone amidst the economic ruins of eternal optimists. It will eventually be realized that the roots of inflation and its subsequent ills are political rather than economic.

This is the end of a way of life, the end of an era, a watershed. Automatic wage increases followed by automatic inflation to wipe out such increases is an idea gone with the wind. To pay for the higher prices of raw materials power will shift from the industrialized nations toward those with real, in-the-ground wealth, such as oil producers and miners of metals, and the price of gold will have to be higher to pay for oil. When fuel was cheap we fouled our country. Benefiting from cheap transportation, people spread out from the cities to the suburbs, which led to urban decay. Steel needed for shelter was squandered to produce snowmobiles that belched more carbon monoxide into our already dirty air. Great good might result from the restructuring of the proper price relationships of everything. The United States of course will survive economically – punished, but not destroyed – as the wheel turns.

The American people veered sharply toward more government after the 1929 Crash. It is predicted that a similar turn began after 11 Sep 2001.* Perhaps an insecure people feel that only a more authoritarian type of government could properly allocate income and resources. This concept is alien to recent Western democracy, but the process of radicalizing society has already begun. Hopefully, if there is a future world monetary order built soundly, perhaps on the “Dines Plan” that permits everything to float freely, letting money manage itself by competing with other gold-backed currencies and keeping everybody’s hands off the gold and interest-rate levers, there would actually be a better balance than now. Every Depression offers opportunities. Few will see them and instead negatively cling to gloom, but there will inevitably be

* For our in-depth conclusions on this point, see your author’s third book *Mass Psychology*, Chapter 9, “TDL’s Political Gamut,” which is our Rosetta Stone revealing the methodology of our positionless political predictions.

an even greater boom on the other side of the coming valley. No door closes that doesn't open another, to paraphrase Helen Keller.

A massive redistribution of wealth is coming. The rich are usually able to protect themselves against inflation, a form of economic imperialism, using fiat money as a tool. But "The Coming Deflation" will even catch many of them unprepared. Failures in the banking and insurance industries have already snared some. Our predicted "Coming Real-Estate Crash" is not yet complete, and will finish off the unprepared. A possible social upheaval is a real risk. A collapse in the mutual-fund industry will enrage smaller investors.

Since 2000 *The Dines Letter* has shepherded subscribers out of high techs and since September 2001 into metals such as gold, silver, uranium and rare-earth elements because they are the best stores of value in the climate of Mass Fear ahead. We dare to predict now that people will take deliveries from commodities futures markets rather than merely trade them, for barter during a currency breakdown. Even nations will do so, in what we call "commodity imperialism." Capital gains from investing in golds are only incidental as a hedge against both inflation and deflation. *The goal here is to survive, to have buying power at the end of a major market crash.* Just breaking even would be a victory. The people who ride up the crest of the next wave will be those who survived the downer. Our basic strategy is to lead our followers out of wealth-in-the-ground stocks near their peaks, and back in anywhere near the stock market's lows.

There will be repeated currency crises until the world turns back to gold. There will be periods of rising stock prices, to be sure, but the chart of *the main trend* of the stock market defined in terms of gold will be down until gold is re-enthroned. This is not a good time to borrow or lend. It is not too late to liquidate some assets and move proceeds into precious metals, spreading out geographically. Sooner or later, the world will stumble on to the solution of a much higher gold price to wipe out an ocean of paper money and credit.

Eventually, there will be a return to some form of a currency linked to gold, and the dollar will once again take its rightful place in the currency world. But no one knows what the next economic system will be. We are skeptical that it will be the one that is about to be discredited. We suspect the world will realize that what we need now is to turn the clock back to what made countries great, not forward to more of what has been destabilizing them.

All paper will weaken in relation to gold, and many of those who relied on paper, such as pension funds, will be wiped out – a tribute to the folly of not building on rock. As the price of gold climbs, other assets are in fact plunging against it: art, land, antiques, stocks and bonds. The increased number of units of paper currency needed to buy each ounce of gold is another way of describing higher gold prices. In the last gold bull market, in 1980, the price of gold rose spectacularly from \$35 to \$850, handsomely rewarding those who saw the light we unflinchingly held aloft. TDL's latest gold "Buy" signal was flashed at \$288/oz on 25 Sep 2001. The next gold bull market should go far, far higher, perhaps – on a "spike" of Mass Fear – at least to our initial targets between around \$2,626 - \$4,375 an ounce, believe it or not.

A deflationary low, perhaps what we call "The Big Kaput," will result in political chaos. Governments will get kicked out as they attempt the same, tired, old Keynesian remedies, all of which are doomed to failure. Unmanageable debts will be liquidated, land prices will come back down to reality, and if gold is made the core of the next monetary system, the future would brighten greatly.

To avoid another Depression, or the next related crisis, the American people will have to realize that the sole cause of inflation rests with government. Not only was money printed excessively because there was no gold discipline, but costs were held artificially high by the American government's laws (sugar, transportation, construction, farming, oil, power and others). Interstate truckers are prevented by the Agriculture Department from shipping some foods from one part of the country to another. The Jones Act in the Merchant Marine Act of 1920 limits coastal shipping to American vessels. The government buffers sharp shifts in livestock prices, demands "voluntary" limits on what other nations can export to us and Congress has set compulsory import quotas on food and other items. The Davis-Bacon Act fixes wages paid under government contracts. This is not free-enterprise capitalism, which will nonetheless be blamed for what happens next. All of this represents a hardening of America's economic arteries because it

eliminates the flexibility, the give and take, the natural competitive play so that some could fail. A trend by governments to prevent some failures eventually guarantees failure of the whole system. By DINOPA (The Dines Nature of Paradox).

There is a tide in the affairs of men, which, taken at the flood, leads on to fortune; omitted, all the voyage of their life is bound in shallows and in miseries.
Shakespeare, Julius Caesar, Act IV, Scene III

The Future: Here's What Will Happen Next; How to Protect Yourself

THE DINES LAW OF GOLDBUGS IS THAT PAPER MONEY
MUST BE A VALID MEDIUM OF EXCHANGE, AN HONEST STORE
OF VALUE, AN INVARIABLE UNIT OF MEASURE, ALSO LINKED TO
GOLD AND/OR SILVER IN SOME WAY.

If you can control the currency of a nation you can control its people.

Thomas Jefferson

It is an interesting historical fact that the private ownership of gold was banned by Lenin, Hitler, Mussolini, Mao Tse-tung and Roosevelt as the state became more important than the individual. The moment citizens are no longer allowed to own gold, let the future note, their freedoms begin to shrivel. The loss of freedom is indivisible. It is a chain reaction; the loss of the first freedom guarantees the loss of the last. Or, as was stated with deceptive simplicity by Garrett Hardin, "You cannot do only one thing." This might sound like an anarchism harking back to Thoreau's primeval pond, but economic misery will increase for as long as anti-individualism continues. Too much government is the root of many evils, but the merciless discipline of gold could be our economy's salvation. We predict that the present course will lead to "America's Coming Time of Troubles," hopefully a result to be changed, but self-protection would be wise, just in case. Considering the fact that gold represents the ultimately incorruptible economic discipline, it can be expected to receive a negative reaction whenever it confronts any politician's policies that favor his/her remaining in power. Since nobody is safe unless everybody is safe, your survival would be enhanced by spreading your knowledge of gold's attributes.

As already noted, too few people truly understand gold because the powers that be do not teach it. We challenge the reader to find any school textbook fully describing the importance of the Genoa Conference of April 10 to May 19, 1922 – or even a mere mention of a crucial currency event of the 20th century! What could you do to get this information into your education system – a Service to the world? Politicians will use name-calling against gold even as they invent clever arguments against it: that gold is useless, that it is pointlessly dug up from one hole and reburied in another hole in Fort Knox, that gold costs money to store, insure and protect, earns no interest and that when the price of gold is stabilized an investment in gold becomes vulnerable to inflation. Some politicians will add that a link to gold could only enrich Russians, South Africans and "speculators." They will claim devaluation would hurt other nations holding dollars overseas, damage their reserves and aid our enemies. There will be few limits to the ingenious ways they will find to put gold down. Anti-gold politicians must fear it indeed.

Monetary crises are gold's retaliation to teach its lessons, just as a malfunctioning pituitary gland would issue its own signals. But all the anti-gold propaganda in the world has not sent gold back down to

\$35! Spread the word that gold satisfies the demand for the best currency: that it is indestructible, an element that is homogenous, easily divisible, portable, clearly recognizable and stable in value. Gold is obviously valuable, not only in its quantity and price, but as protection against human folly. It is the regulator of the economic body, just as the pituitary gland in the human body is also known as the master gland.”

Contracts are based on money, so if the money is corrupt commerce winds up with a metastasizing economic cancer, and a link to gold is the cure. Money is the foundation of nearly all our economic decisions. We must have a stable currency for a stable society and gold fits the requirements. Without it, capital formation is inadequate and it is difficult to trust the long-term contracts that enhance the values toward which we should aspire. This element was given to us for that purpose. Yet, the anti-gold fanatics have been so successful that gold is denigrated by many even today.

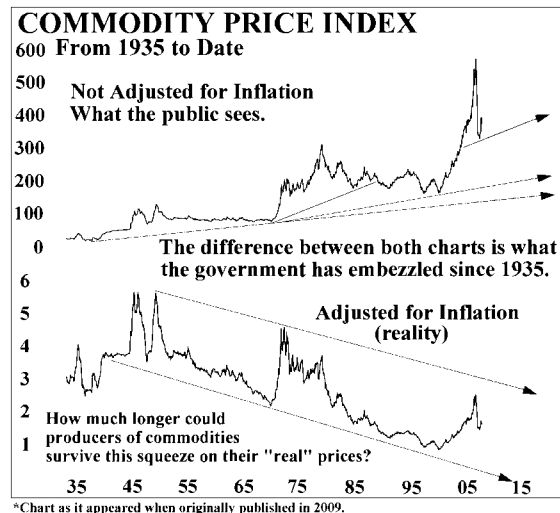
Politicians will warn against “enthroning gold” and instead enthrone the paper dollar. Yet gold is better than the dollar precisely because it is impartial, universally acceptable and no politician could erode it by printing more gold, though it has been tried since the advent of alchemists. Against some greedy politicians, gold affords the people a chance to avoid the evils of inflation. Gold blocks some immoral government leaders who ostensibly dedicate their lives to gutting moneylenders, perhaps on the Robin Hood delusion that those who lend money have too much of it, and therefore it should be stolen from them and given to voters who would subsequently reelect those politicians. Their goal is not really to help the poor, as there are better ways of doing that. Some demand that people trust their government. If so, then people should be trusted to own gold rather than being scolded like naughty children for wanting protection from some unscrupulous politicians.

This book covers the shocking currency parallels between the 1920s, the 1970s and recent years. Disruption of the international monetary system led to the First Great Depression. The same policies that led to the “First Great Depression” have been followed in recent decades. Monetary upheavals are inevitable when the price of gold is fixed too low, and economic chaos will ensue. If you believe in capitalism you should understand that **gold is at the heart of capitalism**. Until that is appreciated, your freedom is in grave danger.

As amusing as it might seem to the patronizing, a link to gold would resurrect traditional values such as thrift and integrity that helped make our country great. A gold link would restore respectability to life insurance, pensions and long-term contracts. A stable currency would rid our economy of its incessant drive for higher prices and wages that get inflated away, a self-defeating, dog-chasing-its-tail syndrome. There would be more tranquility in the land, more honesty and a smaller government. If governments had limited quantities of money they would be less able to squander it via deficit spending to stick their noses into interminable and smoldering foreign civil wars that invite terrorism. If those idyllic conditions prevailed, the moment a government began printing too much paper an informed citizenry would cash in its paper for gold and, as the gold gushed out of the banking system, the government would be literally forced to halt such policies. Thus, this book’s point is to *give power back to the people, prying it loose from the hands of those who seek to control you*.

In 1933, Keynes tried to correct the previous inflationary mania by starting yet another one. A gold standard would have stopped him. However, he was allowed to spay the gold standard and many years later the capons are coming home to roost, with deflation as the coming punishment.

It is a little-known fact that, in the deflationary 1930s, Roosevelt tried to raise commodity prices by raising the price of gold to intentionally add inflation to that deflation. We predict that that mistake will happen again despite the hostility toward inflation these days, believe it or not. Inflation is not the cure for deflation. The chart at the top of page 46 shows that Roosevelt succeeded in raising commodity prices in the 1930s, but it was nonetheless followed by a long decline in the 1950s, when adjusted for that inflation (see chart on page 8). Now really see why many farmers are going out of business.



Surprisingly, gold-mining shares actually soared from 1928 to 1936, *during the market's infamous Crash*, and we predict that gold shares will commensurately rise again. Attempting to raise prices rapidly by creating excess money tended to discourage gold production because rising mining costs did not mix well with the gold price fixed at \$35/oz. In short, the nostrums for alleviating the First Great Depression were unsound to the extent that they did not take into account the true function of gold in the monetary system.

It is inconceivable to us that a government that cannot handle all of the complexities of the US Postal Service, or even run the Mustang Ranch in Nevada at a profit, should dare to express confidence in its ability to "manage" the vast complexity of international money markets without a link to gold. We predict that a time of upheaval will come when that power is forcibly wrested from the government.

The crash in the value of the English pound in recent decades would have been thought impossible only 100 years ago. The dollar is also on a downhill roller coaster. The fate of the United States, and therefore of the financial world, is affected by the dollar's destiny. Our currency has been willfully and knowingly debased. Many Americans have not only voted for it, they insisted on it, and the press and politicians mostly endorsed it. The net result will be a deflationary calamity. Yet, since the United States would be a prime beneficiary of a higher gold price, as it owns a lot of gold, it can be concluded that too many politicians are more concerned with reelection than the welfare of their country. That is partially why the end will be so sad.

The world will someday open its eyes to the enormous importance of gold as the leash, the discipline, of a stable international monetary system. A gold link leads to more secure national financial programs, since there would be no arbitrary creation of money. All nations would accept gold as final, definite and simple. When a gold coin is tossed on a counter to pay for something, its solid ring sends credit scurrying to its vermin-infested quarters while inspiring confidence everywhere. Disraeli once said, "Confidence is suspicion asleep." To which we add, **"Free gold is currency wakefulness."**

The world's currencies are corrupt so we must return to gold, the ultimate currency. There will be no end to monetary crises until the United States corrects its balance-of-payments deficit and balances its national budget as a goal of urgent national priority, finally enabling gold to enforce them with incorruptible finality.

The true function of gold is to facilitate honest exchanges between individuals or nations. There can be no fixing of the parities between currencies, and no International Monetary Fund would be needed, contrary to what the public has been led to believe. Our currency motto must be **"In Gold We Trust."**

Climactic events will lead in coming years to a deflationary Second Great Depression that will wipe out the debt accumulated by short-circuiting gold, and the resultant international strains could lead to war (economic or military). Our bold prediction in the first edition of *The Invisible Crash* that: "All currencies

will float more or less freely against one another”^{*} has come true and is now taken for granted, but a time will come when they are controlled again. America’s borders will be sealed, the need to do so blamed on terror, drug trafficking or a currency upheaval. Struggle against your country closing its borders before the doors clang shut.

Those who believe gold can remain de-monetized and replaced by paper (to free humans from gold’s “arbitrariness” and enthrone the so-called reason of human judgment) will learn there are no utopias here on earth. After “The Coming Currency Crisis” gold will emerge as the next currency, as the only standard of reference indisputably accepted by every nation. Only a police state could force a people to accept a paper currency instead of gold. The world will finally be driven to gold because it will have learned that without the yellow metal the consequent inflation is only curable by deflationary Depressions. Unfortunately, deflations often yield to totalitarian governments, so the future must be contemplated with some trepidation. A big showdown over gold will be on the horizon when governments realize that a dramatically higher gold price would be needed to pay for higher prices for raw materials, and to wipe out the figurative oceans of paper money and credit accumulated over the years – and which could not possibly be paid off with America’s assets if all the overseas dollars came back at once to demand them. Over time, due to basic capitalistic laws of supply and demand, oil prices will periodically come down and glut the world, but we predict that “black gold’s” price will eventually rise to infinity as the last drop is espied and governments seize the remainder for military purposes. Afterwards the rising oceans will recede, if humanity survives floods, and until then sea-level real estate should be avoided.

We have unflinchingly predicted a massive devaluation of the dollar. Despite the dollar’s serious decline that prediction has not yet been entirely fulfilled. The dollar is worth a fraction of what it used to be in terms of gold, but the price of gold will have to rise much more to reflect the real value of the debased dollar. When the time comes, people who want to get out of paper and into gold will see that they are getting much less gold for each unit of paper money. The missing difference will have gone to pay for spiraling government debts of the past and present. What will have been deducted will be your share – those who hold gold will not be comparably penalized. Those who held dollars abroad also will get less gold for those dollars. Dental work and jewelry will go up in price.

Gold-producing nations will be helped by higher gold prices – all able to sell their domestically mined gold internationally for stronger currencies. Look for a boom in gold-mining towns and attendant industries, including chemicals used in the processing of gold ore, which might be opportunities for the alert investor. There will be considerable misinformation published when the gold crisis enters its final stages. Regard all comments cautiously, because not everybody is accustomed to thinking about gold as money. America’s gold hoard will be worth more dollars, and the US government will consider this a “profit.” That so-called profit belongs to the American people, so complain powerfully if they give it away or try to spend the national patrimony of the gold backing our currency. Internationally, devaluation and/or a dollar crash would hurt those nations that trustingly held dollars as backing for their own currencies, and they will not make that mistake again for a long time. We predict that some fool will get up on his/her hind legs and offer America’s gold at Fort Knox as collateral, believe it or not. ***If so, resist it with all your might as a moral imperative, or you will regret the consequences.*** After the ship has sunk, many will know how it might have been saved. The Dines Nature of Opportunity (DINATOP) indicates that opportunity is always more obvious on the way out than the way in.

Some distortions in our society will disappear when currencies are finally in proper alignment. For example, aluminum requires a great deal more energy to prepare for construction than wood. Transforming bauxite into aluminum especially requires a great deal of electricity, and higher prices there could lead the construction industry back to more abundant use of wood. Those who had difficulty making a living from the lagging wood industry probably never knew that they were victims of “The

^{*} The first edition of *The Invisible Crash* (page 99) made the following prediction, which has already come true: “A substantial upvaluing of gold in terms of all currencies is an essential first step in the restoration of monetary order. At the same time, once the value of gold is high enough to stop fluctuating, fixed exchange rates will be just a memory. All currencies will float, with supply and demand ruling. International business should get used to it.”

Coming Gold Crisis,” but they will later find relief. Wood for construction would benefit, for example, from society’s using less smog-producing oil, coal and gas. Many present ecological problems would be corrected when costs become more realistic.

Make no mistake, the road to a much higher gold price is loaded with booby traps and will be resisted tooth and nail. It will be said that a large dollar devaluation would be immoral – a repudiation of so many promises made to Americans by those same people who were enthusiastically in favor of US government bonds. The author’s friend, John Exter of the American Institute for Economic Research, once so elegantly described government bonds as, “Certificates of guaranteed confiscation practiced on innocent individuals living on fixed incomes.” Some will say that the higher gold price “caused” inflation, or deflation. It would be just one more distortion of the truth. Lend them this book.

Moneylenders responded to this immoral inflationary confiscation of their loans by demanding higher interest rates to compensate for what they were to lose through inflation. When this process proved inadequate, they tried to escape inflation by investing in land, art and philately, by moving money to Switzerland or by spending their money, since there was no certain way to preserve its value. (Perhaps comparable with someone who eats ice cream rather than keeping it for tomorrow because he/she does not own a freezer.) The overconsumption by our society will moderate, so even obesity might become less of a problem.

Some will assert that if Americans cut all prices in half, foreigners would spend those excess dollars here and the gold problem would disappear. If we did that, foreigners would take everything we produced and owned, and then where would we live? Too much paper has been printed in the past and will have to be wiped out by higher gold prices – or a hyperinflation after this deflation – no matter what.

We will have to earn our way in the world to eliminate our trade deficits. Then any surplus could be used for foreign aid, nation building, charity or whatever else the voters choose, including saving or investing it. In no event should this lead to a balance-of-payments deficit.

Partially due to the efforts of my Hard Money Movement, President Ford signed Senate bill #S2665 on 14 Aug 1974 permitting Americans to own and trade gold bullion as of 31 Dec 1974, for the first time in forty-one years. That profoundly important event sounded the eventual death knell for the Keynesian inflationary cycle. It was inevitable, and since then Americans have had an alternative to paper dollars, able to flee through gold’s escape hatch. President Ford’s gift of renewed gold freedom was one of those little-noticed events destined to spawn a great deal of history, and there will come efforts to reverse it. Fight fearlessly for your freedom.

Barron’s Magazine, our earliest supporter in the “mainstream press,” deserves credit for its sensational 26 August 1974 editorial on the true story of how narrowly the right to own gold was won. The author was deeply involved in that struggle. Apparently, the Senate had been favorably inclined toward this gold legislation for several years. But the bill had been bogged down in the House due to the opposition of Rep Wright Patman (D-Tex) and other supporters of the Treasury Department’s anti-gold clique. Since 1961 the United States had been giving aid to underdeveloped nations through the International Development Association (affiliated with the World Bank). New legislation providing funding was proposed by the House but defeated by the conservative bloc. However, in the spring of 1974, the author’s friend, Rep Phillip Crane, one of the few people in government to have fought for gold (also Rep Ron Paul), did some horse trading. Crane offered to support the bill, and bring along some eighteen votes, if Patman would tack on a clause legalizing American ownership of gold, no longer leaving it to the discretion of the President. House liberals accepted the deal, and the bill sailed through the House by an 85-vote margin, far more than needed.

The Dines Letter has always favored floating currency exchange rates. When a currency is sound, it will not matter whether exchange rates are fixed because fluctuations will be hedgeable. The Washington Economic Establishment (WEE) will someday try to set the price of gold artificially low again, and those fixed exchange rates will break down once more. Not everybody in Washington seems to grasp the magnitude of the problem yet. This can be seen in the fact that the last two devaluations of the dollar were so inadequately small and, even now, incredibly, America delusionarily prices its gold reserves at the risibly low price of \$42.22, as already noted. Of course, they obviously won’t sell it at that price since the

free market price is much higher. This price disparity has been cited by conspiracy theorists as an intentional deception rather than a delusion, although it might be mere ignorance.

Goldbug! hereby predicts that the abandonment of fixed exchange rates in February 1973 will someday be mistakenly described as the “cause” of some crisis, and it will not be the truth. In the absence of government leaders who understand gold we favor floating exchange rates that impartially value currencies. A gold standard should sound the alarm when governmental printophiles begin doing their dirty work in the dark of night again. Anchoring paper to gold is the most effective rein on political squanderings, and on voters themselves who condone such spending.

It would be fair to ask why, if we predicted “The Coming Great Deflation” way back on 5 Nov 1980, prices for goods and services were still rising (until recently). The reader might recall that inflation is not a synonym for rising prices, it is a governmental increase in credit and money supply above the real wealth actually created. **We reaffirm our 5 Nov 1980 prediction that inflation was then at its peak, still disbelieved to this very day, and that “real” economic growth, adjusted for currency inflation, ended in 1980.** The money supply and credit continued to “grow” but, deducting the higher prices resulting from inflation, economic growth was really falling as a precursor to “**The Coming Great Deflation.**” Since 1980, the *rate* of inflation (defined as rising prices) has declined from as high as 14.76% in March 1980 to 0.38% in March 2009, which is normal en route to a deflation. At some point in every inflation, deflationary forces overtake it, as liquidation of debts through bankruptcy and a declining money supply outweigh printing more paper.

Just recently, finally, where competition is free, note how some prices in America are already in decline: for example, computers, real estate, bond and stock prices, many commodities, electronic appliances and gadgets, gasoline, groceries, luxury goods, garments, entertainment, automobiles – and even sacrosanct labor, believe it or not. Adjusted for inflation, the price declines have been horrific. Bridge tolls and US postage have risen because they are monopolies, but as the currently low inflation rate keeps dropping in coming years – and we hope we are mistaken – America’s deflation, featuring widespread price declines, will arrive. (The secret is to divide prices by the amount of currency and credit that a government creates in order to calculate the “real” price.) Governments edge toward that truth when they publish prices “adjusted for inflation” and call them “real,” exposing their swindle. The modern currency situation is an Alice-in-Wonderland of smoke and mirrors.

Is there any hope? Yes, because we do not expect the imminence of the “Time of Troubles” yet, but we are watchful for its signs.

Protect yourself and make hay while the sun shines.

A gold country is like a bank. Its first responsibility is to itself, for the integrity of its money, its credit and its assets, and if it suffers this imperative to be overcome by a sense of responsibility to others, no matter with what intention, it will fail in its responsibility to others because it has forgotten that first responsibility to itself. The value of gold is arbitrary; so is the length of a yardstick. But just as it is necessary to sell cloth by the yard or coal by the ton, so it is necessary to have some arbitrary unit of value in which to price the yard of cloth and the ton of coal. It would be ideal to have something of absolutely invariable value in which to price them. But, there is no absolutely invariable thing in the world. The relative constancy of gold supply, the durability of the metal, the fact that over the centuries the amount of human exertion necessary to get it out of the rocks changes very slowly—for these and other reasons gold is the least unstable thing man has found for purposes of money, hence the preference for it. We have seizures of ecstasy and mass delusion; that again a time may come when the temptation to throw the monetary machine into wild motion so that everybody may become infinitely rich by means of infinite debt will rise to the pitch of mania, as it did for example in 1928 and 1929. With this intelligent knowledge of ourselves we make bargains beforehand with reason; we agree that money, credit and debt shall not be inflated beyond a certain ratio to gold, under certain penalties such as we shall be very loath to pay and yet such as we cannot refuse to pay under worse penalties still.

Garet Garrett, *The Bubble That Broke The World*, 1932*

* Author’s Note: Does that excerpt from 1932 sound like recent times to you?

Who Gets the Booby Prize?

There was so much handwriting on the wall that even the wall fell down.

Christopher Morley, *Around the Clock*

The purpose of this section is not to indulge in the Low State of Blame, but rather to provide serious market students with the High State of Context of the Mass Psychology at the time, revealing why it is so difficult to make predictions contrary to those around you. Those who wish to predict must be wary of being swayed by Mass Context because those who are first always “look wrong,” by definition. By DIFIRST (Dinesism #27). We were recommending purchase of precious metals at the time of the following quotes, but TDL’s loyal subscribers had the courage to follow us nonetheless, for which we are deeply grateful and glad that many had the opportunity to make money.

1. *US News & World Report*, **29 Jul 1963**: “President Kennedy told Congress in his message of 18 July 1963: ‘I want to make it clear that this nation will maintain the dollar as good as gold, freely interchangeable with gold at \$35 an ounce, the foundation stone of the free world’s trade and payments system.’”

2. *President Lyndon B Johnson*, State of the Union Message, **4 Jan 1965**: “Our balance-of-payments deficit has declined and the soundness of our dollar is unquestioned. I pledge to keep it that way.”

3. *James Dines*, on the *Barry Gray Show* (WMCA Radio), **28 Aug 1965**: “I think we’re going to see an interest rate in this country, a prime rate, of 6% to 7% or 8% – which could give you unemployment of at least 10% of our labor force.”

Author’s Note: *This prediction came true in September 1982 when unemployment rose to 10.1%, and the prime rate to 16.5%.*

4. *Alan Greenspan*, *Gold and Economic Freedom*, **1966**: “The abandonment of the gold standard made it possible for the welfare statist to use the banking system as a means to an unlimited expansion of credit. 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 statist’s 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 statist’s antagonism toward the gold standard.”

Author’s Note (2009): *You’d never know this is the same Greenspan who presided over one of the greatest expansions of credit/money supply in the history of the world.*

5. *Alfred L Malabre, Jr*, *Wall Street Journal*, **29 Dec 1969**: “Private gold hoarders, who own nearly a third of the more than \$70 billion worth of gold in the world, began to realize in 1969 that the US really meant what it had been saying for years – that it would not increase the price

of \$35 per ounce at which it exchanges gold for dollars in dealing with other governments. Typical is an advisory item distributed 10 Dec by Francis I DuPont & Co, proclaiming ‘King Gold is dead.’”

6. *Juan Cameron, Fortune, Apr 1970*: “Gold enters a not-so-gilded age. In the future, gold will play an even smaller part in the growth of reserves, as the newly-created Special Drawing Rights gain acceptance as ‘paper gold.’ the price of gold, which reached a peak of close to \$44 an ounce early last year on the private markets, probably would have sunk well below the \$35-an-ounce floor this past winter without support from Swiss banks and the international agreement that allowed the IMF to buy some African gold. As Volcker observed, ‘In a decade or so, news of gold will be chiefly in the commodity tables of newspapers.’ the propensity to salt away wealth in unproductive gold, whose value is eroded by inflation, is steadily waning as sophistication increases. Eventually, as gold loses its special status and becomes more of an ordinary commodity, its price may ride along with inflation, as is the case with other metals.”

7. *New York Times, 15 Dec 1971*: “Secretary of the Treasury Connally said on a National Broadcasting Company interview program that devaluation of the dollar would be ‘very, very beneficial to the United States.’ He added, ‘I don’t think the average American will even be conscious of it.’”

8. *New York Times, 15 Dec 1971*: “At a White House cocktail party recently, Paul Volcker, Undersecretary of the Treasury for Monetary Affairs, asked the president of a major company, ‘What would be the public reaction to a devaluation of the dollar?’ Said the executive, ‘I don’t know anyone who gives a damn.’”

Author’s Note: Except the bitterly opposed Dines Letter.

9. *Paul A Samuelson, Newsweek, Mar 1972*: “The odds are 99 to 1 there will be no doubling of the price of official gold. Just because a rumor is denied in Washington doesn’t mean it’s true. The free-market gold price could go anywhere – from \$35 now to \$80 or down to \$34 – depending on what some gnomes, peasants and gangsters think other gnomes, peasants and gangsters are thinking about the crisis.”

10. *H Erich Heinemann, Austria, New York Times, 4 Sep 1972*: “Paul A Volcker, Under Secretary of the Treasury for Monetary Affairs, reaffirmed in the strongest possible terms the United States’ determination not to increase the official gold price of \$38 an ounce, and eventually, to eliminate gold as a monetary metal.”

11. *New York Daily News, 13 Feb 1973*: “The United States tonight put into effect a 10% devaluation of the dollar. The devaluation, second in 14 months, will have little impact on American consumers. Under the new 10% devaluation, the price of gold will rise from \$38 an ounce to \$42.22.”

12. *Paul Kangas to Mr Dines, Nightly Business Report (Public Broadcasting System, International TV), 19 Jun 1998*: “In each of your visits with us over the last two years, you predicted a currency crisis would begin in Asia which would result in a host of devaluations. I compliment you on your clairvoyance. You also said there would be collapses in real estate and banks.”

13. *Floyd Norris, New York Times, 5 Jan 1998*: “What sends markets over the edge is a nasty surprise, a set of circumstances that few could have anticipated. No one predicted a year ago that one Asian government after another would be forced, by their own missteps and the

pressure exerted by currency speculators, to unhook their currencies from the dollar, after which everything else cascaded out of control.”

Author’s Note: “No one” is the secret name for TDL often used by the press and media.

14. *Alan Greenspan in USAToday.com, Jun 2004:* “My speaking style? ‘I’ve practiced not responding for several decades,’ Greenspan explained in June 2004, after describing why he could not answer a question on oil prices. ‘I hope I’ve got it down.’”

Author’s Note: *How Mr Slippery got away with his dirty deeds for so many years.*

15. *The Observer, 26 Jul 2009:* United Kingdom – A group of eminent economists has written to the Queen explaining why **no one** foresaw the timing, extent and severity of the recession. The three-page missive, which blames “a failure of the collective imagination of many bright people,” was sent after the Queen asked, during a visit to the London School of Economics, why no one had predicted the credit crunch.

Author’s Note: *The above is a brief sampling of what we had to put up with while maintaining an iron fist on the golden tiller. When you know the truth, unflinchingly resist those who would deflect you from it, **no matter the cost.***

A Blast from 1975, and the Face of the Future

This chapter, including the Author's Notes, is basically quoted verbatim from *The Invisible Crash* in 1975. We see no reason to alter the first edition's predictions, although some of them have already come true.

*When the paper system collapses, the survivors will dig in the rubble and
they will find gold.*

London Times, May 1974

We still have great faith in the American people, provided that they are not misled by the same false prophets who have done such an inadequate job so far in the last century, leading us through war after bloody war and a seemingly unshakable boom-Depression cycle. For reasons outlined below, our "Flashforwards" reveal violent social changes ahead, including national bankruptcies and then deflation, perhaps interrupted by the hyperinflation we are still considering.

It is a striking paradox that those who claim to help working class people, albeit sometimes doing so for the short-term, wind up ruining them. It happened in 1932 and it will happen again.

We fervently hope that someone reading this book with a clearer view of history's trajectory will have the ability to reach the public better than we could. The basic political dichotomy manifesting itself economically now, the crucial decision that must be made, is defining *which is to be more important in our society: the individual or the government*.

Totalitarian regimes, such as communism or fascism, value the state more highly than individuals. On the other hand, democracies can value the individual more highly than the state. In the United States the latter has become decreasingly true. Computerized records of individuals, eavesdropping devices and increasing government intervention in human affairs are parts of trends that stretch back for centuries.

Adam Smith wrote his famous *Wealth of Nations* in 1776 favoring free markets and minimizing the role of governments. Keynes wrote *General Theory* in 1936, strongly favoring government intervention. Keynes and Samuelson asserted that our national debt was irrelevant because it did not have to be repaid; we owed it "to ourselves." They completely ignored the fact that some Americans own more government bonds than others, and their declaration that we owe this money to Americans assumes that the United States is one unit, which is untrue because foreigners own bonds also. Keynes was confident he could improve on market solutions by intervention, especially by fiscal and monetary methods. This, theoretically, would eliminate Depressions and give humanity control over its own economic destiny. To Keynes, governments were wiser and more important than individuals. Perhaps control of our economic future will come one day, but the basic fallacy in that position is the assumption that individuals acting as government economists are somehow wiser than the very same individuals acting for themselves. Humans can be collectively mistaken, and the effort to find a few who are always more intelligent than all other mortals must fail. That is partially why the world is suffering so today.

With US debt now at around a half-trillion dollars, and annual interest payments amounting to more than \$30 billion,* it is no wonder that “inflation” has been the order of the day, and that the international bank failures we predict could signal the end of an era.

To whom does this apply? Study those who are willing to “accept” a 5% to 6% inflation rate for a few years, and add up how many years it would take to destroy the US dollar. In fact, with a 5% to 6% inflation rate, prices would double every 12 to 14 years. Every year the destruction of our currency accelerates.

We wish we could be sanguine about the prospect that America will emerge relatively unscathed from the coming monetary storms. There could be a significant decline in America’s economic and political freedom due to decades of bungling, misconceptions and downright folly. After Rome fell, the West went into a decline that lasted for centuries. Perhaps after “The Coming Currency Upheavals” fiat money will be resoundingly rejected and people will go back to free-enterprise capitalism, with much less government, dramatically lower taxes and a return to the economic policies of Austrian economists such as Ludwig von Mises and the author’s friend Friedrich von Hayek.

Monetary convulsions will continue until we elect political leaders who are bright, brave and bold enough to help the American people understand that the business cycle is necessary for eliminating waste and inefficiency in our system. As bad as it is, the alternatives are worse. It must be sternly warned that the fantasy of continued, limitless and unending prosperity is a mirage and a trap. We call for a repudiation of the dream world in which we have been living for many decades. No one could guarantee permanent prosperity and full employment without creating monsters. Politicians who promise things without pointing out the other side of the coin are charlatans and knaves. If the people insist on voting for this type of leadership they will have no one to blame for the consequences but themselves. The encouragement of debt must cease, and governmental red ink will have to be a thing of the past because governments will someday not be able to raise enough money for their greed and will run out of debtors to gut. Inflation seemingly raised prosperity to incredible heights, which will undoubtedly induce some to demand this forever. It is a temporary heroin-like high resulting from addiction to inflationary policies, and we must understand it as such. Instead of demanding full employment, let us try to get as much employment as possible within the framework of stable prices. It does not help the little guy if he is given more paper money while prices are rising even faster. Let us turn the clock back to a sound monetary and credit system as it was before the twentieth-century madness, replete with its cruel wars and misery-breeding ignorance of actual history. Regardless of the price that is about to be paid, *let us determine not to go through it again in three decades.*†

With 1984 less than a decade away, where is our national purpose and old-fashioned patriotism? Has inflation already done its dirty work by bringing under fire our basic institutions, such as family, the military and police? The working class has become more militant than the meekly unemployed of the 1930s. This new generation has never known hard times; it is anti-authoritarian and profoundly iconoclastic. From this pressure cooker, this seething cauldron, could come the type of social upheaval written about in history books.

During “The Coming Second Great Depression” (when a generation educated in Keynesian economics is in a state of shock) the public will be much more amenable to the strict measures that will be necessary. Until then, there is no hope of restoring sound money, securing credit, a gold-backed currency, much lower taxes and the end of inflation as national policy, for starters. Today, no politician, even if the thought occurred to him/her, has the following or support to effect such changes, and therefore the destruction of the once-proud dollar, unless present conditions change, is a certainty.‡

A massive restructuring of wealth is coming. Those who had money before, and who did not pay sufficient attention, will be removed from a position where they could affect this country’s future course.

* Author’s Note: The national debt is over \$11.8 trillion as we go to press, with annual interest payments up to \$412 billion as of 29 July 2009. And international bank failures already began in the Crash of 2008.

† Author’s Note: That was a lucky guess in that three decades later America was embroiled in the wars on terror in Afghanistan (2001) and Iraq (2003), and the Crash of 2008.

‡ Author’s Note: Indeed, the dollar is not what it once was.

A Darwinian law of the jungle is coming. Some who were once poor will suddenly acquire money, so the very acquiring of it will more likely qualify them to run the next show, by Darwinism. They will not be frightened by a climate of volatile interest rates, plunging stock markets, tidal international monetary flows, sporadic but wild currency speculation and a roller-coaster gold price. The newly rich will understand that all these phenomena are related and represent the end of an era.

The very function of a Depression is to return money to its rightful owners. And who are those rightful owners? Those who wind up with the money!

Higher oil prices factored into everyone's equation in all sectors of the economy will, undoubtedly, force nearly all commodity prices higher. Many individuals will wind up unemployed because manufacturers overloaded with inventory will begin mass layoffs. Look for sky-high unemployment, far higher than the 6% level generally predicted by the government, and probably in the 10% to 20% range.

Oil producers will eventually raise oil prices* when they realize how uniquely valuable their asset is, and at last demand to be compensated in a serious currency, probably backed by gold. That would be the beginning of the end. The jig will be up for Keynesians. It will be the end of the economic "system" we now have.

What is still unclear is whether the current situation will force a massive shift back to a simpler and a less-automated society. Will bicycle and buggy-whip manufacturers be the stars of the future? The possibility exists, and open minds will be duly rewarded. We must remain alert for new business opportunities.†

* Author's Note: The price of crude oil was \$10/bbl when the above prediction was made. The above sadly came true in 2007–2008. In recent years TDL had been predicting unbelievably high crude oil prices, and it did rise to \$148/bbl, shortly after which we flashed a "Sell" signal at \$138/bbl in *The Dines Letter* of 6 Jun 08 (page 8), before it plunged to below \$35/bbl. Now we predict crude will rise to new all-time highs in the next cycle, eventually to infinity, one of the most valuable substances on the planet, even making garbage dumps valuable, believe it or not. Prices will be forced higher due to Malthusian shortages, as discussed in *The Dines Letter* of 17 Jan 2007 (page 2) because with always-rising populations there will not be enough of anything for everybody. The amount of oil on this planet is finite and obviously must run out someday. The demand for it will increase exponentially and oil trading has already begun to be transformed from a free market to a geopolitical weapon. Discoveries of major new oil deposits have become increasingly rare over the decades, an ominous Downtrend. Perhaps because of wish-fulfillment's overoptimism, the Dines Anti-Change Concept (DACC, Dinesism #15) and survival denial, some think that oil might last the rest of the twenty-first century, but there's the risk of a much shorter time frame. Why? For one thing, half the world's population has never driven a car, and nearly all long for the lifestyle they have seen on the Internet, television, in movies and the media. A simple extrapolation of the increased use of oil, following the same rate of a few percent annually over the last half century, is almost certainly obsolete. Because humanity is devouring the finite remaining supply, we have been looking for an eventual exponential uptrend in the price of oil.

† Author's Note: Starting in 2000 TDL had shifted from investments in Internets and high techs to raw materials, especially energy and metals. In 2009, "Rare Earths" were added to TDL's recommended stocks list; at this writing few are even aware what they are. Rare Earths will wind up in the world's headlines, believe it or not.

The Coming “Infression”

Remember, folks: Traffic lights timed for 35 miles per hour are also timed for 70 miles per hour.

Jim Samuels, Comedian

The topic of inflation is returned to at this point, to tie things together. What we call “**Infression**” suggests that inflation and Depression can occur simultaneously in the portmanteau of an “inflationary Depression.” This is a new virus in the international monetary system. Its identifying characteristic is a flood of government money that attempts to inflate (because such inflation worked in the past), but the “real” (adjusted for inflation) purchasing power of people actually declines. That is the deflationary aspect of the situation leading to a Depression. Some features of this system began to appear in 1974 when people received more paper dollars while the amount of goods they bought with those dollars declined. Infression will continue to lead to a lower standard of living for many who do not now think that that is possible.

The US economy is slipping out of control. The Government has, apparently, long since abandoned worrying about inflation and the dollar’s standing. Having to meet oil payments, trying to obtain prosperity and minimize unemployment could lead to the biggest paper printing binge in history.* One can never predict how irrationally people will react, but the risk of runaway inflation is greater than ever. If America resorts to limitlessly “reflating” the economy, it will lead to an economic collapse unequalled in world history.

People are being conditioned not to trust paper money. The depreciation of our dollar, accelerating annually, is approaching a terrifying velocity. Each new “Vesuvian tremor” exposes the dangers more clearly to those who would see. It would take a brave person to predict that the trend toward worthlessness, having been carried on for so many years, would by some miracle reverse itself. Perhaps it could. If not, a devastating deflation awaits somewhere ahead.†

Debt can be extended, paid off or bankrupted out of existence. Since our inflated debt could not possibly be paid off (given our nation’s current rate of earning and spending), a massive debt liquidation must lie in our future. Until it occurs, this crisis cannot be considered terminated, and will be the primary cause of much of the distress in the future. During inflationary times, many undercapitalized corporations survived when they should not have, owing to the “good times” of inflation. Many of those corporations will eventually disappear. Excessive stock market speculation will have to be liquidated by margin calls. As people withdraw money from banks to pay for the effects of inflation and then deflation, there will be less money available for business in terms of venture capital and construction, as examples. Furthermore, low bank liquidity could lead to some spectacular banking failures.‡ The loss of venture capital will hit Wall Street harder, where there could be some surprising bankruptcies. Banks might have to call loans to meet depositor withdrawals, causing those who cannot repay their loans to be thrown into bankruptcy also. The high level of borrowing by individuals is unprecedented and will also have to be brought back in line. All this promises prosperity for bankruptcy lawyers.

Wage inflation was intended to be the euthanasia of the middle class, due to misguided socialist doctrine that favored the working class. The only way to have sound full employment is to permit wage flexibility and low prices for goods and services. Until we get over that residual hang-up from the 1930s, there is no hope that this solution will be tried. The US government must learn it cannot solve everything

* Author’s Note: America’s money supply soared in 2007-2008, and stocks plunged in 2008–2009, not a coincidence. An economic collapse will develop starting around 2022, and perhaps even as early as 2013, depending on external events. Hopefully this book will help to ameliorate it.

† Author’s Note: “The Coming Great Deflation” might have finally begun to emerge into view in 2008, featuring historic liquidation of debts, margin calls and shocking bankruptcies. An intervening hyperinflation would only postpone and aggravate the subsequent resumption of deflation.

‡ Author’s Note: This prediction from the first edition of *The Invisible Crash* in 1975 came appallingly true with the collapse of Lehman Brothers on 15 Sep 2008, ushering in many bank failures. Whether this is just another “Vesuvian tremor” or the beginning of the end remains to be seen.

by printing more fiat money and throwing it at the problem. Perhaps all New Deal legislation would have to be dismantled to cure the disease now afflicting the world's currencies, and it is doubtful that this would happen in the present climate. Idealism must be tempered with practicality and compassion must be tailored to what is best for the long-term, because the short-term is obviously brief and time is running out.

Confidence in currencies is regularly diminished in a flight from paper. Sometimes the economic climate improves for a while, but that is illusory; inflation returns worse than before. It is likely that this low-key panic will increase until it swamps the ability of monetary authorities to cope with "The Coming Currency Crisis." The public needs education on the merits of a sound currency. Instead, they are buried under a never-ending stream of greenbacks, a pseudo-wealth created and backed by an order to run the printing presses for yet another hour. It cannot be that easy to live well on this planet. The question remains: Do those unprepared for massive debt liquidation deserve to keep their wealth?

This infression will not end until the government realizes that running printing presses will not work this time, and until it realizes its actions increase the risk of a hyperinflation. Just how far along the line governments awaken to this realization will tell whether or not the current deflation will be interrupted by a dreaded hyperinflation. At that point, the Depression will arouse Frankenstein's anger, uncensored by inflation. The process will then shift from infression to a full-blown deflationary Depression.

Few might agree, but a Depression already appears to be starting in the realm of stocks, real estate and advertising. Do not expect all areas to topple at the same time.*

A primary cause of the coming downturn will be interest rates. During inflations—but especially hyperinflations—lenders demand higher interest rates to compensate for their loss of capital, adjusted for currency supply and demand. High rates are the seeds of self-destruction spawned by hyperinflations. *The Dines Letter* was one of the first to warn that high interest rates are one of the signals of inflation's final phases, for example our then-shocking 1973 prediction of "prime rates rising to between 10% and 15%." In fact, rates of 12% arrived in 1974. In the subsequent deflation interest rates drop low because Mass Fear discourages venture capital no matter how cheap it is. Sound economic upturns occur when interest rates (along with real estate, labor, taxes and commodities) are low and people are cautious and conservative, not when they recklessly pay high interest rates to engage in wild-eyed speculative ventures.†

It is moot to consider at which point inflation becomes a runaway hyperinflation because, *historically, every inflation has eventually been followed by a deflation*. Economic conservatism will become fashionable again. Since the government is in charge of the figures, add a few percent to whatever it declares the inflation rate is (they undoubtedly manipulate it, otherwise their inflation racket does not work). However high it is, many bondholders look as if they will be ruined. During inflations those who own bonds, keep money in the bank, or even cash in their pockets overnight, will suffer outrageous confiscation by some self-motivated politicians. Since banks are even more dangerously illiquid than in 1929, a widespread banking collapse could add to America's nightmares. As businesses close down, there will be layoffs and surprising bankruptcies.‡ People will swear off stocks ("never again") and the American people will collectively lose trillions, as the bill for a 40-year binge is due and payable all at once. The full impact of the infidelity to gold has yet to be felt. Until it has, and true reform takes place, there can be no hope that this crisis will pass.

Shoving all this paper money down American's throats like Strasbourg geese has meant that too many cars have been produced, and too many factories have belched their poisonous pollution into the air and water in order to cater to collective greed. Suburban sprawl and urban decay might just reverse, and the rest could be left to the imagination. Perhaps, as often happens, much good will eventually come out of this unfortunate but sobering experience if High States are maintained sufficient to activate DINOPA.

* Author's Note: In fact, "The Coming Great Deflation" actually began in 1980, concealed by governmental inflating of the currency to new heights, postponing and aggravating the final "Coming Great Deflation."

† Author's Note: This began to come true in 2008.

‡ Author's Note: This began to come true in 2008.

If our predictions unfortunately come to pass, there will be a decline in the national standard of living in the coming period. Life will become more austere, there will be shortages and rationing, various markets will come crashing down and interest rates will reach Mafia-high levels before engaging in a long down-swing. There will be multiplying loan delinquencies and bankruptcies, news of entire nations going bankrupt and an end to the economic control of a generation as blind to gold as other generations were to the earth's revolving around the sun. Soaring commodity prices, currency chaos and a loss of personal freedoms will lead to a wave of national and international pessimism. Architects and stock-brokers will be driving taxicabs, and plumbers will accept lower wages as unemployment inspires humility. In such a climate of social unrest it is hard to say which personal freedoms will be seized first. Safe-deposit boxes could be sealed and reopened under government supervision on some phony excuse, perhaps to catch those who have "secret Swiss bank accounts." Look for stockbrokers to compete more with banks, real estate and insurance companies. A new, truly international, around-the-clock marketplace* could develop.

After the establishment of a freely-traded gold standard and the restoration of the right to own gold privately, there will be no inflation, interest rates will decline and a lasting boom will be ready to start.

Our system of taxation will have to be seriously reexamined. Perhaps the solution is to start from scratch by voiding the 16th Amendment to the Constitution, ending the federal income tax and preventing politicians from getting more money without a national referendum. That would return power to the people. Furthermore, any new tax system† would have to be constructed so that taxpayers would know precisely, at all times, how much they were paying in taxes. It is the only way to prohibit some politicians from engaging in irresponsible schemes.

By now it should be clear that **unless the dollar is linked to gold there can be no limits on inflations and/or deflations, and chronic gold crises will recur.** This is central to our theories. Otherwise gold abuse will continue to be a major destabilizing financial influence throughout western civilization and the problem will not be solved until a blatant economic smash shatters the complacency and drives from office the people who got us there. Meanwhile, inflation will diminish confidence in paper currencies, in institutions and, in the end, in politicians. Resurgent nationalisms could lead to tariff wars and, possibly, violently antisocial acts. Perhaps even urban guerrilla warfare.‡ All paper currencies will decline in value in relation to gold. Look for proliferating exchange controls and tariffs, competitive devaluations and an all-out smash in the huge Eurodollar market, probably sparked by a major bank failure.

American ownership of gold became legal on 31 Dec 1974. Even now our government does not appear to fully understand the implications of that and believes it can continue to embezzle from citizens. Little do they realize that free gold is a silver bullet aimed at the heart of an inflationary Frankenstein. All the ingredients of an economic bust-crash are present, invisible though they might seem now, so we have long advised everybody to maintain a "core position" in precious-metals investments. We predict golds and silvers will be big risers in coming years.§

Hopefully, in the subsequent debates and recriminations, people will come to grips with the true problems confronting us, including, "What is money really worth"? There are other provocatively simple questions, such as, "What is money"? and "Should governments be permitted to own a monopoly on the production of money"? Perhaps competition should prevail by allowing people to choose the currency they want, **provided it is backed irrevocably by gold**, an idea that should be explored.

A massive dollar devaluation looms ahead, and all the king's men will not be able to put Dollar Dumpty together again. Instead let us hope that there will be a new system somehow linked to gold.

* Author's Note: This prediction, "radical" at the time, has already come true.

† Author's Note: Here's a radical solution: how about a flat tax of 10% for everybody, **but as the only tax for all levels of government**, letting them fight it out? But with absolutely no tax deductions for anybody!

‡ Author's Note: The emergence of street "gangs" have already surfaced in American cities, based on drug money. We now predict that some gang members in prison will be converted by jihadists in "The Coming Great Religious Wars."

§ Author's Note: This has certainly come true.

We predict that some nations will produce a special currency in coming years, linked to gold, oil or something else of tangible value. It will be accepted internationally, and its reputation will endure, sweeping before it all artificial forms of currency. The world will continue stumbling toward a gold standard of some type, and in it gold (and silver) will remain central. This will hasten the bankruptcy of paper monies and monetary convulsions signaled by linked “Vesuvian tremors” as warnings to the observant that they are all results of the same causes. As confidence in paper is increasingly shaken around the world, dumping of paper money by “the little man,” rather than the so-called “gnomes of Zurich,” will break the dollar and other fiat currencies. Only the next currency system will be able to revive rapidly-deteriorating international trade.

John Exter, senior fellow of the American Institute for Economic Research, an early fellow goldbug, correctly pointed out that currencies are saying, “I do not owe anybody anything at a fixed price,” and therefore called all paper currencies “I-owe-you-nothings.”

This enormous world-wide flood of IOUs is the world’s main financial problem. Central banks are totally committed to the expansion of this paper money which, in effect, wipes out previous debts. There is no way to pay it off. Central banks are prisoners of inflation, and if they even tried to restrain it they would plunge the world into what we have long called “The Second Great Depression.”*

Fixed exchange rates are unworkable unless paper money is convertible into gold at a sufficiently high price. It would take a radical increase in the price of gold – or a new currency – to achieve convertibility; so, until then, we must become reconciled to floating exchange rates. Our collective, accumulated debts, unable to be paid off, will lead to massive deflation, Depression and debt liquidation. Such events rarely occur without blood in the streets – the best time, usually, to buy common stocks near bottom before the next boom.

The next monetary system will probably eliminate the International Monetary Fund because there will be no need for it in a world of floating exchange rates.† Eventually some country will break the ice and begin settling its accounts in gold. This will be a revolutionary and electrifying development because it will “unfreeze” all the pristine gold that has been imprisoned in vaults for many years, and begin to improve the severely deteriorated liquidity of the world’s central banks.

These predictions will not occur in a straight-line progression. There will be temporary periods of dollar strength, or perhaps even a rallying stock market. Yet unless the basic underlying problems are solved, these remissions should be considered temporary until the problems covered in this book are confronted and solved once and for all by an honest currency system.

At some point, there will be a national debate between protectionism and the movement toward a free-gold standard. Protectionism will hark back to John Stuart Mill, who feared that England would run out of money, so he set up walls against that possibility.

It will eventually be realized that a higher gold price would help the United States a great deal, and hopefully no temporary insanity induces America to dispose of its national gold stockpile. Governments and a few hundred economists could demonetize gold until they are blue-faced, but there are still millions of people who trust and accept gold, and **some of our leaders will never undermine that loyalty.**

* Author’s Note: Fedhead Bernanke dramatically enlarged the money supply in 2008.

† Author’s note: These predictions have already come true. Our fulfilled prediction of floating exchange rates means that the IMF is finished; its function was to fix parities, so the IMF is obsolete. Since no one takes dollars for gold there is no unit for international settlements, and this will send the IMF into a well-deserved oblivion. It will recede into insignificance also because it has become an emotional and political organization. At least one country will try to settle its deficits in gold at the free-market price. It will then be in the interest of those nations to maintain a stable gold price. The first country to use gold in its money could own the currency of the future. Then, the Group of 20 top industrial nations, the IMF, Keynesian economists, the diehards and leeches who wander from meeting to meeting sipping free drinks, with no real function, will be forced to seek productive jobs. Nations, like individuals, must earn their keep. It is a pity that blood will probably have to be spilled before this basic truth is realized. Appallingly, as this is written, there is talk of reviving the IMF dinosaur, but we yet again predict its demise into irrelevancy.

Our longstanding prediction that currencies would be allowed to float freely has been vindicated. Yet ahead is the “official” price of gold floating freely with no monetary restrictions.* An interesting possibility is that the world could smother the gold price at any time because of this free-float policy. The gold market is a small one, and any determined central bank could, for the short-term, artificially depress the price of gold. This begs the question of what might happen if oil producers invested a portion of their tremendous oil profits in gold.

The rises would be even more astronomical if that money got invested in the relatively limited gold-mining shares available. The possibility of an explosive and historic rise in the price of gold and gold-mining shares is therefore high.

How high will the price of gold go? Alan Greenspan figures the amount of money overseas at around \$200 billion. Jacques Rueff suggests it is \$250 billion. It is difficult to know whose estimate is more accurate, but if they are in the right vicinity, look for a price of gold closer to \$1,000 an ounce.†

After every crisis was allegedly “solved” by Washington’s standards, *The Dines Letter* accurately predicted worse to come. Until the dollar is fully convertible and gold is traded freely in the world without restrictions of any kind, we see no end to chronic monetary crises. Historically, governments have rarely hesitated to seize foreign assets during instability. Who knows which ingenious schemes politicians might dream up to take what money you have left? It is likely that there will be limits on the amount of money allowed to be removed from the United States, oppressive red tape for Americans wishing to travel abroad and, conceivably, confiscation of domestic assets of those leaving for extended trips overseas. Although foreign bank accounts existing at the time of the crisis might be allowed to stand intact, new foreign bank accounts would probably be out-lawed. Eventually, even these pre-existing accounts might be “nationalized.” A word to the wise is sufficient.

Which Is Better, Gold Coins or Bullion?

*My candle burns at both ends;
It will not last the night;
But, ah, my foes, and, oh, my friends –
It gives a lovely light.
Edna St Vincent Millay, Figs from Thistles*

It is a stupid mouse that knows only one hole. As people scramble to board the bandwagon, gold-mining shares could become the glamor stocks of the future. Since relatively few Security Analysts totally understand gold’s role, because it has been out of favor for so long, there will be much misinformation bandied about. Later, the reckless and unwary will be selling gold shares short. Beadlets of perspiration will develop on their upper lips during the ensuing pyrotechnics as demand for gold shares from late-coming investors arrives.

Currency futures markets lack depth now, but if the world adjusts to floating rates, new institutions will spring up to provide that depth, since international trade, after all, must continue. Solid forward markets exist only for the Canadian dollar, British sterling, German mark and Swiss franc, where coverage is available for one year or more. Fairly good markets exist for the Japanese yen, Dutch guilder, and Belgian franc. It cannot be emphasized too strongly that these institutions are brand new. Eventually, international trade could be financed quite easily without the twisted logic that favors large American balance-of-

* Author’s Note: This prediction of gold floating freely was very bold and widely mocked at the time because the American government swore that it would fix it “forever.” The dollar now floats freely.

† Author’s Note: On 13 Jan 1996 (page 9), with gold then at \$396.70, *The Dines Letter* predicted an initial price target of \$2,626 to \$4,375 an ounce, and much higher in a hyperinflation. Gold rose to a new all-time high at \$1,023.50/oz on 17 Mar 2008, a clear warning.

payments deficits. This is true particularly if the international monetary scene stabilizes to the point where risks are minimized and therefore forward currency premiums could afford to be lowered.*

Old institutions (for example, those set up at Bretton Woods in 1944) were replaced by free markets rather than new institutions. Therefore, we have high hopes that the next system would be the one presented to the world by the free market; most likely the best one available at the time.† One could do a lot worse in the world than institutionalizing what the free market has shown to be the correct way; evolution rather than revolution.

A primary problem will be the danger that a breakdown in international trust in everyone else's paper money will lead to such a proliferation of tariffs and other controls that there could be a return to the seventeenth-century Mercantilism so thoroughly discredited by Adam Smith. (Perhaps there is a 300-year cycle involved here.) Therefore, this would appear to be the time to buy foreign items that you were planning to buy eventually. If a hyperinflation does occur, US interest rates will go far higher than anyone dreams possible for all American paper, including T-bills. International raw-material prices could skyrocket,‡ reversing the historic trends of expensive manufactured goods in relation to cheap raw materials. With such high interest rates coming, it is difficult to see how an international Depression could be avoided. The question of whether it will be an international recession or a Depression is a reminder of Eddie Cantor's 1932 comment that, "A 'recession' is when the guy next door loses his job. A 'depression' is when you lose yours!"

Some gold-standard detractors use the excuse that there's "Not enough gold to support modern commerce," but higher gold prices could do it. It would be refreshing if top government officials spoke out, as we have, even at the cost of their careers. There was a time when leaders of towering integrity ran this country, yet were rewarded anyway. By DINOPA.

Because of the interrelatedness of currencies and the fact that all countries are so deeply in debt to one another, the failure of any one nation's currency could lead to a chain-reaction collapse unless tight money and competitive deflationary tactics lead to a Depression first. The coming turmoil will lead to major shake-ups of international political relationships. Even war is possible, but not everybody would benefit from a nuclear exchange. Nonetheless, in perilous times, people do not always work toward their own best interests.

Amid the waves of futile and competing devaluations, in an effort to improve balance-of-payments at the expense of others, look for protectionist legislation and federal controls, depending on the business you are in. Look for national bankruptcies. In the coming upheaval in international political thinking there could be the elimination of foreign aid, a new export consciousness, less military aid, a halt to "buying friends" and less tourism. Instead, there will be subsidies to gold miners and, incredible as it might sound, a movement to permit individuals to mint money backed by gold, ending the American government's monopoly. Hopefully, there will be no international Federal Reserve System or international bank. After the water is painfully squeezed out of the present system, money with intrinsic value will be minted once again, fully backed by and convertible into gold. When this occurs, the United States and the world will launch into one of the greatest expansionary booms ever seen, with a tremendous growth of trade between new partners, perhaps China and Russia.§

* Author's Note: The predictions in this entire paragraph have begun to come true.

† Author's Note: Unfortunately, the 2008 bear market, which we predict will someday be called "The Crash of 2008," or "'08," will eventually be blamed on "capitalism" instead of gold abuse, and bring the world to the beginning of yet another calamity around 2066—depending on geopolitical evolution in the coming period. Hopefully, this book will forestall that punishment.

‡ Author's Note: As already noted, in 1999 TDL called for a new and historic long-term bull market in commodities, which came true by 2007. The subsequent "Crash of '08" saw deep commodity declines, but this book hereby predicts a resurgence, especially when a breakdown of international capitalist free trading is replaced by what we call "commodity chauvinism" and "commodity imperialism" as countries hoard commodities (such as oil, gold, silver, uranium and rare earths) instead of selling them for paper money of relatively transient value.

§ Author's Note: The prediction about China and Russia has already come true, to which TDL subsequently added India in 2004. We hereby add Brazil and South Africa.

Look for an end to so-called “soft” loans. International bonds will be backed by gold. Gold clauses will be included in many major contracts; attorneys should prepare for the understanding and use of such gold clauses now, which were common before FDR’s reign. Major creditors, such as oil producers, will likely insist on gold clauses in the future.

More countries will come to understand that by writing up their national gold reserves the incentives and vested interests surrounding the maintenance of a high gold price will become overwhelming. Even the United States will find it in its best interest to uphold the gold price to prevent more countries from going bankrupt or deflating. As understanding of this develops, investors will cluster to gold as an investment or speculation. The world’s banks are ill-prepared to cope successfully with future international economic strains, so one must be prepared for the element of surprise at a peculiar time such as that. The winds of deflation are in the air, as we scale the crest of inflation. Paper currencies are under suspicion, and those unprepared for the consequences could be wiped out financially.

We will see nationalization of industries, moratoriums on debt and interest, all kinds of “freezes” to stifle prices, a revival of governmental “make-work” proposals and profit “guidelines” to circumvent discredited wage-price controls. As anti-profit fanatics come out of the woodwork, there will be a dangerous drift toward dictatorship.* The more government intervention the greater that danger will become. It should be no surprise to see food rationing, as national food-producing mechanisms get whipped back and forth by the vagaries first of inflation, “The Coming Great Deflation,” a possible hyperinflation, then a continuation of deflation in “The Coming Second Great Depression.” During recent times, the flight from cash left almost everybody illiquid and over their heads in debt. People were afraid to hold cash, since its value declined with inflation. Eventually, maybe after a *possible* hyperinflation, as the final deflation takes hold, cash will increase in value, and the flight will be from tangibles (art, real estate and collectibles) to cash. To those with no debt at the final bottom, and liquid buying power intact, wise investing could make you rich indeed. Think of having bought virtually any investment in 1932.

Interest rates are like a thermometer, so America’s 1974 prime rate levels of around 12% showed a very sick patient. In addition to sky-high interest rates† there is a future worst-case scenario of a complete destruction of our currency, bonds and all forms of paper-debt instruments, the ruination of insurance policies and annuities and catastrophic disruption of an ability to write long-term contracts, for starters.

The Dines Letter has forecasted a devastating bear market. Unlike the barely visible post-World War II dips, this will be a genuine bear market, a consequence of limitless printing of paper money. Some people who have seen this coming: Ira Cobleigh, John Exter, Edson Gould, Percy Greaves Jr, E C Harwood, Tom Holt, C V Myers, Richard Russell, Harry Schultz, Robert Prechter and many others.‡

This is the time to disperse funds in banks in different countries. Stay as flexible as possible to cope with changing conditions. Mobilize part of your portfolio between bullion and gold and silver stocks. A new world with a different set of politicians is coming.

There will be scares from time to time, such as US Treasury threats to sell gold to drive the price down. This will be an empty intimidation; remember, they have scorned the rise of gold all the way up and their track record does not indicate that they are in total control as events have moved from arenas in Washington, Paris and London to the free market. All currencies will be valued in gold, like it or not. In the past, bonds, preferred stocks, cash, blue-chips and utility shares were the ports of refuge. Not anymore. We are entering the Golden Era. Gold has picked up its sling and is stalking Frankenstein.

The bear is moving on a personal level to guarantee that none of us survives financially. One must ruthlessly question every method of storing assets. Even paper cash is suspect because it might be wiped

* Author’s Note: If President Barack Obama reflate the economy there should be near-term “stimulation,” as there was during the early stages of inflation after Franklin Delano Roosevelt’s election. But it risks ultimately leading to a sky-high hyperinflation, a complete destruction of our currency and echoes of the horrendous preconditions of World War II.

† Author’s Note: We expect to see those interest-rate levels again, believe it or not.

‡ For how TDL makes political predictions, see the TPG chapter in our *Mass Psychology* book (starting on page 111).

out by inflation, hyperinflation or repudiated by government. This is a time for maximum caution – caution on a level to which most investors are not accustomed. If we are incorrect, the worst that would happen is that you will be stuck with cash. After all, we are not recommending anything crazy. This is the time to dump your property and art, anything for which you can still get a decent price. Prices are coming down. Ignore those who have inflation fixed in their heads. There will be massive inventory liquidation and a desperate movement from things into cash. If you wait until the mob packs the door you will never get out. You must move ahead of time and not try to get the top price.*

Across the valley and up in the hills, paper money will be linked to gold and, therefore, will be more sound. Inflation will then, at last, be under control. There will be very low interest rates, almost zero unemployment and a great boom. After the Depression will come an incredible international bull market, as the four corners of the world participate in the previous wealth of a few. There will be fantastic new investment opportunities awaiting the alert.

Will Silvers Rise From Here?

*So always look for the silver lining
And try to find the sunny side of life.*

Sir Pelham G Wodehouse, *Look for the Silver Lining* (Song, 1927)

There will also be great interest in silver when the price of gold gets high enough. We coined the phrase “Silver is the poor man’s gold” when even people who agreed with us that gold would rise above \$35/oz, rejected silver at 92.5 cents/oz as an “industrial metal,” but a silver coin is just as acceptable as a gold coin, worldwide.†

Unlike gold, industrial demand for silver mushroomed with the technology boom following World War II. No wonder. The metal is outrageously underpriced for inflationary times. After all, it is a precious metal and, as such, should have far greater value than other metals because it is a store of value. The need for silver transcends its usefulness as a mere commodity.

Silver rarely occurs alone. Around 70% of mined silver is a byproduct of copper, lead and zinc mining, which is why silver production cannot be expanded or contracted rapidly. Silver production is now lower than it was 50 years ago. If economic conditions deteriorate as predicted, the decline in copper, lead and zinc production will result in lower silver production, to more than offset any prospective disadvantage to silver if a Depression should also cause a contraction of its industrial demand.

If the price of gold goes as high as we predict, those who feel that they have missed out are going to look for a substitute. That substitute will be silver and platinum.‡

The primary reason silver interests us is that silver’s gains should be even greater than gold’s, on a percentage basis. Not only are silver stocks currently at Depression levels, but the ratio of the price of gold to silver shows that silver could have a much bigger advance from this \$4.00§ an ounce level than anyone now believes.

* Author’s Note: This has already begun to come true.

† Author’s Note: As “The Original Silverbug” we consider that element the single most underpriced metal on the planet, headed for sky-high prices, believe it or not, due to the advantage of both monetary and industrial uses.

‡ Author’s Note: Platinum subsequently rose 445% since our “Buy” signal at \$413 on 30 Nov 1995, to \$2,251.10 on 5 Mar 2008.

§ Author’s Note: Silver subsequently rose 5,305% to \$50.00/oz on 21 January 1980. *The Dines Letter* subsequently recommended silver again on 25 September 2001 at \$4.55, after which it rose 366% to \$21.20 on 17 March 2008 – so far. Also headed higher are platinum, palladium and rhodium – someday to be joined by ruthenium and iridium, believe it or not.

In our opinion, gold will lead off the precious metals on the upside, but silver will eventually lead the parade. The percentage gains from these levels should be stratospheric. Therefore, perhaps some 20% or 30% of investments in precious metals should be in silver, including bullion, coins and stocks. When gold stocks are up and silver stocks are down, the percentage of silver can be increased. Purchase bullion only on weakness, and pay for it in full, **never on margin**, with delivery taken. Those who purchase bags of silver coins are probably even better off since owners could always spend the coins without paying to have them assayed in case of Depression or other national emergency.

Is it too late to buy gold and silver at these prices? It is never too late to buy gold and silver, to be held until the end of the fiat money era.

This completes the excerpt from the first edition of *The Invisible Crash*.

Deflation or Hyperinflation Next?

*The first half of our lives is ruined by our parents
and the second half by our children.*

Clarence Darrow

“The author was the first security analyst on Wall Street to have detected and openly dared to warn of ‘The Coming Gold Crisis.’ It is really nothing more than the story of the emperor’s clothing. The hostility toward gold and silver recommendations at that time was so intense that it was often difficult to stay in business. Imagine trying to sell the idea of buying gold when the very President of the United States declared that ‘the dollar will never be devalued.’ We do not envision the end of the world approaching soon, but we consider this a surgery, or catharsis if you will, a prelude to a boom in the 1980s that could see the Dow-Jones Industrial Average soar to the 2,500-5,000 level, or even higher.”

James Dines, First Edition, *The Invisible Crash*, 1975*

We are not intimidated away from making predictions in which we believe, be they positive or negative, nor can we allow a Mass to sway us from the positionless thinking of the High State of Objective Observation (HOBJOB). For example, after our 1980 forecast that the world would begin “The Coming Great Deflation,” nobody took it seriously since the only topic of conversation was what the price inflation rate would be, supposedly controlled by the genius magicians in the American government. Some drink at the fountain of knowledge, while others just gargle.

Even so, around 2005, when nothing anyone did seemed to get the price inflation rate much above a low percentage, we warned that it was “the eye of the storm,” and that our long-predicted deflation was just ahead. **Today, in 2009, is what a deflation looks like.**

Ours is still not a recognized theory but, perhaps, unfortunately, it will be. We always hope to be mistaken about negative predictions, but must call the shots in HOBJOB as we perceive them, and then retreat into the High State of Detachment From Result. Everybody likes to be liked, but the Low State of Hyperneeding to be Liked can undermine integrity and therefore must be kept on a tight leash.

Sky-high Treasury yields in 1981 have declined steadily to their current basement levels of nearly zero percent, but the wheel will eventually turn up again. Low interest rates in a deflation could hold for a long time, the exception being an intervening hyperinflation that temporarily sends interest rates sky-high again. Indeed, TDL flashed a “Sell” signal on US Treasury paper in our *Interim Warning Bulletin* (IWB) of 29 Dec 08 because it looked like a bubble, which it turned out to have been.

And, just in November 2008, for the record, the word “deflation” – *mirabile dictum* – actually began to crop up in the press, however with little discussion. Even then, deflation is mostly mentioned as something to be avoided, and many commentators do not yet seem to have a deep understanding of the currency factors involved. So far they perceive deflation merely as a possibility, a threat, rather than having pieced together the crash in many prices – even including wages worldwide – that will be further diminished in real terms by the Malthusian-driven rising prices for food and oil in coming years. Sometimes it is discouraging trying to work out how this might end well and lead accordingly. Maybe

* Author’s Note: The DJI was at 620 at the beginning of that year and rose 343% to as high as 2,747 on 25 Aug 1987 (“in the 1980s”).

there really will have been no place to hide, and TPG Box #10 is to be our fate no matter what we do, but we nonetheless need to think positively and play our hand as if to win. After all, one peek is still worth two finesses.

TDL flashed a signal for deflation and a Major bear market in Japan in 1988, and have kept an iron hand on that tiller for over 20 years now. One of our clues was our \$300 (!) taxi fare from a Tokyo hotel to Narita Airport. Japan has been suffering a horrific deflation, along with America, while both governments continue their futile diddling with interest rates as if by babystepping them up or down inflation/deflation could be rheostatically controlled, a theory we have long debunked. The world's bankers are rushing to lower their interest rates without fully grasping that plunging interest rates are a hallmark of a deflation, thus unwittingly reinforcing it.

What might be next? After decades of “fighting inflation,” economists will try to “cure” a deflation with “just a little inflation,” precisely as predicted in the first edition of *The Invisible Crash*.^{*} Some look but do not see, hear but do not listen, or know but do not think, so every consequence is a “surprise,” by definition. Would someone please try to get this message to our leaders, to refocus on true solutions?

What Would A Possible Hyperinflation Look Like?

Hay is more acceptable to an ass than gold.
Latin Proverb

Economists desperately threw *trillions* of dollars at 2008's economy, bailing out this company, or that institution, without grasping that the cause of the problem was having previously printed too much paper money and that more printing risks a destructive and blood-curdling hyperinflation. What might it look like?

If indeed fate is to deal the world hyperinflations, and we hope not, our guess is that they would emerge stealthily at first. There might be a period where markets stabilize, or even rise, duplicitously teetering between a deflation and a hyperinflation, an eye of a storm meretriciously posing as a “recovery from a deflation” scare. There will also be scarcely-noticed, and maybe even surreptitiously gentle, price increases, at which high-fiving economists would erupt into congratulating each other for the mad scientists having successfully applied a soupçon of inflation to cure the deflation. This phase might begin around 2022. The seeds of a hyperinflation will begin around 2013, depending on what politicians do. Little might they then recognize the true reason behind puzzling strikes erupting from unlikely quarters, such as Social Security recipients, the elderly, doctors or those placids on generally fixed incomes. There will be a curious emergence of barter, groups using their own local currencies and more people actually growing their own food in purportedly rich America.

As price increases slowly accelerate, people will begin to lose faith in their currencies, which is why we have recommended precious-metals stocks in our Supervised List #3 of *The Dines Letter*, and why they should outperform over time. People will increasingly get rid of their paper money and hold back tangible things that could be sold at higher prices, especially gold and silver coins, by Gresham's Law. Real property is called real because it will outlast any currency but, during turmoil, desperate politicians might decide to eat the rich by raising taxes to punitive heights. Land is not a place to store wealth with guaranteed safety, especially at sea level, as noted.

The flight from paper monies will pick up speed, and eventually countries will barely restrain dumping their huge dollar reserves, and then their walk will hurry to a sprint. *The Dines Letter* reported on the

^{*} Author's Note: This prediction of adding some inflation was actually considered outrageous at the time because almost everybody was fighting the hated inflation, but it is hereby reaffirmed.

barely-noticed news release of 10 Oct 2008, that China and Japan had tried to sign a mutual agreement not to dump their dollars too quickly for fear of breaking America's currency and depreciating their remaining holdings, but the rest of the press mainly ignored that unobtrusive clue. We suspect that someday a top-secret guarantee by America for its gold will be revealed, for US dollars held overseas. Perhaps to China. If so, weep.

One of the signs of hyperinflation will be more shoplifting, especially for food, along with petty crimes and tin-pot arrogance by those with a little power. If you wish to know who a person is, give him/her a little authority. Later, signs of the hyperinflation will be a serious breakdown of law and order, including street shootouts and even unpunished beheadings of the type already happening in Mexico as the US-Mexican border becomes a war zone, with gangs and terrorists uniting to obtain heavy weapons, even taking on the police and army, financed by the drug trade. America learned little from Prohibition. There are already carjackings and home invasions in America, unthinkable not long ago, as the hungry and desperate use readily-obtainable weapons. Also oceanic piracy will spread because ransoms are paid instead of strafing such marauders, so those who venture on the seas are increasingly at risk in "The Coming End of the Age of Travel"; sailors might consider bringing lethal precautions and guard dogs to better detect intruders.

As the hyperinflation unfolds and gold and silver prices rise, there will eventually be a sprint toward a classic run on the banks of the biggest magnitude in history, maybe even worse than the First Great Depression. That might be the way to wipe out old baggage so as to start over with a currency properly linked to the gold that hopefully might still remain at Fort Knox.

There will be a "moment of hyperinflation's recognition," but that does not necessarily mean it is imminent. Hyperinflations can take years before they reach their final stages. It would be a sad day if those predictions came true, but we also must add this one: a strong new leader will emerge, perhaps an anarchist or Libertarian – maybe a strange combination of TPG Boxes #1 and #10. And they kill leaders, especially good ones.

Fedhead Bernanke's remedies for this crisis rely on the WEE's delusion that the 1930s were so bad because of the failure of the central bank to "create liquidity." And that's the tragic mistake. It was the very creation of that liquidity by running the printing presses that dragged out the First Great Depression until 1941, when World War II pulled America out of it. Bernanke quotes the Constitution when indicating that Congress has the right to regulate the currency, but the Constitution actually refers to "coinage." Nowhere in the Constitution is Congress authorized the artifice of delegating the power to "coin" money to another entity, such as the Federal Reserve. George Washington had already suffered a hyperinflation of paper money so horrific that America's eventually-worth-less paper money was scorned as "shin plasters" (the equivalent of today's Band-Aids).

It seems as if scarcely a week went by in 2008 that there was not yet another person, wealthy and apparently intelligent, getting into deep financial trouble. There have actually been suicides, marking 2008 as a "killer" bear market. In recent years, we repeatedly warned TDLs away from investing in General Motors, before it actually filed for bankruptcy. But it was still dismaying to watch GM's shares decline from \$90 to zilch, and we have compassion for its employees. The final degradation was needing to lie: GMAC getting reclassified as a "bank" so that the government could legally give it more money. A shabby comedown.

In 2005 and 2006 TDL repeatedly published bearish charts of raw materials such as lead, zinc, copper, aluminum and nickel in Downtrends. After having turned into raging bulls on China in 1977 as "The Original China Bug," we turned bearish on it on 5 Jun 2005 (page 6) and warned that it was finally heading for a recession "to start in 2007," so that area was not to be a refuge during America's recession. In November 2008 China finally buckled and announced a \$563-billion "stimulation" plan due to a slowing economy, and the prices of steel and copper plunged worldwide. To say that we are now long-term bearish on China however would go too far, as that country will be among the world's next leaders. It is assumed that China will not get into trouble because it does have over \$2 trillion in forex reserves, but perhaps half of that is in US Treasury bills and thus vulnerable to "The Coming Currency Upheavals."

We did our level best to lead investors away from the troubles we foresaw emanating from real estate, financial companies, emerging markets, China, municipal and junk bonds, automotive stocks and

derivatives, and the best we could come up with was “selected metals” with their wealth in the ground and thus protected from “The Coming Great Deflation” we envisioned.

Because many nations no longer trust the free market to provide oil and gas when wanted, we expect geopolitical plans to go ahead for nuclear power as a matter of their survival, and we thus remain long-term bullish on uranium. No matter how low the mining company’s share price goes, that uranium is still there as “wealth in the ground” and, unless nobody wants nuclear power any more, it’s going to come up out of the ground at a profit, sooner or later.

What if the Deflation Deepens?

Gold that buys health can never be ill spent; Nor hours laid out in harmless merriment.

John Webster, *Westward Ho*

Note the speed with which deflation rudely flashed its fangs after having lurked underground since 1980. As recently as 17 Jul 2008 a *Financial Times* of London headline read: “Europe Tightening its Belt As it Learns to Live With High Prices.”

Deflation represents a *contraction* in the money supply and credit, so the crash in assets (real estate, stocks and bonds) that wiped out trillions of dollars, perpetuated itself while the public postponed large purchases, the mirror image of the intense competition bidding up real estate at its peak prices in 2006. Household debt soared 1,960% from \$680 billion in 1974 to \$14 trillion at the end of 2007, while the national debt nearly doubled from \$3 trillion in 1990 to \$5.75 trillion in 2000 – it was a shocking \$11.8 trillion in 2009, and still rising. As they print more money, what we have long predicted would be “The Coming Death of the Dollar” becomes increasingly likely and being in debt becomes more expensive in “real” terms (adjusted for deflation), again the mirror image of inflation wiping out debts. Many in debt are woefully unprepared for a deflation.

We endured the world’s disdain for our 2005-2006 predictions that a “recession will begin in 2007, led by a real-estate crash.” Also please note, for the record, there has still been no official indication that real estate has been in “a crash,” which is yet ahead.

The following are recent excerpts from the press revealing thinking as the current crisis began to unfold, as an education for future Analysts, in the High State of Context:

1. The debate about the Fed’s next steps for policy is closely tied to the assessment of the **risk of deflation** – that falling asset prices and a deep recession could result in falling consumer prices. Headline **inflation may well turn negative** due to the collapse in commodity prices. But this will not trouble the Fed. Policymakers will focus on the underlying core rate, which excludes food and energy. However, most think the risk of deflation is still not huge. Senior Fed officials think the risk of deflation remains small, since the initial rate of inflation is high, inflation expectations are firmly anchored and the relationship between unemployment and inflation is weak. Still, the risk is not zero. Economists worry about deflation because it pushes up the real (inflation-adjusted) cost of debt and interacts with the zero bond yield on interest rates to make it hard for a central bank to stimulate the economy. This is because what matters

is the real interest rate. When prices are falling, the Fed – which cannot cut nominal rates below zero – cannot reduce the real interest rate as much as it would like to.

Financial Times (London), 30 Oct 2008

Author's Note: For the record, note “inflation turning negative,” as if afraid to utter the word “deflation,” the first furtive whisper of a dreaded “risk of deflation” that we detected in the mainstream press!

2. That the **D-word** is even being debated is a testimony to the shock inflicted by the credit crisis. Five years after the last **deflation scare**, economists are again debating whether the US and other industrialized nations could see sustained declines in consumer prices. Some go as far as to predict that much of the industrialized world might soon resemble Japan in the 1990s, with interest rates at zero, falling prices and no economic growth. That this discussion is occurring at all is striking considering how, until recently, most people were worried about inflation being too high rather than too low. While deflation is a potential threat, most economists think it is premature to be worrying about actual sustained declines in domestic prices. Such declines remain unlikely because positive inflation is embedded in the US and Europe and the policy response to the crisis is now vigorous. Some worry that efforts to avoid deflation will end up fueling inflation. Falling commodity prices mean many economies will at some point experience **negative year-on-year inflation**. But this is nothing to worry about. It can also create a “debt-deflation trap” in which the real value of debt rises. Inflation is above target in every large economy bar Japan’s. Consumers in these economies expect inflation of at least 2%. The chief economist at the International Monetary Fund says its analysis suggests there is a less than 5% chance that the US will experience deflation. Still, there is a larger risk that inflation could fall to 1% or less in some economies within two years. This could itself create problems, since central banks would lose the ability to run negative interest rates to fuel recovery or ward off a fresh shock. The Fed Chairman, Ben Bernanke, thinks it is unlikely the US will actually experience deflation – he judges that the starting level of inflation is too high, expectations too well grounded and the policy response to the financial crisis too vigorous for that to happen. Experts say that setting an explicit target for inflation is an **obvious** deflation-fighting strategy. When Japan faced deflation in the 1990s, **Mr Bernanke advised Tokyo to introduce an inflation target** – or its close cousin, a rising target for the price index – as a weapon to counter the possibility. Setting an inflation target would be a way for the US central bank to make a public commitment to do whatever it takes to avoid deflation—while also committing not to go too far and create too much inflation in the process.

Financial Times (London), 3 Nov 2008

Author's Note: What’s with the “D-word,” fearing to use its name as with the “F-word”? Whistling past a cemetery? Is deflation only a “scare”? This important excerpt is another validation of our admittedly-unlikely looking 1980 prediction of “The Coming Great Deflation,” and what we’d been putting up with from the WEE ever since. Fedhead Bernanke’s advice to Japan failed, and here he is prescribing it for America! That figures. Inflation is not the cure for deflation, as Japan’s experience proves. “Too much inflation” is code for a hyperinflation, and what is “obvious” can be “obviously wrong.” See Dinesism #24 (DIBRAIN).

3. Inflation in Japan, which had picked up since early this year, was caused mainly by higher oil and commodity prices. Now that those prices are falling sharply, inflation is easing. The possible return of deflation, which dogged Japan from 1999 to 2005, adds to Japan’s woes.

Wall Street Journal, 9 Nov 2008

Author's Note: In the first sentence, we do not agree that higher oil prices caused inflation. We do not agree with the second sentence that lower prices are causing less inflation. They are still unclear as to what inflation actually is. The government’s debts are so huge that they’ll have to stick it to the next generation to pay it off—which perhaps explains why babies scream at birth!

4. The bond market is bracing for deflation, yet inflation looks like the greater threat. At first blush **it looks as if the “D” word is upon us. Not “depression” but “deflation”**– the vicious phenomenon in which falling spending begets wage and price cuts, which beget further spending cuts in a debilitating downward spiral. The last time US prices fell consistently was in the midst of the Great Depression. Many firms went into debt counting on a whiff of inflation to bail them out. Commercial real estate investors made heavily leveraged investments assuming they could hike rents. Deflation would turn such plans into financial disasters. Nobel laureate Edmund Phelps also finds bond market predictions of falling prices screwy and says he “can’t imagine” deflation is a serious risk, given the liquidity the Fed is pumping into the economy. Carnegie Mellon University economist Allan Meltzer insists that falling oil and food prices are not really deflation. He scoffs at the notion that, at a time when the money supply is on steroids, deflation could be a serious danger. “People who say deflation is a threat are either **rumormongers or ignorant**,” Meltzer says. “They need to take a refresher course in economics.” *Forbes*, 8 Dec 2008

Author’s Note: No, his course in economics contributed to what caused this, so maybe it’s time for the name-calling WEE to be run out of town by “ignorant rumormongers.”

5. It is now more likely inflation in China will be in **negative territory** or close to it by early next year, adding to pressure on the government to shore up demand to bolster China’s weakening economy. Deflation, which can be highly difficult for governments to reverse, would add a further drag to China’s economy. At the start of this year, China’s government, like many, was focused on **taming inflation**, which was running at decade-high levels, thanks mainly to surging food prices. The recent trend seems to show a reversal in prices, rather than contracting demand. Economists worry about deflation because of its potential for creating a self-reinforcing negative spiral: If consumers expect prices to fall, they will put off purchases, which depresses demand and further lowers prices. *Wall Street Journal*, 12 Dec 2008

Author’s Note: “Inflation in negative territory” is deflation, but they can’t bring themselves to admit it. They cannot “tame inflation” or “reverse it,” because it is the result of gold abuse and they’re treating the symptoms.

6. With US interest rates now virtually zero, the Fed can still stimulate the economy by reducing the actual borrowing costs facing households and companies. These remain high. The Fed has to ensure that people do not start to expect deflation or falling prices. **The Fed still does not believe there is a big deflation risk.** The Fed has already announced plans to buy \$600bn of securities issued by Fannie Mae and Freddie Mac. The Fed has to find the money to finance its loans and purchases somewhere. Being a central bank it can simply create reserves for banks and/or print money – both of which increase the base money supply. In normal times this would be dangerous, because it would **risk fueling inflation**. However, increasing the money supply is helpful today, because it guards against the possibility of deflation – falling prices – in the future. Indebted households and companies faced with a deep recession may not want to borrow even at low real rates – a phenomenon economists call “pushing on a string.”

Financial Times (London), 18 Dec 2008

Author’s Note: “Risk fueling inflation” is code for “hyperinflation”, but they lack the guts to use the word, perhaps because they are in the Low State of Hyperneeding to be Liked in order to keep their jobs.

7. What is **“quantitative easing”**? Central banks normally regulate the quantity of money in the economy by altering its price in the form of the interest rate, which makes demand expand or contract. Once interest rates get down towards zero, they cannot be cut any further. The only way to get more money into the economy is to **pump it in** by buying long-term government bonds. The scenario that causes central bankers to wake sweating in the night is an uncontrolled

deflation—that is, a fall in the general level of prices at a time when the economy is weak. If interest rates are already at zero, falling prices mean that the real rate of interest starts rising. This hurts companies and consumers who have borrowed money. The central bank can essentially create money and give it to the government to spend, forcing up the demand for goods and services and preventing prices falling. Most economists consider this quantitative easing, because it involves increasing the quantity of money. The risk is not that it will run out of money but that the situation will suddenly flip and prices will start rising uncontrollably. This would almost certainly be accompanied by a collapse in the currency. Such currency crises and “hyperinflations” are a high-risk option.

Financial Times (London), 18 Dec 08

Author’s Note: “Prices will start rising uncontrollably” is the first glimmer we’ve seen of admitting the seriousness of the risk of a hyperinflation! It’s not interest rates, it is currencies. And, as for the latest phrase “quantitative easing,” it is Orwellian Doublespeak meaning running the printing presses with little restraint. As for “pump it in,” think of heroin injections. It must be confessed that piecing out what a hyperinflation might look like is as intensely distasteful as might be working with humanity’s sewage, but we promise we will try to do it as the future clarifies. It is crucial to avoid being stricken by fear like a deer in headlights because every challenge can be met, with intelligence, flexibility and, above all, in High States. We will do our best to lead you, even though bright eyes can indicate curiosity, and black eyes too much curiosity!

Newspapers are unable, seemingly, to discriminate between a bicycle accident and the collapse of civilization.

George Bernard Shaw, *Too True to be Good*

Is There Really a Currency Conspiracy? Does a Fire Burn Under the Ashes?

The best way to destroy the capitalist system is to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens.

John Maynard Keynes, in his interview, quoting Vladimir Lenin
(Founder of the Russian Communist Party and leader of the Russian
Revolution of 1917) in April 1919

There are conspiracy theories about many things, as even Hillary Clinton warned against “a vast right-wing conspiracy,” but *this chapter is strictly limited to currency conspiracies*.

We personally have never believed in currency conspiracy theories, but this book would be in the Low State of Incompletion without at least addressing the issue in the High State of Updating. Our disbelief was based on the logical inference that a conspiracy vast enough to cover currencies in many countries could not possibly have gone on for nearly a century without somebody, somewhere, sometime having disclosed it. After all, America could not even keep the secret of detonating the atom bomb from Russia for more than four years! However, if the world were always logical, men would ride sidesaddle. And women’s bikes!

Few subjects attract the label of “kook” more spontaneously than any *mention* of conspiracy theories, but that alone would not deter us inasmuch as many of our important discoveries have derived from defying being “politically correct.” In fact, when the intensity of opinion is so one-sided it attracts our curiosity to review what the taboo might be concealing. For example when we first recommended investing in gold, also uranium, they were the most-hated investment ideas on the planet, and we were met with astonishing negativity and hostility—yet both led to historic profit opportunities to those who bought their stocks. We pride ourselves on keeping an open mind in HOBJOB.

We recommended gold in *The Dines Letter* when it was actually illegal for Americans to invest in it, but we found a loophole: It was legal for *Dines Letter* subscribers to purchase gold-mining *shares* (although foreigners were allowed to buy both American gold and also gold-mining shares). Our Hard Money Movement at least successfully pioneered the legal purchases of South Africa’s Krugerrand, containing one ounce of gold. After it became an investment favorite worldwide, your defiant author was threatened with the closure of *The Dines Letter* by then-Attorney General of New York Louis Lefkowitz because he considered recommending gold “unpatriotic”; to its credit, the outraged Dow-Jones Company came to our defense and eventually all charges were repudiated by the courts. We are deeply grateful to Charles G Banino and Lawrence M McKenna of Wall Street’s Wormser, Kiley, Galef & Jacobs for their brilliant defense (and graciously moderate legal fees) because they believed in our honest-money cause and freedom of speech.

In preparation for this edition, the numerous re-readings of the “Odyssey” chapter (available in the unabridged version of *Goldbug!*) provided us with a sense of time and scope like a moving picture, and brought up in us many past wonderings as to how our politicians could have been so blind to what was so

evident to a mere newsletter. We had always figured that politicians were just misinformed, or disinterested in financial matters, so we stuck to the theory that one voice plus the truth is an army. Yet we were still unable to get the world back to sound currencies. We took this as a personal failure, although in recent years the awareness of the importance of gold in currencies is finally coming to the surface—not so much in America, but Russia, China and India are beginning to question the wisdom of holding so much of the backing for their own currencies in US government paper. While our numerous predictions of “The Coming Real-Estate Crash” have unfortunately come true, “The Coming Currency Upheavals” and “The Coming Gold Crisis” are yet ahead, so developments in the US dollar must be closely followed in the coming period.

*Then we pondered whether it might be possible to hide a conspiracy without having hidden it, a boldly provocative idea, but sometimes the best way to conceal something is to leave it in plain view! For example, we are morally outraged by how readily the Orwellian phrase “quantitative easing” of the money supply slipped past an uninformed public in 2009. “Easing” has come to mean printing more money while “tightening” describes a contraction in the money supply. “Quantitative easing” thus really means the *virtually unlimited printing of paper money that the phrase sugarcoats.**

We have long been against the existence of the Federal Reserve because we believed that interest rates should be allowed to float in the free and open marketplace rather than dictated by a group in a closed room, but at first we opposed the Fed only because it defended fixing the price of gold at \$35/oz. Is the Fed concealing a conspiracy? Let’s look at that with an open mind.

Not everybody is even aware that a “central bank” is just a government’s bank, and we have already covered how President Andrew Jackson got rid of the Second Bank of the United States back in 1833 because it was infested by “insiders” who were making deals hidden from the public. America’s central bank was later resurrected and it evolved into the Federal Reserve System. The Fed includes 12 regional Federal Reserve Banks and 25 branches throughout the country that operate under the leadership of the Board of Governors in Washington DC. According to the Fed’s website, the Reserve Banks are the bank for the US government and thus “assist with the Treasury’s cash management and investment activities.”

America’s Fed has a bewildering array of procedures, shuffling paper back and forth, rather than obviously printing money and letting the government spend it. The complexities are so dense that many of our leaders in Congress might be too intimidated to delve into it deeply.

But few are aware that the BIS (Bank for International Settlements) is the central banker’s banker for all the national central banks in the world. There it is, out in the open, in plain view, mentioned in the press occasionally, but about which very little is actually known. Imagine its power! If you want to hide something, place it in the eye of the sun.

Sometimes we put things together long after the fact, perceiving connections when we believed there were none. When we arrived on the scene the so-called “Bretton Woods” Agreement of 1944 had for decades been accepted as having confirmed the 1934 exchange rate of gold at \$35/oz, so we were against Bretton Woods. We also recall that there were currency conspiracy theorists who called Keynes a socialist and Harry Dexter White a communist, yet in those days many threw such epithets around and we required hard proof.

But something shook this author’s thinking to its very roots: **Soviet archives confirmed that Harry Dexter White was indeed spying for the Soviet Union while he was a primary participant in the Bretton Woods conference, the formation of the International Monetary Fund and the World Bank.**

Arguendo, with the collapse of the Soviet Union, and its confirmations of such a conspiracy, does that not mean it must be gone by now? Not so fast. If America was fooled once, who is to say that others are not carrying the torch? While White died in 1948, the people he had hired likely had similar views, including a hatred of gold, so it is now fair to ponder whether a Soviet plot to debauch America’s currency persists in the official hatred of gold-linked currencies. It is true that our initial rejection of currency conspiracy theories was based on the unlikelihood of it having been able to remain a secret all these years. We remain deeply skeptical that all of the legislators in America are involved in a giant betrayal, but legislators unwilling to defy the economics that they do not fully comprehend could conceivably be herded like sheep toward accepting whatever the Fed recommended, again hiding

something in the eye of the sun. *Wouldn't it be possible to have America's politicians unknowingly involved in it by ceding so much power to America's Federal Reserve, to which our gaze now turns?*

Sometimes we piece past events together such that they result in a moment of recognition, an "Aha! moment." We have often remarked in *The Dines Letter* how, when Fedhead Greenspan appeared before Congress, they became dodderingly sycophantic and pusillanimously craven, basically kowtowing to anything he said. Congress caught on to Fedhead Greenspan by 2008, after he had fallen from grace, but the Fed is still there, and Congresspeople remain awed and intimidated by the economic complexities put forth by his successors. The key thing to note is that the Fed kept much of what it was doing secret on the grounds of "independence from politics," a preposterous proposition as this book revealed the Fed as a frequent tool of the government. But might it be a clever way of fending off close examination of how trillions of dollars passing through the Fed's hands have been handled? While this is not a political book, it is fair to note that Congressman Ron Paul's Audit the Fed bill (HR1207), and its companion Senate bill (S604), have already drawn many Congressional co-sponsors, and we look forward to what comes of it. Democracy favors transparency and auditing the Fed seems overdue.

Tracing the machinations of the Fed through all its convolutions is beyond the scope of this book, however its basics can be found on the Fed's website. We nonetheless wondered who owns the Fed. Federal Reserve Banks are owned by member banks (commercial banks that have applied and been accepted to be members of the Federal Reserve System), with the largest member banks owning the most shares of the Federal Reserve Bank. We have not been able to find a list of member banks, but understand that the majority of the commercial banks in the US are *not* members. According to the Fed's website, "To be accepted as a member, an applicant must meet requirements set by the Board of Governors," but the requirements are not spelled out. **The fact remains that some banks own the banks that control America's interest rates that in turn control the economy and the stock market.**

At the top of the pyramid, is the Orwellian BIS (Bank for International Settlements) in Basel, Switzerland, which some currency conspiracists assert controls the center of the economic world, and **nobody knows exactly who owns it.** The BIS describes itself as the "central bank for central bankers," yet it shuns publicity.

We refer readers to the basic texts of the BIS that can be found on its web site, under the Legal Information tab (<http://www.bis.org/about/legal.htm>). **This bank in Basel has the most incredible powers, including inviolability of all papers and documents, immunity from jurisdiction and arrest, the right to use codes in official communications and to receive or send documents by couriers or diplomatic bags. It is not open to the public, protected by armed guards and somebody ought to call for an audit of the BIS also.**

Conclusion: Is there a conspiracy to debauch the US dollar, to bring America down and set up a new international currency? We're not smart enough to prove that, but **there appears to be enough prima facie evidence** to justify an honest, intense and impartial review by investigative journalists of this entire subject to dig out the truth once and for all. It is time to exhume the monetary middens to see which fetid relics might be buried there. Because inflation is the opium of the people, fiat money is the opium of the central bankers, Keynesian economics is the opium of the economist class.

We close this chapter with a shocking quote, published by Keynes in 1919, based on his interview of Vladimir Lenin in 1917. Keynes founded the modern currency system at Bretton Woods in 1944, along with Soviet spy Harry Dexter White:

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security but also at confidence in the equity of the existing distribution of wealth.

Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the

bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless, and the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. In the latter stages of the war all the belligerent governments practiced, from necessity or incompetence, what a Bolshevik might have done from design. Even now, when the war is over, most of them continue out of weakness the same malpractices. But further, the governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct on to a class known as “profiteers” the popular indignation against the more obvious consequences of their vicious methods.

These profiteers are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased stock or owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these governments are fast rendering impossible a continuance of the social and economic order of the 19th century. But they have no plan for replacing it.

The inflationism of the currency systems of Europe has proceeded to extraordinary lengths. The various belligerent governments, unable or too timid or too short-sighted to secure from loans or taxes the resources they required, have printed notes for the balance.

But while these currencies enjoy a precarious value abroad, they have never entirely lost, not even in Russia, their purchasing power at home. A sentiment of trust in the legal money of the state is so deeply implanted in the citizens of all countries that they cannot but believe that someday this money must recover a part at least of its former value. They do not apprehend that the real wealth, which this money might have stood for, has been dissipated once and for all. This sentiment is supported by the various legal regulations with which the governments endeavor to control internal prices, and so to preserve some purchasing power for their legal tender.

The effect on foreign trade of price-regulation and profiteer-hunting as cures for inflation is even worse. Whatever may be the case at home, the currency must soon reach its real level abroad, with the result that prices inside and outside the country lose their normal adjustment. The price of imported commodities, when converted at the current rate of exchange, is far in excess of the local price, so that many essential goods will not be imported at all by private agency, and must be provided by the government, which, in re-selling the goods below cost price, plunges thereby a little further into insolvency.

It is a hazardous enterprise for a merchant or a manufacturer to purchase with a foreign credit material for which, when he has imported it or manufactured it, he will receive currency in marks of a quite uncertain and possibly unrealizable value.

It may be the case, therefore, that a German merchant, careful of his future credit and reputation, who is actually offered a short-period credit in terms of sterling or dollars, may be reluctant and doubtful whether to accept it. He will owe sterling or dollars but he will sell his product for marks, and his power, when the time comes, to turn these marks into the currency in which he has to repay his debt is entirely problematic. Business loses its genuine character and becomes no better than a speculation in the exchanges, the fluctuations in which entirely obliterate the normal profits of commerce.

Thus the menace of inflationism described above is not merely a product of the war, of which peace begins the cure. It is a continuing phenomenon of which the end is not yet in sight.”

John Maynard Keynes, *The Economic Consequences of the Peace*, 1919

This Book's Most Radical Prediction

The problem with socialism is that you eventually run out of other people's money to spend.
Margaret Thatcher

While this book is about gold's impact on the world's economics, there is a larger picture. This century will be as different from the twentieth century as was the twentieth from the nineteenth. It would be in the mindless Low State of Assuming to avoid pondering on disjunctive events, the most prominent of which is what we have been calling "The Coming End of the Age of Jobs," initially predicted in our *Mass Psychology* book. We have for many years been predicting "The Coming Age of Robots" that will aggravate the diminishing need for everybody in the world to work, with a profound geopolitical impact. We Flashforward to a new kind of political system coming—neither capitalism nor communism. *The Dines Letter* has also pioneered a resurrection of presently disgraced Malthusian theories, as exponential population growth bumps up against the limitations of a finite planet, making raw materials increasingly precious and more geopolitical than functional. What we call the "Post-European Age" will see China, India, Africa, Latin America and Russia taking world leadership from America, just as America once seized the baton from Europe, and the impact of all the new demand for goods and services will be profound in this century. Our 1985 prediction of "The Coming Physical Immortality by 2005" might have already begun to come true with the Human Genome Project, and people living much longer will again use more raw materials. Any effort at mandatory birth control would collide with the world's religious beliefs. We must remain strictly neutral in these discussions, lest our personal feelings corrupt what we envision, keeping in mind Shakespeare's wish becoming father to the thought. For several decades we have been warning about "The Coming Great Religious Wars," and they are behind virtually every conflict in the world today, one organic whole we see as World War IV (with the 50-year Cold War as World War III). Its effects will reverberate through the world's history for centuries to come. Terrorism is a symptom rather than a cause. Resisting religious turmoil will activate DINOPA and CVFs (see *Mass Psychology* book). TPG (TDL's Political Gamut) will also have a powerful influence on the world, directing whether the government or the individual is to be more prominent in the new economic order. Mistakenly perceived as a "clash of civilizations," this is a clash of Islamic religions, and if we are alone in the world believing that, then so be it.

One of the most radical predictions in this book relates to China's reserves of an incomprehensibly large sum of \$2 trillion dollars, and still increasing. China is already pondering what to do with its dollars. America's spending is increasingly out of control, akin to maxing out a credit card, which understandably concerns China. China could sell its dollar hoard, but switch the proceeds into what? It already has enough euros and yen. Besides, the mere selling of China's dollars would crush the value of its remaining greenbacks, so China's savings are effectively trapped. China could buy things with its dollar stockpile, but there are limits, as its attempted purchase of a controlling block of a Rare Earth metal company in Australia was rejected by that government. China was also rebuffed when it tried to buy American oil company Unocal in Mar 2005. China could load up on commodities, such as copper and oil, always usable in the future, which bodes well for wealth-in-the-ground investments worldwide.

The bottom line is that China has enough money to buy out enough of the world's assets to end the world's free-market trading system, fulfilling our predictions of "The Coming Breakdown of Capitalism" leading to "The Big Kaput."

Certainly the current currency system cannot go on like this forever, if only because China already owns too many dollars and America just keeps printing more. The world's currencies are hurtling toward a brick wall based on the same simple mathematics we used to predict that the “immutable” fixed price of gold at \$35/oz would fail.

As we ponder how this situation might play out, we put ourselves in China's shoes and are immediately confronted with the challenge of *how to store wealth, and the nature of money*, the very subjects of this book, appropriately named *Goldbug!*.

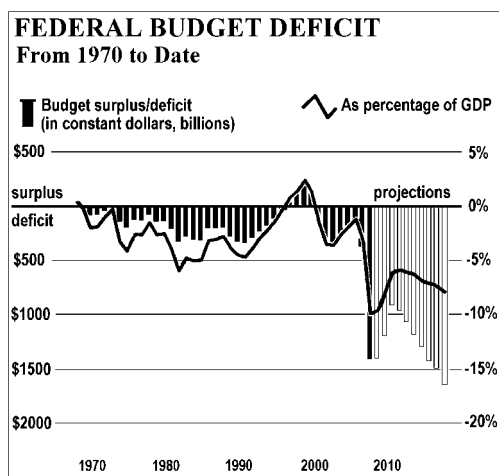
How did the world get to this nexus? China should never have been allowed to accumulate so much wealth in the first place. Had there been a link between gold and paper currency, an outflow of gold from America would have literally forced us to balance our budget. TDL did everything in its hopelessly limited power to prevent this currency crisis from happening, and is failing.

What will America do now? The same thing California did in 2009: slash expenses to meet income, and the hangover from the biggest currency binge in history will not be pleasant.

Personally, we predict that China will continue loading up on tangible commodities and mining stocks to control future production, and also as much real estate as the world would allow. As “The Original China Bug,” having blatantly predicted China would go capitalist starting in 1977, a prediction even now unfulfilled, we now Flashforward that nation morphing into a new phenomenon of seizing the world's “means of production” with dollars rather than by force of arms – a chimera inconceivable to Vladimir Lenin. By DINOPA.

Most important, China will probably eventually buy every ounce of gold (also silver, platinum, palladium and rhodium) it can cart off, sending precious metals prices to the stratosphere. Without a doubt, when the price of gold bursts higher, it will help save those who had held precious metals and their mining stocks. The political ramifications are profound.

If we are not here, then let the past be your guide to the future. Good luck.



Postscript – Gold’s Secrets Revealed!

I learned the secrets of gold late, and look back on my early unawareness of them with forehead-slapping dismay. Now, I simply must share what took me so many decades to have figured out. It was crucial to be comprehended by future generations forever, to sidestep the traps that could ensnare the unwary. Knowledge is always a primary key to survival.

The bottom insights of what we share with the world, are in this book. America’s current currency system was engineered in 1944 by a capitalist-hating John Maynard Keynes, and a communist agent – confirmed in Soviet files after it collapsed in 1991. Capitalism had been had in 1944, but didn’t know it yet. That is the truth. As a result of a dollar unrestrained by a link to gold, America’s debt is above an incomprehensibly large \$19-trillion, rising inexorably, out-of-control. Something will break. And after the ship has sunk, everybody will know how it might have been saved.

Gold is now around \$1,300/oz and silver \$18/oz. **Our final prediction:** silver is probably the world’s most undervalued asset. Silver’s price will rise to exceed the price of gold, and that will be near the final peak of them both.

I’ve done my part to Serve the world, and now it’s your turn to help by donating this book to anyone – politician, educator, loved one – who might help by spreading the truth of The Hard Money Movement.

James Dines,
19 October 2016
San Francisco

And Finally

A. “Nostradinesus”

1. **Prediction:** Robert M Bleiberg, Editorial, Barron’s, Dow-Jones Company, **14 Jan 1980:**

“Congressman Henry Reuss, (D, Wis), who, as we never tire of reminding readers, once predicted that if the Treasury ever stopped buying and selling at the fixed price of \$35 an ounce, bullion would plummet on the open market to around \$5. Next come those brilliant manipulators in the US Treasury, who shrewdly dumped the nation’s hoard of silver a decade and a half ago at 90-odd cents per ounce. Paul A Samuelson, noted economist and chrysophobe, once preached the virtues of 1-2% inflation per annum and, in a recent column in Newsweek, offered this brilliant insight: “Why does gold go up? Because it goes up! Why does gold go down? Because it does.” With the Dow-Jones Industrial Average closing at 867, the move came remarkably close to fulfilling a prediction made a decade ago by **James Dines**, who accurately bills himself as “The Original Goldbug,” namely, that someday the two would cross. Nobody believed him then and most observers still find it nearly impossible to credit, but last week the gap between the DJI and the gold quotation had never been smaller, Dines’ stature never greater. Old friend James Dines’ prediction – that the price of bullion would someday cross the Dow-Jones Industrial Average – begins to look like one of the most-fantastic investment calls on record.”

Here are more predictions; please note the dates:

2. **Prediction** *The Dines Letter*, **23 Aug 1996**, Page 11: “We are looking for the annual growth rate of the Consumer Price Index to come down toward the zero area. It will eventually go below -4%, believe it or not. Incredibly, we are headed for a deflation while the whole world looks for inflationary dangers. Easy Street can be a dead-end alley.”

Result: CPI annual growth rate dropped 61% from 2.73 in Aug 1996 to 1.07 in Nov 2008; prediction not yet fulfilled.

3. **Prediction** *The Dines Letter*, **18 Jan 2000**, Page 23: “Why will there be a bear market? All the mismanagement, excessive taxes, overextended margin accounts, bureaucratic meddling needs to get flushed away, along with the excessive debt based on overpriced real estate. There are “hiring” signs everywhere these days, and this generation, in its remarkably touching innocence, assumes it will always be thus – that anyone who wants to work would have work available, also unlimited overtime, but it will not always be so.”

Result: Massive unemployment in 2009.

4. **Prediction** *The Dines Letter*, **31 Mar 2000**, Page 2: “A KPMG International poll of college seniors found that 74% of those students expected to become millionaires – without a clue that a day might come when they might just be grateful for a job.”

Result: Headline: Loss of overtime pay hits some manufacturing workers very hard.

Wall Street Journal, 6 Mar 2001

5. **Prediction** *The Dines Letter*, **9 May 2001**, Page 7: “There hasn’t been a Natural Resources Sector Major bull market in over 30 years, so a whole generation of investors has no idea even what it might look like, but for some time we have noticed its possible beginnings. From our experience, one of its identifying characteristics is when *it is cheaper to buy a commodity in the open market than it is to produce it – a completely unnatural situation*. Thus it is that we observe with fascination the Uptrends in gold mining shares even while the industry begins to close down and the gold price is around \$260/oz. That gap between production and demand is being made up by the dumping of gold by governments who

are locked into the Mass folly that running the printing presses at any rate they deem appropriate will bring only good things. Later, all will look back to the world's frequent currency failures in recent years as what TDL has been calling "Vesuvian tremors," before "The Coming Currency Crisis," during which government bankers will scramble to repurchase gold at far higher prices than anyone alive today would believe possible."

Result: "European central banks cut their sales of gold. Some central banks that have sold gold are reviewing their position."
Financial Times (London), 29 Sep 2008

6. Prediction *The Dines Letter*, **16 Jan 2002**, Page 2: "We reflected back to our old five-faceted prediction that there would be: a) a great war for America (6 May 1988, page 2), b) To include what we called "The Coming Great Religious Wars" (23 Jul 1993, page 3), c) around the time of an important economic peak (23 Jul 1993, page 3), d) in central Asia near the Caspian Sea (8 Mar 1996, page 12), and e) that it would be an 'unpopular war' (18 Jan 2000, page 38). The first four parts of that prediction fit the present, except President Bush has an 86% approval rating, which makes us wonder whether or not now is the actual time of our prediction."

Result: "According to a 26–27 Sep, 2008 USA Today/Gallup poll, just 27% of Americans approve of the job George W Bush is doing as president, the lowest rating of his presidency. The low ratings throughout much of his second term have arguably been because of the unpopular war in Iraq."

Gallup, Inc, 30 Sep 2008

7. Prediction: The front page of our Annual Forecast Issue published on **17 Jan 2003**, included these features: "Problems that Could Cause a Market Plunge: Unemployment Rising; the Coming Governmental Bankruptcies; Failures of Financial Institutions; the Coming Competing Currency Devaluations; the Coming Deflation; the Coming Corporate Bankruptcies; Real Estate is the Final Bubble."

Result: It all came true five years later.

B. Future FlashForwards

1. "The Coming End of the Age of Jobs"

The end of the age of fear of animals was momentous, albeit underreported by humans at the time. Even now, regarding the toothy smile on a crocodile's face could induce us to imagine what our trembling ancestors must have endured. We no longer need to shiver around campfires in gloomy caves, as acquisition of weapons at last relieved humanity of fearing animal predators.

There have undoubtedly been other such monumental shifts as humanity developed, but the one ahead that nobody else seems to be noticing yet is "The Coming End of the Age of Jobs." As machines do more and more of our work there will not be enough jobs for everyone, so the shortage will not be an economic failure, especially considering "The Coming Age of Robots," of which cell phones are already the precursor. Some American leaders treat jobs as an abstract concept, as when they farcically print money to pay workers for jobs that free-enterprise does not deem worthwhile, and call it "job creation." Some politicians lament that "jobs are leaving America to go overseas," but a job is not a "thing" that human gods can create, when work can be done cheaper and better elsewhere. Jobs are the accessory of humans performing a needed action. Perhaps America has become like a middle-aged person who has "made it," and able either to work fewer hours or not as hard.

The author's shoe-repair shop employs an immigrant who has three full-time jobs, believe it or not. With the one at the shoe shop, he races to finish his eight-hour day's work in a mere four hours before speeding to his next two jobs! That kind of drive is what Americans are up against these days.

Whatever happened to America anyway, as parks are closed because there is not enough money for their often underpaid personnel? Capitalism – the very name of our system—is not taught in the schools, and students don't even know how to open a brokerage account. While American class sizes are doubling,

schools are closing, and too many American students hate math and scorn science, while China turns out engineers by the millions each year. Some countries don't even close schools in the summer; education has become just like a job in the workplace for them, 12 full months a year.

America has become the unpaid policeman of the world, paying with its own blood and money, even as China then buys Iraqi oil production and copper mines in Afghanistan, yet nobody seems to care.

Diminishing civility and political discord is reflected in the increasing number of police cameras tracking people, albeit not yet computers rationally regulating traffic lights. Who burgled away our privacy?

America has gun battles in the streets that use sophisticated weapons, even taking on law enforcement. Bombs are already going off in America, with increasing numbers of plots uncovered. There are once unheard-of crimes, such as carjackings, home invasions and elderly women actually being robbed and raped.

Religion was kicked out of schools, but not replaced with courses on ethics, morality and integrity. Perhaps that's a reason jails and prisons are so bursting at the seams that many courts are releasing prisoners because of "inhumane crowding," not to mention being unable to afford them. And people accept this as normal.

The so-called "war on drugs" has failed miserably and unwittingly provided financing for terrorism against America. There is increasing violence all over the world, nearly entirely from what for years we have been calling "The Coming Great Religious Wars," yet nobody else sees it as the organic whole of World War IV. Even now the 46-year-old Cold War is not realized as World War III, with World War V yet ahead. Science will bring us "The Coming Age of Physical Immortality," and the question of birth control will aggravate worldwide conflicts.

This just doesn't look like America anymore. Meanwhile, the government prints money like a madman and the people take this as nothing unusual, apparently not expecting consequences. Is it too late?

This decade already indicates that the entire century will be very different from the last one. A new geopolitical system is coming, but it is too soon to attempt to discern through the mists what might evolve. We Flashforward, though, that it might be neither capitalism nor communism. Perhaps everybody will be given basic food and shelter, with the option to take a scarce job to get more.

Aging itself is the long process of letting things go, even accepting that nothing will really change after we're gone. But there is at least the intellectual wonder about those yet to come enduring a terrifying descent into a totally new world, possessing quantum dimensions. Beyond hoping things might turn out better, one could only muse at what really is to become of the human race. What might be the ultimate fate of the human experiment?

2. Practical Advice

Mark Twain said "History doesn't repeat itself, but it does rhyme." Our longstanding prediction of "The Coming Great Deflation," (an echo of what we baptized "The **First** Great Depression" that trailed the 1929 Crash) will cause in this century what we named several decades ago "The **Second** Great Depression." Preparations must be made without delay. An inflation can be ruled out because, at this late stage, a deflation is a near certainty, and the only remaining question is whether there will be an intervening *hyperinflation*. It is too soon to be certain whether a deflation or hyperinflation will come next because it will depend on political decisions that have not yet been made, so preparations must be made for both.

It should be clear that the function of a hyperinflation is to wipe out impossibly large debts by means of soaring prices such that each unit of debt can buy less and less; in that case, one needs to avoid debt and cash. But there will come a time of deflation, possibly after a hyperinflation, at which time cash and gold will be very important to hold, because each unit of currency will buy more. *Hyperinflation or not, a deflation awaits the world*, but the likelihood of an ordinary inflation appears minuscule, believe it or not.

Holding precious metals will be a function of the above, albeit with additional layers of complexity due to political controls, such as whether governments seize gold, and what might happen to gold and

silver mines. Hopefully, this book has prepared you for making those decisions so as to safeguard your financial security as the future unfolds. Assets should be held in more than one country, especially by Americans, whose borders are already closing – purportedly to stop terrorists, drugs and illegals – thereby also *en passant* locking Americans in.

Make sure your brokerage accounts are “cash” and not “margin” because many brokers must segregate cash accounts from their own assets whereas margin accounts are allowed to “commingle.” In the event of a broker’s failure it might be a very important distinction as, when investors set up their brokerage accounts they sometimes unknowingly sign a margin agreement. We urge TDLrs to get written assurance from your broker that you have a cash, and not a margin account, for your legal file. What might bring brokers down? Massive forced liquidation of margin accounts, especially by funds private and public, or the public getting out of all mutual funds, switching the proceeds into government paper or precious metals. *Be clear that at the bottom of the current credit crash will be one of the great buying opportunities of a lifetime* so nurture buying power for it. Meanwhile, permanent accumulation of precious metal assets on the inevitable temporary declines seems wiser than ever.

The next crisis might be about the world’s currencies, during “The Coming Death of the Dollar.” Why? *Because suspicion toward a currency, once awakened, develops insomnia.* What if foreigners decide to massively dump their US dollars? Those holding unusually large amounts, such as China and Japan, would depress the dollar further if they triggered a stampede of selling. This brings to mind the adage that when you owe a small amount of money to a bank the bank owns you, but when you borrow a very large sum from a bank you own the bank.

We have for years warned about “derivatives,” which are poorly understood by the general press even now, but which are rumored to amount to a tummy-twisting \$800-trillion of pure risk. The most frightening aspects of derivatives are that nobody knows exactly who owes what to whom, there are no meaningful reserves to guarantee redemption and they are vulnerable to fraud. Unwinding that debt could deliver the final financial fiasco.

The world’s press defines “stagflation” as a “stagnant economy combined with inflation.” But America has joined what we predict will be a parade of other nations entering infressions” that we define as an “inflationary Depression transitioning to a deflation.” Looking back, the deflationary Depression TDL signaled for Japan in 1988 was merely the first “infression” (generally but erroneously labeled a “stagflation”) in the world. It was Japan’s punishment for having inflated the yen in the 1980s. All fiat currencies will eventually be doomed. The dollar is staggering toward collapse which would be a fulfillment of our long-warned “Big Kaput.” It won’t be funny and, for all anyone knows, the 2008 financial crisis might have begun its coda. The last one was almost it, in 1980, but America somehow muddled through it by running the printing presses. Thus, it is deeply challenging to know how to sure-footedly lead investors at a time when many assets are dropping and cash is vulnerable to a hyperinflation.

To head off a hyperinflation, the Fed has traditionally raised interest rates to trigger a recession that battered prices and wages back down. But raising interest rates during a deflationary Depression (shown in the chart of the DJI, adjusted for inflation, on page 8) might further devastate the real estate industry and send more financial institutions over the edge.

So what to do next? Above all, be cautious. “The Coming Currency Crisis” has yet to emerge into the Mass Consciousness, because it has been distracted by the credit crisis, and we all need to be clear that anything could happen. While each reader must always take responsibility for all final decisions, “wealth in the ground” (precious metals, uranium and Rare Earths) is beyond the reach of the government’s printing presses, but not the government’s laws, so acquiring gold and silver coins should also be considered.

A financial crash could negate all bets and blind Visual Indicators because of the intensity of stampeding Mass Fear and Mass Contagion, so please keep in mind that the 2008 calamity that devastated Wall Street is still at the epicenter of what could spread to wherever you are in the world. This is the time to try to maintain some of what we call “Attack Capital” snugly nurtured below deck while the storm rages outside. Again, keep in mind that the buying opportunity of a lifetime will be somewhere ahead, so focus on which areas might recover first.

SEVEN SAMPLE PREDICTIONS

The function of a depression is to return assets to their rightful owners. Who are those "rightful owners?" Those who end up with the assets!

1. Defying Wall Street enough to get himself fired, Mr. Dines first predicted that gold would rise from \$35/oz to "over \$400/oz," and silver from 92.5 cents/oz to "over \$20/oz," earning him the sobriquets of "The Original Goldbug" and "The Original Silverbug." In fact, they subsequently rose to \$850/oz and \$50/oz respectively.

His most recent prediction was to buy gold at \$288 and silver at \$4.55 on 25 Sep 2001, with targets of "at least \$2,626-\$4,375/oz," and "over \$100/oz" respectively. Gold and silver rose during the 2008 crash, and this book explains why, what to expect next, and how you might protect yourself from "The Coming Currency Crisis."

2. On 5 November 1980 Mr. Dines made another amazing prediction, for an end of inflation and the beginning of "The Coming Great Deflation." The word "deflation" was not taken as a serious possibility until 2008. Even now few believe that a deflation began back then, because the slow decline in the inflation rate was misunderstood as Fedhead Greenspan's "bringing inflation under control." Since 1980 the entire world has been in the grip of one of the great deflations of history, and this book will reveal either its continuation or transfiguration into a "hyperinflation," a word that has not even begun to be widely used yet. How you should protect yourself, what it might mean to your financial survival, how the world got here, so as to better understand where we might be heading, are the challenges that this book confronts with blunt honesty.
3. Mr. Dines flashed a "Major Sell" signal on the stock market on 20 Mar 2001, switching out of high-techs into raw materials, whose true trend will be revealed in a meaningful way between these covers. How might you profit from multi-year commodity boom driven by Malthusian shortages and hoarding?
4. Starting in 1977 Mr Dines predicted that China was a "major new economic force in the world that would result in the giant unchained," and that it would "dominate the 21st century," a prediction that is disbelieved even now. He is "The Original Chinabug."
5. On 6 May 1988 (page 2), The Dines Letter predicted: "An international wave of terrorism, and urban guerilla warfare hideous in its cruel randomness, will reach American shores." Another specific forecast, (on 8 Mar 1996, page 12) a war would erupt "In Central Asia, near the Caspian Sea," five years before the 9/11 attack on the World Trade Center and the war's outbreak in Afghanistan.
6. Mr. Dines repeatedly predicted since 14 Jan 05, on television and radio, that "The Coming Real-Estate Crash" will teach a lesson in illiquidity and shake the mortgage markets to its roots. His warnings about the banks have unfortunately come spectacularly true, but stocks will drop to the buying opportunity of a lifetime ahead, and this book might be able to help you recognize its advent.
7. Might gold and silver be the answer? If so, what should you do now?

Please donate this book after reading it, to anyone who might help to change the world!