

THE YELLOW BRICK ROAD OF GOLD, PEACE AND PROSPERITY

Professor Antal E. Fekete's paper, *The Marginal Productivity of Debt – Why Obama's Stimulus Package Is Doomed to Failure*, ends with the following paragraph:

Indeed, the financial and economic collapse of the last two years must be seen as part of the progressive disintegration of Western civilization that started with government sabotage of the gold standard early in the twentieth century. Ben Bernanke, who should have been fired by the new president on the day after Inauguration for his part in causing irreparable damage to the American republic may, in the end, have the honor to administer the coup de grâce to our civilization.

Professor Fekete's observation that Western civilization is disintegrating is true. The process was set in motion one century ago when Western governments abandoned the gold standard as they prepared to enter the First World War.

Wars are expensive and paper money is not. In the West, the history of paper money is inextricably bound with the financing of war; and, now, its cumulative costs and the cost of government are about to destroy paper money and the world paper money created.

The announced US stimulus of trillions of yet unprinted and unborrowed dollars will, in fact, administer the final *coup de grâce* to our present world, a world built on debt issued in the form of credit, a foundation as flimsy as the proverbial foundation of sand.

After "Helicopter Ben Bernanke", true to his threat, unleashes America's last and final flood of paper money, a stimulus akin to a junkie's final injection, the US economy already excessively burdened by debt and bloated by credit will collapse, as will the US dollar.

Ever since the Federal Reserve began issuing America's money in 1913, the US dollar has lost 95 % of its value; and, now, President Obama's stimulus package composed of trillions of dollars of more debt and more credit is about to destroy the remaining 5 %.

LONDON, G-20 & THE WICKED WIZARD OF OZ

After speaking at Professor Fekete's encore session of Gold Standard University Live in Hungary, Martha and I stopped in London where the G-20 summit was being hosted. It is an extraordinary city even in these uncertain times, times which will mark the end of central banking and the world it created.

We arrived on April 3rd the day after the G-20 protests and, again, we made a pilgrimage to the headquarters of the Bank of England, the cistern of credit-based paper money that fueled England's empire and its debt-based capital markets known as capitalism for three hundred years.

It was our 3rd visit to the Bank in eight months, our serial visits reflecting our fascination with an institution that has left an indelible mark on history, a mark that will someday be seen as a stain when the world created by paper money has finally collapsed.

In London, we attended the stage production of *Wicked*, Gregory Maguire’s wonderful revisionist retelling of Frank Baum’s *The Wizard of Oz*. After the G-20 summit—another similarly staged event designed to give the impression of global unity—*Wicked* is an apt metaphor for our times when as Maguire writes, “trust in government leadership is questioned more often than not”.



In 1900, when *The Wizard of Oz* was published, the free coinage of gold and silver was a hotly debated issue. It has been conjectured that “the yellow brick road” in *The Wizard of Oz* represents the gold standard, that *The Wizard of Oz* was a political allegory designed to address the pressing issues of the day.

From Wikipedia: *Political interpretations of The Wonderful Wizard of Oz*

...*Dorothy is swept away to a colorful land of unlimited resources that nevertheless has serious political problems. This utopia is ruled in part by wicked witches. Dorothy and her house are swept up by the tornado and upon landing in Oz, the house falls on the Wicked Witch of the East, destroying the tyrant and freeing the ordinary people--little people or Munchkins. The Witch had previously controlled the all-powerful silver slippers (which were changed to ruby in the 1939 film). The slippers will in the end liberate Dorothy but first she must walk in them down the golden yellow brick road, i.e. she must take silver down the path of gold, the path of free coinage. Following the road of gold leads eventually only to the Emerald City, which may symbolize the fraudulent world of greenback paper money that only pretends to have value, or may symbolize the greenback value that is placed on gold (and for silver, possibly).*

What Frank Baum and W. W. Denslow, the illustrator of *The Wizard of Oz*, could not have imagined in 1900 was the *greenback paper money that only pretends to have value* would in thirteen years be issued by a private central bank in America and paper money, not gold and silver, would someday become America's only currency.

In 1913, the Federal Reserve Act unconstitutionally transferred the power to issue America's money to a consortium of private banks called the Federal Reserve, a carbon copy of the Bank of England; and, ever since then, the destruction of America's independent economy and the economic enslavement of its citizenry would be only a matter of time, a time that has now arrived.

THE UNRAVELING OF PAPER MONEY GOLD AND THE CANCEROUS GROWTH OF DEBT

The use of paper money eventually destroys whoever succumbs to its promises, to wit *that you can spend more money than you actually have and that compounding debts accrued from today's expenditures can always be paid off tomorrow.*

Every experiment with paper money begins well and ends badly. In the beginning, excessive issuance of paper money gives a sense of economic security and expansion, albeit a security and expansion as false as the value of paper money itself. That this experiment lasted three hundred years did not mean it would last forever

Eventually over time, the issuance of more and more paper money sets in motion a final reckoning, a collective summation of previous monetary excesses, and the longer and more "successful" the issuance of paper money has been, the greater and more destructive the subsequent and inevitable final collapse will be.

This is where we are today. The central bank model based on the Bank of England spread not only to the US but to the rest of the world; and, as central banking spread, so, too, did its credit-based paper money which turns into debt.

Today, trillions of credit-based paper dollars have now replaced the billions which before had replaced millions. The issuance of paper money is infinite because its issuance is not constrained by anything of value; and, because infinitely expanding credit turns into infinitely compounding debt, trillions of dollars of debt are now defaulting and collapsing upon us as the global economy slows.

THE DISSASSEMBLING OF THE YELLOW BRICK ROAD

The process was set in motion when the world went off the gold standard before World War I. Only in the absence of what was before do certain consequences become known. In 1900 it was not foreseen that unsustainable levels of debt would result from abandoning the gold standard. Nevertheless, one hundred years later, the unforeseen has now become the clearly apparent

In the future, who won the great conflicts of the 20th century will be only a footnote in history's ledgers; because, in the end, all of us will be buried deep beneath an avalanche of debt caused by the sabotage of the gold standard.

In the 20th century, the absence of the gold standard and the creation of fiat paper money allowed governments to spend vast sums of money they did not possess. Central bank paper money gave governments the means to expand military and, eventually, social programs with complete disregard for fiscal limitations, leading to the extraordinary growth of government and government debt in the process.

During the 20th century, central bankers' credit-based paper money indebted not only governments but businesses, investors, families and workers; and, now, all sectors of society, find themselves being bankrupted in an increasingly crowded global poorhouse.

Gold was the single constraint on the growth of paper money which is why bankers and government conspired to sabotage the gold standard. Both benefited from the ability to issue paper money and spend what did not exist. Everyone, however, will now lose because of what bankers and governments have done.

FROM CRISIS TO COLLAPSE

The breakdown of the monetary system began with the abandonment of the gold standard. The next critical step, however, happened in 1973 when the US announced that the US dollar, the world reserve currency, would no longer be backed by and/or convertible to gold.

This had never before happened. World reserve currencies had always been convertible to gold or silver and because all currencies under the 1944 Bretton-Woods Agreement were tied to the US dollar, when the US dollar became fiat in 1973, so, too, did all currencies.

When the US dollar lost all intrinsic value, the global monetary system was fatally wounded. Money functions both as a store of value and as a unit of exchange; and, when money no longer serves both functions, ultimately, in time, it will serve neither.

When that day comes, when paper money can no longer be trusted as a unit of exchange, global trade and the global monetary system will collapse. When that will happen is not known, but that it will happen is certain.

CHINA'S REOCCURRING CURRENCY CONUNDRUM

If a country's history is as long as China's, the odds of history repeating itself are commensurately greater. The dilemma China is currently facing with the US paper dollar happened before with England and the Bank of England's paper notes in the 19th century.

From Wikipedia, *Opium Wars*:

Low Chinese demand for European goods, and high European demand for Chinese goods, including tea, silk, and porcelain, forced European merchants to purchase these goods with

silver, the only commodity the Chinese would accept. From the mid-17th century around 28 million kilograms of silver was imported to China. This was not a viable long term trading dynamic. Britain had been using the gold standard from the mid 18th Century and therefore had to purchase silver from other European countries.

In the 18th century, despite ardent protest from the Qing government, British traders began importing opium from India. Because of its strong mass appeal and addictive nature, opium was an effective solution to the trade problem. An instant consumer market for the drug was secured, and the flow of silver into China that had threatened to cripple British and other European economies was reversed. Recognizing the growing number of addicts, the Yongzheng Emperor prohibited the sale and smoking of opium in 1729, and only allowed a small amount of opium imports for medicinal purposes.

It was the refusal of China to accept England's paper money that caused England to go to war with China. The Opium Wars (1839-1842, 1856-1860) were fought to force China to accept British opium so England could balance its trade deficit without buying additional silver.

Now, in the 21st century, China is facing the same dilemma with another Western power, the US. China is again confronted with the problem of selling its goods to the West in return for the West's questionable paper script.

In truth, China has greatly benefited from the bubble-driven US economy and its fiat paper dollar. But those benefits are not without considerable risks because the paper money China has accepted may soon lose its value.

Prior to 1971, China could have exchanged its excess US dollars for gold when the US dollar was convertible to gold. Now, in 2009, it cannot do so. Today, the East and West are joined in an increasingly fragile world held together by credit, debt, paper money and distrust

REBUILDING THE YELLOW BRICK ROAD

While President Obama's fiscal stimulus will direct some funds to the rebuilding of America's aging infrastructure, unfortunately none will go to fixing the real cause of the problem, *to wit* rebuilding the yellow brick road, i.e. reinstating the gold standard, whose dismantling is directly responsible for the present crisis.

Because the power and wealth of private bankers and public government derives from the ability to issue credit and spend money that does not, in fact, exist, we cannot expect a solution to be implemented by those benefiting from the present situation.

Power and money are not easily come by and neither bankers nor politicians will willingly relinquish the source of their fraudulent and considerable power, no matter how destructive the consequences are to others.

This is why the rising price of gold is opposed by central banks. Governments and central banks are colluding to extend the life span of their faltering institutions by furthering the illusion that

government IOUs, i.e. paper money, printed in exponentially increasing numbers are, in fact, valuable like gold and silver.

The advantage offered to those invested in paper assets, e.g. cash, stocks, bonds, etc., is the possibility of paper returns in paper based markets. When such returns prove increasingly illusory as markets collapse, the flight from paper money will begin and the demand for gold and silver will explode

This is what governments and bankers fear. Unfortunately for them and fortunately for us, the efforts of bankers and politicians to extend their own power at the expense of others will soon end. Soon, like the rest of us, they will be only concerned with saving themselves.

THE END OF AN ERA

We are in an unprecedented situation in unprecedented times. The process of monetary debasement has now entered the realm of the unimaginable as a result of President Obama's historic multi-trillion dollar fiscal stimulus, a stimulus requiring the printing of so much money it will make obvious the fact that fiat money has no value at all.

Needed change will come, but not until an economic collapse has destroyed the system by which government and bankers prey on society. Today, government leadership is an oxymoron designed to perpetuate the present system under the guise of change or any other buzzword that will give those in power continued access to the government trough

This era, as with all such eras, according to Professor David Hackett Fisher (*The Great Wave: Price Revolutions and the Rhythm of History*, 2000, Oxford University Press), will end in economic collapse; and, out of that collapse, another era will rise.

Attachment to the past in such times is reflexive and dangerous; and, attachment to the foundation of that era, i.e. paper money and credit, is the most dangerous of all. The old is being swept away and all those attached to its foundation will be swept away as well.

GOLD'S EVENTUAL ASCENT

Whereas communism mistakenly believed the state could create sustainable economic prosperity, capitalism made the mistake of believing credit-based paper money could do the same. These are two of the great lessons of this age.

Between the two ideologies, capitalism was closer to the truth, for human endeavor and human desire are the basis of economic prosperity and capitalism fueled and indebted both in order to profit. For three hundred years, the banker's gambit worked. It does no longer.

Only after debt-based capital markets have collapsed and paper currencies are worthless will another more equitable and sustainable model emerge. Then, it will not be a choice between central bank credit-based paper money and gold and silver. In the end, only gold and silver will be left.

We are in the end days of paper's fraudulent reign. A behemoth fed by credit but now fettered by debt, its days are numbered. But those who created the beast will not give up easily. They will be forced to do so.

In the end, the markets will have their way; and, instead of government plunge protection teams and central banks colluding with investment banks manipulating markets higher and gold and silver lower, the towering and faltering edifice of debt will collapse on all who invested in paper assets. In the dust of that collapse, gold and silver will triumph.

Then and at long last, Dorothy in her silver slippers will follow the yellow brick road back home to an eventually more peaceful, free and prosperous world.

Buy gold, buy silver, have faith.

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