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# THE HERBST NEWSLETTER

astrological-cultural-spiritual-political views & opinions

— Thoughts, dates, and reminders about our lives as members of the craziest species on this lovely planet. Like a message in a bottle washing up on the sandy shores of consciousness —

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Dear friends,

This month I take a look at the next phase of the economic breakdown that is driving us toward a necessary reassessment of how humans live on the earth. The time frame of this commentary is 2010-2012. A three-year span is less than precise, but that's as close as I can get right now right now, given the many uncertainties in the archetype field.

--Bill Herbst

## Commentary: **Gold and Silver**

Fiat money — which is to say, paper currency backed by nothing of value but the printing government's promise of its worth — is doomed to depreciate finally to zero. To maintain the value of printed paper money, it needs to be supported or guaranteed by some more tangible commodity that is valuable, scarce, and durable. Precious metals comprise one category of such value, with gold being the historical favorite.

In 1933, as part of his New Deal response to the Great Depression, President Franklin Roosevelt ordered confiscation of all the privately-held gold in the U.S., which was afterwards stored "permanently" in Fort Knox. One year later, the value of gold was fixed at \$35.00 per ounce.

In 1944, the Bretton Woods Conference of Allied bankers and financiers set up a system of rules and procedures, with accompanying institutions (such as the International Monetary Fund) to govern post-World War II international commerce and global finance, based on tight regulation of gold convertibility. That system ended in 1971, when President Richard Nixon took America off the gold standard. From that point on, paper money — now called Federal Reserve Notes — was free to float in value with market fluctuations, as was gold.

By taking us off the gold standard and nullifying Bretton Woods, the plan of the elites on Wall Street was to make the American dollar the world's "reserve

currency," the standard against which every other national currency would be measured. International transactions between nation-states would then be conducted in dollars. This scheme forced the world to cooperate in funding America's negative balance of trade by requiring payment to be taken in dollars.

What made this transparent swindle possible was America's pre-eminent position as the world's dominant economic and military superpower. Like the Godfather, we were essentially making all other countries "an offer they couldn't refuse."

From that point on, the wealthy elites who run Wall Street and the Banks began to feel themselves "The Masters of the Universe." They could do whatever crazy crap they dreamt up. (The Savings and Loan scandal of the late-1980s proved that they could even screw up massively and get away with it.)

By lobbying a Congress they now effectively owned, megacorporations could remove any constraints against their own interests in business through the ideological mantra of deregulation (akin to letting the wolves guard the hen house), which included offloading all externalizable costs onto the public and ending proscriptions against usury. With these and countless other rubber-stamped laws, the greatest upward transfer of wealth ever seen in history was achieved. These corporate hacks make 19th-century Gilded Age Robber Barons look like pikers by comparison. Never before have so few taken so much from so many. Since Ronald Reagan's Morning in America, the rich have effectively looted the country, jettisoning the middle and lower classes to fend for themselves.

But of course, whom the gods destroy they first make mad. When Wall Street and the Bankers invented private hedge funds and derivatives and went loony-tunes selling sliced-and-diced packages of toxic mortgage debt during the real estate bubble, they poisoned the well, thus setting up their own downfall.

In 2008, we witnessed the spontaneous implosion of an entire class of investment banks, marking the first phase of a financial meltdown that will eventually fester into the broadest, most far-reaching and serious economic collapse the world has ever seen. The wealthy elites are still getting away with murder, however, because they have actually prospered with subsequent government bailouts paid by, well, no one yet, since the bailout trillions are all borrowed, but eventually billed to you, me, our children, and their children's children. (In actual fact, no one will ever pay back those debts. The Fed will simply allow currency to depreciate and then repay debts with dollars worth a mere fraction of their former value...)

How will the next phase of the economic breakdown manifest? No one knows for sure, but it's a safe bet that an accurate barometer will be the two classic precious metals.

### **Enter Gold and Silver**

From the day that gold decoupled from the U.S. dollar back in 1971, gold's price increased while the dollar's value shrank. Throughout history, every unsupported fiat currency eventually depreciates to death. Gold, however, holds its value

through thick and thin, and does so century after century. The same number of gold grams that bought a tailor-made suit of clothes in 1850 will buy a similar quality suit of clothes today.

Throughout the 1970s, the price of gold (in dollars) gradually but steadily rose. When stagflation hit late that decade, gold went bonkers, arcing up to a peak of \$850 an ounce for one day in 1980. Silver, with some help from the Hunt brothers, went along for the rollercoaster ride as well, reaching a high of \$54 per ounce. When the parabolic mania curve collapsed and the dust finally settled, gold was about \$200 per ounce, while an ounce of silver bottomed around \$10.

At that point, the U.S. government, the Federal Reserve, and the Wall Street Bankers all secretly declared war on gold and silver. Why? Since gold and silver are inversely valued to the dollar, keeping the price of gold and silver suppressed helps maintain support for and faith in the dollar's value. The world is thus reassured, and the dollar lives another day.

Suppression of gold and silver prices is achieved by shorting on a massive scale in their respective futures markets. This is done by at least two major U.S. banks, most likely J.P. Morgan and Goldman Sachs, which are quite probably directed in the timing and extent of their shorting by the Big Daddy Federal Reserve. So much for free and transparent markets.

One might think that such hidden collusion and (dare I say the word?) *conspiracy* on the part of the ruling elites to defraud investors would provoke at least some public outcry. Apparently not. In part, this is due to an equally conspiratorial effort at denial and negative propaganda by the Securities and Exchange Commission (official watchdogs for financial legalities) and also by the mainstream financial media. The SEC hasn't flatly denied all evidence of price manipulation, but it has remained largely silent and inactive in response to allegations of price suppression. Meanwhile, the media pundits mock "gold bugs" and savage "silver freaks" as if precious metals investors were idiots or fools. Every year, predictions abound of how the "bubble" of gold and silver prices is bound to burst soon.

Despite this concerted and sustained institutional undermining, gold and silver began another, even longer bull market in 2000, and have been climbing in price ever since. Even the financial crisis of 2008 managed only to temporarily slow the upward march. As of this month, Gold has charged through \$1200 per ounce, while silver is keeping pace, fast approaching \$20 an ounce.

In addition, the global financial landscape has shifted in profound ways that signal happy days ahead for gold and silver and equally dark days to come for the U.S. dollar. The so-called BRIC alliance — the huge and emerging economies of Brazil, Russia, India, and China — has formally decided to gradually phase out of U.S. Treasuries, effectively foreshadowing the dumping of their gargantuan holdings in U.S. dollars. Simultaneously, these same 800-lb. gorillas have begun accumulating gold and silver, which presages a possible end to fiat money and a return to gold- or silver-backed currency certificates. China has even gone so far as to urge her 1.3 billion citizens to buy and hold silver.

Though not headline news, these are astonishing developments, and bad news for the U.S. Like twin daggers aimed at our heart, they signal the serious intention and full capability of the BRIC economic powers to de-throne the U.S. from our former position of fiscal pre-eminence. Though our economy is still the largest in the world, it won't be for too much longer, as China flexes its muscles and flashes its wealth. America's day in the sun will be over.

Evidence that this transition is underway will come from the rising prices of gold and silver. Before, when buying pressure from investors looking for a safe haven pushed gold and silver prices higher, the big bank shorters came in and knocked the price back down. Now, however, when the shorts create artificial dips in price, the BRIC countries step in to buy up the temporary bargains. Previous downturns in price that took many months to overcome take mere days and provide a floor of support for increasing prices, which attract more investors.

At some point, the shorts will capitulate; their strategy will be permanently defeated. Then it will be off to the races as gold and silver prices increase in volatility and suddenly head for the stratosphere as the weakening dollar moves ever closer to collapse. Somewhere over the next couple years, odds are very high of a frenzied buying mania where investors will pay anything for dwindling gold reserves is extremely high, and even higher for silver, which has industrial as well as monetary uses.

What will happen after that is beyond the scope of this commentary and far past my limited knowledge. I can say that it will be difficult for all concerned.

At the individual level, what do you do if you bought gold at \$700/oz. and it spikes to \$6,000/oz.? Do you sell your gold bullion or coins for nearly worthless dollars? In other words, what exactly do you trade your precious metals for??? Gold or silver mania may be followed by currency collapses around the world, and a period of nauseating turbulence and financial trauma could ensue.

Collectively, America will not take well to being yanked off center-stage. Our economy is already a shambles, we are effectively bankrupt, and third-world status could await. Our huge military might dangerously increase the possibility of resource wars. Curiously, our removal from the throne could prove to be our salvation by freeing us from some of our own worst impulses. Time will tell on that.

Nor will China have an easy time assuming the mantle as ruler of the world. Uneasy will be whichever head wears that crown. Debt-based economies requiring endless growth are already dinosaurs whose time has past. Scaling back and powering down to achieve true sustainability in the face of declining fossil fuels and the domino-like collapse of gargantuan institutions unable to adapt are still a ways off. With these too, time will tell.

But never mind. In a perversely comic twist on one of my favorite homilies, *"We will burn those bridges when we come to them."* (If that punch line doesn't elicit at least a smile, you have no sense of cosmic irony.)

In the meantime, watch the prices of gold and silver. They may correct and back down in the short-term, but in the longer run of years they are headed up, up, and away. When they eventually spike, we enter the next phase of the great transition to end one world and begin another.

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