The Big Reset

REVISED EDITION

Willem Middelkoop

War on Gold and the Financial Endgame

AUP

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'Revised and substantially enlarged edition'

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Cover design: Studio Ron van Roon, Amsterdam
Photo author: Corbino
Lay-out: Crius Group, Hulshout

Amsterdam University Press English-language titles are distributed in the US and Canada by the University of Chicago Press.

ISBN 978 94 6298 027 3
e-ISBN 978 90 4852 950 6 (pdf)
e-ISBN 978 90 4852 951 3 (ePub)
NUR 781

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To Moos and Misha

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

– Alan Greenspan, former Chairman of the Federal Reserve (1966)

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Prologue

One year before the fall of Lehman Brothers, my first book was published in the Netherlands (*Als de dollar valt – If the Dollar Collapses,* 2007). After studying the financial system for over ten years, I had come to the conclusion that a collapse of the unstable global financial system – and its mountain of debt – was 'only a matter of time'. After the house of cards collapsed just one year later, my life changed dramatically. Within a short period of time, I became a well-known personality in the Netherlands. I decided to quit my job as market commentator for the business channel *RTL Z* in order to focus on business opportunities arising from the new economic reality. I believed this new reality would entice investors to look seriously at investing in hard assets, especially gold and silver. We have seen precedents of this in every crisis for the last 300 years. I subsequently started a web shop for gold and silver bullion (AmsterdamGold.com) and set up a commodity fund (Commodity Discovery Fund). AmsterdamGold was sold to the listed Value8 in the summer of 2011, after yearly sales reached 100 million euros. In the same period, three more of my books became bestsellers. None of them were ever translated into English.

This book combines information from all previous books with an additional chapter on the expected Big Reset for the current worldwide monetary system. The book tells the story of a mostly hidden world of money and gold which I hope will also be of interest to a larger, international public. This revised edition contains an extra 30.000 words analyzing the latest developments, since the first print early 2014.

Introduction

Before World War I, almost all major currencies were backed by gold. This was the era of the gold standard. The money supply was restricted to the growth of the gold supply. As European countries needed to create money in order to finance the high costs of the war, most were forced to abandon the gold standard in the 1910s. The gold standard was replaced by a fiat money system in most countries, although silver coins were still being used in most European countries until the 1980s.

Unlike fiat money, gold has always maintained its purchasing power. An old Roman aureus gold coin of just eight grams still buys you a few hundred liters of cheap wine, just as it did 2,000 years ago. That is why gold has been used again and again to stabilize fiat money systems during monetary resets in the past.

The gold price is like a barometer: a rise in the price acts as a warning to investors that something is wrong with their currency. Often it is a sign that bankers are creating too much money. Since the US took the dollar off the gold standard in 1971, gold has become financial enemy #1 of Wall Street and the White House. This is because the price of gold acts like a canary in the coal mine by pointing to a decline in the value of the dollar.

This book provides all the evidence needed in support of the claim that a secret war on gold (Chapter 4) has been fought by the US and other central bankers at least since the 1960s, when the dollar system came under pressure for the first time since its inception at the end of World War II.

Nowadays even the Swiss franc is no longer a safe currency. The Swiss Central Bank decreed in 2012 that its currency would be pegged to the euro to stem a further rise in value, which was considered harmful to Swiss tourism and exports. This is just one example of the currency wars that have been fought since the collapse of Lehman Brothers in 2008. More and more countries have been trying to debase their currencies to support their exports.

To combat the economic fallout caused by the credit crisis, countries have allowed their fiscal deficits to increase dramatically. In order to pay the bills, governments had to sell enormous amounts of bonds. As more and more investors stopped buying these government bonds, central banks needed to step up to the plate. By turning on the (digital) printing presses, they have been buying up bad debts and government bonds to a total of $ 10 trillion ($ 10,000 billion) worldwide, between 2008 and 2013. Economists describe this process as the monetization of debt by central banks. Economic textbooks refer to this process as 'the nuclear option' – only to be used when no other method of financing can be applied effectively. This is a process that is easy to start but almost impossible to stop.

Universities worldwide still promote the ideas of the Chicago School of Economics. The tenet of the Chicago School is based on the creation of fiat money by central banks in collaboration with private banks. Students today still use the same economics textbooks with outdated models based on efficient markets, just as they did before the crisis. That is why a majority of economists, journalists and business executives still do not fully understand the role of money in our economy.

I am not handicapped by a degree in economics, and I have always used my common sense to understand the principles of money. I have long learned to fall back on books about money and financial crises that are written by historians. The current crisis – which could have been predicted on the basis of roughly 6,000 years of the documented history of money – contradicts the Keynesian doctrine of creating money out of thin air. Fiat money systems have been put to the test more than 200 times, and they have all failed in the end. The likelihood of failure should now be considered a statistical certainty rather than a theoretical improbability.

At some point, politicians will start to understand that only a major change – a big reset, as I call it – in our global monetary system can save it. This realization will probably occur around the time that they are no longer able to refinance their mountains of debt.

This book explains why piling more and more debt onto the balance sheets of central banks is not a sustainable way of helping our economies recover. But policymakers will always choose a possible economic death in the future over a nigh certain economic death now. This demonstrates the inadequacy of our system, which focuses on treating the symptoms while ignoring the actual illness. The system is like a terminal patient who can only hope for a few more years of survival. Only by administering a cocktail of the strongest medicines can the patient stay alive. He will never be as strong as before, but by ever-increasing visits to the medicine cabinet he is able to delay the inevitable for a little while longer.

Central bankers and politicians are merely buying time, hoping to prolong the endgame phase of our global financial system as it exists today. But there are those who have secretly started to prepare for the big reset that is needed to bring this financial system to the next level. A similar reset took place with the start of the dollar system in 1944. It is my belief that, well before 2020, the global financial system will need to be rebooted to a new paradigm in which gold will play a larger role, the dollar will lose its status as the sole reserve currency, and countries like China will be much more powerful.

I would like to end by thanking Amsterdam University Press (AUP) and The University of Chicago Press for publishing this book, which is so critical of the 'Chicago School of Economics'. A special thanks to Ebisse Rouw (AUP) who started it all. I also would like to praise my (research) assistants Dick van Antwerpen en Kevin Benning who helped me to dig up some wonderful details. Gioia Marini did a great job in editing the manuscript. The cover design shows Ron van Roon is a real artist. And a special thanks to my wife Brechtje Rood who was responsible for the infographics in this book and who supported me in every way during this stressful year. Finally, I thank you for taking the time to read it.

Willem Middelkoop, Amsterdam, January 2014

Chapter 1 – The History of Money

The few who understand the (money) system will either be so interested from its profits, or so dependent on its favors, that there will be no opposition from that class.

– Rothschild Brothers of London, (1773-1855)

When you or I write a check there must be sufficient funds in out account to cover the check, but when the Federal Reserve writes a check there is no bank deposit on which that check is drawn. When the Federal Reserve writes a check, it is creating money.

– From *Putting It Simply* by the Boston Federal Reserve Bank (1984)

There's no limit to central bank expanding its balance sheet in theory.

– Dennis Lockhart, Chairman of the board of the Federal Reserve Bank of Atlanta (2012)

Inflation is a more fundamental danger than speculative investment. Some countries seem to be in the unusual situation where they are trying to create inflation. They will come to regret that.

– Paul Volcker (2013)

The old saying is that 'figures will not lie,' but a new saying is 'liars will figure.' It is our duty, as practical statisticians, to prevent the liar from figuring; in other words, to prevent him from perverting the truth, in the interest of some theory he wishes to establish.

– Carroll D. Wright, statistician addressing the Convention of Commissioners of Bureaus of Statistics of Labor (1889)

INTRO

Although we talk about money on a daily basis and most of us work hard for it, few stop to reflect on what money actually is and what it means. Even people working in the world of finance often do not comprehend what money is all about. The fact that money is created out of thin air and in the form of credit is quite difficult to understand. This important little secret is not taught at most schools and is actually only understood by a confined group of financial insiders. This is not necessarily a bad thing. According to Henry Ford, the famous car manufacturer, a revolution would break out before dawn if people got wind of how our money system really works.

1. What is the origin of money?

Ten thousand years ago, money in the form that we know it, did not exist. A simple community consuming merely a few varieties of food and materials, did not need a trading system. However, as soon as society began to develop, the demand arose for a more complex trading system. What developed out of this demand was a system of barter and exchange and even credit. Desired products that were relatively stable in value, like cattle and dried meat, were used more and more frequently as a method of payment.

Bartering is still the most elementary system of trade. In times of crisis, this form of commerce is frequently re-introduced. Towards the end of World War II, cigarettes were a much-used means of barter on the devastated European continent. In effect, cigarettes were transformed from consumption goods into 'preferred goods with the function of money', in economist speak.[1] In Argentina in 2001, when foreign powers refused to lend money to the country anymore and the national financial system collapsed, bartering emerged within 24 hours. And as recently as 2013, Iran delivered oil to China and India in exchange for gold.[2] Iran was forced to barter due to an economic boycott by the US and the EU which had shut Iran out of the international SWIFT payment system from 2012 to 2013, preventing the country from carrying out international payments.

Bartering has many disadvantages. There is not always a constant need for certain products, and perishable goods are unstable in value.

Large, round Rai-stones were used as a means of exchange (money) approximately 600 years ago on the Micronesian island of Yap. The biggest Rai that was ever found was three metres in diameter and weighed 4,000 kilograms. The stones were rare

1 Extensively described by R. A. Radford in 'The Economic Organization of a Prisoner of War Camp', Economica, Year 12, nr. 48, 1945, p. 189-201.

2 http://www.bbc.co.uk/news/business-17203132

because they had to be brought from the islands of Palau, which lie 400 kilometres away. Transporting the stones brought great risks with it. Up to this very day, the stones are valid as a form of barter. Other much-used means of exchange were shells (China) and grain (Mesopotamia, Babylon and Egypt).

2. How did gold become money?

Obviously, it is possible for some goods to act as money. These goods do need to have certain characteristics: they have to be easily divisible, portable, imperishable and scarce. But if you wish to exchange, calculate and save it – three functions that are essential in an efficient society – then money has a good deal of important advantages over valuable goods.

Since 700 B.C., the peoples of almost all cultures – Mayans, Incas, Egyptians, Greeks, Romans, Byzantines, Ottomans and Arabs – have considered gold and silver to be a valuable means of exchange. And because of their unique characteristics, scarcity and attraction, these precious metals have formed the basis of monetary systems around the world for thousands of years.

Apart from being divisible, portable, enduring and scarce, precious metals are enormously desirable. Whether that is due to their shine or weight (gold weighs almost twice as much as lead), people all over the world feel attracted to gold and silver. In addition, gold and silver are impossible to copy. Out of the entire periodic table of elements, gold and silver are the most suitable as a means of payment.

Precious metals also turn out to be perfect stores of value. Proof of the fact that gold has around the same value as 2,000 years ago can be found in the Museum of London. On display is a Roman *aureus* coin, which contains eight grams of 22-carat (90%) gold. According to the details printed next to it, one *aureus* could buy some 400 liters of cheap wine. At 2011 prices, eight grams of 22-carat gold is worth roughly 400 euros. When bought in small cartons at French wine houses, one can still buy wine for around one euro per liter. The demand for gold and silver is infinite and eternal.

3. When did coins come into existence?

The first form of coined money can be dated back to China. Around the same time, coins appeared in the West and in India. The Chinese coins were minted from various metals, including copper and bronze. The coins were made under strict supervision by the government in order to guarantee uniformity. Since the Chinese made their coins from base metals, their money had a low intrinsic value.[3] It is for this reason that a hole was bored into the middle of the coin so that a large number of coins could be transported on a string. Chinese money had low production costs but had the disadvantage that it was easy to replicate.

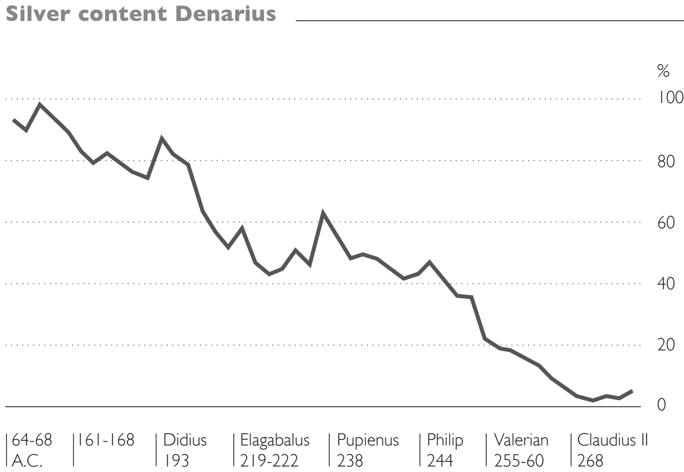
The first Western coins originated in Lydia, in today's western Turkey, around 650 B.C. They were made from electrum, a natural alloy of gold and silver. Thanks to the invention of a standard by which the purity of gold and silver could be established, the coins were quickly split into gold and silver variants. Because gold is about fifteen times more rare, silver was used for coins with a low nominal value.[4]

Alexander the Great, Julius Caesar and Emperor Augustus all built their empires around a monetary system based on gold. Maintaining the value of one's currency was key to keeping power. Soldiers were kept happy by regular payments of wages in gold and silver coins. Whenever the value of the currency was undermined, the empire came under pressure. There are strong indications that the Roman Empire fell because the Roman currency was debased. Following the demise of significant sources of income, the most important Roman coin fell considerably in value between 238 A.D. and 274 A.D. due to the silver content

3 The intrinsic value of a coin is determined by the value of the metal with which the coin is made. http://www.investorwords.com/2587/intrinsic_value.html

4 The nominal value refers to the value that is shown on the coin.

being continually reduced.[5] It is no coincidence that an economic crisis then ensued.[6]



5 http://www.tulane.edu/~august/handouts/601cprin.htm

6 'The Crisis of the Third Century (234–284 A.D.)', http://en.wikipedia.org/wiki/Decline_of_the_Roman_Empire. http://en.wikipedia.org/wiki/Crisis_of_the_Third_Century.

4. A short history of monetary gold

After the fall of the Roman Empire, Western Europe returned to a locally organized economy where barter once again became the norm.[7]

During the Middle Ages, the Byzantine gold solidus coin, commonly known as the bezant, was used widely throughout Europe and the Mediterranean. The bezant was possibly the most successful means of payment in world history. These gold coins existed from 491 A.D. to 1453 A.D. and were accepted as money from England to China.[8] In 1252, gold coins called florins were minted in Genoa and Florence for the first time in almost five hundred years. The florin was the precursor to the Dutch guilder, which was used all the way up until 1999.[9] Shortly afterwards, Venice introduced the ducat which had the same size and weight as the florin. Towards the end of the 13th century, all Italian city states, whose influence was rapidly increasing, made use of gold coins in order to facilitate their growing trade, thereby toppling the monarchs' monopoly on the issuance of money. In a short time frame, these gold coins spread throughout Western Europe, spawning a monetary system based on gold. In 1275, eight silver coins were needed to buy one gold coin of the same weight.

After the decline of the Byzantine Empire, and the spread of the bubonic plague and a series of financial crashes hammered Europe, the role of the bezant as money was replaced by silver coins in many European countries. From 1550 until the early 17th century, a long period of general price increases ensued. After the discovery of large deposits of silver in Latin America in the 16th century, an international silver standard developed, which existed for almost 400 years. Since silver has less value than

7 B. Bartlett, 'How Excessive Government Killed Ancient Rome', in: *The Cato Journal*, year 14, no 2, 1994.

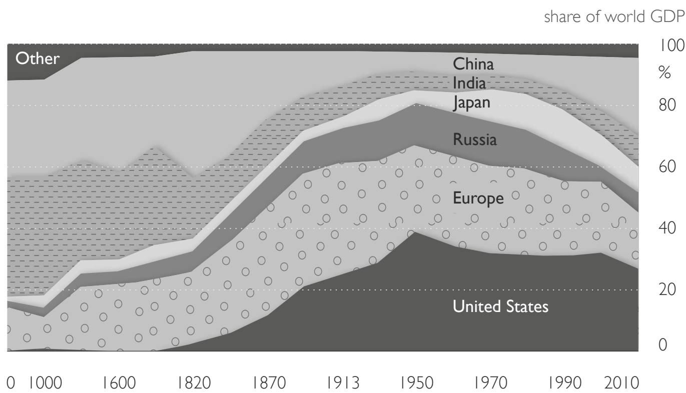
8 Antony Sutton, *The War on Gold.*

9 R. Kool, 'A Thirteenth Century Hoard of Gold Florins From the Medieval Harbour of Acre', in: The Numismatic Chronicle 166, 2006.

gold, silver coins were more easy to use for every day purchases. A silver standard was also adopted by the United States in 1785.

In the period between 1750 and 1870, many wars were fought on the European continent. Because of this and also due to ongoing trade deficits with China, a significant amount of silver moved eastwards, causing many silver standards to disappear over time.

Economic history of China and other major powers



Source: University of Groningen

5. What are the advantages of a gold standard?

Within a gold standard, each unit of money (one hundred euro, for example) corresponds to a certain amount of gold (say, 2 grams). A currency's value is backed by gold bars in the vault of the government or the central bank.

Having a gold standard brings with it many advantages. The most important advantage is that it forces governments to be disciplined in their fiscal policy because they cannot turn on the printing press to finance budget deficits.

Gold offers monetary security and is the most important weapon against the depreciation of money. A gold standard gives citizens economic freedom because their money is always exchangeable for gold. Gold is recognized worldwide as being valuable and for this reason, citizens are not dependent on financial decisions made by financial authorities, as is the case today. An undisciplined buildup of credit and debt – the real origin of the current credit crisis – cannot occur within a gold standard.[10]

Due to the mounting silver shortages, the United Kingdom and many countries in the British Empire adopted a gold standard in 1816. They were soon followed by Canada (1853), the US (1873) and Germany, where the new gold mark was introduced in 1872. In the course of the 19th century, the gold standard became more and more popular.

The stability of prices over a long period of time can be attributed to the disciplinary monetary effect of a gold and/or silver standard. England, for example, experienced almost no inflation for almost two hundred years up until the dissolution of the gold standard in 1914.

When money printing is not an option, even fighting wars is made more difficult.[11] The period between 1850 and 1914 – when

10 Gold standard: http://economics.about.com/cs/money/a/gold_standard.htm.

11 Wars are frequently financed with fiat money and, partly for that reason, they put the monetary systems of warring countries under pressure. This was certainly

most European countries were on a gold standard – was a time of economic prosperity in Europe during which no major wars took place.

The value of the dollar remained stable as long as the US had a gold standard.

the case with the First World War, the war in Vietnam and the Iraq-Afghanistan War.

6. Why was the gold standard abandoned?

With a gold standard, politicians and bankers have little influence over the economy because they are unable to influence the exchange rates of the currency. It is also not possible to print money to supply 'easy credit' to businesses in an effort to kick-start the economy, as is the standard monetary procedure nowadays.

A gold standard does not collapse or disintegrate on its own. When a large trade deficit occurs, gold reserves can be drained pretty quickly. When these large outflows occur, countries cannot guarantee that their currency will remain exchangeable for gold and are often forced to withdraw from a gold standard. This is precisely what happened to the US in 1971.

Many European countries went off the gold standard in 1914 in order to be able to print more money to finance the First World War. Wartime governments understand that they cannot raise money to finance the war by raising taxes or by borrowing from banks. Accelerating the printing presses is an easier method – and often the only way – to pay for a war.

After the end of World War I, the excessive money creation continued apace, leading to the creation of a massive credit bubble in the 1920s. This led eventually to the market crash of 1929, after which the world economy collapsed and fell into a deep economic crisis.

7. What is fiat money?

In a financial system where money is not backed by something substantial like gold or silver, banks can create virtually limitless amounts of money by creating new loans. All money is created in the form of credit (new debt). If all loans were to be paid off, all money would disappear. Because interest has to be paid on every loan, however, more and more new money (i.e. debt) has to be created. We call money that is created during this process of unbacked money creation, *fiat* or *fiduciary* money. Its value rests on the confidence that goods or services can be paid for. The term fiat refers to the first words that God spoke according to the story of Genesis in the Bible: 'Fiat lux' in Latin, or 'Let there be light' in English.

All known fiat money systems have failed in the past (see Appendix I). Central bankers, however, continue to claim that this time, all will be well. Such claims are reminiscent of the joke about the guy who jumps from the roof of an 80-story building. As he flies past the 20th floor, somebody shouts from the window to inquire whether all is fine. 'No problems so far!' is the answer. If turning on the printing presses would lead to prosperity, then Africa would not be a poor continent, Zimbabwe would be rich and the Weimar Republic would still exist.

8. What is meant by fractional banking?

In a fractional reserve banking system, the bank retains only a portion of all outstanding liabilities as available reserves. In 1900 this was around 30%, and has now declined to just 3%.

Fractional banking started at the end of the Middle Ages, when Italian bankers[12] – often goldsmiths – started to give 'bills of exchange' to clients who stored their gold coins with them. These bills were used more and more as money, since they were backed by gold. When bankers noticed that the gold coins were hardly ever retrieved from their bank safes, they began giving out more of these receipts than could be backed by the gold in their vaults. These receipts are considered to be the first bank notes.

Nowadays, bank reserves are held as currency or as a deposit with the central bank. Commercial banks can take out loans from the central bank based on assets on their books. The money for this new loan is created out of thin air and credited to the commercial bank's account at the central bank. Now the bank can use this new money to fund new loans or investments.

So money creation starts at the central bank. By typing a few numbers on the computer, unlimited amounts of new money can be created. If, for instance, 10 billion is created this way, then this amount will be transferred from the central bank to a commercial bank.[13] The receiving bank can then sell loans to the value of 90% of this 10 billion. The amount of 9 billion is transferred onto another bank's account and this party will lend out another 90% of the 9 billion (= 8,1 billion). This process can continue until the original 10 billion from the central bank has generated extra credit in the amount of more than 90 billion. This is the theory known as fractional banking.

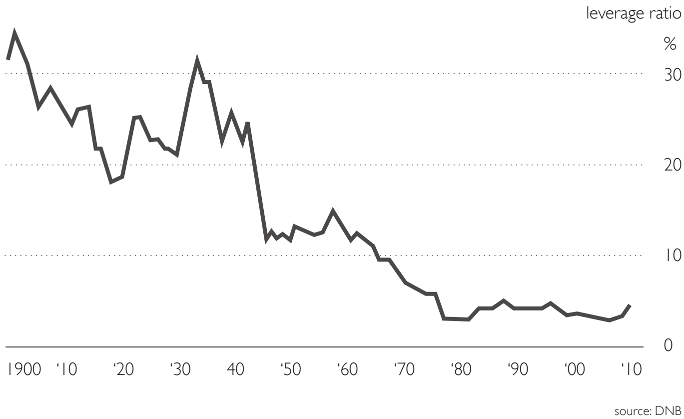
A commercial bank can thus create new money by selling a new loan and putting it on its balance sheet. In practice, banks

12 The oldest bank in the world, the Monte dei Paschi di Siena (1472), has come into serious trouble a few years after the start of the current credit crisis.

13 In exchange for collateral, like a package of old loans.

try to lend out as much money as possible and will search for the cheapest possible funding. It is important to understand that central banks can never replenish the reserves of a bank. They can increase a commercial bank's liquidity but never its solvency.

Solvency of Dutch banks 1900-2010



9. Where was fiat money invented?

As with many other inventions, fiat money was first invented in China.[14] Marco Polo, who travelled extensively throughout the Far East from 1275 to 1292, published a book describing his travels after returning to Italy. For Europeans, his texts were the only source of information about Asia for many centuries. Polo described how the leader at that time, the Emperor Khan, had found a way of creating paper money that was just as valuable as gold and silver.[15] His Mongol Empire reached from Siberia to the Black Sea, covering around one-fifth of the world's inhabited land area:[16]

> You might say the Emperor has the secret of alchemy in perfection, and you would be right. The Emperor makes his money of the bark of a certain tree, in fact of the mulberry tree, the leaves of which are the food of the silkworms, these trees being so numerous that the whole districts are full of them. What they take is a certain fine white bark or skin which lies between the wood of the tree and the thick outer bark, and this they make into something resembling sheets of paper, but black. When these sheets have been prepared they are cut up into pieces of different sizes. All these pieces of paper are issued with as much solemnity and authority as if they were of pure gold or silver; and on every piece a variety of officials, whose duty it is, have to write their names, and to put their seals. And when all is prepared duly, the chief officer deputed by the Khan smears the seal entrusted to him with vermilion, and impresses it on the paper, so that the form of the seal remains imprinted upon it in red; the money is then authentic. Anyone forging it would be punished with death. And the Khan causes every year to be made such a

14 G. Davies, *A History of Money*, p. 49-54.

15 Marco Polo, *Il Milione.* (*2001*)

16 http://www.allempires.com/article/index.php?q=The_Mongol_Empire

> vast quantity of this money, which costs him nothing, that it must equal in amount all the treasure of the world. With these pieces of paper, made as I have described, he causes all payments on his own account to be made; and he makes them to pass current universally over all his kingdoms and provinces and territories, and whithersoever his power and sovereignty extends. And nobody, however important he may think himself, dares to refuse them on pain of death. And indeed everybody takes them readily, for whosesoever a person may go throughout the great Khan's dominions he shall find these pieces of paper current, and shall be able to transact all sales and purchases of goods by means of them just as well as if they were coins of pure gold. Furthermore all merchants arriving from India or other countries, and bringing with them gold or silver or gems and pearls, are prohibited from selling to anyone but the emperor. He has twelve experts chosen for this business, men of shrewdness and experience in such affairs; these appraise the articles, and the emperor then pays a liberal price for them in those pieces of paper. And with this paper money they can buy what they like anywhere over the empire. So he buys such a quantity of those precious things every year that his treasure is endless, while all the time the money he pays away costs him nothing at all.

The Mongol Il-Khans in Persia, impressed by the use of paper money in China since 1024, decided to adopt this system. Technical advisers were sent to Peking, and an organization to introduce fiat money was set up. The Persian people, however, had not been able to grow gradually accustomed to the use of paper currency over several hundred years of incremental developments. They simply refused to believe that these nicely printed pieces of paper were worth anything, and the experiment ended in failure.[17] Paper money in Asia disappeared from the 14th century onwards. A great thirst for silver followed. Almost 25%

17 Gordon Tullock, Political Economist (1957).

of the world population was living in China at that time. Paper money would not reappear until 1609, when the Wisselbank in Amsterdam started issuing 'bills of exchange'.

10. Other examples of fiat money throughout history

Over 400 years later, in 1716, the Scottish economist John Law managed to convince the French King to conduct an unparalleled monetary experiment. Law was the son of a banker and travelled throughout Europe as a financial expert hoping to win rulers over to his economic ideas. He understood that a country could stimulate the economy through means of fiat money.

France was on the edge of an abyss due to the many wars of the Sun King, Louis XIV. The French regent[18] allowed John Law to set up a bank with restricted powers to issue bank notes. Through its success, the bank quickly grew to become the Banque Générale, and the money that it issued was even elevated to legal tender.[19] Large volumes of money were pumped into the economy this way, which did indeed stimulate the French economy.

Law eventually got himself into trouble pursuing another business opportunity. In 1717, he founded the Mississippi Company. His company received monopoly rights on trade between France and the French colony Louisiana in the south of the US. Thanks to a promotional campaign about the unlimited possibilities of the new promised land, more and more French people bought shares in the new company. But the speculation turned into a hype and got out of control. The boom turned into a bust and both experiments failed: the share price of his new company and the value of the fiat money plunged. Law's life in France was no longer safe and so he fled to the Netherlands. In 1726, with the permission of the Dutch government, he succeeded in setting up the first national lottery.

18 http://www.historyworld.net/wrldhis/plaintexthistories.asp?paragraphid=kbb

19 Similar to American bankers, who christened their central bank 'The Federal Reserve', Law knew that a confidence-inspiring name partly determines the success of a bank.

11. Other misfortunes with fiat money

Hardly a century later, it all went wrong again. In the years after the French Revolution, the Assemblée Nationale issued national bonds, so-called 'assignats'. The suggestion was planted that these bonds, which were also used later as money, were backed by the church's possessions that had been confiscated during the Revolution in 1779. According to a government report from 1790, an attempt was made to stimulate the economy by turning on the printing press:

> We have to save the country and the even greater amounts of money shall help France to recover.[20]

We might well call this Quantitative Easing[21] (QE) avant la lettre.

Because of all this newly printed money, people began to distrust paper money. The French government quickly implemented some strict new rules. Maximum prices were set to curb inflation, and it was forbidden on pain of death to ask to be paid in gold instead of paper money when selling goods. In a last attempt to protect the paper money system, all trade in precious metals was forbidden as of 13 November 1793. These measures, however, only delayed the inevitable. As history has shown time and again, rulers have yet to succeed in printing extra money with impunity or to implement the 'conjure-something-out-of-nothing' trick with lasting success.

In mid-August 1796, after a few years of financial disarray, the lack of public confidence in the French currency reached an apex, and hyperinflation ensued. Soon, paper money lost all value. The people's anger was so intense that mobs gathered in the Place Vendôme to publicly burn paper money, printing plates

20 Antony Sutton, *The War on Gold.*

21 Quantitative easing will be explained extensively in the following section.

and money presses.[22] Due to the subsequent hyperinflation, many years of chaos ensued. After this monetary disruption, Napoleon introduced a bimetallic monetary system which restored financial stability from 1803 onwards. Most of Europe joined this monetary system. The new French franc remained in existence for almost two hundred years, until the introduction of the euro.[23] In 1865, several European countries created the first European monetary union (known as the Latin Monetary Union). It was disbanded in 1927 and the bimetallic system was repealed in 1928.

22 Richard M. Ebeling, 'The Great French Inflation', in: *The Freeman*, year 57, nr. 6, 2007.

23 But because the French government was forced to keep printing money to be able to cover the costs of World War I, in 1914 it stopped pegging the franc to gold.

12. What is Quantative Easing?

Quantitative easing (QE) is the euphemistic term used by the US Federal Reserve to build a smokescreen around the unconventional monetary policies it has embarked upon. If QE were a patriotic military operation, it would probably have been named 'Operation Firing up the Printing Press'. But since this would endanger public trust in the value of the currency, the spin doctors at the Fed decided on the term Quantative Easing. Only one in a million would understand that QE has to do with printing more money.

Before he became Fed Chairman, Ben Bernanke mentioned the possibility of turning on the printing presses in order to fight deflation:[24]

> The US government had a technology called the printing press (or, today, its electronic equivalent), so that if rates reached zero and deflation threatened, the government could always act to ensure deflation was prevented.

Central banks only embark on these unorthodox monetary policies to stimulate the economy when standard monetary policies have become ineffective.

Wikipedia defines QE in the following way:

> A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions, thus increasing the monetary base. This is distinguished from the more usual policy of buying or selling government bonds in order to keep market interest rates at a specified target value.[25]

24 http://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf
25 http://en.wikipedia.org/wiki/Quantitative_easing#cite_note-39

With quantitative easing, central banks provide commercial banks with excess liquidity to promote private lending. Japan's central bank, the Bank of Japan (BOJ), is seen as the inventor of these recent unconventional strategies. During the middle of the 1990s, Japan experienced a severe recession after years of economic partying in the 1980s. The BOJ wanted to lower interest rates to zero. This was accomplished by buying more and more government bonds. Subsequently, the BOJ also bought asset-backed securities and equities.

Since the start of the global financial crisis in 2007, similar policies have been used by the United States, the United Kingdom and the Eurozone. As in Japan, the initial purpose was to lower interest rates. But from 2008 onwards, the Fed and other central banks started aggressively expanding their balance sheets by buying up assets such as Treasuries (US government bonds) and mortgage-backed bonds in order to support the housing market and to finance the large fiscal deficits that arose as a result of the economic fallout from the credit crisis.

The United Kingdom also used quantitative easing to support the British economy. Stephen Hester, CEO of the RBS Group, explains:[26]

> What the Bank of England does in quantitative easing is it prints money to buy government debt, and so what has happened is the government has run a huge deficit over the past three years, but instead of having to find other people to lend it that money, the Bank of England has printed money to pay for the government deficit. If that QE hadn't happened then the government would have needed to find real people to buy its debt. So the Quantitative Easing has enabled governments, this government, to run a big budget deficit without killing the economy because the Bank of England has financed it. Now you can't do that for long because people get wise to it

26 http://www.itv.com/news/2012-05-11/hester-quantitative-easing-funds-bigger-budget-deficit/

> and it causes inflation and so on, but that's what it has done: money has been printed to fund the deficit.

Officially, central banks in most developed nations are prohibited from buying government debt directly. So they use a backdoor trick to buy their national bonds in the secondary market. In this two-step process, the government first sells bonds to private banks and insurers. These entities then sell these assets to the central bank.

13. Do all central bankers agree on QE?

At least one central banker seems to be hedging against the risks of 'the biggest bond bubble' in history. Records show that Dallas Federal Reserve President Richard W. Fisher owns at least $ 1 million in gold in a portfolio[27] worth at least $ 21 million. This is apparently a hedge against the Fed's controversial QE policies, which he is surprisingly candid about:[28]

> It will come as no surprise to those who know me that I did not argue in favor of additional monetary accommodation during our meetings last week. I have repeatedly made it clear, in internal FOMC deliberations and in public speeches, that I believe that with each program we undertake to venture further in that direction, we are sailing deeper into uncharted waters. The truth, however, is that nobody on the committee, nor on our staffs at the Board of Governors and the twelve Banks, really knows what is holding back the economy. Nobody really knows what will work to get the economy back on course. And nobody – in fact, no central bank anywhere on the planet – has the experience of successfully navigating a return home from the place in which we now find ourselves. No central bank – not, at least, the Federal Reserve – has ever been on this cruise before.

He warned as early as 2010 that the Fed was 'positioning itself as the buyer of pretty much all government debt'. At that time, he described the risk of these unorthodox monetary policies as 'the risk of being perceived as embarking on the slippery slope of debt monetization'.

27 http://economix.blogs.nytimes.com/2012/01/31/how-the-fed-presidents-assets-stack-up/?_r=0
28 http://www.moneynews.com/StreetTalk/fed-fisher-inflation-qe3/2012/09/23/id/457266

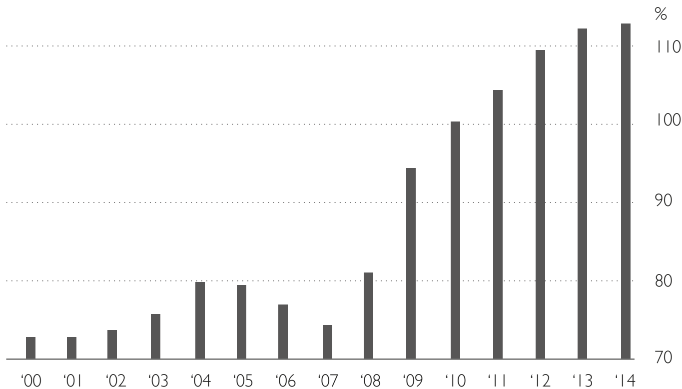
He is not the only central banker who has been so candid about the risks of the worldwide strategy of quantitative easing. In a testimony before the Treasury select committee in 2013, the Bank of England's Executive Director of Financial Stability, Andy Haldane, said that the bursting of the bond bubble 'created by central banks forcing down bond yields by pumping electronic money into the economy' was the main risk to financial stability:

> If I were to single out what for me would be the biggest risk to global financial stability right now, it would be a disorderly reversion in the yields of government bonds globally. Let's be clear. We've intentionally blown the biggest government bond bubble in history. We need to be vigilant to the consequences of that bubble deflating more quickly than we might otherwise have wanted.

But the risk of inflating the international monetary system by printing too much money should also be considered. In the past, these kinds of monetary policies have led to periods of hyperinflation.

Goverment debt advanced economies

As a percentage of GDP



source: IMF and Fulcrum Asset Management

14. When did hyperinflation occur?

One of the worst things that can happen to an economy is hyperinflation. The definition of hyperinflation is a rise in prices of over 50% within a year. Hyperinflation is so harmful because money loses its value and power. We could well call it the death of money. Without money, the economic system disintegrates and people revert almost immediately to bartering.

A good example of the dangers of fiat money is the hyperinflation that scourged Germany's Weimar Republic in the beginning of the 1920s. The German Republic stood under enormous financial pressure due to the huge amount of reparations imposed on it by the victorious Allies after the First World War. There was simply no way the German economy could bring in enough money to fulfill these payments year after year. The only way to do so was to allow vast amounts of fiat money to be printed. When high inflation resulted in the German people losing trust in the stability and value of their money, Germany found itself in a disastrous spiral of hyperinflation. Where one originally paid 42 marks for one US dollar, in 1923 the exchange rate had skyrocketed to more than 5 billion marks per dollar. In barely three years, the German currency had become worthless and the monetary system had crashed.[29] A financial nightmare became reality.[30] Many Germans lost all their savings and hope, with some committing suicide as a result.

29 Thomas Noble, *Western Civilization Beyond Boundaries*, p. 826-829.

30 Ferguson, *When Money Dies* (*2010*).

Periods of hyperinflation, ending with monthly inflation rates of well over 5,000%

Country	Year
Hungary	1946
Zimbabwe	2008
Yugoslavia	1994
Germany (Weimar)	1923
China	1949

15. Can we trust official inflation figures?

Governments are very creative in adjusting economic data. In the US, the manipulation of key figures and economic indicators has been elevated to a work of art. Many analysts and commentators now question the official statistics. Bill Gross, who founded PIMCO, the largest bond asset management company in the world, called the officially published inflation figures (CPI) 'a con job'[31] and the way they were presented a 'deception'.

The calculation of inflation can be influenced by the method and the model used. A model can be customized in many ways. When economists talk about financial engineering, it is clear that more than one outcome can be generated from a certain model.

Inflation is calculated as the average change in the price of a composite basket of goods and services over a given period. This is supposed to indicate whether the cost of living is higher (inflation) or lower (deflation) than earlier measured. This method is not very reliable because the choice of what goes into the basket of goods is necessarily arbitrary. Not everyone will buy the same products included in the basket of goods, of course. Many products and services are not included at all in the Consumer Price Index (CPI). Local taxes, for example, are not included in the CPI but they have risen sharply in recent years. As a result, disposable income has been growing less than inflation and many people feel 'squeezed'.

Cheuvreux, an equity broker owned by one of the largest French banks, Crédit Agricole, published a report[32] as early as 2006 claiming that real inflation rates in the US were around 6.7% – a number close to the growth of the money supply – instead of the officially published figures of around 2%.

31 http://www.investorsinsight.com/blogs/john_mauldins_outside_the_box/archive/2008/06/09/fooling-with-inflation.aspx

32 http://www.gata.org/files/CheuvreuxGoldReport.pdf

In the last decade, the monetary authorities in the US have fought a 'hidden war' against inflation, to ensure that the financial markets would not be alarmed by growing inflation. The main measures used were:

- To maintain low gold prices;
- Change of the method used for the calculation of inflation;
- Stop publishing the US M3 money growth figure.

The same report explains why a rise in the official inflation rate is disadvantageous for the government:

- It increases the costs for the government, as pensions and other social benefits have to be adjusted annually for inflation.
- Rising inflation leads to higher interest rates and therefore higher borrowing costs for the government and higher mortgage rates for consumers. Higher interest rates have a negative impact on stocks and bonds.

16. How is inflation calculated?

Statisticians have found a number of methods they can use to lower the official inflation figures. This covert war is conducted mainly by changing the calculation methodology of inflation. The statistical model was changed little by little over the past thirty years.

According to John Williams,[33] an economist who has specialized in this field, the quality of government statistics has deteriorated significantly since the 1990s. According to him, the statistics on inflation were fairly accurate until the early 1990s. In the following years, the model used to calculate inflation numbers started to change as politicians began to pressure the statisticians.

In his report 'The Consumer Price Index' from 2004, he lists the four most notable 'tricks' used:

1 – Replacement by cheaper alternatives
When a piece of meat is too expensive, it is replaced in the inflation model by a cheaper burger. This is justified by the argument that people will start looking for cheaper alternatives when prices rise.

2 – Geometric considerations
Over the years, the arithmetic weighting of items in the inflation basket was replaced by a geometric weighting. As a result, products rising in price weigh less heavily in the model while products that are cheaper are weighted more heavily.

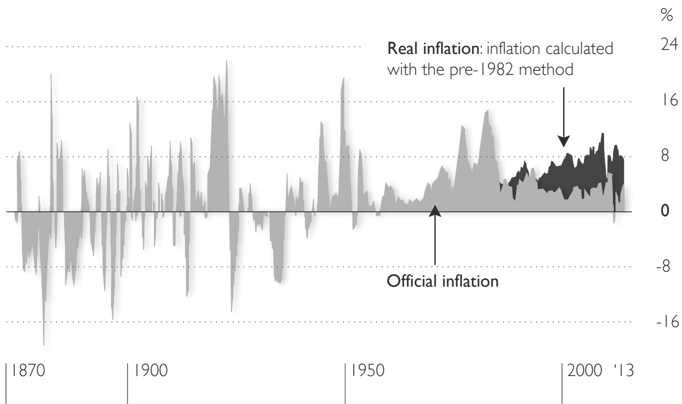
3 – Hedonic adjustments
This is the strangest adjustment of all. It is used to lower prices in order to correct for quality improvements that are embedded

33 Founder of www.shadowstats.com
http://rationalwiki.org/wiki/Shadow_Government_Statistics

in product prices (derived from the Greek word *hedone*, which means ‘pleasure’).

Not all of these methods have been misused, but the combination has had the result that inflation figures are structurally understated. With many entitlements tied to the Consumer Price Index (CPI), the real value of social security payouts has shrunk dramatically.

Is today’s inflation manipulated?



Source: Global Investors

Monthly inflation data going back for more than a century. The grey shaded areas represent the official Bureau of Labor Statistics’ historical Consumer Price Index (CPI). If we were to use the pre-1982 method of calculating CPI, we would end up with inflation as shown by the black line in the picture above. The black area shows that real inflation is currently around 8%. This compares to official statistics declaring CPI to be around 2%.

17. Examples of the distortion of inflation figures

The best example of a hedonic adjustment to price movements was highlighted in a Wall Street Journal article a few years ago. A TV model for sale for $ 30 in 2005 was being sold for the same price in 2006. But the model had slightly changed. The six-watt speaker had been changed to a ten-watt speaker, and the screen now had more rounded corners. Statisticians claimed that the television had become so much better that the price therefore should be adjusted downwards by 30% even if it was still being sold for the same price. These kinds of adjustments are being made continuously. The main consequence of all this is that people are not sufficiently compensated for the increased costs in their wages, pensions or benefits. Especially lower and middle class families are hurt by these changes.

From the government's perspective, another advantage to underestimating inflation is the way in which economic growth is adjusted for inflation. If an economy grows by 3% and inflation is 2%, then economic growth adjusted for inflation (known as real growth or real GDP) is 1%. But if inflation is in fact 4%, then in real terms the economy will have contracted by 1%. Adjusting for inflation can mean the difference between a recession and positive economic growth. Announcing that the economy is in a recession tends to lead to a decline in consumer confidence and also possibly lower consumer sales.

18. Do central banks combat or cause inflation?

Central banks' websites often mention that all is about 'financial stability'[34] and that combating inflation is their main task. But they never tell you that they are the ones causing inflation by creating more and more money every year. Any student of monetary history knows that central bankers have never succeeded in building a lasting fiat money system without leading to a large loss in spending power. By printing more and more money, all currencies in a fiat money system are debased. According to former US Senator Ron Paul, the Fed's claim that it is fighting inflation is as incredible as cigarette manufacturers' statement that they want to help consumers stop smoking.[35]

Apart from fighting inflation, another vital task for most central banks is to stimulate the economy. This is why the amount of money in circulation has to grow each year. The goal of the ECB from its inception in the late 1990s was money growth of 4% to 5% annually. But within a few years after the introduction of the euro, yearly money growth had risen to above 10%. Through the excessive growth of debt, most Western currencies have lost over 95% of their spending power in the last century alone.

Central banks now also act as the lender of last resort. As a consequence, central banks such as the Fed and the ECB create over one trillion dollars in new money every year in order to support their governments. And still they claim they are fighting inflation.

34 During the Amsterdam Gay Pride of 2012, employees of the Dutch central bank danced around a see-saw upon which stood the word 'stability' in large letters.

35 Ron Paul, *End the Fed* (2009).

19. Does anybody really understand this financial system?

In most countries, governments and banks have worked together to monopolize the creation of money. The fact that our money is backed by nothing but hope and trust must be kept hidden from ordinary people. Even most economists do not fully understand money. Only those who have studied monetary economics know the inner workings of our financial system. And most of them end up working for their government or central bank, so they are bound to keep their mouths shut.

It suits bankers when consumers see a bank as a large piggy bank with lots of money in the safe. Few people know that printed and minted money represents only a small percentage of all the money that is in circulation. Research shows that, to this day, one-third of all people believe that vast piles of money lie waiting in the vaults of their bank for savers to go and collect. If savers realized the risks of their money being lent out over thirty times, they would probably prefer to buy gold. For this reason, it is of the utmost importance for banks to play down the safe-haven aspects of gold whilst simultaneously trying to maintain people's trust in money.

Savings in a bank account, however, are legally speaking a debt claim. That is why, in the case of a bank bankruptcy, deposits are not immediately returned to the deposit holder, as is the case with an equity or bond portfolio. In order to make sure that people do not withdraw their money en masse, the government guarantees the savings of every citizen up to the amount of 100,000 euros per bank in Europe and $ 250,000 in the US. Whether the government itself owns enough money to be able to cover these claims is, of course, questionable.

Most European bankers have allowed themselves to be completely hoodwinked by American propaganda that gold no longer plays an important role in the current financial system. In the Netherlands, almost all gold counters within banks have been closed. But in Switzerland you can still buy gold and silver at almost every bank.

Chapter 2 – Central Bankers: The Alchemists of our Time

The Bank hath benefited of interest on all monies which it creates out of nothing.

– William Paterson, one of the founders of the Bank of England (1697)

Gold still represents the ultimate form of payment in the world. Fiat money in extremis is accepted by nobody. Gold is always accepted.

– Alan Greenspan, former Chairman of the Federal Reserve (1999)

If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and the corporations which grow up around them will deprive the people of all property until their children wake up homeless on the continent their fathers conquered.

– Thomas Jefferson, third President of America and drafter of the Declaration of Independence (1808)

It is a sobering fact that the prominence of central banks in this century has coincided with a general tendency towards more inflation, not less. [I]f the overriding objective is price stability, we did better with the nineteenth-century gold standard and passive central banks, with currency boards, or even with 'free banking.' The truly unique power of a central bank, after all, is the power to create money, and ultimately the power to create is the power to destroy.

– Paul Volcker, former Chairman of the Federal Reserve in the foreword of *The Central Banks* (1995)

INTRO

The very first form of banking started well over 5,000 years ago, while fractional and fiat money systems began appearing almost 1,000 years ago. The first central bank appeared some 500 years ago. (Central) bankers, the alchemists of our time, have a monopoly on the creation of money, just like the police and army have a monopoly on violence. In the last century, central bankers have succeeded in turning paper into gold[36] and gold into paper.[37] The bank notes of the European Central Bank (ECB) no longer refer in any way to any intrinsic value, although the ECB still owns some 660 tonnes of gold. We have all become used to seeing unbacked paper money as value, which is precisely what our central bankers have been conditioning us to believe for over a century. Our entire monetary system is built on trust. Since the outbreak of this credit crisis, this trust has been waning rapidly worldwide. Even central banks have started buying gold to hedge the risks of their fiat own money system. Apparently, they also lack confidence in the long-term value of the dollar, still the world's reserve currency, and other fiat currencies.

36 On the first bank notes used in the Netherlands, a promise was printed that the bank would pay gold 'to the bearer of ten golden guilders'. Later on, that changed into 'to the bearer of 10 (silver) guilders', followed by 'to the bearer' and finally 'lawful means of payment'.

37 Since the 1980s, the price of gold has been determined by selling 'paper gold' on the futures markets. According to an LBMA study, total (paper gold) trading volume was a few hundred times the annual production of actual gold. (LBMA gold turnover survey Q1 2011, The Alchemist).

20. When did the first form of banking emerge?

The history of banking could well be much older than is often thought. From archaeological finds, we know that a form of banking existed over 5,000 years ago. Clay tablets from around that time show transcripts of debt positions by farmers in southern Mesopotamia. Based on these findings, anthropologist David Graeber wrote a book entitled *Debt: The first 5,000 years* (2011) in which he claims that the first recorded debt systems were in the Sumer civilization around 3,500 B.C. in the region of what is now Iraq. In this early form of banking, farmers often became so mired in debt that they were periodically pardoned by kings who cancelled all debts. The Greeks and Romans also had financiers. In ancient China and India over 2,000 years ago, there were money lenders who sponsored farming projects, for example.

The first European banks appeared only in the early Middle Ages when goldsmiths also started to store the gold coins they were assessing for traders. At that time, merchants brought with them all sorts of gold and silver coins from abroad whose gold and silver content was not clearly known. The receipts for the stored coins soon became a form of money.

When the goldsmiths realized that the merchants often left their gold coins with them for long periods of time, the goldsmiths began to lend out the gold for a small fee, or 'interest'. Because the gold did not actually belong to the goldsmith and the risk therefore lay with the merchants, the latter received a portion of the interest. The rest was profit for the goldsmith. This activity was the first form of banking in Europe. The word 'bank' comes from the Italian word 'banca', the name used for the marble tabletop upon which Italian goldsmiths dropped foreign coins. From the sound of the coins being dropped, they could assess whether a coin contained a lot of copper or nickel.[38]

38 http://www.jamesrobertson.com/book/historyofmoney.pdf

Banks as we know them today were first set up during the Renaissance in the Italian cities of Florence, Venice and Genoa. The most famous is without doubt the Medici Bank, founded by Giovanni de' Medici in 1397. The oldest bank still in existence at the moment of writing is the Monte dei Paschi di Siena (1472), although it is currently fighting for its very survival.

When people realised that the profits that could be made from money lending as practiced by goldsmiths, more and more bankers sprung up. Only much later, after the decoupling of the gold standard, did bankers find out that lending fiat money – money created out of nothing – was even more profitable. Bankers do receive interest every month on all debts, after all.

21. How did central banking start?

During the Middle Ages, European royalty and even the church often needed to borrow money to fight wars. This financing was provided by so-called moneychangers. These early bankers also serviced travelling merchants when they needed to exchange foreign coins into local ones. As the size of the operations of moneychangers grew, they began to provide lending activities.

These moneychangers understood pretty quickly that lending to powerful entities such as kings and churches carried less risk because of the continual stream of income.

The German Rothschild family established an international banking business and dynasty, becoming one of the most powerful families in the 19th century. In return for financing royal empires, several family members were even elevated to nobility in Austria and the United Kingdom. At its height, the Rothschild family is believed to have possessed the world's largest private fortune by far.[39]

This can be seen as the start of modern banking. Often an intimate relationship developed between governments and bankers – one that can still be discerned today – and led to the establishment of the first central banks. Increasingly, bankers were given the right to print money in exchange for their financial support of the royal houses.

To this day, many central bankers regard politicians as loyal operators of the financial architecture they have been building for over 400 years. Over the years, bankers have learned that citizens could always be taxed by governments to pay back the banks. Moreover, banks know they will be bailed out if they run into trouble because the economy cannot function without them.

39 The family's wealth is believed to have declined subsequently because it had to be divided amongst hundreds of descendants. Now, Rothschild banking and investment businesses are much smaller than they were throughout the 19th century.

22. The first central bank

In the early 17th century, the Dutch Republic was a powerful economic force in Europe, with Amsterdam as the capital of trade. At the time, over 800 different gold and silver coins were used in European trade, many damaged and worn. In order to value all the various coins and at the same time reduce the city's dependency on a number of moneychangers, the Amsterdam Wisselbank[40] was founded in 1609. It is frequently regarded as the first central bank.[41]

Within the Dutch Republic, 54 different mint masters had the right to mint gold and silver coins. The Wisselbank ensured that all coins that satisfied the quality requirements were accepted. The Amsterdam Wisselbank thus had a supervisory role but did not take action when issuing banks or institutions encountered problems. Its main function was the withdrawal of clipped,[42] doctored and counterfeit coins from circulation. They were melted and turned into coins that conformed to the quality requirements. Bills could be settled with bills of exchange, so coins could stay in the vaults of the Wisselbank. When customers exchanged their metal into paper currencies, they received a 5% premium. 35 years later, in 1644, Sweden would start the second central bank along this model, the Swedish Riksbank.

Most central banks in the past 400 years were initiated by rich businessmen who understood quite well that (central) banks, which owned the monopoly on creating money and were backed by government tax revenue, had a wonderful business model. But most central banks came under the control of the government in the course of the 20th century. There are two exceptions to

40 'Wissel' means exchange, so Wisselbank means exchange bank.

41 Stephen Quinn and William Roberds, 'An Economic Explanation of the Early Bank of Amsterdam, Debasement, Bills of Exchange, and the Emergence of the First Central Bank', *Working Paper Series* 2006-13, Federal Reserve Bank of Atlanta.

42 **Clipping** (shaving metal from the coin's circumference) and **sweating** (shaking the coins in a bag and collecting the dust worn off) were practices often used to exploit the value of gold and silver coins.

this. Half of the shares of the central bank of Belgium are still in the hands of private entities. And in the US, the American government does not own a single share in the Federal Reserve (Fed), which is owned entirely by affiliated banks. This explains why the Federal Reserve almost always champions what is good for banks on Wall Street.

23. Who created the first government bonds?

In the 1690s, the Scotsman William Paterson, who travelled throughout Europe just like John Law to spread his financial expertise, attempted to found an independent Scottish Empire in what is now Panama. He tried to sell the scheme to the governments of England, the Holy Roman Empire and the Dutch Republic, but none were willing to support him. After this failure, Paterson returned to London and made his fortune by setting up a business in trade with the West Indies.

In 1694, he wrote a pamphlet entitled *A Brief Account of the Intended Bank of England*. It explained how the British government could be helped to create money by setting up 'a joint-stock company' by the name of the 'Bank of England' to act as the English government's banker. He proposed a perpetual loan of £1.2 million to the government, but with an annual interest of 8% a year to the shareholders.[43] In return, the investors would be allowed to incorporate a 'Company of the Bank of England' with banking privileges, including the issuing of bank notes.

Paterson was backed by a group of rich traders from the City of London who would generate the starting capital. He was also supported by Charles Montagu, one of the most important officials within the Ministry of Finance. Together, they persuaded the government to create a bill so that the Bank of England could be established. The Royal Charter was granted on 27 July 1694. The first loan by the Bank of England was to finance the Royal Navy by issuing Navy Bills. British debt rose from one million pounds in 1688 to 48 million pounds in 1714. Over a quarter of taxes were used to fund the creation of the British Navy.

The start of the Bank of England is often seen as the start of a new era. Fiscal deficits by governments could be financed by means of selling (perpetual) bonds. We could in fact say that the

43 See the complete list of shareholders on: http://www.bankofengland.co.uk/about/Documents/pdfs/bankstock_transcript.pdf

current financial system of bond financings started with the foundation of the English central bank more than three hundred years ago.

24. How large has the bond bubble become?

The perpetual character of the first national loan was replaced in most countries by bonds with a duration of up to thirty years. Actually, these loans are almost never paid off but 'rolled over' continuously. New loans pay off old loans. Whoever sees this as a Ponzi scheme[44] is quite right.

This British model was so successful that other countries soon started their own private central banks. It all led to a mountain of government debt, which now totals around $ 50 trillion (as of 2012). There is no way this debt can ever be repaid in non-deflated currencies. Strangely enough, most of the money that is supposedly safely invested in risk-free bonds are most at risk.

Japan's external debt – i.e., the country's debt that has been borrowed from foreign lenders – has risen to almost 250% of GDP, while the external debt of the US is now on a parabolic move upwards. In Europe, the growth in the external debts of countries such as the United Kingdom, Greece, Portugal, Italy and Spain (and soon many others) is simply unsustainable. A recent study of eight centuries of government debt defaults by economists Carmen M. Reinhart and Kenneth S. Rogoff warns of the real likelihood of national debt crises in the near future.[45] We will look into this subject in more detail in chapter 4.

A global debt restructuring will probably be needed, and could be part of the Big Reset. In 2012, Bill Gross, founder of the largest bond investor house Pimco, advised investors to start buying 'hard assets' instead of paper assets such as government bonds.[46] This is the equivalent of a car salesman advising people to start using the train instead of buying a new car.

44 Named after the con man Charles Ponzi (1882-1949) who invented a system whereby payments are financed out of investments from new clients.

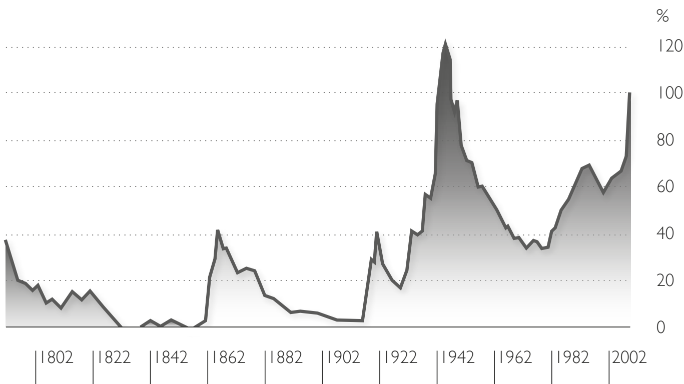
45 Carmen Reinhart and Kenneth Rogoff, *This Time is Different: Eight Centures of Financial Folly* (2009). http://scholar.harvard.edu/files/this_time_is_different_short.pdf

46 http://www.investopedia.com/stock-analysis/2012/bill-gross-says-to-buy-hard-assets-gsg-gld-gltr-rw00614.aspx

Government Debts per country (2012, in US$)

United States	17,000 billion
EU total	16,000 billion
United Kingdom	10,000 billion
Japan	2,700 billion
Australia	1,500 billion
Switzerland	1,300 billion

US goverment debt / GDP ratio (1790-2013)



Source: Global Financial Data

25. Who supervises central banks?

In a good functioning banking system, central banks keep a watchful eye over commercial banks to prevent them from taking irresponsible risks that could be harmful for the whole monetary system.

As we have learned, in the course of the 20th century, many governments took over central banks from private shareholders. Often, this was because politicians wanted to gain more control over the financial sector. Since then, central bankers have fought to gain more independence from politicians. Their main argument was and still is that it is far too dangerous when monetary policy is dependent on the short-term perspective of politicians. This often led to a compromise whereby central bankers work for the government but are granted a significant degree of autonomy in conducting monetary policy.

Initially, this independence worked rather well. But many Western central bankers have abused their freedom, often in collusion with private bankers, in order to increase their wealth and power. This is especially the case in the US.

Central bankers and private bankers have completely different mindsets. While the first are often academics and enjoy their position of power, private bankers are the real deal and moneymakers. As we have seen in the past, some will even sell their country for money. Napoleon stated in 1802:

> The hand that gives is above the hand that takes. Money has no motherland, financiers are without patriotism and without decency; their sole object is gain.

In the current banking system, central bankers often turn out to be lap dogs for private bankers instead of watch dogs. This explains how Wall Street banks were able to sell increasingly risky products (derivatives) without the US central bank standing in their way. Other central banks were pressured by the Fed to refrain from regulating the worldwide trade of derivatives.

Not much has changed in the US since the start of the credit crisis. Annually, the financial sector spends about one million dollars per member of Congress on financial lobbying.[47]

47 http://www.opensecrets.org/lobby/
http://www.publicintegrity.org/2010/05/21/2670/five-lobbyists-each-member-congress-financial-reforms

26. Where are the most important decisions about the banking industry made?

Despite this collusion between central banks and commercial banks, politicians still believe that the best way to reform financial institutions is via self-regulation. The most important international banking regulations – known as 'the Basel Rules' – are still decided at regular meetings of the Bank for International Settlements (BIS) in Basel. The BIS can be seen as the mother of central banks and was founded at the International Bankers Conferences at Baden Baden (1929) and The Hague (1930).[48,49] The BIS was originally intended to facilitate the payment of reparations imposed on Germany by the Treaty of Versailles after World War I. But after hyperinflation in the Weimar Republic from 1921 to 1924, a new plan for settling German reparations was written in 1929.[50]

Between 1933 and 1945, the BIS board included Walther Funk and Emil Puhl, both high-level Nazis who were subsequently convicted of war crimes at the Nuremberg trials. After World War II, it became clear that the BIS, which had been a kind of house banker to the Nazis, had helped to launder stolen gold.[51] Under the supervision of Funk and Puhl, Nazi Germany had confiscated gold from Jewish concentration camp victims and melted it down to make new gold ingots. During the Bretton Woods conference of 1944, the bank was even accused of acting under orders from the Nazis. The Americans were appalled, and the US government

48 James C. Baker, *The Bank for International Settlements*.

49 The famous historian Carroll Quigley writes about this in *Tragedy And Hope* (1966, p.278): 'The powers of financial capitalism had a far reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole.'

50 The Young Plan reduced further payments to 112 billion Gold Marks, equivalent to US $ 8 billion in 1929 (US $ 109 billion in 2013) over a period of 59 years, which would end in 1988.

51 One of the main figures behind the establishment of the Bank for International Settlements in Basel in the 1930s was Halma Schacht, the central banker of Nazi Germany.

supported a motion that called for the abolishment of the BIS. The proposal was supported by other European delegates but was opposed by John Maynard Keynes, the head of the British delegation. In April 1945, a decision to liquidate the BIS was made, but it was reversed by the US in 1948. The BIS had survived but was badly wounded. It had less influence and needed time to find a proper new role behind the scenes.

The BIS still operates as a counterparty, asset manager and lender for central banks and international financial institutions.

Switzerland agreed to act as the headquarter state for the BIS. The headquarters would be situated in Basel.

During the 1970s, the functions and the number of BIS members were substantially enlarged. Today, 60 central banks are members of the BIS, including those from the most important industrialized countries. Surprisingly, the Fed did not join until 1994.[52] This was because the Americans saw the BIS as a competitor to 'their' International Monetary Fund (IMF). At the start of the 1990s, the US realized they needed the BIS for European central bank support in its war on gold (of which more later) and in order to prevent regulation on derivatives.

While the presidents of the ECB and the Fed can still be held accountable by parliament or congress, no single form of democratic control exists over the decision-making process of the BIS. Their meetings are concealed from the outside world. Even ministers of finance have to guess what decisions bankers in Basel will take. The same bankers that brought our global financial system to the brink of collapse are deciding – behind the scenes and not answerable to anyone – on the banking reforms needed to prevent another credit crisis. It seems that not much has changed since the fall of Lehman.

To this day, BIS directors enjoy diplomatic status and cannot be prosecuted even after the end of their tenure. They are also allowed to move house with their family at any time to neutral Switzerland.[53]

52 http://www.bis.org/about/history.htm

53 www.bis.org/about/headquart-en.pdf

Chapter 3 – The History of the Dollar

Our American bankers have found that for which the ancient alchemists sought in vain; they have found that which turns everything into gold - in their own pockets; And it is difficult to persuade them that a system which is so very beneficial to themselves, can be very injurious to the rest of the community.

– William Gouge, A Short History of Paper-money and Banking in the United States (1833)

History shows that once an enormous debt has been incurred by a nation, there are only two ways to solve it: one is simply declare bankruptcy, the other is to inflate the currency and thus destroy the wealth of ordinary citizens.

– Adam Smith

Rising prices of precious metals and other commodities are an indication of a very early stage of an endeavor to move away from paper currencies. We have at this particular stage a fiat money which is essentially money printed by a government and it's usually a central bank which is authorized to do so. Some mechanism has got to be in place that restricts the amount of money which is produced, either a gold standard or a currency board, because unless you do that, all of history suggest that inflation will take hold with very deleterious effects on economic activity… There are numbers of us, myself included, who strongly believe that we did very well in the 1870 to 1914 period with an international gold standard.

– Alan Greenspan, former chairman of the Federal Reserve Board, (2011)

27. How did central banking get started in the US?

Many of the Founding Fathers were strongly opposed to the formation of a central bank because England had tried to place the American colonies under the control of the Bank of England.

Robert Morris, a former government official, founded the first central bank in the US in 1781. He is seen as the father of the system of credit in the United States. His Bank of North America was based on the model of the Bank of England and could create as much money as needed through fractional reserve banking. Interestingly, the bank's collateral was a large quantity of gold that France had lent to the US. Morris' choice for his bank's name was a smart one: it led people to think they were dealing with a governmental bank, while in actual fact it was a private enterprise that had a monopoly on money creation.

Ten years later, after a compromise with Southern lawmakers, the name was changed to the First Bank of the United States (1791–1811). Several Founding Fathers were opposed to the Bank. Thomas Jefferson saw it as a venture for speculation, manipulation and corruption.[54] In 1811, its charter expired and was not renewed by Congress. In 1816, the government authorized the establishment of the Second Bank of the United States. The charter was not renewed in 1836 after a period of runaway inflation which led to a four-year-long depression in 1837. Between 1837 and 1862, only state-chartered banks existed. During this free banking era, many banks were short-lived with an average lifespan of five years.

The American people were against a central bank in private hands because they believed that the crises of 1873, 1893 and 1907 had been caused by the operating methods of international bankers. They also feared that too much power would be concentrated on the East Coast of America. Unfortunately, we now know that they were right.

54 http://en.wikipedia.org/wiki/History_of_central_banking_in_the_United_States

28. When was the Federal Reserve created?

John Pierpont Morgan was the most famous and powerful banker of the early 1900s. After he was compelled to use his private fortune to stem the banking panic of 1907, he decided it was time for a new financial architecture. Soon, New York bankers came up with a brilliant idea. Their idea was start a new central bank that would be run and owned by New York bankers.

By this time, the US was the only major country without a central bank. In November 1910, Republican senator Nelson W. Aldrich joined a number of the most powerful Wall Street bankers for a secretly organized, private ten-day conference on Jekyll Island, the private island of J.P. Morgan. There was only one topic on the agenda: the establishment of a new central bank.[55]

In March 1910, Aldrich told the Wall Street bankers:

> It is a disgrace to this country, with its vast resources, that we are obliged to pay our bills in sterling drafts or in drafts drawn payable in marks or francs in London or Berlin or Paris. The time will come – and it ought to come soon, gentlemen – when the United States will take the place to which she is entitled as the leading financial power in the world.[56]

It was agreed that this bank had to gain the monopoly on printing dollars and should become a private organization owned by the founders (Wall Street bankers). To the outside world, it would not be called a central bank and would act as if it was operated by the government.[57]

55 Eustace Mullins, *The Secrets of the Federal Reserve*, [p.9 & p.22]. http://archive.org/details/TheSecretsOfTheFederalReserve

56 Nomi Prins, *All the Presidents Bankers: The Hidden Alliances that Drive American Power*, New York: Nation Books, 2014.

57 http://nl.wikipedia.org/wiki/Eustace_Mullins

In order to allow the Aldrich[58] plan to succeed, it had to first be heavily promoted among the people and the government. As illustrated above, the establishment of two earlier central banks had ended in fiascos. This may explain why, despite Wall Street's best efforts, the members of the US House of Representatives did not support the Aldrich plan.

Then, during the elections of 1912, a wind of change blew through Washington. Although the Republicans once again presented their plan for establishing a central bank, it was the Democrats who presented the Federal Reserve Act, also in co-operation with the New York bankers group around J.P. Morgan. The thinking behind the Democrats' plan was almost identical to the Aldrich plan but was received much more enthusiastically, although there still was a certain amount of criticism. This was a smart political move by the Wall Street bankers. The Federal Reserve Act contained many features that were needed to overcome the anticipated objections to a US central bank by the American public. The new entity would be a Federal Reserve System instead of a central bank. It would present itself as a collection of regional banks with a Federal Reserve Board to supervise them. The board would not be selected by bankers but by the President of the United States.

In December 1913, many senators assumed that the deciding vote on the Federal Reserve Act would not take place until the New Year. They left Congress to celebrate Christmas at home. Shortly before the holidays, however, a few controversial topics were scrapped from the bill, enabling the law to be passed in the last meeting before the Christmas holidays. The establishment of the Federal Reserve was a fact.

It was the most beautiful Christmas present Wall Street could have wished for. For the third time in US history, the monopoly on the printing of dollars was transferred from government to

58 Named after Senator Nelson Aldrich, the only non-banker of the club. Because Aldrich was a senator, the plan was named after him so that the public would not be suspicious.

private banks. Not many politicians realized the far-reaching consequences this decision would have. Immediately after the introduction of the law, all US banks became compulsory shareholders of the Fed.

29. Is the Fed really independent?

Officially, the Federal Reserve Bank of New York is only one of twelve regional Reserve Banks which make up the Federal Reserve System, together with the Board of Governors in Washington. But while the New York Fed serves only a geographically small area compared with the other Federal Reserve Banks, the New York Fed is the largest Reserve Bank in terms of assets and volume of activity. As a result, the New York Fed is far more important in the Fed system than all the other 11 regional Reserve Banks combined.

When the Federal Reserve Act was signed in 1913, the powerful New York banker Benjamin Strong[59] became president of the Federal Reserve Board (FRB) of New York up until his death in 1928. He drew a lot of power to himself, also within the Federal Open Market Committee (FOMC) where monetary policies were decided, and he often took decisions unilaterally.[60]

The FOMC, which happens to be based in New York, consists of seven governors who are chosen by the US President and five directors of the regional Federal Reserve banks. One of those five always comes from the New York Fed. So while the Federal Reserve presents itself as a normal central bank with twelve districts, the New York Fed is actually running the show. One hundred years after the Federal Reserve started, it is still unknown who precisely owns its shares[61] and how much they paid for them. But it is well known that shareholders are predominantly Wall Street banks.

59 Both were powerful bankers with connections in Europe. Strong was the vice president of the Banker's Trust of New York and friends with the Rothschilds, who in turn had control over the Bank of England. Warburg was a German immigrant who had close ties with the banking fraternity in Germany. He was also a partner of the Kuhn Loeb Bank in New York.

60 Murray N. Rothbard, *The Case Against the Fed*, p. 126.
http://www.lewrockwell.com/1970/01/murray-n-rothbard/the-case-against-the-fed/

61 http://www.federalreserve.gov/aboutthefed/section5.htm

After Strong's death, power remained centralized in New York. Up to this very day, only the New York Fed has a permanent seat on the FOMC and a permanent seat at the Bank for International Settlements, as the official US representation.[62] Furthermore, the New York Fed has the following unique responsibilities:

- Conducting open market operations;
- Intervening in foreign exchange markets (including gold);
- Storing monetary gold for foreign central banks, governments and international agencies;
- Implementing monetary policy and international operations.

At the outset, the founders of the Fed were wary of meddling by the government. For this reason, they decided that the presidents of the twelve regional Federal Reserve Banks (FRD) would be appointed by the participating banks.[63] This means that these are almost completely under the control of the banks.

A great deal of this information is still withheld from students of economics at most universities. Even most economists are not aware that the government does not own the shares of the Fed and that it is in fact Wall Street that controls the Fed instead of the other way around.

62 http://www.ny.frb.org/aboutthefed/fedpoint/fed22.html

63 Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets*, 2006, p. 314.

30. When was the dollar system born?

Before World War II, the American economy was predominantly inward-looking. After the war, however, US companies realized the growth potential offered by new foreign markets and wanted to benefit from them. The British pound sterling, the world currency before World War I, had weakened significantly after it had left the gold standard in 1914. But this was only temporary, since a gold standard was re-introduced in 1925. Benjamin Strong, in his position as President of the New York Fed, pursued a successful policy of toppling the pound sterling from its position as the dominant international currency and replacing it with the dollar. The final blow to the pound sterling came when the currency was forced off the gold standard for a second time in September 1931.[64]

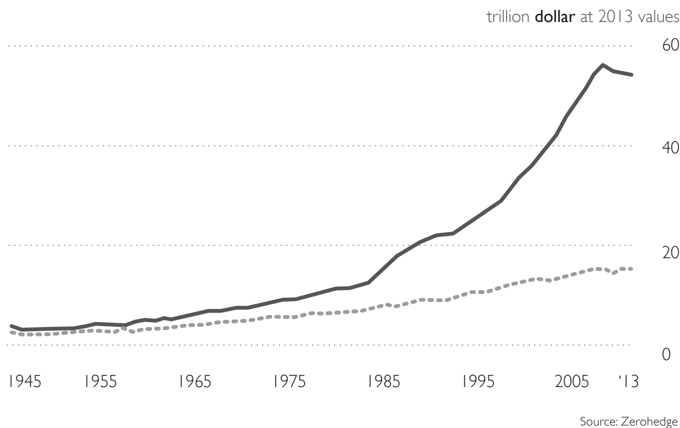
During both world wars, the dollar had become increasingly important outside of the US, and the US decided in early 1944 that it was time to take advantage of their anticipated victory. The Americans knew that upgrading the status of the dollar to that of a world currency would bring with it significant benefits.

Because several countries (including the UK) had made payments to the US in gold during World War II, and because the US had 'looted' quite a bit of gold, almost two-thirds of all financial gold reserves worldwide were at the disposal of the US at the end of World War. After President Roosevelt's executive order in 1933[65] which forbade individuals from owning gold, a significant amount of privately owned gold was confiscated, thereby considerably increasing US gold supplies as well. All of this gold could now be put to use to back the American dollar as the new world reserve currency.

64 In 1925, the US held 45% of all financial gold stock. (Official Monetary and Financial Institutions Forum, *Gold, the renmimbi and the multi reserve currency system*, 2013)

65 http://www.safehaven.com/article/14339/why-did-the-us-government-confiscate-gold-in-1933-and-can-it-happen-again-part-3

As the war drew to a close and after two and a half years of planning for postwar reconstruction, the US decided to present its proposal for a new international financial system. Finance ministers from 44 countries were invited to attend a conference in 1944 on the future of the world's financial system. This was the famous Bretton Woods conference, named after the forest surrounding the hotel where the conference took place. The idea was to build 'a system of international payments that would allow trade to be conducted without fear of sudden currency depreciation or wild fluctuations in exchange rates'. The US wanted to persuade other countries to support a move to a new monetary system built around the dollar instead of gold.



31. What was decided at the Bretton Woods conference?

There were two plans on the drawing board for a new world currency. The economists John Maynard Keynes and Ernst Friedrich Schumacher proposed the creation of a new supranational currency, the Bancor. This idea was backed by the British, who resisted the idea of handing over the benefits of owning the world's reserve currency to the Americans.[66] The new Bancor was to be issued by the yet-to-be-formed International Monetary Fund. No single country would then enjoy the privileged position of owning the world's reserve currency.

The second plan, developed by Harry Dexter White, the chief international economist at the US Treasury during World War II, was a blueprint for the dollar to become the new world currency. As the main creditor nation, the US was eager to take on the role of the world's economic powerhouse. The American plan meant that all commodities would have to be traded in dollars, forcing all countries to buy dollars in order to be able to pay for them. The US would only need to turn on the printing press in order to be able to satisfy the permanent demand for dollars.

An important benefit of having its own currency as the world reserve currency is that the US could finance its trade deficits (when imports exceed exports) inexhaustibly by simply printing more dollars.[67] Wary of the repercussions of such an arrangement, Europe demanded that the dollars be exchangable for gold. After some discussion, it was agreed that countries would be allowed to exchange their excess dollars with the US against a fixed exchange rate of $ 35 for one ounce of gold. The US would in this way be restrained from building up too much debt. The

66 'The greatest blow to Britain next to the war', according to a senior official of the Bank of England (1944) in 'The Bretton Woods Sequel Will Flop' by Gideon Rachman, *The Financial Times*, 11 November 2008. http://www.relooney.info/0_New_3860.pdf

67 Costabile L. (2010), 'The International Circuit of Key Currencies and the Global Crisis: Is there Scope for Reform?' PERI Working paper series, number 220, 4-10.

US reluctantly accepted, secretly hoping that this agreement would be quickly forgetten.

Because of the overwhelming economic and military power of the US and the promise that the dollar would be backed by gold, in the end the participating countries agreed on White's plan. It would mark the start of the United States as the economic superpower for the rest of the 20th century.

32. Why did Europe accept the dollar system?

The French in particular found it difficult to accept the fact the US would be able to finance budget deficits by turning on the printing press. They protested both in 1944 and thereafter against the introduction of this dollar system. But France, like many other European countries, needed financial help at the end of World War II. It therefore accepted the Bretton Woods plan and in return received millions of dollars in special aid. At Bretton Woods, the US also proposed the Marshall Plan, which was designed to help finance Europe after the devastations of the war. Europeans did not know at that time that the Marshall Plan also financed[68] the formation of the Central Intelligence Agency (CIA). Ten percent of Marshall Plan funds was used to finance CIA operations in European countries. This was arranged in secret, without any knowledge or approval by the US Congress.

General de Gaulle understood quite well that France and the rest of the world would have to start financing US deficits by buying up government bonds. Jacques Rueff, France's minister of finance, de Gaulle's main adviser, remarked:

> 'If I had an agreement with my tailor that whatever money I pay him he returns to me the very same day as a loan, I would have no objection at all to ordering more suits from him and my own balance of payments would then be in deficit. Because of this situation, the United States could pay off its balance of payments deficit in paper dollars. (...) As the central banks received dollars, they used them immediately to buy US Treasury Bills or certificates of deposit in New York banks, thus returning the dollars to their country of origin which thus recovered all the assets it had just paid out.'[69]

68 https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-publications/csi-studies/studies/vol51no3/legacy-of-ashes-the-history-of-cia.html
69 Metaphor used by Jacques Rueff to illustrate the privileged position the United States enjoys in the monetary system. *The Monetary Sin of the West*, Mac Millan, 1972

Other European countries were even more dependent on US financial help. After being saved by the Americans from Nazism, not many dared to question their newfound friendship with the US.

33. For how long did the Bretton Woods system work?

Following the Bretton Woods conference, all national currencies became pegged to the dollar, which was linked to gold at a rate of $ 35 per ounce. The dollar was the official world's reserve currency and the anchor of the monetary system. The world now operated under a pseudo gold standard which economists call the 'gold exchange standard'.

Within a few years, American companies were buying up European companies with their overvalued dollars. The US was able to run huge budget deficits. When other countries warned that this could weaken the dollar, the US always promised to bring its deficits down. But this promise rang increasingly hollow amid sharply rising expenses of up to $ 100 billion from the Vietnam War.

The French had already clashed for more than a century with the US over a number of issues. Now they and other European countries became fearful that many more dollars were being created than could be backed by the amount of gold owned by the US.

In the latter part of the 1960s, France and some other countries started to exchange their surplus dollars for gold. President de Gaulle of France even gave a television address in which he explained the US dollar privilege:[70]

> 'The fact that many countries accept as a principle dollars being as good as gold for the payment of the differences existing for their advantage in the American balance of trade. This very fact leads Americans to get into debt, and get into debt for free at the expense of other countires at least in part with dollars only they are allowed to emit. Considering the serious consequences a crisis would have under such a system we think that measures must be taken in time to avoid it. We

70 http://www.youtube.com/watch?v=EjRLsAzW6e4

> consider it necessary that international trade be established as it was before the great misfortunes of the world on an indisputable monetary base, one that does not bear the mark of any particular country. Which base? In truth, who can see, how one can have any real standard critereon, other than gold?'

France started by demanding gold in exchange for $ 150 million of their financial reserves and was planning to convert another $ 150 million. De Gaulle even sent the French navy to the US to transport the gold bars back home. Many other European countries followed. In this way, Germany's gold reserves increased from zero to 3,500 metric tonnes, Italy from just over 220 to 2,500 metric tonnes, France from almost 600 to 3,100 metric tonnes, and the Netherlands from 300 to almost 1,700 metric tonnes.

In early 1971, the Dutch Central Bank (DNB) successfully swapped nearly a billion dollars for gold. Paul Volcker, an important Treasury official who would later become Chairman of the Fed, was sent to Holland to try to change DNB President Jelle Zijlstra's mind.[71]

'You are rocking the boat', Volcker is said to have remarked. Zijlstra then replied, 'Well if this rocks the boat, then the boat is not very solid'.

71 http://marketupdate.nl/nieuws/economie/valutacrisis/dr-zijlstras-final-settlement-gold-as-the-monetary-cosmos-sun/
http://www.coinweek.com/commentary/opinion/former-central-banker-confirms-us-government-gold-price-suppression-efforts/

34. When did the US close its 'gold window'?

Between 1959 and 1971, the US lost over half of its gold reserves of over 20,000 metric tonnes. If this process had continued at the same rate, the US would have risked losing all its gold holdings within a few years' time. In the summer of 1971, President Richard Nixon refused a request by the Bank of England to exchange a few hundred million dollars for gold. After rejecting the British request, President Nixon asked his economic advisors for advice. Their verdict was short but sweet: 'Break the promise that the dollar can be exchanged for gold.'

Nixon followed their advice and on 15 August 1971 gave a live TV address announcing what he called his New Economic Policy. Nixon interrupted the most popular TV show in America, Bonanza, to announce that he would be introducing immediate wage and price controls, a 10% surtax on imports, and the closing of the gold window:[72]

> 'I have directed Secretary Connolly to suspend, temporarily, the convertibility of the American dollar into gold… In full cooperation with the IMF and those who trade with us, we will press for the necessary reforms to set up an urgently needed new international monetary system.'

As we now know, the closing of the gold window was not temporary, of course. And this book argues that we are still waiting for the new international monetary system promised by Nixon. But 1971 was a big financial reset when gold was repriced to $ 38 per ounce (and then again to $ 42 per ounce in 1973).

72 http://www.youtube.com/watch?v=iRzr1QU6K1o

35. How did the world react to Nixon's decision in 1971?

Technically speaking, America defaulted in August 1971, since the country could no longer fulfill the obligations agreed upon in Bretton Woods. But surprisingly, the Nixon shock created only a relatively short dollar panic in the world's financial markets.

Jacques Rueff warned in his book *The Monetary Sin of the West* (1971) about the long-term negative effects of inflationary policies. He explained that the use of a fiat dollar as a world reserve currency would cause worldwide inflation for years. The 'exorbitant privilege' allowed the US to run huge deficits but would be 'suicidal' for Western economies, he predicted. European countries were shocked when they later learned that the US had been planning to devalue the dollar even further. This led to panic buying of D-marks in the summer of 1972. In October 1978, the US dollar almost completely collapsed after a new wave of panic buying of D-marks and Swiss francs.

The fact that the dollar has survived as a reserve currency surprised many, including the Americans themselves. At first, the inflation caused by the printing of extra dollars was moderate, but later in the 1970s, inflation began to take off, leading to a severe recession in 1979 and 1980. It would take years of strong leadership by Fed Chairman Paul Volcker to tame inflation and make the dollar a 'strong' currency again. In June 1981, Volcker raised the federal funds rate to 20%. The shock therapy worked. Inflation collapsed from over 12% in 1980 to 1% in 1986, and the price of gold dived from $ 612 to $ 300. The dollar started to regain strength, especially when the greenback showed itself to be a safe-haven currency during the Mexican peso crisis in 1994 and the 1997 Asian crisis.

With the strengthening of the dollar, the need for a new international monetary system appeared to evaporate. However, this need is now more urgent than ever.

36. How important is the worldwide oil trade for the survival of the dollar?

After the short-lived dollar panic of 1971, the United States understood that a lack of trust in the dollar was going to be a problem. Clearly, some other backing for the dollar was urgently needed. President Nixon and his Secretary of State, Henry Kissinger, feared a decline in the relative global demand for the US dollar. They sought a way to stabilize the dollar to maintain its global reserve currency status.

Henry Kissinger came up with the idea[73] of asking Saudi Arabia to agree to only sell oil in dollars and to reinvest these dollars in US Treasuries.[74] The money that the US government received in this manner, now known as petrodollars, could then be recycled into the American economy.[75] This arrangement would require a constant increase in the supply of dollars.

After a series of meetings, the Saudis accepted the American proposal. In return, Saudi Arabia was to receive any military protection needed for its royal family and its growing oil empire. The US also promised to help the country build a modern infrastructure (using American companies, of course). Thus, the US had found a way to protect its economic hegemony.

Other OPEC countries followed suit and by 1975 all of OPEC had agreed to only sell their oil in dollars. Part of the deal was that they would all invest their surplus oil proceeds in US Treasuries in exchange for similar offers by the US. The modernization of the Middle East could begin. Dubai, a relatively small trading city in the United Arab Emirates with no running water until 1961, was to become a worldwide trading hub in the ensuing 40 years.

73 http://www.thepeopleshistory.net/2013/06/understanding-petrodollar-means.html.

74 David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets*, 1999.

75 http://en.wikipedia.org/wiki/Petrodollar_recycling.

It is no surprise that countries that chose to sell their oil for currencies other than the dollar were to meet serious opposition from the US. In 2000, Iraq converted all its oil transactions under the Oil for Food program into euros.[76] When the US invaded Iraq three years later, oil sales from this country switched from the euro back to dollars instantly.

Iran created its own oil bourse in 2008.[77] It started selling oil in gold, euros, dollars and yen. Venezuela supported Iran's decision to sell oil for euros. Libya also presented a threat to the petrodollar in 2010. Muammar Gaddafi wanted to create a pan-African currency called the gold dinar that could be used for their oil transactions. After the 'revolution' in 2012, Libya continued to sell oil in dollars. Syria had switched to euros in 2006,[78] and the US has been seeking a regime change ever since.

In his 2005 book *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar*, William R. Clarke explains that the US-UK decision to invade Iraq in 2003 was oil-driven. According to him, the petrodollar system was the driving force behind US foreign policy.[79] It seems no coincidence that the Bush family has had close personal ties with the Saudi Royal Family since the 1970s. And even Alan Greenspan, who served as Fed Chairman for almost two decades, wrote in his memoirs:

> I am saddened that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil.[80]

76 http://www.rferl.org/content/article/1095057.html.

77 http://en.wikipedia.org/wiki/Iranian_Oil_Bourse.

78 http://www.informationclearinghouse.info/article11894.htm.

79 http://www.zerohedge.com/news/2013-05-20/guest-post-coming-collapse-petrodollar-system.

80 http://www.theguardian.com/world/2007/sep/16/iraq.iraqtimeline.

The former US Congressman and Presidential candidate Ron Paul wrote about the Iraq war in 2006:

> In November 2000 Saddam Hussein demanded euros for his oil. His arrogance was a threat to the dollar; his lack of any military might was never a threat. At the first cabinet meeting with the new administration in 2001, as reported by Treasury Secretary Paul O'Neill, the major topic was how we would get rid of Saddam Hussein – though there was no evidence whatsoever he posed a threat to us. This deep concern for Saddam Hussein surprised and shocked O'Neill. It now is common knowledge that the immediate reaction of the administration after 9/11 revolved around how they could connect Saddam Hussein to the attacks, to justify an invasion and overthrow of his government. Even with no evidence of any connection to 9/11, or evidence of weapons of mass destruction, public and congressional support was generated through distortions and flat out misrepresentation of the facts to justify overthrowing Saddam Hussein. There was no public talk of removing Saddam Hussein because of his attack on the integrity of the dollar as a reserve currency by selling oil in euros. Many believe this was the real reason for our obsession with Iraq. I doubt it was the only reason, but it may well have played a significant role in our motivation to wage war. Within a very short period after the military victory, all Iraqi oil sales were carried out in dollars. The euro was abandoned. In 2001, Venezuela's ambassador to Russia spoke of Venezuela switching to the euro for all their oil sales. Within a year there was a coup attempt against Chavez, reportedly with assistance from our CIA. After these attempts to nudge the euro toward replacing the dollar as the world's reserve currency were met with resistance, the sharp fall of the dollar against the euro was reversed. These events may well have played a significant role in maintaining dollar dominance. It's become clear the US administration was sympathetic to those who plotted the overthrow of Chavez, and was embarrassed

by its failure. The fact that Chavez was democratically elected had little influence on which side we supported. [...] Now Iran, especially since she's made plans for pricing oil in euros, has been on the receiving end of a propaganda war not unlike that waged against Iraq before our invasion. It's not likely that maintaining dollar supremacy was the only motivating factor for the war against Iraq, nor for agitating against Iran. Though the real reasons for going to war are complex, we now know the reasons given before the war started, like the presence of weapons of mass destruction and Saddam Hussein's connection to 9/11, were false. The dollar's importance is obvious, but this does not diminish the influence of the distinct plans laid out years ago by the neo-conservatives to remake the Middle East. Israel's influence, as well as that of the Christian Zionists, likewise played a role in prosecuting this war. [...] The license to create money out of thin air allows the bills to be paid through price inflation. American citizens, as well as average citizens of Japan, China, and other countries suffer from price inflation, which represents the 'tax' that pays the bills for our military adventures. That is until the fraud is discovered, and the foreign producers decide not to take dollars nor hold them very long in payment for their goods. Everything possible is done to prevent the fraud of the monetary system from being exposed to the masses who suffer from it. If oil markets replace dollars with euros, it would in time curtail our ability to continue to print, without restraint, the world's reserve currency. It is an unbelievable benefit to us to import valuable goods and export depreciating dollars. The exporting countries have become addicted to our purchases for their economic growth. This dependency makes them allies in continuing the fraud, and their participation keeps the dollar's value artificially high. If this system were workable long term, American citizens would never have to work again. We too could enjoy 'bread and circuses' just as the Romans did, but their gold finally ran out and the inability of Rome to continue to plunder conquered nations brought an

end to her empire. The same thing will happen to us if we don't change our ways. Though we don't occupy foreign countries to directly plunder, we nevertheless have spread our troops across 130 nations of the world. Our intense effort to spread our power in the oil-rich Middle East is not a coincidence. But unlike the old days, we don't declare direct ownership of the natural resources – we just insist that we can buy what we want and pay for it with our paper money. Any country that challenges our authority does so at great risk. Once again Congress has bought into the war propaganda against Iran, just as it did against Iraq. Arguments are now made for attacking Iran economically, and militarily if necessary. These arguments are all based on the same false reasons given for the ill-fated and costly occupation of Iraq. Our whole economic system depends on continuing the current monetary arrangement, which means recycling the dollar is crucial. [...] There are no other countries that can challenge our military superiority, and therefore they have little choice but to accept the dollars we declare are today's 'gold.' This is why countries that challenge the system – like Iraq, Iran and Venezuela – become targets of our plans for regime change. Ironically, dollar superiority depends on our strong military, and our strong military depends on the dollar. As long as foreign recipients take our dollars for real goods and are willing to finance our extravagant consumption and militarism, the status quo will continue regardless of how huge our foreign debt and current account deficit become. [...] Concern for pricing oil only in dollars helps explain our willingness to drop everything and teach Saddam Hussein a lesson for his defiance in demanding euros for oil. And once again there's this urgent call for sanctions and threats of force against Iran at the precise time Iran is opening a new oil exchange with all transactions in euros. Using force to compel people to accept money without real value can only work in the short run. It ultimately leads to economic dislocation, both domestic and international, and always ends with a price to be paid. The

> economic law that honest exchange demands only things of real value as currency cannot be repealed. The chaos that one day will ensue from our 35-year experiment with worldwide fiat money will require a return to money of real value. We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros. The sooner the better.[81]

So the real challenge for the petrodollar trade would be if the BRICS – Brazil, Russia, India, China and South Africa – were to decide to drop the dollar in their trading transactions.

81 http://www.informationclearinghouse.info/article11946.htm.

37. Is this all is part of the financial economic war played by the US?

The US understands better than anybody else that a country can sometimes be hurt more by destroying the value of its currency than by bombing its infrastructure. The Oxford English Dictionary defines economic warfare as involving 'an economic strategy based on the use of measures of which the primary effect is to weaken the economy of another state.' Economic warfare aims to capture or otherwise control the supply of critical economic resources or destroying a countries currency.[82]

A recent example of financial economic warfare was the sudden crash of the price of oil and value of the ruble soon after the annexation of the Crimea by Russia, in the second part of 2014. In less than six months the price of oil halved. This large drop could not be explained solely by fundamentals like supply and demand. Some market commentators said it reminded them of the Cold War era when the US and the former USSR competed not only in a military way, but also tried 'to play the economy'. Because the USSR was increasingly more dependent on food imports, especially grain, the export of oil had to bring in enough dollars. The US decided to use its influence on Saudi Arabia (OPEC) and persuaded them to expand the supply of oil, making the oil price plunge in the 1980s. It would soon prove to be a fatal attack for Russia and the Soviet Union collapsed in 1991. The fact that Saudi Arabia in 2014 again increased its oil production fuelled rumours of a new economic war against Russia.[83] The collapse of the oil price led to collapse of the Russian ruble.

In 2015, Herman Gref, the German-Russian CEO of the Russian Sberbank, confirmed that Russia had come under a financial

82 Policies followed in economic warfare may include blockade, blacklisting, preclusive purchasing or manipulating the value of a country's currency.
83 http://www.bbc.com/news/blogs-echochambers-29651742.

economic attack in December. He disclosed a foreign-based attempt to provoke a bank run during the December ruble crisis.[84]

In an interview he said that about $6 billion had been withdrawn from the Sberbank in a single day after 'a massive information attack, with people receiving text messages saying it was facing problems paying out deposits [...] Unfortunately, we could not avoid the panic. You saw what happened. But I can only say this: first, the attack was coordinated, thousands of SMS-messages were sent in each region, including a large number of mailings done from foreign websites [...] target was to destabilize the country's largest bank and financial situation in the country.'

According to him, the $6 billion withdrawn on 18 December 2014 made it the 'biggest bank run in Russian history.'

Gref could not disclose precisely who was behind the bank run:

> But we do have specific sites and IP-addresses these mailings were sent from, we even know who these addresses belong to. Not all of them are within our reach. But there is no doubt it was a well-planned provocation.

84 http://www.rt.com/business/262685-gref-attack-sberbank-provocation/.

38. Is there further confirmation of this kind of financial economic warfare?

In May 2015, the US had a number of high ranking FIFA officials arrested in Switzerland in connection to a bribery case. Most observers did not understand that the US action was designed to pressure FIFA,[85] 'urging it to consider removing Russia as host of the 2018 FIFA World Cup because of its role in the Ukraine crisis and occupation of Crimea,' as Reuters has been reporting. In a letter to FIFA, a group of US senators wrote:

> Allowing Russia to host the FIFA World Cup inappropriately bolsters the prestige of the [Russian President, Vladimir] Putin regime at a time when it should be condemned and provides economic relief at a time when much of the international community is imposing economic sanctions.

Klaus Stolhker, a personal consultant to FIFA-president Sepp Blatter, confirmed to Russian TV that the US is fighting 'a war' against Russia:[86]

> FIFA needs to defend itself from an attack by the Americans [...] We in Switzerland, we are used to hav[ing] the Americans inside our doors. That's not only with the banks; that also happens now with FIFA. So the Americans step inside our doors, and now we have to fight to defend, like the banks defended themselves, we have to defend FIFA. And there are really tremendous discussions, not only in Europe, but also in the US, if what the Americans did in the last weeks and months is really correct. That discussion is also going on in the US [...] now we have a war between the US and Russia, between the Americans and Putin [...] The Americans, who

85 http://www.reuters.com/article/2015/04/01/us-soccer-fifa-congress-idUSKBN0MS52G20150401.
86 http://rt.com/op-edge/267703-blatter-consultant-fifa-scandal/.

> don't understand anything of football, they don't trust Blatter. They trust only themselves [...] But, you see, if the Americans are blockading Russia; that will be tough. And so that's why I said: it's war.

China and Russia were also shocked to learn how the US has used the SWIFT[87] international payment system. SWIFT provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure way. Almost all international financial institutions (over 9,000 in 209 countries) use the SWIFT network. In 2014, the United Kingdom pressed the EU to block Russia from the SWIFT network as a sanction for the Russian aggression in Ukraine. SWIFT refused. China responded quickly and launched its own alternative, the China International Payment System (CIPS).

When Edward Snowdon published his stream of NSA secrets, we learned that the US has a program to access the SWIFT transaction database (Terrorist Finance Tracking Program) in order to monitor banking- and credit card transactions. Soon after, the Belgian government declared that this was a breach of Belgian and European privacy laws.[88]

Earlier in 2012, the US Senate Banking Committee approved sanctions against SWIFT aimed at pressuring the Belgian financial telecommunications network to terminate its ties with blacklisted Iranian banks. Initially, SWIFT denied it was acting illegally but in March 2012 SWIFT disconnected all Iranian banks from its international network.

Alastair Crooke, a former MI6 official and previously an adviser on the Middle East to EU Foreign Policy Chief Javier Solana,

87 The Society for Worldwide Interbank Financial Telecommunication, Business Identifier Codes (BICs) are popularly known as 'SWIFT codes'.

88 A Danish newspaper reported that US authorities 'used' SWIFT to seize money being transferred between two EU countries (Denmark and Germany). The $26,000 was a payment for Cuban cigars imported to Germany by a German supplier. According to the US Treasury, the Danish businessman had violated the US embargo against Cuba.

is one of a few individuals who has been very open about the purpose of this kind of financial and economic warfare:[89]

> We have a dollar-based financial system, and through instrumentalizing America's position as controller of all dollar transactions, the US has been able to bypass the old tools of diplomacy and the UN – in order to further its aims [...] This essentially constitutes the financialization of the global order: The International Order depends more on control by the US Treasury and Federal Reserve than on the UN as before [...] It started principally with Iran and it has been developed subsequently. In a book, 'Treasury's War,' the tool of exclusion from the dollar-denominated global financial system is described as a 'neutron bomb.' When a country is to be isolated, a 'scarlet letter' is issued by the US Treasury that asserts that such-and-such bank is somehow suspected of being linked to a terrorist movement – or of being involved in money laundering. The author of 'Treasury's War' [Juan Zarate], who was the chief architect of modern financial warfare and a former senior Treasury and White House official, says this scarlet letter constitutes a more potent bomb than any military weapon. [...] But with Ukraine, we have entered a new era: We have a substantial, geostrategic conflict taking place, but it's effectively a geo-financial war between the US and Russia. We have the collapse in the oil prices; we have the currency wars; we have the contrived 'shorting' – selling short – of the ruble. We have a geo-financial war, and what we are seeing as a consequence of this geo-financial war is that first of all, it has brought about a close alliance between Russia and China. China understands that Russia constitutes the first domino; if Russia is to fall, China will be next. These two states are together moving to create a parallel financial system, disentangled from the Western financial system. It includes replicating SWIFT [Society for Worldwide Interbank

89 http://russia-insider.com/en/print/3126.

Financial Telecommunication] and creating entities such as the Asian Development Bank. One of the principal tools in the hands of Washington to control the global system was always the International Monetary Fund [IMF]. Nations have to go to the IMF to ask for financial help, when in difficulties, but recently it was China – and not the IMF – which bailed out Venezuela, Argentina and Russia as their currencies crashed. China became concerned when the ruble crashed on Dec. 16-17, and intervened to halt a run on the currency. The IMF and the World Bank were no longer at the center of the global financial order. They had been displaced by China. [...] In short, China is operating as a backstop to a financial system that is in the process of shifting dramatically away from Western control. And it affects the Middle East. [...] For the first time, too, we see the end of the petro-dollar as a system for recirculating oil revenues to Wall Street. For the first time, it has turned negative: It is sucking liquidity out from Wall Street, not putting it in. The fall in the price of oil has suddenly created huge financial turbulence, which is endangering the global financial system. [...] There was a decision by Saudi Arabia to reduce the price of oil for two reasons: to hurt Iran and to put pressure on Russia to change its stance and drop its support for President [Bashar al-]Assad. The Saudi determination to get rid of Assad remains extremely strong in Riyadh. [...] The market had been artificially inflated by the oil companies lending crude oil to financial investors who want a hedge against inflation and currency fluctuations. Investors were borrowing physical oil, which made them feel safe, and knew that the oil companies would eventually repurchase the physical oil from them in due time. With the fall of the price of oil, all of this purely investment demand vanished, and the price dropped further. One sees something similar in the gold market, where only 10 percent of gold transactions involve the transfer of ownership of actual gold. The other 90 percent are simply paper bets on the price of gold, but which never result in the purchase or sale of actual gold.

Cooke is not the only expert who dares to be open about this new form of economic warfare. According to another publication, Rashid Abanmy, president of the Riyadh-based Saudi Arabia Oil Policies and Strategic Expectations Center has also remarked that 'the dramatic price collapse is being deliberately caused by the Saudis.' According to him, the real reason for the collapse of the oil price was 'to put pressure on Iran on her nuclear program, and on Russia to end her support for Bashar al-Assad in Syria.'[90] More than half of Russian state revenue comes from its export of oil and gas.

90 http://www.globalresearch.ca/the-secret-stupid-saudi-us-deal-on-syria/5410130.

39. Is the US the mastermind behind this new form of warfare?

According to a publication by the very well informed journalist Ambrose Evans-Pritchard, who has been a Washington-based correspondent for the Telegraph for many years,[91] the US Treasury has a department working 'a financial neutron bomb.'

> For the past 12 years an elite cell at the US Treasury has been sharpening the tools of economic warfare, designing ways to bring almost any country to its knees without firing a shot. The strategy relies on hegemonic control over the global banking system, buttressed by a network of allies and the reluctant acquiescence of neutral states. Let us call this the Manhattan Project of the early 21st century.

Evans-Pritchard published an interview with Juan Zarate, a former Treasury and White House official, and author of *Treasury's War: The Unleashing of a New Era of Financial Warfare*:

> The new geo-economic game may be more efficient and subtle than past geopolitical competitions, but it is no less ruthless and destructive. The stealth weapon is a 'scarlet letter', devised under Section 311 of the US Patriot Act. Once a bank is tainted in this way – accused of money-laundering or underwriting terrorist activities, a suitably loose offence – it becomes radioactive, caught in the boa constrictor's lethal embrace. This can be a death sentence even if the lender has no operations in the US. European banks do not dare to defy US regulators. They sever all dealings with the victim [...] The US can 'go it alone' with sanctions if necessary. It therefore hardly matters whether or not the EU drags its feet

91 http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/10771069/US-financial-showdown-with-Russia-is-more-dangerous-than-it-looks-for-both-sides.html.

> over Ukraine, opting for the lowest common denominator to keep Bulgaria, Cyprus, Hungary and Luxembourg on board. Washington has the power to dictate the pace for them. The new arsenal was first deployed against Ukraine – of all places – in December 2002. Its banks were accused of laundering funds from Russia's organized crime rings. Kiev capitulated in short order. Burma, North Cyprus, Belarus and Latvia were felled one by one, all forced to comply with US demands. North Korea was then paralyzed. The biggest prize yet has been Iran, finally brought to the table.

Iran's President Mahmoud Ahmadinejad has been commenting on this new form of warfare as well and remarked, according to the same Telegraph report, that:

> A hidden war is under way, on a very far-reaching global scale. This is a kind of war through which the enemy assumes it can defeat the Iranian nation.

So the recent Russian activities, selling US Treasuries and buying gold, can be seen as a reaction to the financial war started by the US, and best described by Putin's economic advisor Sergei Glazyev:[92]

> Of course, all the freely convertible currencies are today under American control: The euro through NATO mechanisms, the pound through the US alliance with Great Britain, the yen through Japan's political dependence on the US. Nevertheless, assets in our trading partners' currencies are, to a certain extent, a replacement [for keeping international reserves in US Treasuries]. So are precious metals. I believe that in a situation of growing military and political confrontation the gold price will move up again. And let's not forget that

92 http://www.bloombergview.com/articles/2014-11-13/putin-is-the-biggest-gold-bug.

America's refusal to honour their debt will undermine trust on the dollar not just in this country but in others. It will be a step toward the end of the American financial empire. It will give us a chance to be among the first to suggest a new configuration for the world financial system, in which the role of national currencies would be significantly higher.

40. Why is this dollar hegemony so important for the US?

Great nations have great currencies and great currencies can give countries great power so they can even grow into empires, political scientist Jonathan Kirshner once said. He explained it a little more in detail:

> Monetary power is a remarkably efficient component of state power [...] the most potent instrument of economic coercion available to states in a position to exercise it. Monetary hegemony can bring enormous economic benefits and power for the hegemon. The two best examples in the last two centuries of course are Britain and the US. Both have benefitted tremendously from their monetary hegemony. The British Empire reigned for over three hundred years, but in the 1870s the size of the US economy surpassed that of Britain. The US became the world's biggest exporter around 1915, but the dollar only became the world's reserve currency since the Bretton Woods conference in 1944. It has helped the US to become a true financial economic hegemon. The dollar hegemony has become the most important pillar of the US hegemony, while many say the American military hegemony is used and abused for the monetary hegemony.

In order to maintain its monetary hegemony, the United States must weaken any potential competitors who will possibly challenge US monetary hegemony. Wars in the Middle East are fought to strengthen the dollar's position and fight regimes that have been supporting Russia. General Wesley Clark, the Supreme Allied Commander of NATO during the 1999 War on Yugoslavia, confirmed[93] in an interview that the US had decided to work toward regime changes in seven countries, in order to

93 https://www.youtube.com/watch?v=nUCwCgthp_E.

secure US interest in the region before any new world power might arise:

> We're going to take out seven countries in five years, starting with Iraq, and then Syria, Lebanon, Libya, Somalia, Sudan and, finishing off, Iran [...] About ten days after 9/11, I went through the Pentagon and I saw Secretary Rumsfeld and Deputy Secretary Wolfowitz. I went downstairs just to say hello to some of the people on the Joint Staff who used to work for me, and one of the generals called me in. He said, 'Sir, you've got to come in and talk to me a second.' I said, 'Well, you're too busy.' He said, 'No, no.' He says, 'We've made the decision we're going to war with Iraq.' This was on or about the 20th of September. I said, 'We're going to war with Iraq? Why?' He said, 'I don't know.' He said, 'I guess they don't know what else to do.' So I said, 'Well, did they find some information connecting Saddam to al-Qaeda?' He said, 'No, no.' He says, 'There's nothing new that way. They just made the decision to go to war with Iraq.' He said, 'I guess it's like we don't know what to do about terrorists, but we've got a good military and we can take down governments.' And he said, 'I guess if the only tool you have is a hammer, every problem has to look like a nail.' So I came back to see him a few weeks later, and by that time we were bombing in Afghanistan. I said, 'Are we still going to war with Iraq?' And he said, 'Oh, it's worse than that.' He reached over on his desk. He picked up a piece of paper. And he said, 'I just got this down from upstairs' – meaning the Secretary of Defense's office – 'today.' And he said, 'This is a memo that describes how we're going to take out seven countries in five years, starting with Iraq, and then Syria, Lebanon, Libya, Somalia, Sudan and, finishing off, Iran.' I said, 'Is it classified?' He said, 'Yes, sir.' I said, 'Well, don't show it to me.' And I saw him a year or so ago, and I said, 'You remember that?' He said, 'Sir, I didn't show you that memo! I didn't show it to you!'

In another video interview he provided even more details about the US plan to attack and remove governments in seven countries:[94]

> We learned in 1991 (Operation Desert Storm) that we can use our military without being challenged by the Russians [...]. We've got about five to ten years to clean up the old Soviet client regimes before another superpower comes along and challenges us.

He also claimed that the neo-conservatives like 'Cheney, Rumsfeld and Wolfowitz took control of the policy in the United States [...] This was a policy coup by the Project for a New American Century.'[95]

Unfortunately, the relationship between oil, money and power has been a neglected area of study. But one could say that without the on-going dollar hegemony, world supremacy of the US empire might not have been possible to maintain. A country, like the US, that owns the dominant reserve currency has almost limitless power to finance other countries. It gives the monetary hegemon 'exorbitant privilege,' as the French remarked in the 1960s. Because it can print the world currency the US can buy anything it wishes without having to worry about its liabilities.

While the Soviet Union collapsed because they had to import food with hard-earned dollars from their oil exports, in the 70s and 80s, the US could start the Korean War and the Vietnam War with freshly printed greenbacks. By 'obliging' foreign central banks to keep their monetary reserves in Treasury bonds, the

94 http://whowhatwhy.org/2013/08/31/classic-why-real-reason-for-syria-war-plans-from-gen-wesley-clark/.

95 https://en.wikipedia.org/wiki/Project_for_the_New_American_Century. The Project for the New American Century (PNAC) was a neo-conservative think tank focused on US foreign policy. Its goal was 'to promote American global leadership'. Of the 25 people who signed the PNAC's founding statement of principles, ten served in the administration of US President George W. Bush, including Dick Cheney, Donald Rumsfeld and Paul Wolfowitz.

US in fact forced them to finance US military spending abroad, as Michael Hudson explains in his wonderful book *The Super Imperialism*. In this new form of imperialism, the US is able to rule not through its position as world creditor, but as world debtor. America's weakness as a debtor country has indeed become the foundation of the world's monetary and financial system.

A Chinese market commentator once remarked: 'World trade is now a game in which the US produces dollars and the rest of the world produces things that dollars can buy [...] a dollar hegemony that forces the world to export not only goods but also dollar earnings from trade to the US [...] Everyone accepts dollars because dollars can buy oil.' Only when dollar-holding nations decide to buy natural resources instead of US treasuries, is the dollar's reserve currency status in danger. This is exactly the exit strategy China and Russia seem to be playing right now. In recent years, the Russians have sold most of their dollar holdings, while they tripled their gold position.[96] The Chinese have stopped buying extra US Treasuries since 2010 while they have imported and invested in huge amounts of gold and other hard assets.

Another Chinese observer stated: 'The military power more and more plays a role of the guardian of the money (power). If any potential factor poses a threat to the operation of the dollar hegemony mechanism, the gigantic military machine might start, thus shifting the American hegemony from the 'benign hegemony' into a 'dangerous hegemony'.'

Some have even said that the US (the West) has now entered an era of 'fictitious capitalism', in which the inflow of capital is of vital importance for it to maintain its global primacy.

96 https://www.caseyresearch.com/articles/is-putin-quietly-dumping-russias-us-treasuries.

41. What is the role of the IMF and World Bank in this dollar system?

The delegates of the Bretton Woods Conference also agreed to establish the International Monetary Fund (IMF), which would safeguard the world's financial system, and the International Bank for Reconstruction and Development (IBRD), which would act as a world investment bank. Both entities were pitched as bodies that would serve the interests of the world but were de facto controlled by the US When the neo-conservative Paul Wolfowitz was sworn in as President of the World Bank in 2006, it became quite obvious to many that fighting poverty in the world was not the World Bank's priority for the Americans.

John Perkins, chief economist for the Boston strategic consulting firm Chas. T. Main in the 1970s, wrote a book about his experiences advising Third World countries. He explains how the IMF and World Bank collaborated in the process of economic colonization of Third World countries on behalf of what he portrays as a 'cabal of corporations, banks, and the United States government'.[97] According to him, 'Third World countries were trapped into international debts they could not repay in order to get their resources handed over to US corporations, during an international financial IMF-led rescue operation.' The company Perkins worked for was a worldwide player in the utility industries at that time.

According to Perkins, the IMF and World Bank play a major role in supporting the dollar as a world reserve currency. During the Bretton Woods negotiations, the US also insisted that countries could only join the IMF after decoupling their currency from gold.[98] Once decoupled, the central banks, with some help by the Federal Reserve, were able to dump their enormous gold reserves.

97 http://www.amazon.com/John-Perkins/e/B000APETSY

98 Articles of Agreement, Article IV, Section 2(b): 'a member may not determine the value of its currency in terms of gold'.(https://www.imf.org/external/np/leg/sem/2004/cdmfl/eng/gianvi.pdf).

42. How transparent is the Fed?

According to the former Republican Congressman Ron Paul, the Federal Reserve is the chief culprit behind the current economic crisis. Because of its 'unchecked power to create endless amounts of money out of thin air', the Fed has caused one financial bubble after another. Paul also claims that by 'recklessly inflating the money supply, the Fed continues to distort interest rates and intentionally erodes the value of the dollar'. He calculates that the dollar has lost 'more than 96% of its value since the Fed's creation in 1913'. He also criticizes the strong culture of secrecy within the Fed organization.

The Fed's secrecy forced press agency Bloomberg to resort to the courts in order to obtain information about the Fed's rescue operation after the collapse of Lehman Brothers in the fall of 2008. On 5 December 2008, US banks had secretly received $ 1,200 billion in aid from the Fed,[99] while a full audit of the Federal Reserve later revealed that over $ 16 trillion[100] had been allocated to corporations and banks internationally, purportedly for 'financial assistance' during and after the 2008 financial crisis.

Since the 1990s, Ron Paul has been trying to force the secretive bank to become more transparent.[101] In 2010, Paul succeeded in including an amendment to a new Financial Reform Bill requiring that the Fed be audited. After reviewing the results of the audit in 2012, Senator Bernie Sanders remarked, 'The Federal Reserve must be reformed to serve the needs of working families, not just CEOs on Wall Street.'[102]

99 http://www.bloomberg.com/news/2011-11-28/secret-fed-loans-undisclosed-to-congress-gave-banks-13-billion-in-income.html

100 To give an indication of the enormity of this amount, $ 16 trillion ($ 16,000 billion) is the same amount as the total external debt of the US in 2012.

101 http://www.ronpaul.com/misc/congress/legislation/111th-congress-200910/audit-the-federal-reserve-hr-1207/

102 http://www.bloomberg.com/news/2011-11-28/secret-fed-loans-undisclosed-to-congress-gave-banks-13-billion-in-income.html

43. Have any Wall Street bankers gone to jail?

Bill Black is an associate professor of economics and law at the University of Missouri, Kansas City and author of *The Best Way to Rob a Bank is to Own One.* He is specialized in white-collar crime investigations and prosecutions.

Black claims that 'the US administration refuses to investigate and prosecute the elite bank fraudsters'. According to Black, 500 FBI agents working on white-collar crime cases were transferred to national security tasks immediately after the 9/11 terrorist attacks.[103]

The Department of Justice started a few dozen criminal investigations against Wall Street Bankers since 2000. But the only bankers sent to jail were those that had a conflict with one of the Wall Street banks or were punished for insider trading on their own account. Most of those cases were private frauds. In all other cases, a financial settlement was proposed to bankers and almost always accepted. The only exception my research showed was a criminal case against two ex-Merrill Lynch bankers who were convicted in a scheme involving a sham sale of Enron barges.[104]

US Attorney General Eric Holder, involved in many Wall Street criminal investigations, has suggested that pressure from the highest echelons was used to stop the prosecution of high-level bankers:[105]

103 http://neweconomicperspectives.org/2013/08/mueller-i-crippled-fbi-effort-v-white-collar-crime-my-successor-will-make-it-worse.html

104 James A. Brown, former head of the bank's asset lease and finance group who was convicted of lying and obstructing justice along with conspiracy and fraud in the barge deal, was sentenced to three years and 10 months in prison. He also had to undergo one more year under court supervision and pay $ 840,000 in fines. Daniel Bayly, the former global head of the investment banking division at Merrill Lynch, was sentenced to two years and six months in prison, a six-month supervised period and similar fines of $ 840,000. http://www.chron.com/business/enron/article/Former-Merrill-Lynch-executives-get-less-prison-1948896.php

105 http://www.washingtonpost.com/blogs/wonkblog/wp/2013/09/12/this-is-a-complete-list-of-wall-street-ceos-prosecuted-for-their-role-in-the-financial-crisis/

> I am concerned that the size of some of these institutions becomes so large that it does become difficult for us to prosecute them when we are hit with indications that if you do prosecute, if you do bring a criminal charge, it will have a negative impact on the national economy, perhaps even the world economy.

No Wall Street CEO even came close to facing criminal charges. Angelo Mozilo, chief executive of Countrywide, was charged by the SEC with insider trading and securities fraud in 2009 for selling shares of his company while publicly proclaiming it was in good shape. But he was allowed to settle these civil charges with $ 67.5 million in fines and a lifetime ban from serving as an officer of a public company. The criminal investigation was dropped.

So Wall Street bankers have agreed to pay fines. Many fines. This is quite smart, because it is not the bankers themselves but their shareholders that will have to pay these bills.

On the next page you can find the results of my research (see Appendix II) on this subject. A study of hundreds of media reports shows that the total amount of fines and settlements paid by Wall Street banks between 2000 and 2014 to avoid prosecution, adds up to $ 135 billion.

As a result, the earnings of many Wall Street banks have evaporated. Because of the high legal costs between 2011 and 2014, Bank of America spent $128,104.57 per person 'to keep its 229,500 employees out of prison.'[106]

106 http://www.zerohedge.com/news/2014-11-06/bank-america-finds-it-did-some-more-crime-q3-revises-previously-released-earnings-lo.

Total amount of fines and settlements paid by Wall Street banks (in billion dollars)

Amount of Fines (in USD millions)							
	BoA	**Citi**	**JPM**	**GS**	**WF**	**Other**	**Total**
2000	0	0	0	0	0	0	0
2001	58	0	1	1	0	0	60
2002	490	620	205	112	42	0	1.469
2003	0	134	179	10	0	0	322
2004	1.129	2.728	0	53	7	111	4.027
2005	462	2.081	4.672	40	37	0	7.293
2006	8	3	427	0	13	243	693
2007	30	15	1	3	7	0	55
2008	0	1.811	25	34	0	0	1.870
2009	33	4	76	65	42	686	906
2010	995	77	49	578	463	175	2.336
2011	9.265	286	453	20	1.389	0	11.413
2012	2.972	793	806	107	342	25.000	30.021
2013	15.374	3.016	17.751	330	3.716	0	40.183
2014	22.027	8.211	3.498	120	63	0	33.919
Total	52.841	19.776	28.142	1.471	6.120	26.215	134.566
						Average fine:	**603**

BoA Bank of America
Citi Citigroup
JPM JPMorgan Chase
GS Goldman Sachs
WF Wells Fargo

Chapter 4 – A Planet of Debt

Fiat money can only flee into one direction and that is gold.

– Alan Greenspan, former Chairman of the Federal Reserve Board (2010)

The process by which banks create money is so simple that the mind is repelled.

– John Kenneth Galbraith, economist (1975)

The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists.

– Ernest Hemingway in Esquire (1935)

By this means government may secretly and unobserved, confiscate the wealth of the people, and not one man in a million will detect the theft.

– John Maynard Keynes on inflation (1920)

To destroy a bourgeois society, you must debauch its money.[107]

– Lenin

107 Quoted by Joseph Schumpeter in *Capitalism, Socialism, and Democracy* (New York: Harper & Row, 1950).

INTRO

The decoupling of gold and money made creating new money very simple. As a result, with the end of the gold exchange standard in the 1970s, an unprecedented credit bonanza was allowed to take off. In order to understand the build-up of debt, we must go back in time to 1981 when Fed Chairman Volcker was forced to raise interest rates to 20% in order to save the dollar's position as the world's reserve currency.

The dollar recovered as a result of Volcker's interest rate hike, and with inflation tamed, interest rates started to decrease sharply. The decline in interest rates after 1981 made it possible for governments to issue more debt. The same held true for companies and individuals. This period of unprecedented private debt build-up lasted until the start of the current credit crisis. Since then, the balance sheets of governments and central banks in particular have expanded significantly.

Countries with debt issued in their own currency cannot go bankrupt. They can always switch on the printing press to create as much money as is needed to pay off their debts. There is one drawback, however: when too much money is created, their economy can become paralyzed due to (hyper)inflation. At some point in time, even governments have to get rid of their debts. This will happen either through inflation, debt defaults or debt cancellations. Such monetary resets have been the solution many times in the past. It could well happen again. Deutsche Bank remarked in their research of late 2014 that more and more clients were discussing 'debt cancellations as being part of the endgame.'[108]

108 http://www.zerohedge.com/news/2014-11-21/deutsche-bank-people-are-talking-about-helicopter-money-and-debt-cancellation-being-.

44. When did the music stop?[109]

After over thirty years of falling interest rates, the period of unrestrained private build-up of debt came to an end with the start of the credit crisis. Falling real estate prices led to the first bank failures in 2007[110] in the US, after two years with no bank failures at all. Many American homeowners were no longer able to service their debts, and the banking system nearly collapsed completely. Between 2007 and the end of 2013, around 500 banks failed, most of them in the US. In order to prevent the house of cards from collapsing, central banks had to take on the role of lender of last resort.

In 2008, the US was confronted with the collapse of Wall Street banks, Ford and General Motors,[111] mortgage lenders Fannie Mae and Freddie Mac[112] and the world's largest insurer, AIG.[113] The then Secretary of the Treasury, ex-Goldman Sachs CEO Henry Paulson, proposed a large rescue operation on October 14th 2008, which was called the Troubled Asset Relief Program (TARP).

Politicians on Capitol Hill were pressured to accept a $ 700 billion rescue package to save financial institutions that had become icons in US society. Only Lehman Brothers was sacrificed, perhaps as punishment for being the only bank that had refused to join the 1998 rescue operation of the hedge fund Long-Term Capital Management (LTCM). Between 2008 and 2013, central banks worldwide created[114] over $ 10 trillion of new money to take over bad loans from the private sector, to monetize debts and to

109 This is a reference to something Citigroup CEO Chuck Prince said in an interview with the Financial Times. When asked whether the boom in private equity buyouts would continue, he said 'When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing.'

110 http://www.fdic.gov/bank/individual/failed/banklist.html

111 http://www.economist.com/node/13782942

112 http://www.theguardian.com/business/2008/sep/07/freddiemacfanniemae

113 http://www.dailywealth.com/506/aig-collapse-global-bank-run

114 http://viableopposition.blogspot.com/2013/07/the-worlds-central-banks-living-on.html

stimulate the economy. The Fed balance sheet grew from $ 800 billion to almost $ 4,000 billion in just five years.

A 2013 study by James Felkerson revealed the Fed had committed a total of $ 29,616 billion dollars[115] in the wake on the Lehman crisis at the end of 2008.

Cumulative facility totals, in billions $[116]

Facility	Total
Term Auction Facility	3,818
Central Bank Liquidity Swaps	10,057
Single Tranche Open Market Operation	855
Terms Securities Lending Facility and Term Options Program	2,005
Bear Stearns Bridge Loan	13
Maiden Lane I	29
Primary Dealer Credit Facility	8,950
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility	218
Commercial Paper Funding Facility	737
Term Asset-Backed Securities Loan Facility	71
Agency Mortgage-Backed Security Purchase Program	1,850
AIG Revolving Credit Facility	140
AIG Securities Borrowing Facility	803
Maiden Lane II	20
Maiden Lane III	25
AIA/ ALICO	25
Totals	**$ 29,616**

115 Source: '$ 29,000,000,000,000: A Detailed Look at the Fed's Bail-out by Funding Facility and Recipient' by James Felkerson

116 http://www.economonitor.com/lrwray/2011/12/09/bernanke's-obfuscation-continues-the-fed's-29-trillion-bail-out-of-wall-street/#sthash.2VbAsJpo.dpuf

45. What has happened to the US national debt since the start of the credit crisis?

Sovereign debt in a number of countries has also increased significantly since the start of the credit crisis. In response to the economic downturn, fiscal deficits in many countries, including the US, have increased to sometimes over 10% of GDP.

Table 1.1

Year	US budget deficit/ GDP ratio
2008	$ 458 (-3,2%)
2009	$ 1,412 (-10,1%)
2010	$ 1,294 (-9,0%)
2011	$ 1,299 (-8,7%)
2012	$ 1,086 (-7,0%)
2013	$ 972 (-6,0%)

Source: http://www.whitehouse.gov/omb/budget/Historicals

The US national debt grew by $ 8 trillion in a five-year period to reach $ 17 trillion at the end of 2013. To put this into perspective, it took 169 years (from 1836 to 2005) for the first $ 8 trillion of national debt to accumulate.[117]

At the same time, mutual distrust between banks led to a virtual halt to interbank lending in the years after Lehman's collapse in 2008. In order to solve this problem, central banks have allowed commercial banks to borrow virtually unlimited amounts of money from them interest rates close to zero.

117 http://www.whitehouse.gov/omb/budget/Historicals

46. When does the size of fiscal deficits become dangerous?

Peter Bernholz, Emeritus Professor at the University of Basel in Switzerland, has analysed the twelve most severe episodes of hyperinflation. He concluded that all were caused by the financing of huge public budget deficits through money creation (QE). According to Bernholz, the tipping point at which hyperinflation will occur is when the government's deficit exceeds 40% of its expenditures. The US reached this level already in 2009, when revenues were $ 2,104 billion, while outlays were $ 3,517 billion.[118] The US government was apparently well aware of this risk, as this ratio has since come down to less than 35%.

Japan is also at risk of ending up with hyperinflation. The Japanese government's deficits now exceed 25% of its expenditures.[119] The gap between public spending and revenue was 9.1% of GDP in 2012. Debt service now accounts for almost half of government revenues.[120]

Year	Budget Deficit*	% of GDP
2008	10 tr. yen	-3.0%
2009	41 tr. yen	-8.8%
2010	40 tr. yen	-8.8%
2011	41 tr. yen	-8.7%

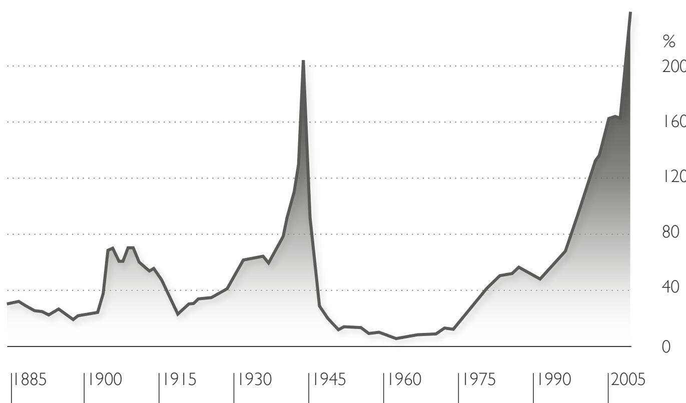
* http://stats.oecd.org/Index.aspx?DatasetCode=SNA_TABLE12

The Japanese government has to borrow heavily just to service its national debt. Since these deficits are almost completely internally financed (i.e., almost all buyers of Japanese government

118 http://www.whitehouse.gov/omb/budget/Historicals
119 http://www.tradingeconomics.com/japan/government-budget
120 http://www.economist.com/news/finance-and-economics/21577080-shinzo-abes-government-looks-likely-disappoint-fiscal-consolidation-dont

bonds are Japanese investors),[121] Japan can pay off these debts in yens that it can create itself. The huge private savings in Japan are continuously being recycled into government bonds through national insurance companies and pension funds.[122] This system of financing its deficit is unsustainable because the savings rate has dropped to around 2% due to an aging population. Other structural problems are sluggish domestic demand and weak exports as well as the high cost of importing energy after Japan's nuclear plants were made idle in 2011. In 2013, the OECD warned that reducing debt must be a priority for Japan.[123] Japan intends to increase outlays by doubling its low sales tax to 10% by 2015.[124]

Japan goverment debt / GDP ratio (1885-2013)



Source: Global Financial Data

121 The Japanese own 93% of their government's debt. In contrast, half of US Treasuries are held outside the US
122 One-fourth (25%) of Japanese bank deposits and almost 50% of bank assets are invested in Japanese government bonds. http://www.bloomberg.com/news/2012-06-05/japan-s-unsustainable-deficit-financing-model.html#disqus_thread
123 http://www.economist.com/news/finance-and-economics/21577080-shinzo-abes-government-looks-likely-disappoint-fiscal-consolidation-dont
124 http://www.bloomberg.com/news/2012-06-04/japan-s-debt-sustains-a-deflationary-depression.html

47. Didn't the credit crisis start much earlier in Japan?

Japan had a booming economy in the 1980s that ended in a fateful crash of the stock and real estate markets in the early 1990s. Since then, the Japanese economy has never fully recovered despite massive support operations. In 2013, the Japanese stock exchange Nikkei was still trading almost 70% lower than its record of almost 40,000 index points in 1989.

In order to save the Japanese financial system and to support the economy, Japan decided to turn on the printing presses of its central bank as well. Ongoing budget deficits have created a public debt of around 240% of GDP.[125] Despite extremely low interest rates, the debt service costs already amount to over 25% of tax revenues. If refinance rates were to increase to 3%, the costs would consume all public revenues. Although many banks have been supported by the government for years, they can still be categorized as 'zombie banks': they have access to just enough capital in order not to collapse but have too few liquid assets to issue loans. This is the situation we have been witnessing with banks in the West since the start of the crisis.

In March 2001, the Japanese central bank launched a new instrument to stimulate the economy and to avoid deflation: quantitative easing.[126] This surprised many because the Bank of Japan (BOJ) had for years rejected its use and, even as late as February 2001, declared that 'quantitative easing is not effective'.[127]

The BOJ has also maintained short-term interest rates at close to zero since 1999.

125 In 2012, one-third of total global national debt could be attributed to Japan, 23% to America and 32% to Europe as a whole.

126 http://www.imes.boj.or.jp/english/publication/edps/2002/02-E-03.pdf

127 http://www.imes.boj.or.jp/english/publication/mes/2001/me19-1-4.pdf

48. Who is most aggressive in their QE policies, Japan or the US?

After the threefold disaster of an earthquake, tsunami and three meltdowns in Fukushima in March 2011, the Japanese government was forced to support the economy again and decided to use even more unorthodox monetary policies.[128] In April 2013, the BOJ announced that it would expand its QE programme by $ 1.4 trillion in the next two years.[129] This amount is twice as much as the Fed's aggressive QE programme (in relation to GDP), and this new programme could double the money supply over that period to 270 trillion yen ($ 2.8 trillion).

The biggest risk for the Japanese financial system now is a sell-off of government bonds. Japan Post Holdings, the largest financial institution in the world, has over 70% of its assets in Japanese government bonds (JGB). Since the Bank of Japan is trying to double its money base, this retirement fund has been liquidating $ 80 billion worth of JGBs because it wants to diversify its holdings.[130] Experts have started to warn openly of an imminent financial crisis in Japan.[131]

Ex-Soros adviser and member of the upper house of parliament Takeshi Fujimaki remarked in 2013:

> As we can see from the megabanks that are drastically reducing their JGB holdings, there are some company managers with a reasonable mind. The risk of a default is shifting from the private sector to the public as the BOJ splurges on JGBs. If

128 The destruction, excluding the nuclear ramifications, was initially estimated at only 4% of GDP, http://www.bloomberg.com/news/2012-06-03/strong-yen-belies-a-worrisome-japanese-economy.html

129 http://www.bloomberg.com/news/2012-06-03/strong-yen-belies-a-worrisome-japanese-economy.html

130 http://www.bloomberg.com/news/2012-06-03/strong-yen-belies-a-worrisome-japanese-economy.html

131 www.bloomberg.com/news/print/2013-08-01/ex-soros-adviser-fujimaki-says-tax-delay-fed-may-pop-jgb-bubble.html

> we continue down this path, the credibility of the BOJ will be lost and the yen will plunge. It's impossible to avoid a default at this point.

At the end of 2014, the architect of Japan's radical economic policies, often described as 'Abenomics', Mr Koichi Hamada called the aggressive moves by the Japanese central bank a Ponzi scheme:

> In a Ponzi game you exhaust the lenders eventually, and of course Japanese taxpayers may revolt. But otherwise there are always new taxpayers, so this is a feasible Ponzi game, though I'm not saying it's good.

In another stunning development at around the same time, President Abe directed his cabinet 'to formulate policies such as printing up 'gift certificates' for the poor to 'support personal consumption directly.'[132] This could result in a 'helicopter-money-drop' as first described by the famous economist Milton Friedman. Handing out cash to citizens is seen as one of the last and unorthodox steps to fight deflation. In 2015, the Bank of Japan will monetize 100% of all Japanese Government Bonds (JGB).[133]

132 http://www.zerohedge.com/news/2014-11-17/japan-goes-full-helicopter-ben-prints-free-gift-cards-spark-consumption).
133 http://www.zerohedge.com/news/2014-10-31/charting-banzainomics-what-bojs-shocking-announcement-really-means.

49. Is China still financing the US?

Between 2000 and 2010, the Bank of China invested almost $ 1 trillion dollars in US Treasuries. Because of its large trade surplus, the Chinese national bank received more and more dollars from companies trading with the US. But after the fall of Lehman, it became increasingly clear that the US had abandoned its strong dollar policy and was trying to deflate its dollar to support American exports. According to statistics, China seems to have stopped buying US Treasuries in 2010. In that year, Fed president Timothy Geithner made a disastrous trip to China. Reuters reported on his visit to Peking University:

> 'Chinese assets are very safe,' Geithner said in response to a question after a speech at Peking University, where he studied Chinese as a student in the 1980s. His answer drew loud laughter from his student audience, reflecting scepticism in China about the wisdom of a developing country accumulating a vast stockpile of US Treasuries instead of spending the money to raise living standards at home.[134]

Yu Yonding, a leading official of the Chinese central bank, made matters even worse for the US when he remarked:[135]

> I wish to tell the US government: Don't be complacent and think there isn't any alternative for China to buy your bills and bonds. The euro is an alternative. And there are lots of raw materials we can still buy.

From that moment on, the Chinese started to invest hundreds of billions of dollars per year in hard assets such as gold and other commodities.

134 http://www.reuters.com/article/2009/06/01/usa-china-idUSPEK14475620090601
135 http://seekingalpha.com/article/140796-multiple-warning-shots-from-china

After touring the Fed's Bureau of Public Debt in 2009, US Congressman Mark Kirk said:

> I am alarmed at how much debt was being bought by the US Federal Reserve due to absence of foreign investors. It would appear, quietly and with deference and politeness, that China has cancelled America's credit card, and I'm not sure too many people on Capitol Hill realize that this is now happening. There will come a time where the lack of Chinese participation may have a significant impact.[136]

Kirk also said that China was justified in its concerns about the returns from finance giants Fannie Mae and Freddie Mac, which were bailed out by the US government due to the financial crisis.

Russia urged China to dump its Fannie Mae and Freddie Mac bonds in 2008 in a bid to force a bailout of the largest US mortgage-finance companies, according to the memoirs of former Treasury Secretary Henry Paulson. Bloomberg reported Paulson saying:

> The Russians made a 'top-level approach' to the Chinese that together they might sell big chunks of their GSE holdings to force the US to use its emergency authorities to prop up these companies. The report was deeply troubling – heavy selling could create a sudden loss of confidence in the GSEs and shake the capital markets.

While the Chinese declined to dump these dollar holdings they did exchange them for US Treasuries.[137] From 2010 onwards, the

136 http://www.google.com/hostednews/afp/article/ALeqM5i4estRSYeFBIII9kezxnP4jgoGZQ?hl=en

137 Gerard Turley & Peter J. Luke, Transition Economics: Two Decades On, Abingdon: Routledge, 2010.

Chinese apparently refrained from buying serious amounts of US Treasuries.[138]

In November 2010, the Fed had to announce a second round of quantitative easing during which it would buy $ 600 billion of Treasuries over a period of eight months.[139]

QE3, a third round of quantitative easing, was announced in September 2012.[140] The Fed decided to launch a new $ 40 billion per month bond purchasing programme. Because of its open-ended nature.

In December 2012, the FOMC announced an increase in the amount of open-ended purchases to $ 85 billion per month.[141] The programme was also intended to keep interest rates low. International investors would only be interested in buying US Treasuries with a much higher yield.

138 However, some say they were still investing through agents/banks in London and/or Brussels.

139 Censky, Annalyn (3 November 2010). 'QE2: Fed pulls the trigger'. CNNmoney.com. Retrieved 10 August 2011.

140 http://www.nasdaq.com/article/qe3-launched-the-ever-decreasing-effects-of-monetary-stimulus-cm174677

141 http://www.federalreserve.gov/newsevents/press/monetary/20121212a.htm

50. How large is China's credit growth?

According to John Mauldin, author of *The Endgame* and *Code Red*, China is 'even more addicted to money printing than the US or Japan'. It is hard to know how significant Chinese money growth is because Chinese statistics cannot be trusted completely. Even China's statistics bureau chief, Ma Jiantang, has admitted that his agency has publicized cases of manipulated economic numbers. Li Keqiang, who became premier in 2013, even said GDP figures were 'man-made' and 'for reference only'.[142] It is therefore difficult to get a full picture of the financial and economic developments in China.

Despite national financial reserves of almost $ 3,500 billion,[143] China has been confronted with its own debt crisis after the banking system's assets grew by $ 14 trillion between 2008 and 2013.[144] This is the same amount as the entire US banking system. China's credit to gross domestic product (GDP) ratio surged to more than 200% last year from just over 110% in 2008.[145]

Overstretched borrowers and local governments have migrated to off-balance-sheet structures within the 'shadow' banking system because so much money has been pumped into unprofitable projects. An Australian news report provides some details:

> According to the People's Bank of China (PBOC), trust loans rose 679% in the year ending December 2012, to 264 billion Yuan ($ 42 billion). High-interest rate trust loans now make up 16% of China's entire pool of financing. Trust loans, like payday loans in the US, have short maturities. Short-term trust loans amount to an estimated 50% of Chinese GDP, so

142 http://www.zerohedge.com/news/2013-09-25/china-beige-book-exposes-government-lies-conventional-wisdom-economic-expansion-chin

143 http://www.gfmag.com/component/content/article/119-economic-data/12374-international-reserves-by-countryhtml.html#axzz2gBaaCTuf

144 http://www.cnbc.com/id/100966830

145 http://www.cnbc.com/id/100840536

> liquidity crises can quickly spiral into solvency crises. Local governments are big trust loan borrowers. When one bank fears another bank might have exposure to dodgy trust companies, it now demands a high interest rate to compensate for risk. The Shanghai Interbank Offered Rate (SHIBOR) – the rate banks charge each other for loans – spiked from 3% to 13% in a matter of weeks early 2013.[146]

Estimates by UBS put the size of the nation's so-called shadow banking system at $ 3.4 trillion, which is equal to 45% of gross domestic product.[147] In Wenzhou, almost 90% of families and 60% of companies participate in the informal market for loans, according to a 2011 survey by the People's Bank of China.

Through this combination of factors, a dangerous debt cocktail has developed in China as well. China's sovereign wealth fund was needed to help recapitalize some national banks, which had to write off hundreds of billions of yuan in bad loans. Because of this, credit rating agency Moody's issued a stern warning on China's pyramid bank recapitalizations in 2010.[148] Ratings agency Fitch has warned that the scale of credit in the economy was so extreme that China would find it difficult to grow its way out of the excesses.[149]

In 2004, the central bank of China (PBoC) rescued some banks as well by injecting a tenth of its reserves into two of the big four state-owned banks, China Construction Bank (CCB) and Bank of China (BOC).[150] The central bank's balance sheet was used in a manner similar to Japan, the US and Europe in recent years.

146 http://www.moneymorning.com.au/20130626/chinas-growth-story-ends-with-a-whimper.html

147 http://www.businessweek.com/articles/2013-04-25/regulating-chinas-shadow-banking-system-isnt-easy

148 http://www.zerohedge.com/article/moodys-issues-stern-warning-chinas-pyramid-bank-recapitalization-scheme-has-cic-entered-fund

149 http://www.scmp.com/business/banking-finance/article/1139307/fitch-warns-over-chinas-local-government-debt

150 http://www.economist.com/node/2338716

The French bank Société Générale concluded in a 2011 study:[151]

> We are considerably concerned about the rising financial leverage in the Chinese system, in combination with a forthcoming peak in the Chinese labour force and a rapid rise in real estate prices.

Goldman Sachs concluded:

> There is tremendous confidence in the ability and the willingness of the Chinese Communist party to bail everyone out, but as the system gets bigger and bigger, there are more questions about how feasible that is.[152]

At the end of 2014, China's central bank injected another 700 billion yuan ($32.7 billion) into some national and regional lenders in another round of stimulus to support economic growth.[153] According to Ting Lu, Bank of America's head of Greater China, the major purpose of the injections is 'to boost confidence in the financial markets.' Earlier that year, Premier Li Keqiang said that China would refrain from further fund injections.

According to a report from China's National Development and Reform Commission and the Academy of Macroeconomic Research,[154] there has been an enormous amount of 'ineffective investment,' totaling $6.8 trillion.[155] Because the economy has

151 http://www.ibtimes.com/chinas-local-government-debt-crisis-though-heavily-leveraged-linked-shadow-banks-provincial-1442176

152 http://www.cnbc.com/id/100966830

153 http://www.bloomberg.com/news/2014-10-17/china-s-pboc-to-inject-up-to-32-7-billion-into-banks-wsj-says.html.

154 http://www.ft.com/intl/cms/s/002a1978-7629-11e4-9761-00144feabdc0, Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F002a1978-7629-11e4-9761-00144feabdc0.html%3Fsiteedition%3Duk&siteedition=uk&_i_referer=#axzz3KcFrpRQj.

155 This amounts to practically half of the investment between 2009 and 2013.

slowed down significantly in recent years the People's Bank of China slashed interest rates in 2014.

The total amount of Chinese local government debt has grown 63% between 2011 and 2014 and much faster than the 40% expansion of the economy.[156] UBS said, 'Overall government debt and local government debt levels remain manageable, but the pace of debt accumulation in recent years has been alarming.' According to BNP Paribas, 'local governments have used the name of the government to borrow, but the government won't necessarily repay the debt unless it becomes a regional or systemic problem.'

The largest debt problems can be found in the 'barely regulated shadow banking network,' including the so-called financial 'trusts' that can lend at a relative low rate. Analysts do not believe this will lead to 'some sort of financial catastrophe', since official financial reserves top 3,000 billion ($3 trillion), but it will have 'a long-lasting effect on economic growth.'

Just as in Japan, China is confronting a rapidly aging population. This will result in a declining population after 2030 and could well end the country's phenomenal growth story in the coming decades.

156 Numbers include the liabilities of more than 10,000 non-bank lenders local governments and the debt of some state-owned enterprises. Investors believe the central government implicitly guarantees this debt, though Beijing is not legally bound to honor all of it.

51. Is the renminbi ready to replace the dollar?

According to a study by the Official Monetary and Financial Institutions Forum (OMFIF) entitled *Gold, the Renminbi and the Multi-Currency Reserve System* (2013),[157] the Chinese realize that their currency will not be able to compete with the dollar before 2020 because it will take some time for the renminbi to become fully convertible. But the renminbi could well become a co-world reserve currency in the years to come. China has publicly stated that it is dissatisfied with the present dollar-orientated system.

China is the only one of the world's six largest economies that does not have a reserve currency status, but the OMFIF report argues that it will take many years before the renminbi will mount a credible challenge to the dollar:

> The world is headed towards the uncharted waters of a durable multi-currency reserve system, where the dollar will share its pivotal role with a range of other currencies, including the renminbi. China will rise as the US wanes, but this rebalancing will occur gradually rather than abruptly, and setbacks and perturbations are likely along the way.

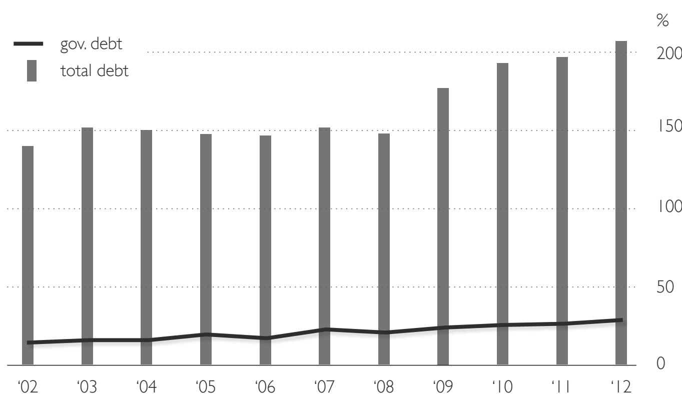
Between 2002 and 2012, the Chinese experienced the dangers of being dependent on the dollar and/or the euro. As a result, the Chinese Communist Party has decided to make the renminbi a true international trading currency. China started to sign bilateral renminbi trading agreements with dozens of countries between 2010 and 2014.

In 2012, China outlined a route map for full renminbi internationalization in the next decade. The Communist Party leadership is well aware of the risks of a change in monetary policy because the previous Nationalist government was weakened and ultimately had to withdraw from mainland China primarily

157 http://www.omfif.org/media/in-the-press/2013/gold-the-renminbi-and-the-multi-currency-reserve-system/

because they had lost control of the monetary system in the 1940s.

China's total debt / GDP ratio (2002-2012)



source: POBC

In October 2014, China started its first roadshow for the internationalization of the renminbi in London. According to Tu Yonghong, director of the International Monetary Institute at Renmin University, the internationalization of the currency is planned in three phases. According to an OMFIF-report:

> First, it will be used for international trade through China's onshore hubs; then it will be used across Asia; and finally it will become a global currency[…] The People's Bank of China is handling the expansion with care, with no overt plans to oust the dollar as top dog.

According to David Marsh, managing director of OMFIF:

> China is in a strange position as a developing country and a major creditor nation. It has fallen into the trap of becoming America's banker, and giving money to the world.

Marsh also suggested that 'China has been too generous to the US' by holding so much US Treasury debt and must now 'be generous to the people of China.' According to OMFIF, one way of safeguarding China's assets 'would be to persuade debtors to borrow in renminbi.'

The OMFIF report also remarks:

> China is keen to diversify its portfolio away from dollars. When reserves passed $1tn in 2005, Governor Zhou Xiaochuan of the People's Bank of China said, 'We have enough'.

Nevertheless, official reserve holdings have now ballooned to well $3 trillion, and China has made negative returns on its dollar holdings. Renmin University – 'the finishing school for China's bankers' – tracks global use of the renminbi through its 'Renminbi Internationalization Index'. On a scale from zero (no global use) to 100 (complete global use), renminbi use measured 1.6 this year, and is likely to reach 20%-30%, according to Prof. Liu Zhenya. The dollar accounts for around half of global trade, the euro about a third, and the yen and sterling around 4% each.

The UK has become the first full-fledged sovereign to issue debt denominated in renminbi. The use of the proceeds in the Bank of England's currency reserves makes the renminbi de facto a reserve currency. The Chancellor of the Exchequer George Osborne described this dialogue outcome as 'a historic moment' and a statement of British confidence in the potential of the RMB to become:

> The main global reserves currency. And let me be clear, as China becomes a bigger and bigger part of the world economy, their currency is going to be used around the world. We here in Britain understand that, and we want us to be the first country in the West to seize the opportunities that it will bring.

52. So China is fearful of making too sudden monetary changes?

The older generation of Chinese communist leaders still remember how they managed to grab power because of the monetary problems between 1937 and 1949. Their main goal is to avoid social unrest such as the period of hyperinflation China experienced after World War II.

Until 1927, China had a free banking system based on a silver standard. When Chiang Kai-shek's Nationalist Party came to power in 1927, he wanted to eliminate free banking in China. The nationalists used bank loans instead of taxation to finance their programmes. When Manchuria was lost to the Japanese in 1931, the economy took a hit and government bonds lost half of their value.[158] The Japanese invaders robbed some 6,600 tonnes of gold from Nanking, which was then the capital.

Due to a tripling of the price of silver, massive amounts of silver flowed out of China to the US in the 1930s. This resulted in a deep recession in China, with GDP declining by 26% in 1934 when the government imposed foreign-exchange controls to limit the silver exports. The Nationalists then issued the Savings Bank Law which required each bank to buy government bonds for a total of 25% of their deposits. The Bank of China, the largest private bank, decided to sell its government bonds that year. In order to prevent the bond market from collapsing, the Nationalists began a propaganda campaign against the bankers. They blamed China's economic woes on private bankers who placed their profits above the public interest.

In 1935, the government seized control of the Bank of China and other banks. This ended private banking in China. The Central Bank of China announced the Currency Decree at the end of 1935. The silver standard was replaced by a fiat currency, and the Nationalist government started to monetize its debt. In addition, citizens who owned silver were ordered to exchange it

158 The History of China's Internal Loan Issues, 1980.

for the new currency.[159] Economists around the world applauded this development, seeing it as a step toward a modern banking system. Massive monetary inflation occurred from July 1937 to September 1945 to fund the war against Japan. An estimated 60% percent of the annual expenditures were covered by newly printed money.

The national printing presses could not keep up with demand, so Chinese bank notes had to be flown in over the Himalayas from England.[160] A period of hyperinflation started in 1947 after the civil war between the Nationalist government and Communist forces led by Mao Zedong had restarted. With hyperinflation destroying people's savings, the ensuing sharp rise in poverty led to strong support for the communists, just as in Germany where the economic hardships following hyperinflation led to support for the Nazis. Once the Nationalists realized they were going to lose power, Chiang Kai-shek's army withdrew to Taiwan in late 1949, taking a secret shipment of 115 tonnes of gold with them.[161] Soon a new Chinese yuan replaced the old depreciated yuan at a conversion rate of three million to one.[162] Between 1931 and 1949 China lost almost all its gold and became 'hostage to paper money'.[163]

China clearly understands the current economic risks. This is why the Chinese are trying to hedge by buying massive amounts of gold. I will delve into this in more detail in a later chapter.

159 New Monetary System of China, 1936.

160 China's Wartime Finance and Inflation: 1937-1945.

161 *The Archives of Gold*, 2010, statement of Dr Wu Sing-yung.

162 Richard M. Ebeling, *The Great Chinese Inflation*.

163 http://therealasset.co.uk/nationalist-china-gold/

53. What is the recent monetary history of China?

From 1985 till 1994, China maintained a dual exchange rate system as it gradually shifted from a planned economy to a market economy.[164] Between 1994 and 2005 the renminbi remained almost stable to the dollar. In the six years that followed, the renminbi appreciated against the dollar by a good 30%.

US-China monetary relations have been described as 'Chimerica', a symbiotic financial model of cooperation between the 'world's sole superpower and its most likely future rival.' According to Niall Ferguson (2010), this bizarre relationship could be characterized as 'the poor (China with an average income of less than $2,000) did the saving and lending while the rich (the United States with an average income of more than $34,000) did the spending and borrowing.'

But then, the 2007 financial crisis brought the beginning of the end to the relationship. China's export-led growth (exports 2000: $250 billion grew to $1.3 trillion in 2008) led to a current account surplus of $400 billion in 2008.[165] Almost all of these dollars, exchanged for Chinese goods, flow from exporters to the Chinese central bank, which recycled them into US Treasuries. It enabled the US to 'consume more, save less, and still maintain low interest rates and a stable rate of investment,' according to Ferguson. He calculated that US spending between 2000 and 2008 was 45% higher than total income. Purchases of goods from China accounted for a third of this overconsumption.

The Lehman collapse in late 2008 and the crisis that ensued was a mixed blessing for China. The partial collapse of Wall Street has helped China in anti-inflation strategies and to contain asset/real estate bubbles. The fact is, though, that the Fed

164 That dual exchange rate system was made up of an official exchange rate system for trade settlement and a 'relatively market-based exchange rate system that was used by importers and exporters.'

165 Its GDP in 2000 was around $1 trillion, the world's No. 6. Ten years later, it quadrupled and has surpassed France, Great Britain, Germany and Japan to be the world's No. 2 (Ferguson 2010).

has to open the floodgates of money even more. It was a rude awakening for the Chinese, who had been accumulating almost a trillion of US Treasuries since 2000.

China was already aware that the renminbi's dependency on the dollar was problematic and that they were 'trapped' by the huge size of its dollar holdings. That is why China has been looking for an exit strategy.[166] In order to make better use of its huge foreign exchange reserves they began a series of monetary reforms in 2005. Chinese companies started buying natural resources in the Middle East, Central Asia, Africa and Latin America. The Chinese also started to invest more and more of their dollars in energy and infrastructure projects. Chinese companies who tried to purchase assets in the United States were blocked from buying American firms for non-economic reasons, like security concerns. As we have learned, the Chinese stopped their accumulation of US Treasuries in 2010, as part of their strategy to end the renminbi's dependency on the dollar. The money is now invested in projects worldwide. The US still does not seem to understand how to cope with these developments. They chose not to be present during an OMFIF seminar, on including the renminbi in the Special Drawing Rights, held in Beiijng in May 2015. Officials from dozens of countries visited the seminar but the US and the IMF stayed away, because the topics discussed were 'too sensitive'.[167]

166 If China's currency appreciates, part of the value of its tremendous foreign exchange reserve will be lost.

167 Around the same time, three Western reports tried to address the question: Is the era of US primacy over? 'Revising US Grand Strategy Toward China', 'The Future of US-China Relations Under Xi Jinping: Toward a New Framework of Constructive Realism for a Common Purpose', and 'Beyond American Predominance in the Western Pacific: The Need for a Stable US-China Balance of Power'. Two of these reports seek to develop a roadmap for continued US primacy in the Asia-Pacific. Only one argues that such an effort is unrealistic given the realities of China's growing capabilities. According to this report, the Chinese President Xi Jinping is someone with whom the United States can work and the US should use this possibility as creatively as possible.

54. How big is Europe's debt problem?

The ECB has also been very active in supporting the economies of member states, since 2008. But with the outbreak of the Greek crisis in 2010 and problems with rapidly rising interest rates in Portugal, Spain and Italy, the ECB has accelerated the expansion of its balance sheet, buying up government bonds. According to its own treaty, the ECB is not allowed to purchase government bonds directly, so the purchases totaling some € 1 trillion were made indirectly via commercial banks under the banner of long-term refinancing operations (LTRO).

The money created by the ECB in their LTRO was first lent out to commercial banks. These banks then bought the national government bonds of their own country to help bring interest rates down and to support their national economies. These newly bought bonds could then be used again as collateral for a new ECB LTRO-loan.

According to Bundesbank board member Carl-Ludwig Thiele, the ECB bond purchases were a 'violation of the Maastricht Treaty, against the prohibition of monetary financing, that a central bank should not give credit to a state'.[168] His comments are 180 degrees opposed to the official Bundesbank line. The German central bank argued that the bond purchases made until 2012 did not violate the prohibition of monetary financing.

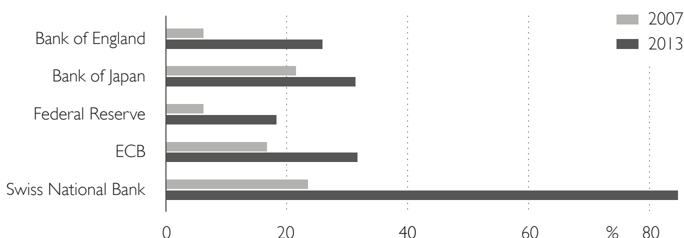
Thiele remarked that the ECB only bought the government bonds of Spain and Italy to lower borrowing costs for Madrid and Rome. He explained:

> The idea that the current crisis could be overcome by turning on the printing press should finally be discarded. This would only endanger the most important basis for a stable currency.

168 https://mninews.marketnews.com/index.php/bbk-thiele-current-ecb-government-bond-buys-violate-treaty?q=content/bbk-thiele-current-ecb-government-bond-buys-violate-treaty

The Bank of England (BOE) has also purchased UK government bonds (gilts) to support the economy, especially from financial institutions such as banks, insurance companies and pension funds. The total amount of money created during its QE programme from 2010 to 2014 was around £375 billion ($ 598 billion). The BOE has stated that it will not buy more than 70% of any issue of government debt.[169]

But compared with Japan, where the size of QE is double the size of the American programme (relative to GDP), money printing has been slowing down in Europe between 2012 and 2014.



Due to increasing concerns about deflation, the ECB proposed another round of unorthodox monetary stimulation of the economy in the euro zone. The ECB said it could purchase 'government bonds or other assets such as gold, shares, or exchange traded funds (ETFs).' ECN chairman Mario Draghi said the ECB could even start a program in which, 'government bond buying as a policy tool' could be used to further stimulate the economy.'[170]

169 http://www.bbc.co.uk/news/business-16538773
170 http://www.zerohedge.com/news/2014-11-18/my-helicopters-are-ready-you-will-all-be-trillionaires-mario-draghi-ecb.

The Dutch finance ministry admitted in 2014 that two years earlier, the Netherlands prepared a scenario together with Germany for a possible return to its former currencies.[171] This move was the result of a growing euro crisis at that time. But, in the course of 2013, the crisis was brought under control after the ECB satisfied financial markets with a promise ‘to do whatever it takes’ to save the euro.

171 http://www.bloomberg.com/news/2014-11-18/dutch-had-back-up-plan-to-reintroduce-guilder-dijsselbloem-says.html.

55. Is Switzerland still a monetary safe haven?

As a result of all the monetary madness after the outbreak of the financial crisis in 2008, more and more money started to flee to Switzerland. This caused the Swiss franc to gain in value, which had a substantial negative impact on Swiss exports and tourism. To avoid further harm, the Swiss National Bank (SNB) pegged the Swiss franc to the euro at a value of 1.20 euro.

By creating Swiss francs out of thin air and using them to buy euros and other currencies, the SNB has weakened the Swiss franc and strengthened other currencies. The international currencies bought during this operation ended up on the balance sheet of the SNB, which quadrupled in size between 2008 and 2013.

At the end of 2013, the SNB had the most holdings relative to GDP (85%) of any major industrialized country. This compares to the Federal Reserve's holdings of 20% of US GDP and the ECB's assets worth 30% of Eurozone GDP.[172]

The Swiss central bank required commercial banks to increase their capital to around 20% of their balance sheets, instead of the international norm of 7%.[173] The sheer size of the balance sheets of Credit Suisse and UBS formed a threat to the Swiss economy as a whole, as a bailout would have bankrupted the country.[174]

In late 2014, the Swiss voted 'no' to a proposal to repatriate a large portion of its foreign gold holdings in a national referendum.

172 http://online.wsj.com/article/SB10001424127887323689604578221470075341686.html

173 Switzerland has abandoned the gold standard in order to join the International Monetary Fund in 1992. The IMF forbids countries to back their currency by gold.

174 This phenomenon is also frequently called 'too big to bail (out)': a variation on too big to fail, whereby a bank has become too important for the economy because of its size and thus has to be saved. In early 2009, the Dutch government found out that ING Bank was far too big to be bailed out. The total balance of ING of € 1,300 billion turned out to be twice the size of Dutch GDP.

56. What is happening in the so-called currency wars?

In 2010, the Brazilian minister of finance Guido Mantega warned of a 'currency war', pointing to a trend in which a number of central banks' monetary policies and foreign exchange interventions were leading to a vicious circle of competitive devaluations.[175] Most of the major G-20 economies have now resorted to devaluing their currency to deflate their way out of economic misery. By devaluing its currency, a country attempts to gain a competitive advantage because it stimulates its exports and tourism. This has led to a worldwide collective debasement of currencies the likes of which we have not seen before in monetary history.

Other emerging market economies have complained about the easy money policies in many developed countries. They have called the 'currency wars' the modern-day equivalent of the 'beggar-thy-neighbour'[176] policies of the 1930s.[177]

In early 2013, the first deputy chairman of the Central Bank of Russia, Aleksey Ulyukaev, warned that 'We are now on the

175 http://www.zerohedge.com/news/2013-08-25/three-years-after-warning-currency-war-brazil-goes-all

176 'Beggar-thy-neighbor policies are those that seek to increase domestic economic welfare at the expense of other countries' welfare. What might be called the classic case of beggar-thy-neighbor policies occurs when one country devalues its currency in order to boost its domestic output and employment but, by so doing, shifts the output and employment problem onto other countries. This occurred in the 1930s when, faced with a worldwide recession, countries sought to increase their own output and employment by devaluing their currencies, a policy that would boost domestic output by reducing the demand for imports and increasing the demand for exports. This exacerbated the recession in other countries, however, and invited the response of devaluations by other countries and countries became locked into a series of competitive devaluations… The solution to the use of beggar-thy-neighbor policies in the 1930s was found in the international policy coordination instituted under the auspices of the Bretton Woods system.' http://world- economics.org/40-beggar-thy-neighbor-policies.html

177 http://emlab.berkeley.edu/~eichengr/curr_war_JPM_2013.pdf

threshold of a very serious, I think, confrontational action, which is called, maybe excessively emotionally, currency wars.'[178]

In reaction to this criticism, Fed Chairman Ben Bernanke remarked that a return to solid growth in the US, Europe and Japan would ultimately benefit smaller countries as well:

> Because stronger growth in each economy confers beneficial spillovers to trading partners, these policies are not 'beggar-thy-neighbour' but rather are positive-sum, 'enrich-thy-neighbour'.[179]

He also argued that almost all G-7 industrialized countries have taken on similar easy monetary policy stances, which have led to small movements in foreign exchange (forex) markets:

> Because monetary policy is accommodative in the great majority of advanced industrial economies, one would not expect large and persistent changes in the configuration of exchange rates among these countries.

As a consequence, most of the currencies involved have stayed on a par with each other. To the general public, the dollar, the British pound, the euro and the Swiss franc all seem to have kept their value. But this is only with respect to each other. Because of this 'debasement of currencies', the smart money has started to flee towards commodities and other hard assets.

178 http://rt.com/business/news/currency-war-ulyukaev-japan-104/
179 http://www.marketwatch.com/story/bernanke-qe-is-an-enhance-thy-neighbor-policy-2013-03-25/print?guid=67E7F1BE-955E-11E2-9D5E-002128040CF6

57. Can we grow our way out of this debt?

We have now arrived at the point where it is not the banks but the countries themselves that are in serious financial trouble. After years of enormous budget deficits, countries such as Greece and Portugal are now in need of financial assistance themselves. These deficits could be lowered in one of two ways: by cutting expenditures or raising taxes. Both options are politically unfeasible and would worsen the recession these countries are experiencing. In order to stimulate their economies, many countries have decided to allow large budget deficits and rising sovereign debt, as we have seen.

In the eighteen most important countries belonging to the OECD (the Organisation for Economic Co-operation and Development), the total amount of public and private debt (relative to GDP) grew from 160% in 1980 to 321% in 2011. This amassing of debt has not caused any problems, since the interest rate over the same period fell from over 20% in 1980 to almost 0% after the credit crisis. National debts increased by 425% on average and have risen in many countries to almost 100% of their GDP.[180]

The largest expansion of debt (600%) can be seen among consumers, which is mainly the result of higher mortgages. In the Eurozone, the Netherlands heads the list of highest mortgage debt per inhabitant. The total amount of Dutch debt has grown from € 550 billion in 1980 to at least € 4 trillion in 2010.[181] Over half of this is attributable to the financial sector. The government, companies and private investors have borrowed the other half. Only in countries with a conservative housing market, such as Germany, Italy and Greece, total debt by homeowners on average is less than 70% of GDP.

180 It is noticeable that in Greece during that period, the increase in debt amounted to only 70% of GDP (Boston Consulting Group, 2012).
181 *The Real Effects of Debt*, Bank for International Settlements (BIS), August 2011; Cecchetti, Moharty & Zampolli, Sept 2011.

Many countries are ill prepared to provide for the coming wave of pensioners. Most countries have set aside little money for the rising number of pensioners. In France, for instance, only € 2,300 per inhabitant has been reserved in the private pension system, while in the Netherlands this reserve is € 63,000. Germany has set aside only € 4,850 per inhabitant, lagging considerably behind the US (€ 42,000).[182]

According to an assessment by the Boston Consulting Group, the excess of debt in the EU amounts to $ 6,000 billion and $ 11,000 billion in the US These debts need to be restructured before a sustainable recovery can be achieved.

So the idea that we can 'grow our way back' out of debt seems a little naive. If history has taught us anything, it is that this would only work in a situation of strong economic growth. The UK managed to do so after its wars against Napoleon. Many Western countries after World War II also succeeded in growing themselves out of their debts. The debts caused by the 1997 Asian crisis were also resolved in this manner. In all these cases, the economy was able to re-launch high levels of growth because these countries were in an earlier phase of their economic life cycle.

182 This is shown in research conducted by Towers Watson (February 2011) as published in Fondsnieuws (Fund News).

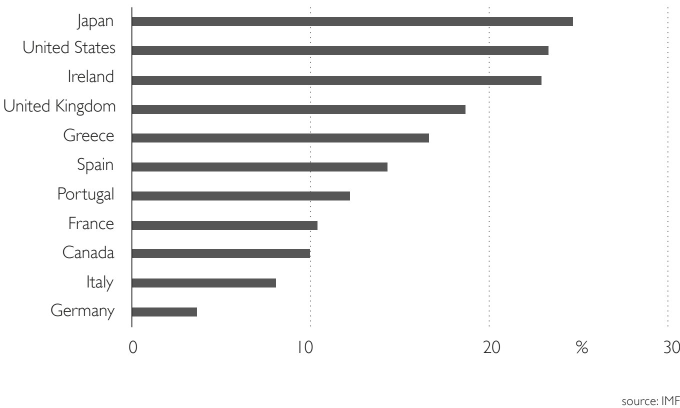
58. How can we get rid of our debts?

The current solution of 'parking' debts onto the balance sheets of central banks is an interim solution. Although limits do not apply to the balance of a central bank and debts could be 'parked' there for an unlimited amount of time in theory, in the end, debts will need to be restructured before the general public starts to lose faith in the value of the currency. Countries have a number of options to tackle their mountains of debt:

1) Defaulting - In the last century, the Russians experienced this three times, as have the Germans. Only Switzerland has never taken this route. Bankruptcy is the most expensive way of getting rid of debts. The financier is forced to write off the total amount as a loss on his capital.
2) Inflating - By turning on the printing presses and by inducing inflation, national debts can be 'inflated' away. Foreign holders of national bonds will get their money back, but calculated in purchasing power terms, they will lose a lot. This is the path of least resistance which many countries are choosing at this moment. By creating strong inflation, debt levels in relation to GDP will decline.
3) Raising taxes - By increasing revenue, countries can start to pay off debts. This is, however, a precarious strategy when economic growth is weak or negative, as is the case in most industrialized countries. In a democratic system, the decision to raise taxes is tantamount to political suicide. All the American presidents over the last twenty years had promised to lower taxes during their election campaign. This is why politicians prefer a simpler route – using the balance sheets of the central bank.

The IMF is studying 'more drastic measures and recommends a series of escalating income and consumption tax increases

culminating in the direct confiscation of assets'.[183] In 2012, it was suggested in Germany that the rich should be required to invest a one-off 15% of their capital in special national bonds. Virtually all rich people have amassed their capital largely as a result of the fact that their possessions have increased in value due to credit becoming cheaper and cheaper. Especially the housing booms have been a substantial source of wealth for the baby-boom generation.



In a recent IMF paper, titled 'Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten',[184] the economists Reinhart and Rogoff conclude that debt restructurings will be needed 'far beyond anything discussed in public to this point.' According to them, central government debt in advanced

183 http://www.forbes.com/sites/billfrezza/2013/10/15/the-international-monetary-fund-lays-the-groundwork-for-global-wealth-confiscation/
184 http://www.theguardian.com/business/economics-blog/2013/nov/20/reinhart-rogoff-latest-paper-harvard-financial-repression.

countries is 'approaching a two century high' and cannot be cured by growth alone.

According to their study, the endgame to the global financial crisis is likely to require:

> … some combination of financial repression (an opaque tax on savers), outright restructuring of debt, inflation, and capital controls under the umbrella of macro prudential regulation.

They also point to a 'denial problem' with the Western leadership. According to Reinhart and Rogoff, future economic growth will:

> … not be sufficient to cope with the sheer magnitude of public and private debt overhangs. Especially since the aging baby-boomer generation will result in the need for more pensions and medical benefits and would only make the overall debt picture much worse today relative to earlier periods.

During the 1953 London Debt Agreement most of Germany's domestic debt was wiped out. As a result, Germany's debt in the 1950s was less than 20% of GDP, while much of the rest of Western Europe had debts of some 200% of GDP.[185]

185 Albrecht Ritschl, an economic historian at the London School of Economics, estimated that the total debt forgiveness West Germany received from 1947 to 1953 was more than 280 per cent of Germany's 1950 GDP, according to a publication by economist David McWilliams -http://www.davidmcwilliams.ie/2015/06/22/the-eus-disgraceful-treatment-of-greece.

59. How have debt cancellations worked before?

In both the Jewish and Christian traditions, one can find a so-called 'year of Jubilee', a year of universal pardon. In Hebrew Mosaic law, each fiftieth year was to be celebrated as a jubilee year when land would be returned to its former owners, slaves would be set free and debts would be remitted. The French finance minister Abbe Terray, who lived in the 18th century, thought governments should default once every hundred years in order to restore balance.[186]

Most countries simply pretend they will repay their debts. But if history is any guide, when the mountain of debt becomes too large, a default will occur. The debt then has to be restructured or refinanced. This has happened again and again. The US has defaulted in different ways three times in the last 220 years – in 1790, 1933 and 1971 – and borrowed more after each default. Switzerland is the only country that has always repaid its creditors. The Netherlands was once negligent in meeting payment commitments after the Napoleonic wars in 1802. And the US once actually reimbursed all of its debt entirely, in January 1835.[187] The government promptly began building up debt once again in the following year (the debt on 1 January 1836 was $ 37,000).

In *This Time is Different: Eight Centuries of Financial Folly* (2009), the most important[188] study on the history of financial crises, Carmen M. Reinhart and Kenneth S. Rogoff argue:

> Spain's defaults establish a record that remains as yet unbroken. Spain managed to default seven times in the nineteenth century alone after having defaulted six times in the preceding three centuries. With its later string of nineteenth-century defaults, Spain took the mantle for most defaults from France,

186 http://scholar.harvard.edu/files/this_time_is_different_short.pdf

187 http://www.publicdebt.treas.gov/history/1800.htm

188 *The History of Financial Crisis* by Charles P. Kindleberger is another interesting book on this topic.

> which had abrogated its debt obligations on nine occasions between 1500 and 1800... Austria and Portugal defaulted only once in the period up to 1800, but then each defaulted a handful of times during the nineteenth century, and in the case of Austria into the twentieth century. Edward III, of Britain, defaulted on debt to Italian lenders in 1340, after a failed invasion of France that set off the Hundred Years' War... Starting in the nineteenth century, the combination of the development of international capital markets together with the emergence of a number of new nation states, led to an explosion in international defaults...and rescheduling episodes in Africa, Europe and Latin America. We include debt reschedulings, which the international finance theory literature rightly categorizes as negotiated partial defaults.[189]

The growth penalty arising from debt defaults are sometimes short-lived. The economies of Iceland, Argentina, Uruguay, Russia and Indonesia all did quite well after their respective defaults in recent history.[190]

189 http://scholar.harvard.edu/files/this_time_is_different_short.pdf
190 http://www.economist.com/blogs/dailychart/2011/06/sovereign-defaults-and-gdp

60. Possible debt cancellation scenarios

In 2013, US Congressman Alan Grayson proposed that the Fed could cancel the Treasury debt it owns.[191] The Fed owned roughly $ 2 trillion out of a total of $ 17 trillion of Treasury debts.[192]

According to Grayson:

> The debt held on the balance sheet of the Federal Reserve can be canceled without any significant consequence, because it is a bookkeeping artifact corresponding to the money supply. In essence, the government owes this money to itself. If I owe money to myself, I can cancel that debt at will and without consequence, essentially taking it out of my left pocket and putting it in my right pocket. A cancellation of this part of the US debt would give the government substantial room under the debt ceiling to manage its finances. This idea was put forward a few years ago not by me, or by a member of my party, but by Republican Representative Ron Paul. While canceling the Treasury debt held on the Federal Reserve balance sheet might be considered unorthodox, it is no more unorthodox than the quantitative easing that has added much of this debt to the Fed's balance sheet.[193]

Former BBC Chairman and Goldman Sachs partner Gavyn Davies wrote an important article about this subject in the Financial Times, 14 October 2013, entitled 'Will central banks cancel government debt?'[194]

191 According to Zerohedge.com, similar proposals have been debated by economist Abba Lerner in the 1940s on 'functional finance' and the role of fiat money. More recently, the Modern Monetary Theorists have reawakened Lerner's ideas.'

192 http://www.zerohedge.com/contributed/2013-10-12/fed-could-simply-cancel-2-trillion-government-debt

193 Paul introduced a bill in 2011 which would have led to the cancellation of $ 1.6 trillion in federal debt held by the Fed. http://thehill.com/blogs/floor-action/house/174953-rep-paul-introduces-bill-to-cancel-public-debt-held-by-the-fed

194 http://blogs.ft.com/gavyndavies/2012/10/14/will-central-banks-cancel-government-debt/?Authorised=false

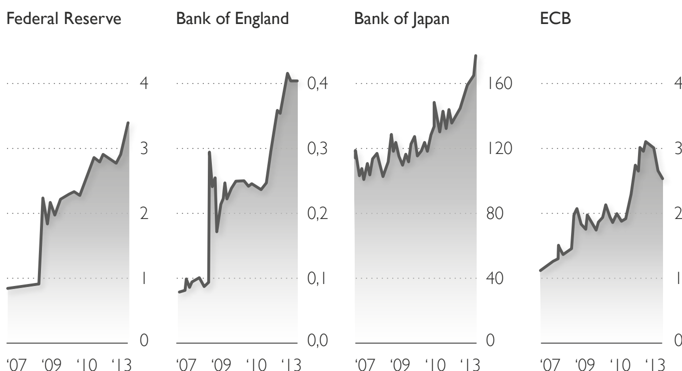
One radical option now being discussed is to cancel (or, in polite language, 'restructure') part of the government debt that has been acquired by the central banks as a consequence of quantitative easing (QE). After all, the government and the central bank are both firmly within the public sector, so a consolidated public sector balance sheet would net this debt out entirely. This option has always been viewed as extremely dangerous on inflationary grounds, and has never been publicly discussed by senior central bankers, as far as I am aware. However, Adair Turner, the chairman of the UK Financial Services Agency, and reportedly a candidate to become the next governor of the Bank of England, made a speech last week that said more unorthodox options, including 'further integration of different aspects of policy', might need to be considered in the UK. Two separate journalists (Robert Peston of the BBC and Simon Jenkins of The Guardian) said that Lord Turner's 'private view' is that some part of the Bank's gilts holdings might be cancelled in order to boost the economy. … Why is this such a radical idea? No one in the private sector would lose out from the cancellation of these bonds, which have already been purchased at market prices by the central bank in exchange for cash. The loser, however, would be the central bank itself, which would instantly wipe out its capital base if such a course were followed. The crucial question is whether this matters and, if so, how. In order to understand this, we need to ask ourselves why governments finance their deficits through the issuance of bonds in the first place, rather than just asking the central bank to print money, which would not add to public debt. Ultimately, the answer is the fear of inflation. When it runs a budget deficit, the government injects demand into the economy. By selling bonds to cover the deficit, it absorbs private savings, leaving less to be used to finance private investment. Another way of looking at this is that it raises interest rates by selling the bonds. Furthermore the private sector recognizes that the bonds will one day need to be redeemed, so the expected

burden of taxation in the future rises. This reduces private expenditure today. Let us call this combination of factors the 'restraining effect' of bond sales. All of this is changed if the government does not sell bonds to finance the budget deficit, but asks the central bank to print money instead. In that case, there is no absorption of private savings, no tendency for interest rates to rise, and no expected burden of future taxation. The restraining effect does not apply. Obviously, for any given budget deficit, this is likely to be much more expansionary (and potentially inflationary) than bond finance. This is not, however, what has happened so far under QE. Fiscal policy, in theory at least, is set separately by the government, and the budget deficit is covered by selling bonds. The central bank then comes along and buys some of these bonds, in order to reduce long-term interest rates. It views this, purely and simply, as an unconventional arm of monetary policy. The bonds are explicitly intended to be parked only temporarily at the central bank, and they will be sold back into the private sector when monetary policy needs to be tightened. Therefore, in the long term, the amount of government debt held by the public is not reduced by QE, and all of the restraining effects of the bond sales in the long run will still occur. The government's long-run fiscal arithmetic is not impacted. Note that QE under these conditions does not directly affect the wealth or expected income of the private sector. From the private sector's viewpoint, all that happens is they hold more liquid assets (especially commercial bank deposits at the central bank), and fewer illiquid assets (i.e. government bonds). Because this is just a temporary asset swap, it may impact the level of bond yields, but otherwise its economic effects may be rather limited. Now consider what would happen if the bonds held by the central bank were cancelled, instead of being one day sold back into the private sector. Under this approach, the long-run restraining effect of bond sales would also be cancelled, so there should be an immediate stimulatory effect on nominal demand in the economy. If done without

amending the path for the budget deficit itself, this would increase the expansionary effects of past deficits on nominal demand, and would also reduce the outstanding burden of public debt associated with such deficits. The central banks have now purchased so much government debt that the effects of such an action could be large. This is the situation in the UK, where the Bank of England holds 25 per cent of all outstanding government debt: Furthermore, the effects would be increased even more if, instead of just cancelling past debt, the central bank were to co-operate with the government, agreeing to directly finance an increase in the budget deficit by printing money. We would then be genuinely in the world of 'helicopter money', with no pretense of separation between fiscal and monetary policy. Outside of wartime, developed economies have not been normally been willing to contemplate any such actions. The potential inflationary consequences, which are in fact signalled by the elimination of central bank capital which this strategy involves, have always been considered too dangerous to unleash. For me, that remains the case. But others are more worried about deflation than inflation. This genie might soon be leaving the bottle.'

Total assets central banks

In trillions of respective currency units



Source: BIS

61. When do things go wrong?

Since 2008, total global debt has grown by 40%, much more than world GDP. The International Centre for Monetary and Banking Studies has warned about a 'poisonous combination of high and rising debt and slowing nominal GDP.' The global total debt-to-GDP ratio was 220% in 2014 versus 200% in 2009.

Reinhart and Rogoff[195] demonstrate that when the national debt rises to over 90% of GDP, this tends to slow future economic growth.[196] They also prove that episodes where debt is above 90% have been quite rare in history. According to their study, a number of countries have never had debt above that level.

After World War II, US debt represented 120% of GDP. In most other countries debts reached similar record levels at that time.[197]

According to Reinhart and Rogoff, other examples of high-debt episodes are:

- The 1920s in France and Belgium
- Greece in the 1930s and 1990s to the present
- Ireland in the 1980s
- Italy in the 1990s,
- Spain around 1900
- UK in the interwar period and prior to the 1860s
- Japan since 2000

They also point out that the cumulative increase in public debt in the three years following a banking crisis is on average 186%. This explains why public debt in many advanced countries (the US, Japan, the UK) has increased strongly in recent years and reached or even crossed the 90% level.

195 http://www.newyorker.com/online/blogs/johncassidy/2013/04/the-rogoff-and-reinhart-controversy-a-summing-up.html
196 http://www.voxeu.org/article/debt-and-growth-revisited
197 In the UK, public debt/GDP peaked in 1948 at close to 240%.

While emerging markets have often been associated with defaults, Reinhart and Rogoff demonstrate that advanced economies have had their own share of default episodes. The high number of sovereign defaults often coincides with a sharp rise in the number of countries going through banking crises. Banking crises are often associated with substantial declines in tax revenues and sharp increases in government spending. This is why the indirect costs of banking crises are much larger than the costs of bank bailouts.

As early as March 2009, the IMF warned governments that the global financial system could deteriorate very rapidly once a 'downward credit spiral' gets out of control:

> Policy actions worldwide may not prove to be adequate to deal with the low probability but high impact events that may materialize and undermine global financial stability. Policymakers as a matter of course need to 'think the unthinkable,' and to consider how they would plan to react if contingencies arise.[198]

Mark Carney, the Governor of the Bank of Canada, said at the end of 2011 that our financial system was on the verge of a collapse: 'The global Minsky moment has arrived.'[199]

The Minsky moment, named after American economist Hyman Minsky, is the point in time at which, after decades of prosperity, a wave of selling takes place by parties who had made investments with too much debt. In order to reduce these debts, they even have to sell good investments at increasingly lower prices.

Such a disastrous sell-off of government bonds is one of the major risks we are now facing. At some point, central banks could

198 http://www.imf.org/external/pubs/ft/survey/so/2008/new031208a.htm
199 http://www.bankofcanada.ca/2011/12/speeches/growth-in-the-age-of-deleveraging/

end up buying almost all their domestic government bonds. Investor money would then flee towards equities and hard assets.

As history has shown (see Appendix I), the general public could start to lose faith in its currency. When enough people lose faith in their country's money, this can lead to hyperinflation. Once people lose faith in money and its purchasing power, it is almost impossible to re-introduce fiat money.

But according to Jim Rickards hyperinflation could be used by authorities.

> as a policy lever. Hyperinflation produces fairly predictable sets of winners and losers and prompts certain behavior and therefore can be used politically to rearrange social and economic relations among debtors, creditors, labor and capital, while gold is kept available to clean up the wreckage if necessary.

These risks all stem from the unorthodox interventions that central bankers have been implementing since 2008. According to former Fed Chairman Paul Volcker, some of these measures would have been considered unthinkable before the credit crisis.

Paul Singer of Elliott Management recently commented on current capital markets:

> Nobody can predict how long governments can get away with fake growth, fake money, fake financial stability, fake jobs, fake inflation numbers and fake income growth. Our feeling is that confidence, especially when it is unjustified, is quite a thin veneer. When confidence is lost, that loss can be severe, sudden and simultaneous across a number of markets and sectors.

He also remarked:

> Swelling distrust of, and disrespect for, the dollar's reserve-currency status is becoming another headwind. To us, these

developments suggest that the tectonic plates of monetary conventions are beginning to shift in a way that will lead to a significant revaluation of gold. A critical state will be reached when markets and policy makers realize that additional credit creation does not stimulate growth.[200]

200 http://www.tocqueville.com/insights/lets-get-physical.

Chapter 5 – The War on Gold

Deregulation of the financial sector has caused a financial crisis that can only be managed by fraud. Civil damages might be paid, but to halt the fraud itself would mean the collapse of the financial system. Those in charge of the system would prefer the collapse to come from outside, such as from a collapse in the value of the dollar that could be blamed on foreigners, because an outside cause gives them something to blame other than themselves.

– Paul Craig Roberts, Assistant Secretary of the Treasury for Economic Policy under President Reagan (2012)

Why then, is gold the unmentionable four letter word of economics? The answer is threefold; A misunderstanding of the role of money; a misreading of history; and finally, visceral revulsion to the notion that a metal can do a better job of guiding monetary policy than a gaggle of finance ministers, central bankers and well-degreed economists.

– Malcolm Forbes, Forbes Magazine (2002)

Gold has long been viewed by many as a barbarous relic and demonetizing it and phasing it out of the system completely seems to have a good deal of appeal in some quarters.

– Fed-Banker Alfred Hayes, speech for IMF at Economic Club in New York, 31 August 1975

Policymakers are finding it tempting to pursue 'financial repression' - suppressing market prices that they don't like.

– Kevin M. Warsh, former banker of the Fed (2012)

INTRO

The days of the dollar as a world reserve currency are numbered, which explains why gold is making a remarkable comeback and why a flight to hard assets including farm land and old masters has started. Every year, more and more physical gold is moving from vaults in the West to the East as a symbol of a change in the world power balance.

The US wants its dollar system to prevail for as long as possible. It therefore has every vested interest in preventing a 'rush out of dollars towards gold'. By selling (paper) gold, bankers have been trying in the last few decades to keep the price of gold under control. This war on gold has been going on for almost one hundred years,[201] but as I will explain in the following chapters, it gained traction in the 1960s with the forming of the London Gold Pool. Just like the London Gold Pool failed in 1969, the current manipulation scheme of gold (and silver prices) cannot be maintained for much longer. After a decoupling of paper and physical gold prices in the next few years we will see the gold price rise to its 'full potential'.

201 It is no coincidence that a book on this topic by the Swiss ex-banker Ferdinand Lips is entitled *Gold Wars*. His book builds upon the research compiled in the pioneering book *War on Gold* by the well-known American researcher Antony Sutton, which came out in 1976.

62. The essence of the war on gold

The war on gold is, in essence, an endeavor to support the dollar. But this is certainly not the only motivation.

According to a number of studies, the level of the gold price and the general public's expectations of inflation are highly correlated. Central bankers work hard to influence inflation expectations. Any Fed/ECB speech is guaranteed to include this expression. A recent Google search on the subject resulted in over 21 million hits.[202] The reasoning behind this can be easily surmised: when people assume that inflation will stay low, they act accordingly and will not be tempted to buy 'hard assets'. A 1988 study by Summers and Barsky confirmed that the price of gold and interest rates are highly correlated as well, with a lower gold price leading to lower interest rates.[203]

The survival of our current financial system depends on people preferring fiat money over gold. After the dollar was taken off the gold standard, bankers have tried to demonetize gold. One of the arguments they use to deter investors from buying gold and silver is that these metals do not deliver a direct return such as interest or dividends. But interest and dividend are payments to compensate for counterparty risk – the risk that your counterparty is unable to live up to its obligations.

202 https://www.google.nl/?gws_rd=cr&ei=4e4zUrOGE4m10wXt3YDIDQ#q='inflation+expectations'

203 Gibson's Paradox and the Gold Standard http://www.gata.org/files/gibson.pdf

63. Do central banks fear a flight to gold?

If investing in gold undermines our current fiat money system, then central banks have every reason to fear a flight to gold. And apparently they do. I will delve here into examples of the war against gold waged by the Dutch central bank, but similar examples can be found in other countries.

In 2011, a case was brought to court by a small Dutch pension fund, the 'Pensioenfonds Verenigde Glasfabrieken' ('United Glass Factories Pension Fund') against the Dutch central bank (DNB). The pension fund had invested 13% of its assets in physical gold in order to protect its assets from the economic fall-out of the credit crisis, but the DNB had ordered the fund to sell its gold positions. According to documents presented to the court, the DNB was of the opinion that these investments carried too much risk. What makes this statement remarkable is that the DNB has never objected to institutional investors holding too many subprime loans or Greek government bonds in their portfolios. In the end, the DNB lost the court case twice and had to pay compensation to the pension fund.

In another example, investment funds wanting to operate under the international UCITS license are forbidden from being investors in physical gold. This is the only exception made.[204] And Dutch financial entities wanting to take advantage of a special fiscal status known as VBI are allowed to invest in almost any financial asset except physical gold.

The war is being fought not only by central banks but also by commercial financial institutions. Since 2000, most Dutch banks have stopped sales of physical gold to clients. Most of them have also put an end to services enabling clients to store gold in small bank vaults.

In 2013, both ABN AMRO and RBS cancelled gold accounts that allowed investors to redeem their value in physical gold. In

204 https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111125006

a letter to clients, ABN AMRO explained that it had changed its precious metals custodian rules and the bank would 'no longer allow physical delivery', only paper settlement.[205]

And US banks are only allowed to advise investors to buy gold shares when they have a gold analyst on their payroll.

As demonstrated, in today's world of finance, it is not that difficult to find numerous examples of central banks and commercial banks working hard to keep investors away from physical gold investments.

205 http://www.zerohedge.com/news/2013-03-24/another-gold-shortage-abn-halt-physical-gold-delivery

64. Was private ownership of gold ever prohibited?

After the Wall Street crash of 1929, the US economy fell into a deep recession. Four years later, many American banks had collapsed, triggering multiple bank runs. The survival of the financial system was at stake.

To turn the economic tide, President Roosevelt presented an economic recovery plan called 'the New Deal'. The plan included a 'Gold Reserve Act', passed by Congress at the end of January 1934, which empowered the federal government to confiscate all of the Fed's gold and bring it under the US Department of the Treasury. This was a disappointment for most Wall Street bankers who, back in 1913, had taken over not only the monopoly on printing dollars from the Treasury Department but also the entire national gold supply.

At the same time, the dollar was devalued by 69% by raising the exchange rate for gold from $ 20.67 to $ 35 per ounce. With this, the value of the gold that had arrived at the Treasury Department rose by almost $ 3 billion in one day. The dollar's devaluation against gold had an almost immediate effect on the economy. The sale of American products abroad rose, because of the declining value of the dollar. This resulted in increasing industrial production and money supply, while unemployment declined.

Roosevelt also made use of his special presidential authority to issue Executive Order 6102. This prohibited civilians from possessing gold, gold coins or gold certificates. Anyone caught 'hoarding' gold was to be fined $ 10,000 (the equivalent of $ 180,000 today). Several cases of forced gold confiscation were documented. Americans were allowed to keep five ounces of gold at 1933 prices and gold in the form of rare coins. This law remained in force until 1974. Less well known is the fact that all US silver was nationalized at a price of 50 cents per ounce in February 1937.[206]

206 Business Week, 27 February 1937.

Another executive order commanded American gold mines to sell their production to the Treasury Department and prohibited the export of gold. In Europe, there has never been a ban on possessing gold. But most countries do have legislation in place allowing governments to ban the possession of gold and/or silver.[207]

207 Emergency Law on Financial Movement, Article 26 (25 May 1978).

65. When did the war on gold start?

The first evidence of US meddling in the gold market can be found as early as 1925 when the Fed falsified information regarding the Bank of England's possession of gold in order to influence interest rate levels. [208] However, the war on gold only really took off in the 1960s when trust in the dollar started to fray. Geopolitical conflicts such as the building of the Berlin Wall, the Cuban Missile Crisis and the escalation of violence in Vietnam led to increasing military spending by the US, which in turn resulted in growing US budget deficits. Amid growing concerns in other countries about the value of their dollar reserves as well as signs that they were beginning to accumulate gold, the CIA published a memorandum that presented 'key high-level gold-related deliberations by the then-administration'.[209]

The US strategy is clearly outlined:

- We (the US) lose influence in world affairs whenever:
  – The dollar is weak in exchange markets;
  – There is a major outflow of gold; and/or
- We are obliged to pressure countries into holding dollars.
- To contain these pressures our strategy is:
  – To isolate official from private gold markets by obtaining a pledge from central banks that they will neither buy nor sell gold except to each other;
  – To bring South Africa to sell its current production of gold in the private market, and thus keep the private price down.

An earlier memorandum from 1961 entitled 'US Foreign Exchange Operations: Needs and Methods' described a detailed plan to

208 http://www.gata.org/node/8327
209 Read full document here http://www.zerohedge.com/article/cia-chimes-gold-control-highlights-historical-gold-foreign-holdings-shortfunding

manipulate the currency and gold markets via structural interventions in order to support the dollar and maintain the gold price at $ 35 per ounce.[210] It was vital for the US to 'manage' the gold market; otherwise, countries could exchange their surplus dollars for gold and then sell these ounces on the free gold market for a higher price.

210 http://fraser.stlouisfed.org/docs/historical/martin/23_06_19610405.pdf

66. How was the gold price managed?

During meetings of the central bank presidents at the BIS in 1961, it was agreed that a pool of $ 270 million in gold would be made available by the eight participating countries. This so-called 'London Gold Pool'[211] was focused on preventing the gold price from rising above $ 35 per ounce by selling official gold holdings from the central banks gold vaults.

The idea was that if investors attempted to flee to the safe haven of gold, the London Gold Pool would dump gold onto the market in order to keep the gold price from rising. During the Cuban Missile Crisis in 1962, for instance, at least $ 60 million in gold was sold between 22 and 24 October.[212] The IMF provided extra gold to be sold on the market when needed.

Contributions to the London Gold Pool per participating country[213]

US	$ 135 million	(120 tonnes)
Germany	$ 30 million	(27 tonnes)
England	$ 25 million	(22 tonnes)
Italy	$ 25 million	(22 tonnes)
France	$ 25 million	(22 tonnes)
Switzerland	$ 10 million	(9 tonnes)
The Netherlands	$ 10 million	(9 tonnes)
Belgium	$ 10 million	(9 tonnes)
Total	$ 270 million	

The participating countries also had to declare that they would not buy gold in the open market from countries such as Russia or South Africa. In true BIS fashion, these agreements were not put on paper, thereby ensuring complete secrecy.[214].

211 Ferdinand Lips, *Gold Wars* (2002).
212 Ibid.
213 The UK lost 1800 tonnes between 1960 and 1971 and its gold holdings decreased from almost 2500 tonnes in 1960 to just over 310 metric tonnes at the end of 2013
214 This agreement was disclosed by Charles A. Coombs, who was responsible for gold transactions at that time, in his strikingly open biography, (1960).

In 2010, a number of previously secret US telex reports from 1968 were made public by Wikileaks.[215] These messages describe what had to be done in order to keep the gold price under control. The aim was to convince investors that it was completely pointless to speculate on a rise in the price of gold. One of the reports mentions a propaganda campaign to convince the public that the central banks would remain 'the masters of gold'. Despite these efforts, in March 1968, the London Gold Pool was disbanded because France would no longer cooperate. The London gold market remained closed for two weeks. In other gold markets around the world, gold immediately rose 25% in value.

France even stepped out of the command structure of the NATO.[216] This was a remarkable step considering the danger that the Soviet Union posed to the European continent during the Cold War. It clearly shows France was distancing itself more and more from the US.

The end of the London Gold Pool was the starting shot of a 'bull market' in gold which would last for 13 years and which would see the gold price increasing by over 2,500%.

215 http://www.zerohedge.com/article/declassified-state-dept-data-highlights-global-high-level-arrangement-remain-masters-gold

216 http://www.dailymail.co.uk/news/article-1161642/As-France-rejoins-NATO-humorous-reminder-missed-them.html

67. The IMF's role in the war on gold

In response to the 'gold shortage' during the years of the London Gold Pool, in 1963 the IMF created a new form of international reserve assets called special drawing rights (SDR). These were created out of thin air and were designed to take over the dollar's role as a world reserve currency when needed.[217] Because SDRs were created out of nothing, they soon received the nickname 'paper gold'.

Since 1975, the Americans have worked with the IMF time and again to try to control the gold market by unloading tons of gold. Below are some examples of IMF gold transactions, made during times of stress in physical gold markets.[218] (All quotes are from the IMF website):

1970–1971
To support the dollar: 'The IMF sold gold to member countries in amounts roughly corresponding to those purchased from South Africa during this period.'

1966–1972
To save the dollar: 'In order to generate income to offset operational deficits, some IMF gold was sold to the United States and the proceeds invested in US government securities.'

217 The IMF initially defined the SDR in terms of a fixed amount of gold, then equal to one dollar, and allocated 9.3 billion SDRs between 1970 and 1972 in proportion to member countries' quotas in the IMF. The IMF redefined the SDR as a weighted average of the US dollar, the British pound, the Japanese yen, and the currencies that eventually comprised the euro and made a second allocation of 21.4 billion SDRs between 1979 and 1981. Nevertheless, the SDR quickly devolved for the most part into a unit of account that was primarily used on the IMF's books. SDRs can be converted into whatever currency a borrower requires at exchange rates based on a weighted basket of international currencies. The IMF has typically lent to countries using funds denominated in SDRs.
218 http://www.imf.org/external/np/exr/facts/gold.htm

1976–1980
To dampen explosion of gold price: 'The IMF sold approximately one-third, 50 million ounces, of its then-existing gold holdings following an agreement by its member countries to reduce the role of gold in the international monetary system.'

1999–2000
To meet substantial Y2K-demand: 'In December 1999, the Executive Board authorized off-market transactions in gold of up to 14 million ounces.'

2009
To meet huge post-Lehman demand and when gold broke the $ 1,000 level: 'On September 18, 2009, the Executive Board approved the sale of 400 tons of gold which amounted to one-eighth of the Fund's total holdings of gold at that time.'[219]

A 1999 press release from the IMF communications department 'spinned' the gold sales with the text; 'to help finance the IMF's participation in the Heavily Indebted Poor Countries (HIPC) Initiative'.

When the IMF sold another 200 tonnes of gold in 2012,[220] it communicated that at least 90% of the profits would be made available for the Poverty Reduction and Growth Trust (PRGT).[221]

219 http://www.imf.org/external/np/sec/pr/2009/pr09310.htm
220 http://www.imf.org/external/np/sec/pr/2012/pr1256.htm
221 http://www.imf.org/external/np/exr/facts/gold.htm

68. How did the IMF amass its gold reserves?

The IMF received most of its gold from member countries, which had to pay 25% of their funding quotas to the IMF in physical bullion. This was because gold played a central role in the international monetary system until the collapse of the Bretton Woods agreements in 1971. Seven years later, the IMF fundamentally changed the role of gold in the international monetary system by eliminating its use as the common denominator of the post-World War II exchange rate system and ended its obligatory use in transactions between the IMF and its member countries.

For years, gold analysts have wondered whether a form of double counting of national and IMF gold reserves had occurred. In a reaction, the IMF stated in 2009: 'Members do not include IMF gold within their own reserves because it is an asset of the IMF. Members include their reserve position in the fund in their international reserves.'[222] This means that the value of IMF gold positions can be found on the balance sheets of both the IMF and member countries.

An analyst who studied this subject extensively published his findings on his blog:[223]

> Between 1958 and 1959 there was a first major increase in IMF gold since 1945. This boosted institutional gold holdings by 797 tons. At the same time, central bank holdings – the supposed source of this gold – fell by just 48 tons... the IMF owns the gold and doesn't lend it (out), but because it's held under earmark for members, the members themselves can lend it (and include it in their own stated gold reserves).

222 http://arch09.goldtent.net/2009/04/03/find-the-imf-goldstolen-from-nearby-castle-sorry/

223 http://theostrichhead.typepad.com/index/2010/04/imf-gold-holdings-why-mine-the-stuff-when-your-accountants-can-create-it.html

Another acknowledgement of the double counting can be found in an IMF paper from 2006.[224]

> RESTEG[225] agreed that double counting issues may arise for both allocated and unallocated gold from outright sales of gold acquired through gold swaps/loans. Some suggested that a solution to this double counting needs to be considered, although some noted that such double counting is not a new issue.[226]

Centralbanking.com, a website specialized in central banking news, published a story on this subject under the title 'IMF admits double counting gold'.[227]

224 http://www.imf.org/external/np/sta/bop/pdf/resteg11.pdf
225 RESTEG stands for reserve assets technical expert group, the IMF committee on balance of payment statistics.
226 As a consequence, experts on double counting estimate that half of the 30,000 tonnes of official total gold reserves could in fact have already been lent out and sold by national central banks.
227 http://www.centralbanking.com/central-banking/news/1407346/imf-admits-double-counting-gold

69. Are there more cases of double counting in the US?

In the US national gold reserves can be found on two different balance sheets.[228] When Wall Street bankers founded the Fed in 1913, they not only took over the monopoly to print dollars from the government, they also 'confiscated' the national gold reserves, which ended up on the Fed's balance sheet. President Roosevelt nationalized gold in 1933, and transferred the Fed's gold reserves back to the US Treasury Department. However, the Treasury issued gold certificates to the Reserve Banks,[229] therefore this gold also still appears on the Federal Reserve balance sheet.[230]

Former Republican senator Ron Paul inquired in 2011 whether these 'gold vouchers' issued to the Federal Reserve banks give them the authority to demand and receive gold from the Treasury Department. The General Counsel of the Fed, Scott Alvarez, summoned by the US Congress, would only confirm that the 'gold certificates' were accounting documents and were part of the banks' balance sheets.[231]

More examples can be found in the world of paper gold and gold trackers. Exchange Traded Funds, or ETFs, have become significant players in the gold and silver markets. An ETF follows an underlying index or value as accurately as possible. These funds have become popular because they are tradeable just like shares but at much lower costs. Since 1993, more than 700 ETFs have been introduced which follow all sorts of indices and commodities.[232]

228 http://www.federalreserve.gov/releases/h41/current/
229 http://www.coinweek.com/bullion-report/fed-releases-document-proving-it-has-lied-about-gold-swaps-and-gold-price-manipulation/
230 If there were to be a revaluation of gold, the certificates would also be revalued upwards.
231 http://www.globalresearch.ca/us-gold-reserve-audit-show/5326810
232 http://www.nyse.com/pdfs/ETFs7109.pdf

Gold ETFs are supposed to be fully backed by gold bars, as stated in their prospectus. A gold ETF therefore follows the price of gold with physical gold as security. However, there are many who doubt whether ETFs actually possess physical gold. As reported by Forbes magazine in 2011:

> Skeptics have raised doubts over the trust's management of its physical gold, with questions over how much is actually held. HSBC, the custodian, is very secretive regarding its vault. Earlier this year, CNBC's Bob Pisani was allowed to see the vault only after surrendering his cell phone and taken in a van with blacked out windows to an undisclosed location. Once in the vault, Pisani held up a gold bar and explained they were all numbered and registered. Astutely, Zerohedge noted the bar Pisani held up was missing from the current bar list, fueling further speculation and skepticism.

Another analyst discovered that the serial number of the same 'unique' gold bar held up by Pisani could be found on a list of another gold ETF.

70. How often have US gold reserves in Fort Knox been audited?

In 1933, after President Roosevelt forced Americans to sell their gold to the US Treasury, a larger storage space was needed for the government's gold reserves. New vaults were constructed for this purpose in Fort Knox, Kentucky. The Fort Knox vaults now house some 4,500 metric tons of gold bullion, roughly 3% of all the gold ever refined. This the second largest depository in the United States. The largest is in Manhattan and is the underground vault of the Federal Reserve Bank of New York, which holds some 7,000 metric tons, some in trust for foreign nations.

A few random audits of the gold in Fort Knox were carried out between 1974 and 1986,[233] but doubts about the US gold reserves have continued to grow. Former Congressman Ron Paul, who was a Republican presidential candidate in 2012 and chairman of the US House Financial Services Subcommittee on Domestic Monetary Policy, has questioned the US Treasury about the gold reserves for years. He even called for an audit of the gold reserves in 2011, but his request was denied.[234] The Treasury Department did release the results of an audit on the Treasury's gold holdings stored at the New York Fed in 2010, but the official gold reserves in Fort Knox have never been audited.[235]

In 1981, a number of newspaper reports surfaced about missing Fort Knox gold. An article by the British *Sunday Express* entitled 'United States Probes Fort Knox Robbery' focuses on some 165.1 million ounces of gold which the United States allegedly lost between 1961 and 1971. The newspaper quotes Dr. Peter Beter, a financial adviser to the late President John Kennedy, who believes the theft occurred in the late 1960s when the United

233 http://www.globalresearch.ca/us-gold-reserve-audit-show/5326810

234 http://money.cnn.com/2011/06/24/news/economy/ron_paul_gold_audit/

235 For security reasons, no visitors are allowed inside the depository grounds. The only exception was an inspection by members of the US Congress and the news media on 23 September 1974.

States transferred 233 million ounces from Fort Knox to the Federal Reserve Bank in New York and London's Bank of England. According to the article, 23.1 million ounces were accounted for at the Federal Reserve Bank while another 45.2 million ounces arrived safely in England. The destination of the remaining 165.1 million ounces is unknown, and Dr. Beter stated that attempts to learn what happened have been 'stonewalled' by Treasury officials.

The official reaction from Jerry Nisenson, Deputy Director of Gold Market Activities at the Treasury Department, was strange to say the least: 'We have investigated the claims of Dr. Beter and his supporters and we contend that the gold was not stolen. There is no cover-up. They have misinterpreted our books. The gold was being refined into better quality gold and those ounces just went up the chimney.' The possibility of irregularities at the US Assay Office in New York, through which all the gold was shipped, was also noted in an item in Money Magazine in January 1980.

The discovery of some gold-plated tungsten[236] bars only increased rumours about gold bars being changed into 'fake gold bars'.

As the US government refuses to allow an audit of Fort Knox, even after repeated requests from one of its senators, these kinds of rumours are bound to continue circulating.[237]

236 Tungsten has nearly the same weight as gold.

237 http://fofoa.blogspot.nl/2009/11/is-dollar-good-as-tungsten.htm

71. Did the game plan change after 1980?

In his book *Deception and Abuse at the Fed*, Robert D. Auerbach explains how the Fed even misleads Congress about its monetary policies. While the Fed is obliged by law to record its FOMC meetings, it had claimed for years that no transcripts exist. Eventually the truth came out that Chairman Alan Greenspan had instructed all tapes and accounts to be destroyed. Only transcripts since the end of the 1970s have been archived.

From the transcript of a March 1978 meeting, we know that the manipulation of the gold price was a point of discussion.[238] During the meeting, then Fed Chairman Miller pointed out that it was not even necessary to sell gold in order to bring the price down. According to him, it was enough to bring out a statement that the Fed was intending to sell gold.

This form of 'expectation management' has since become more the rule than the exception. Time and again, it has been communicated through press communiqués that the Fed or the IMF was considering selling gold, and time and again we have seen the gold price fall as a result.

Even as faith in the dollar was restored during the 1980s, the Fed understood that it had to continue fighting gold. In March 1993, the Federal Reserve board discussed how inflation expectations are influenced by the price of gold. When people doubt the value of fiat money, they tend to seek refuge in gold, which drives the price up. This scenario has since become reality following the fall of Lehman Brothers. Chairman Alan Greenspan suggested the US Treasury could sell a small portion of US gold reserves. The transcript runs as follows:

> Board member Angel: The price of gold is largely determined by what people who do not have trust in fiat money system

238 http://www.federalreserve.gov/monetarypolicy/files/FOMC19930518meeting.pdf

> want to use for an escape out of any currency, and they want to gain security through owning gold…
> Greenspan: I have one other issue I'd like to throw on the table. I hesitate to do it, but let me tell you some of the issues that are involved here. If we are dealing with psychology, then the thermometers one uses to measure it have an effect. I was raising the question on the side with Governor Mullins of what would happen if the Treasury sold a little gold in this market. There's an interesting question here because if the gold price broke in that context, the thermometer would not be just a measuring tool. It would basically affect the underlying psychology.

Greenspan explained that a drop in the gold price would lower inflation expectations. He wanted to change the dynamics of the gold price so that it would no longer be an alarm bell for inflation.

Because the US Treasury is not legally allowed to sell its gold reserves, the Fed decided in 1995 to examine whether it was possible to set up a special construction whereby so-called 'gold swaps' could bring in gold from the gold reserves of Western central banks.

In this construction, the gold would be 'swapped' with the Fed, which would then be sold by Wall Street banks in order to keep prices down. Because of the 'swap agreement', the gold is officially only lent out, so Western central banks could keep it on their balance sheets as 'gold receivables'.

It was a wonderful plan. The Fed started informing foreign central bankers that they expected the gold price to decline further, and large quantities of central banks' gold became available to sell in the open market. Logistically this was an easy operation, since the New York Fed vaults had the largest collection of foreign gold holdings. Since the 1930s, many Western countries had chosen to store their gold safely in the US out of fears of a German or Soviet invasion.

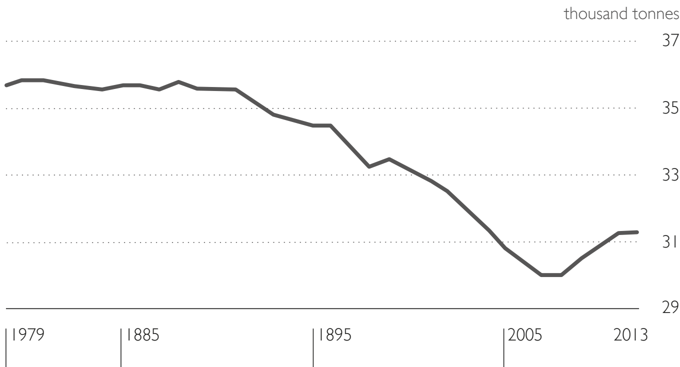
A number of European banks were ready to provide gold to help the Fed. In a Congress hearing in 1998, Greenspan remarked:

'Central banks stand ready to lend out enough gold if the gold price rises.'[239]

Vast amounts of gold were sold in this way at the end of the 1990s. An estimated 1,000 tonnes of physical gold were dumped each year. Since yearly worldwide gold mine production at the time was just over 2,000 tonnes, the gold price kept on dropping until it almost touched a 20-year bottom of $ 250 an ounce in 1999.

The annual reports of many central banks show the results of these gold swaps. Reports published by the Dutch central (DNB) reveal an entry labeled 'gold and gold receivables', whereas in the 1980s, only 'gold' is mentioned as an entry.

Central bank gold reserves



Source: Casey Research

239 United States of America Congressional Records.

72. Didn’t the British help by unloading gold in 1999?

Between 1999 and 2002, the UK embarked on an aggressive selling of its gold reserves, when gold prices were at their lowest in 20 years. Prior to starting, the Chancellor of the Exchequer, Gordon Brown, announced that the UK would be selling more than half of its gold reserves in a series of auctions in order to diversify the assets of the UK’s reserves.

The markets’ reaction was one of shock, because sales of gold reserves by governments had until then always taken place without any advance warning to investors. Brown was following the Fed’s strategy of inducing a fall in the gold price via an announcement of possible sales. Brown’s move was therefore not intended to receive the best price for its gold but rather to bring down the price of gold as low as possible. The advance notice of the sales drove the price of gold down by 10% just before the first auction on 6 July 1999. The UK eventually sold almost 400 tons of gold over 17 auctions in just three years, just as the gold market was bottoming out.

There has always been much speculation about the real reason for the British gold dumping, which greatly helped the US. As I explained earlier, a lower gold price supports the dollar as a world reserve currency. Demand for physical gold was relatively high in 1999 due to the signing of the Washington Agreement on Gold in September 1999. This agreement was made after several gold-producing (African) countries had protested against the ongoing dumping of gold during the 1990s. In the five-year agreement (1999-2004), European central banks agreed to limit their total gold sales to 400 tonnes per year.

This announcement triggered a sharp rise in the price of gold, from $ 260 to $ 330 per ounce within two weeks. Another reason for the high demand was fears concerning the Millennium Bug[240]

240 In the late 1990s, reports appeared in the press about a possible collapse of complex banking networks because computer systems mostly use only two

which was associated with the rollover of the millennium (Y2K). To meet the significant Y2K-related demand, the IMF[241] also sold 14 million ounces in December 1999 (as mentioned earlier).

Gordon Brown's sale of the UK's gold reserves probably came about following a request from the US.[242] In 1999, some US banks that had gone 'short' gold, became mired in trouble when the gold prices moved up sharply that year. The situation was so bad that a bank collapse seemed imminent. The Telegraph reported in 2012:

> One globally significant US bank in particular is understood to have been heavily short on two tonnes of gold, enough to call into question its solvency if redemption occurred at the prevailing price. Goldman Sachs, which is not understood to have been significantly short on gold itself, is rumoured to have approached the Treasury to explain the situation through its then head of commodities Gavyn Davies, later chairman of the BBC and married to Sue Nye who ran Brown's private office.[243]

According to The Telegraph, the Chancellor then took the decision to bail them out by dumping Britain's gold. This forced down the price of gold and allowed the banks to buy back gold even at a profit, thus meeting their borrowing obligations.

According to Zerohedge,[244] the Governor of the Bank of England Eddie George told the following story to several people in a private conversation in September 1999:

digits instead of four for date programming. Many feared that systems would run aground because computer clocks would switch to 1900 instead of 2000.

241 http://www.imf.org/external/np/exr/facts/gold.htm

242 The US has since fully supported Mr. Brown's political career, particularly in his bid to become prime minister in 2007. Media reports from 2010 indicate that the decision to sell was made by Brown (Treasury) and was not welcomed by the Bank of England. (Zerohedge)

243 The telegraph, november 27th, 2012.

244 http://www.zerohedge.com/article/did-gordon-brown-sell-uks-gold-keep-aig-and-rothschild-solvent-more-disclosures-how-ny-fed-m

We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. At any cost we had to quell the gold price. It was very difficult to get gold under control but we have now succeeded. The US Fed was very active in getting the gold price down. So was the UK.

73. Further evidence of systematic gold price suppression

The central bank of Australia confirmed in 2003 that its gold reserves are mainly used to control the price of gold. In its 2003 annual report, the Reserve Bank of Australia stated: 'Foreign currency reserve assets and gold are held primarily to support intervention in the foreign exchange market'.[245]

A top official of the BIS, William R. White, confirmed this line of thinking at a conference in 2005. In his opinion, there are five important tasks for central banks, one of which is to influence gold prices and other currencies. He described this as 'the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful.'[246]

Central banks have even used at least one gold mining company to help them keep the price of gold under control. This became apparent in a lawsuit started in 2003 by gold dealer Blanchard against producer Barrick Gold Corporation and JPMorganChase. Barrick confirmed it had borrowed gold from Western central banks through 'swap agreements' at the request of the Federal Reserve in order to sell this gold on the market.[247] Coincidentally, former President George Bush Senior was working as an advisor to Barrick in the period that these remarkable trades occurred.[248] In its defense, Barrick claimed that it was acting on orders from the Federal Reserve, positioning itself as a sort of agent acting on behalf of central banks.

245 http://www.rba.gov.au/publications/annual-reports/rba/2003/pdf/2003-report.pdf

246 William R. White, Basel 2005.

247 http://www.gata.org/files/BarrickConfessionMotionToDismiss.pdf

248 http://www.gata.org/files/BarrickConfessionMotionToDismiss.pdf

74. Recent methods to manipulate the gold price

The transition from open outcry (where traders stand in a trading pit and shout out orders) to electronic trading gave new opportunities for Wall Street (and the Fed) to control financial markets. Wall Street veteran lawyer Jim Rickards presented a paper in 2006 in which he explained how 'derivatives could be used to manipulate underlying physical markets such as oil, copper and gold'.[249] In his bestseller entitled *Currency Wars*, he explains how the prohibition of derivatives regulation in the Commodity Futures Modernization Act (2000) had 'opened the door to exponentially greater size and variety in these instruments that are now hidden off the balance sheets of the major banks, making them almost impossible to monitor'.

These changes made it much easier to manipulate financial markets, especially because prices for metals such as gold and silver are set by trading future contracts on the global markets. Because up to 99% of these transactions are conducted on behalf of speculators who do not aim for physical delivery and are content with paper profits, markets can be manipulated by selling large amounts of contracts in gold, silver or other commodities (on paper).

Especially since the start of the credit crisis, market participants have now and again been bombarding precious metal futures markets with a tsunami of sell orders. The price of gold was forced down by $ 200 during a two-day raid[250] in April 2013, and silver was sent 35% lower in three days in September 2011.

Another example was the decline in the silver price on 1 May 2011. On the previous Friday, the silver price had reached a record level of just over $ 50 an ounce. In technical terms, a double top was formed (in 1980 the silver price reached $ 50 as well). This made silver vulnerable to an attack by technical traders. The

249 Jim Rickards, *Currency Wars* (2011)

250 According to a study by analyst Grant Williams, the chance of a two-day attack (a standard deviation move of that size on both days) is one in a billion.

raid started soon after midnight when futures trading in the digital gold and silver market began. Both the Japanese and UK financial markets were closed due to holidays. The normally meager market was now therefore extremely thin. Appearing as if out of 'thin' air, the market was soon swamped with (digital) selling orders.

In a study analyzing all intraday gold price changes between 2002 and 2012, the German analyst Dimitri Speck found that average gold prices fell consistently and significantly during New York trading hours.[251]

In 2011, the Deutsche Bank sent a proposal to its high-profile clients on how to profit from the 'suppression of the gold price'. This is another indication that insiders are well aware of these malversations and even manage to profit from it.

Gold intraday average (2002-2012)

source: Dimitri Speck

251 http://www.seasonal-charts.com/intraday_metalle_gold.html

75. More evidence of manipulation of precious metal markets

During a hearing by the US Commodity Futures Trading Commission (CFTC) at the end of 2009, professional silver trader Andrew Maguire came forward to recount how he had witnessed planned attacks on the price of silver. Maguire informed the commission he had overheard how traders used to boast how much money they made by manipulating gold and silver markets. In an email to CFTC commissioners Chilton and Ramirez, Maguire explains how Wall Street traders manipulated the precious metals markets especially around days with option expiries and important economic news announcements.

> From: Andrew Maguire
> Sent: Tuesday, January 26, 2010 12:51 PM
> To: Ramirez, Eliud [CFTC]
> Cc: Chilton, Bart [CFTC]
> Subject: Silver today
>
> Dear Mr. Ramirez:
>
> I thought you might be interested in looking into the silver trading today. It was a good example of how a single seller, when they hold such a concentrated position in the very small silver market, can instigate a selloff at will. These events trade to a regular pattern and we see orchestrated selling occur 100% of the time at options expiry, contract rollover, non-farm payrolls[252] (no matter if the news is bullish or bearish), and in a lesser way at the daily silver fix.

252 Non-farm payrolls refers to the statistic provided each month by the US Bureau of Labor showing the change in employment excluding government and farm employees.

The CFTC commissioner Ramirez replied a day later:

> From: Ramirez, Eliud [CFTC]
> To: Andrew Maguire
> Sent: Wednesday, January 27, 2010 4:04 PM
> Subject: RE: Silver today
>
> Mr. Maguire,
>
> Thank you for this communication, and for taking the time to furnish the slides.

In January 2010, Maguire had even warned the CFTC about a coming attack, describing in detail how gold and silver prices would be hit the moment the non-farm payrolls number was made public. The hit occurred exactly as Maguire had predicted:

> From: Andrew Maguire
> To: Ramirez, Eliud [CFTC]
> Cc: BChilton [CFTC]
> Sent: Wednesday, February 03, 2010 3:18 PM
>
> Thought it may be helpful to your investigation if I gave you the heads up for a manipulative event signaled for Friday, 5th Feb. The non-farm payrolls number will be announced at 8.30 ET. There will be one of two scenarios occurring, and both will result in silver (and gold) being taken down with a wave of short selling designed to take out obvious support levels and trip stops below. While I will no doubt be able to profit from this upcoming trade, it is an example of just how easy it is to manipulate a market if a concentrated position is allowed by a very small group of traders.
> I am aware that physical buyers in large size are awaiting this event to scoop up as much 'discounted' gold and silver as possible. These are sophisticated entities, mainly foreign,

> who know how to play the short sellers and turn this paper gold into real delivered physical.

And another email by Maguire after the attack occurred:

> From: Andrew Maguire
> To: Ramirez, Eliud [CFTC]
> Cc: BChilton [CFTC]; GGensler [CFTC]
> Sent: Friday, February 05, 2010 3:37 PM
> Subject: Fw: Silver today.
>
> A final e-mail to confirm that the silver manipulation was a great success and played out EXACTLY to plan as predicted yesterday. How would this be possible if the silver market was not in the full control of the parties we discussed in our phone interview? I have honored my commitment not to publicize our discussions.
> I hope you took note of how and who added the short sales (I certainly have a copy) and I am certain you will find it is the same concentrated shorts who have been in full control since JPM took over the Bear Stearns position.

76. Investigations into manipulation in precious metals markets

Silver analyst Ted Butler has asked the US CFTC repeatedly over a period of 27 years to look into the possible manipulation of silver markets.[253] According to Butler, the CFTC 'has conducted three formal reviews into whether silver was manipulated in the last nine years alone'. In the first two, the agency concluded that no manipulation existed. Until 2008, the CFTC had on several occasions denied that manipulation in silver was taking place.[254]

Continuous complaints and several petitions by silver investors worldwide resulted in a third investigation into the silver market. In September 2008, the CFTC confirmed that its Division of Enforcement has been investigating 'complaints of misconduct in the silver market'.[255, 256] The investigation went on for more than five years. Although Butler was directly involved in bringing about all three reviews, he has never heard anything back from the CFTC and was never interviewed.

CFTC commissioner Bart Chilton has said on different occasions that he believed there had been 'fraudulent efforts' to 'deviously control' the silver price.[257] He also made some public comments about the large concentration on the short side of COMEX silver. These comments resulted in a civil class action lawsuit being filed against JPMorgan, who holds a majority of these positions.[258]

A New York judge dismissed the lawsuit at the end of December 2012.

253 http://www.cftc.gov/index.htm 'Ensuring the integrity of the futures & options markets'

254 http://www.bloomberg.com/news/2010-10-26/silver-market-faced-fraudulent-efforts-to-control-price-chilton-says.html

255 http://wsf.typepad.com/wall-street-forecaster/2011/11/cftc-statement-regarding-enforcement-investigation-of-the-silver-markets.html

256 http://www.cftc.gov/PressRoom/PressReleases/silvermarketstatement

257 http://www.scribd.com/doc/65207178/11-09-12-FINAL-Consolidated-Class-Action-Complaint

258 http://seekingalpha.com/article/234051-cftc-investigates-jpmorgan-hsbc-silver-market-manipulation-may-have-kept-prices-down

In March 2013, reports surfaced about another CFTC investigation into whether prices were being manipulated in the world's largest gold market.[259] The CFTC inquiry apparently now also involved the gold markets.

But after its five-year investigation into complaints of misconduct regarding silver prices, in 2013 the CFTC concluded there was no ground for claims of manipulation of the silver markets.

In september 2010, Zerohedge reported one of the two administrative judges for the CFTC has written and filed a 'Notice and Order' saying:

> There are two administrative law judges at the Commodity Futures Trading Commission: myself and the Honorable Bruce Levine. On Judge Levine's first week on the job, nearly twenty years ago, he came into my office and stated that he had promised Wendy Gramm, then Chairwoman of the Commission, that we would never rule in a Complainant's favor. A review of his rulings will confirm that he has fulfilled his vow. Jedge Levine, in the cynical guise of enforcing the rules, forces pro se complaints to run a hostile procedural gauntlet until they lose hope, and either withdraw their complaint or settle for a pittance, regardless of the merits of the case.

While Citigroup, UBS, JP Morgan, HSBC and RBS have been fined what amounts to $4.3 billion for currency exchange manipulations,[260] European regulators are still studying the manipulation of the gold price. But in one case a UBS precious-metals trader has already been charged with misconduct in Switzerland.[261]

259 http://online.wsj.com/article/SB10001424127887324077704578358381575462340.html#printMode

260 http://www.bloomberg.com/news/2014-11-12/banks-to-pay-3-3-billion-in-fx-manipulation-probe.html.

261 http://www.bloomberg.com/news/2014-11-12/finma-s-ubs-foreign-exchange-settlement-includes-precious-metals.html.

77. Do regulators now want Wall Street to stop trading commodities?

The Federal Reserve announced in the summer of 2013 that 'it might reconsider its decade-old policy which has allowed investment banks to diversify and own certain unrelated businesses such as participation in the physical commodity markets'.[262] CFTC commissioner Bart Chilton remarked in the same week: 'I don't want banks owning warehouses, whether they have aluminum, gold, silver, or anything else in them.' These statements indicate the start of coordinated action by the Fed and the CFTC towards Wall Street banks active in commodities.

Around the same time, a letter from the CFTC to the Federal Reserve was leaked to the public by CNBC.[263] In the letter, the CFTC is 'urging the Fed to firmly draft the final Volcker Rule in a way that ensures banks can no longer speculate in commodity markets'. And Bloomberg reported on the same day that the CFTC had even sent letters to banks asking them 'not to destroy documents relating to warehouses registered by exchanges such as the London Metal Exchange (LME) or Chicago Mercantile Exchange (COMEX)'. We have increasing evidence, therefore, that regulators are starting to make a move in this area.

That same year, JPMorgan made a surprising announcement[264] that it had sold its office building at One Chase Manhattan Plaza to China's largest industrial group.[265] To precious metal watchers, this address is best known for its enormous precious metal vaults. The vaults are situated 80 feet below ground level at 33 Liberty Street. It used to contain up to 20% of the world's gold. Strangely

262 http://www.bloomberg.com/news/2013-08-05/fed-should-reverse-commodity-trading-policy-cftc-s-chilton-says.html

263 http://www.cnbc.com/id/100937811/print

264 http://www.huffingtonpost.com/nathan-lewis/wheres-the-gold_b_216896.html

265 http://www.bloomberg.com/news/2013-10-18/jpmorgan-selling-chase-manhattan-plaza-in-nyc-to-china-s-fosun.html

enough, the sale was realized shortly after reports surfaced[266] that almost all of JPMorgan's gold holdings had been withdrawn from its warehouse at Chase Manhattan Plaza.

Zerohedge discovered earlier that the JPMorgan vaults were situated right across from the Fed's own gold vault:

> ...we have learned that the world's largest private, and commercial, gold vault, that belonging once upon a time to Chase Manhattan, and now to JPMorgan Chase, is located, right across the street, and at the same level underground, resting just on top of the Manhattan bedrock, as the vault belonging to the New York Federal Reserve, which according to folklore is the official location of the biggest collection of sovereign, public gold in the world.

But the most stunning revelation was the fact that 'the Chase Plaza is linked to the (Fed) facility via tunnels'.[267]

The news[268] of JPMorgan's sale of its Chase Manhattan Plaza office came only weeks after the bank announced that it was 'pursuing strategic alternatives for its physical commodities business, including its holdings of commodities assets' and that 'it plans to get out of the business of owning and trading physical commodities ranging from metals to oil'. Both developments appear to be related. The fact that the Chinese company was allowed to buy the largest private gold vaults just across from the Fed's gold vaults in the heart of the financial district of Manhattan, is an indication that an agreement may have been made between China and the US about the storage of China's gold.

266 http://sufiy.blogspot.co.uk/2013/07/jpm-gold-vault-chronicles-eligible-gold.html

267 http://www.zerohedge.com/news/2013-03-02/why-jpmorgans-gold-vault-largest-world-located-next-new-york-fed

268 http://www.zerohedge.com/news/2013-07-26/jpmorgan-exit-physical-commodity-business

78. Why has this gold manipulation not been reported on before?

This has all been reported before,[269] but the mainstream financial media have so far neglected to pick up this story. Since 2004, a considerable number of studies about the manipulation of gold and/or silver markets have been published.

1 – The famous Canadian investor Eric Sprott published an extensive study in 2004 called *Not Free, Not Fair – the Long-Term Manipulation of the Gold Price*[270] in which he discusses the manipulation of the gold price.

2 – In 2006, the London broker Cheuvreux, a part of Credit Agricole, published a report[271] in connection with 'the management' of the gold price under the title *Remonetization of Gold: Start Hoarding*. The authors concluded that by lending out gold, Western central banks possessed only half of the recorded 30,000 tonnes of global official gold reserves.

3 – A year later, Citigroup analysts John H. Hill and Graham Wark brought out their own report *Gold: Riding the Reflationary Rescue* in which they explain that gold 'undoubtedly faced headwinds this year from resurgent central bank selling, which was clearly timed to cap the gold price'. This selling, according to Citigroup, was clearly intended to prevent a further rise in the price of gold.[272]

These studies also disclose information about a a class-action lawsuit brought against Morgan Stanley in 2007,[273] for charging storage fees for precious metals, but the clients argued that the Wall Street bank neither bought nor stored the metals.

269 http://www.mineweb.com/mineweb/content/en/mineweb-political-economy?oid=101525&sn=Detail
270 http://www.sprott.com/media/105296/not-free-not-fair.pdf
271 http://www.gata.org/files/CheuvreuxGoldReport.pdf
272 http://www.gata.org/node/5568/
273 http://uk.reuters.com/article/2007/06/12/morganstanley-suit-idUKN1228014520070612

Chapter 6 – The Big Reset

New rules have been discussed not only inside the advanced economies, but with all emerging economies, including China.

– Jean-Claude Trichet, former president of the European Central Bank

Politicians in Washington have done nothing substantial but postpone once again the final bankruptcy of global confidence in the US financial system.

– Xinhua

With the status of the US dollar as the international reserve currency being shaky, a new global currency setup is being conceived.

– Zhou Ming, General Manager of the Precious Metals Department ICBC

The world is moving step by step toward a de facto Gold Standard, without any meetings of G20 leaders to announce the idea or bless the project.

– Ambrose Evans-Pritchard, international business editor, The Telegraph

I believe that basically the system is broke[n] and needs to be reconstituted. The system we now have has broken down, only we haven't quite recognized it. So you need to create a new one and now is the time to do it.

– George Soros, hedge fund manager

INTRO

The world economy and its currency system can be compared to supertankers. All route changes have to be planned well in advance. If history has taught us anything, it is that a currency tends to lose its world reserve status over a long period of transition. The 'endgame' is often drawn out over decennia. The British pound first suspended its gold standard at the start of World War I in 1914, but it was not until 1944 that the dollar became its successor (during the last Big Reset).

Although the US understands that the dollar will one day lose its world reserve currency status, the Americans will try to maintain their monetary supremacy for as long as possible. Actually, it was already apparent to the Americans back in 1971 that the endgame for this dollar-based system had begun. For over 40 years, the US has used all its power, creativity and flexibility to keep its monetary allies on board. Every trick in the book has been used to convince countries to support the dollar and to marginalize the role of gold.

But since the Fed has started to monetize most of the newly issued debt as part of its QE operations, the point of no return has been passed. Probably even within the next decade, the global financial system will have to find a different anchor. We can expect the US to take the initiative again before a real crisis of confidence occurs.

79. Why do you expect a Big Reset of the global financial system?

Our financial system can be changed in almost any way as long as the main world trading partners can agree to the changes. There are two types of resets: those that are planned well in advance – such as the Bretton Woods reset in 1944 which affected almost the whole world – and smaller resets needed due to monetary developments. Examples of the latter are the introduction of the gold-backed D-Mark after the Weimar hyperinflation in 1923 in Germany, the closing of the gold window by the US in 1971, and the theft of depositors' money during the rescue of the Cyprus banking system in 2013.

Two major problems in the world's financial system have to be addressed: 1) the demise of the US dollar as the world's reserve currency, and 2) the almost uncontrollable growth in debts and in central banks' balance sheets. For all of these issues, central banks have only been buying time since the start of the credit crisis in 2007. Insiders predict that much more radical action will be needed before 2020.

In 2013, the Chinese openly said that the time had come to 'de-Americanize' the world. They called for 'the introduction of a new international reserve currency that is to be created to replace 'the dominant US dollar'.[274] The Chinese have been studying how a reset could occur for quite some time.[275]

But given how sensitive this issue is, nothing can be said in public. Any official comments about a new 'Plan B' will crash financial markets (Plan A) immediately. Central planners know the only way to plan a reset is to do it in total secrecy. That is why investors have to watch what central bankers do instead of what they say and prepare themselves well in advance.

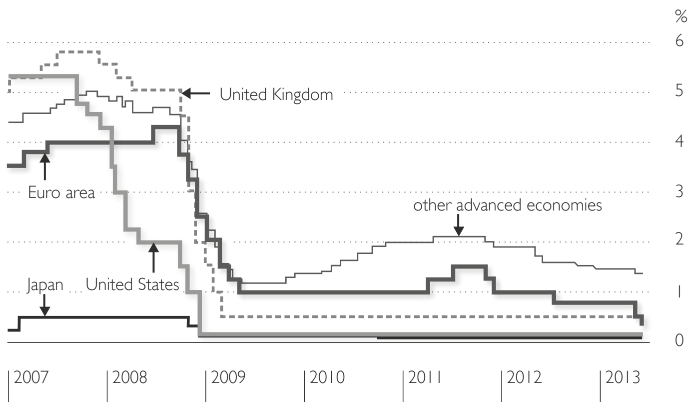
274 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeFVNYQpByU4

275 Reserve Accumulation and International Monetary Stability, 13.4.2010, http://www.imf.org/external/np/pp/eng/2010/041310.pdf

Many monetary reforms, like the one in Cyprus, are executed on the weekends when financial markets are closed. On many occasions, there are no concrete warning signs. Only insiders and their 'smart-money' (i.e., hedge-fund) friends tend to be positioned well in advance.

But one thing is certain: in almost all monetary crises and resets, holders of (physical) gold (and silver) have come out financially unharmed. This is because 'gold is nobody's liability'. China stopped buying US Treasuries in 2010 and has been loading up on gold ever since, which is a sign not to be ignored. The Russians have been aggressively buying gold as well, ever since the start of the credit crisis in 2007. The fact that the US is still fighting gold with everything in its power is a clear indication that gold will probably be an important part of a planned reset. If not, it will at least be the best safe haven when the storm passes.

Policy rates advanced economies



Source: BIS

80. How can the international monetary system be changed?

Most people see our financial system as a binary system with only two options: it will work (0) or it will crash (1). They tend to forget that this is a highly flexible system, which can be adjusted in many ways. Because the current system is constructed by mankind and does not follow the rules of natural law, almost any desired change can occur.

In theory, all debts worldwide could be wiped out on a Sunday afternoon. We could start from scratch with a new balance sheet the next morning. If every citizen in the world was to be credited with let's say 1,000 newly designed Bancors, which would be accepted by all banks and businesses, we could start anew in an instant. We could even write off all mortgages and nationalize all real estate, and have a system whereby we pay rent to the state. These kind of scenarios are hard to comprehend, but when the need is highest, solutions can become very creative.

We do not live in a binary black and white world. Rather, reality is in 256 shades of grey. It is therefore much more logical to expect an outcome for our reset to range somewhere between 1 and 256. Some debts will be cancelled. Some parts of the financial system will be nationalized, as we have seen happening with banks and other financial institutions since 2008.

A new reset will simply bring our monetary system to the next phase. All parties involved (the US, the EU, the BRICS countries, Japan, the Middle East) have so much to lose if they wait too long implementing the necessary changes. And the US knows they have the most to lose. They understand they will need to take the initiative again, just as they did in 1944 (Bretton Woods 1.0) and 1971 (Bretton Woods 2.0). The wait is on for Bretton Woods 3.0.

81. When did experts begin to understand the system had to change?

Soon after the start of the crisis in late 2008, the IMF and others began brainstorming about a next phase for our financial system. According to IMF historian James Boughton, some world leaders have been calling for a 'new Bretton woods' ever since:[276]

> What Sarkozy and Brown envisaged was a new multilateral agreement to stabilize international finance in the 21st century, the way the 1944 conference, which established the International Monetary Fund and the World Bank, stabilized financial relations among countries in the second half of the 20th century. On several occasions throughout the 20th century, political leaders in major countries sought international agreements on the global economic or financial architecture. Many of those efforts failed, Bretton Woods being the major exception.

He also gave a few examples of other proposed resets:

> 1918/19 – to redraw political borders and to establish principles for avoiding a repeat of the war, establishing a framework for restoring free trade and the flow of capital was also on the agenda.
>
> 1933 – the World Monetary and Economic Conference to re-establish fixed parities for a wider range of currencies, failed because of a lack of support from the US government. It was preceded by [the] Genoa meeting (1922) that re-established the gold standard for a group of mostly European countries, and the Rome meeting (1930) that established the Bank for International Settlements.

276 https://www.imf.org/external/pubs/ft/fandd/2009/03/boughton.htm.

In 2012, the former Bank of England Governor Mervyn King predicted advanced economies would probably not be able to get out of the current crisis without large debt restructurings and a recapitalization of the financial system (i.e. banks):

> I am not sure that advanced economies in general will find it easy to get out of their current predicament without creditors acknowledging further likely losses, a significant writing down of asset values and recapitalization of their financial systems. [...] Only then will it be possible to return to a more normal provision of the vital banking services so crucial to an economic recovery.[277]

The United Nations[278] called for 'a new Global Reserve System' based on the IMF's Special Drawing Rights (SDRs) as early as 2009.[279] The SDRs, which have been in existence since 1969, often called IMF money, were 'designed' as a medium of exchange for international transactions in case the dollar got into serious trouble. The UN report stated:

> The global imbalances which played an important role in this crisis can only be addressed if there is a better way of dealing with international economic risks facing countries than the current system of accumulating international reserves. Indeed, the magnitude of this crisis and the inadequacy of

277 http://www.bloomberg.com/news/2012-10-23/king-says-boe-stands-ready-to-add-stimulus-should-recovery-fade.html.

278 Experts of the President of the General Assembly on reforms of the international monetary and financial system, http://www.un.org/ga/president/63/letters/recommendationExperts200309.pdf.

279 The SDR is not a currency, but holders of SDRs can obtain currencies of IMF members in exchange for their SDRs. So when more SDRs are created, more money is created. It is used to allow countries to participate in foreign trade without affecting their exchange rates. The IMF can allocate SDRs to all its members in proportion to certain quotas. In 2009, the IMF increased general SDR allocation to US$250 billion, with low-income countries only 'receiving' over $18 billion. The total amount of outstanding SDRs was just over 400 billion in the summer of 2015.

> international responses may motivate even further accumulations. Inappropriate responses by some international economic institutions in previous economic crises have contributed to the problem, making reforms of the kind described here all the more essential. To resolve this problem a new Global Reserve System, what may be viewed as a greatly expanded SDR, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations – could contribute to global stability, economic strength, and global equity. Currently, poor countries are lending to the rich reserve countries at low interest rates. The dangers of a single-country reserve system have long been recognized, as the accumulation of debt undermines confidence and stability. But a two (or three) country reserve system, to which the world seems to be moving, may be equally unstable. The new Global Reserve System is feasible, non-inflationary, and could be easily implemented, including in ways which mitigate the difficulties caused by asymmetric adjustment between surplus and deficit countries.

In that same year, Governor Xiaochuan of the People's Bank of China (China's central bank) published a long statement in support of these ideas. In the statement, initially only published on the PBoC's website, he called for replacing the dollar as the dominant world currency. He also said the financial crisis showed the need for 'an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run.' He also explained that the interests of the US and those of other countries should be 'aligned', which is not the case in the current dollar system. Because this statement can be seen as the start of the Chinese path toward a monetary reset the statement is published here in full:[280]

280 http://www.pbc.gov.cn/publish/english/956/2009/20091229104425550619706/20091229104425550619706_.html

The outbreak of the current crisis and its spillover in the world have confronted us with a long-existing but still unanswered question, what kind of international reserve currency do we need to secure global financial stability and facilitate world economic growth, which was one of the purposes for establishing the IMF? There were various institutional arrangements in an attempt to find a solution, including the Silver Standard, the Gold Standard, the Gold Exchange Standard and the Bretton Woods system. The above question, however, as the ongoing financial crisis demonstrates, is far from being solved, and has become even more severe due to the inherent weaknesses of the current international monetary system.
Theoretically, an international reserve currency should first be anchored to a stable benchmark and issued according to a clear set of rules, therefore to ensure orderly supply; second, its supply should be flexible enough to allow timely adjustment according to the changing demand; third, such adjustments should be disconnected from economic conditions and sovereign interests of any single country. The acceptance of credit-based national currencies as major international reserve currencies, as is the case in the current system, is a rare special case in history. The crisis again calls for creative reform of the existing international monetary system toward an international reserve currency with a stable value, rule-based issuance and manageable supply, so as to achieve the objective of safeguarding global economic and financial stability. [...] When a national currency is used in pricing primary commodities, trade settlements and is adopted as a reserve currency globally, efforts of the monetary authority issuing such a currency to address its economic imbalances by adjusting exchange rate would be made in vain, as its currency serves as a benchmark for many other currencies. While benefiting from a widely accepted reserve currency, the globalization also suffers from the flaws of such a system.

The frequency and increasing intensity of financial crises following the collapse of the Bretton Woods system suggests the costs of such a system to the world may have exceeded its benefits. The price is becoming increasingly higher, not only for the users, but also for the issuers of the reserve currencies. Although crisis may not necessarily be an intended result of the issuing authorities, it is an inevitable outcome of the institutional flaws.

II. The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies.

- Though the super-sovereign reserve currency has long since been proposed, yet no substantive progress has been achieved to date. Back in the 1940s, Keynes had already proposed to introduce an international currency unit named 'Bancor', based on the value of 30 representative commodities. Unfortunately, the proposal was not accepted. The collapse of the Bretton Woods system, which was based on the White approach, indicates that the Keynesian approach may have been more farsighted. The IMF also created the SDR in 1969, when the defects of the Bretton Woods system initially emerged, to mitigate the inherent risks sovereign reserve currencies caused. Yet, the role of the SDR has not been put into full play due to limitations on its allocation and the scope of its uses. However, it serves as the light in the tunnel for the reform of the international monetary system.
- A super-sovereign reserve currency not only eliminates the inherent risks of credit-based sovereign currency, but also makes it possible to manage global liquidity. A super-sovereign reserve currency managed by a global institution could be used to both create and control the global liquidity.

And when a country's currency is no longer used as the yardstick for global trade and as the benchmark for other currencies, the exchange rate policy of the country would be far more effective in adjusting economic imbalances. This will significantly reduce the risks of a future crisis and enhance crisis management capability.

III. The reform should be guided by a grand vision and begin with specific deliverables. It should be a gradual process that yields win-win results for all.

- The reestablishment of a new and widely accepted reserve currency with a stable valuation benchmark may take a long time. The creation of an international currency unit, based on the Keynesian proposal, is a bold initiative that requires extraordinary political vision and courage. In the short run, the international community, particularly the IMF, should at least recognize and face up to the risks resulting from the existing system, conduct regular monitoring and assessment and issue timely early warnings.
- Special consideration should be given to giving the SDR a greater role. The SDR has the features and potential to act as a super-sovereign reserve currency. Moreover, an increase in SDR allocation would help the Fund address its resources problem and the difficulties in the voice and representation reform. Therefore, efforts should be made to push forward a SDR allocation. This will require political cooperation among member countries. Specifically, the Fourth Amendment to the Articles of Agreement and relevant resolution on SDR allocation proposed in 1997 should be approved as soon as possible so that members joined the Fund after 1981 could also share the benefits of the SDR. On the basis of this, considerations could be given to further increase SDR allocation.
- The scope of using the SDR should be broadened, so as to enable it to fully satisfy the member countries' demand for a reserve currency.

- Set up a settlement system between the SDR and other currencies. Therefore, the SDR, which is now only used between governments and international institutions, could become a widely accepted means of payment in international trade and financial transactions.
- Actively promote the use of the SDR in international trade, commodities pricing, investment and corporate bookkeeping. This will help enhance the role of the SDR, and will effectively reduce the fluctuation of prices of assets denominated in national currencies and related risks.
- Create financial assets denominated in the SDR to increase its appeal. The introduction of SDR-denominated securities, which is being studied by the IMF, will be a good start.
- Further improve the valuation and allocation of the SDR. The basket of currencies forming the basis for SDR valuation should be expanded to include currencies of all major economies, and the GDP may also be included as a weight. The allocation of the SDR can be shifted from a purely calculation-based system to a system backed by real assets, such as a reserve pool, to further boost market confidence in its value.

IV. Entrusting part of the member countries' reserve to the centralized management of the IMF will not only enhance the international community's ability to address the crisis and maintain the stability of the international monetary and financial system, but also significantly strengthen the role of the SDR.

- Compared with separate management of reserves by individual countries, the centralized management of part of the global reserve by a trustworthy international institution with a reasonable return to encourage participation will be more effective in deterring speculation and stabilizing financial markets. The participating countries can also save some reserve for domestic development and

economic growth. With its universal membership, its unique mandate of maintaining monetary and financial stability, and as an international 'supervisor' on the macroeconomic policies of its member countries, the IMF, equipped with its expertise, is endowed with a natural advantage to act as the manager of its member countries' reserves.

– The centralized management of its member countries' reserves by the Fund will be an effective measure to promote a greater role of the SDR as a reserve currency. To achieve this, the IMF can set up an open-ended SDR-denominated fund based on the market practice, allowing subscription and redemption in the existing reserve currencies by various investors as desired. This arrangement will not only promote the development of SDR-denominated assets, but will also partially allow management of the liquidity in the form of the existing reserve currencies. It can even lay a foundation for increasing SDR allocation to gradually replace existing reserve currencies with the SDR.

This statement delivered a very strong message to the world: China is dissatisfied with the current international monetary system and eager to change the situation of its over-reliance on the US dollar. The renminbi is unlikely to challenge the dollar any time soon and its pivotal position in world money for many years, but it probably will become number two currency before 2025.

82. What were the reactions to Zhou Xiaochuan's statement?

After the publication of the article by Zhou Xiaochuan, in which he said that it was regrettable that John Maynard Keynes' 'farsighted' Bancor proposal was not adopted at the Bretton Woods conference in 1944, China Security published an article entitled: 'Debating the International Currency System: What's in a Speech?'[281], written by two Chinese insiders on international relations. It was a study of Zhou's speech and quoted several Chinese reactions to his proposal.

The President of the China Export-Import Bank and former PBoC Vice Governor, Li Ruogu, explained:

> It shows clearly how unreasonable the current international monetary system is. [...] it may be feasible to reform the existing SDR into a payment currency in a real sense and further to substitute the dollar-denominated currency by a basket of currencies commonly accepted by all countries. To be more specific, a new Bretton Woods System focusing on a basket of currencies should be established [...] The medium-term goal of the Chinese proposal is about reforming the International Currency System, in which a core component is rethinking the selection of standard currency for international reserves.

The report concluded with a spot on analysis about the crisis' effects on the dollar system:

> Chinese observers have noted that the current crisis could well turn out to be a watershed event in the primacy of the dollar and the life of the dollar system [...] The consensus Chinese view is that a multi-reserve currency era is coming, even if only gradually, and that it would be in China's strategic

281 http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?lang=en&id=117049.

> interests to promote such a scenario [...] One vision of such a multi-polar, decentralized and diversified currency system that has been offered by Chinese analysts is the dollar, the euro and a 'regional Asian currency [renminbi? – WM]' sharing the role of global reserve currency – and together backstopped by SDRs.[282]

In China, a few more studies for changes to the current monetary system have been published as well.[283] There are also some very strong statements in 'The road map of the reform of the international monetary and financial system' (2009), which can be found at the website of the United Nations.[284]

The author Yu Yongding, a former member of the Monetary Affairs Committee of China's central bank and one of the country's most influential economists, suggests that the inherent flaws in the dollar system are easy to miss because of the importance of dollar assets in the investment portfolio of international investors. This has meant that foreign exchange funds have flowed back into the United States. The report, published by the prestigious Institute of World Economics and Politics (IWEP), part of the Chinese Academy of Social Sciences, in early 2009, shows very clear what the Chinese elite really thinks about the current dollar/IMF-centred system. According to the author, 'the lack of independence has damaged the authority of the IMF irretrievably. Any reform of the IMF less than a total overhaul is not acceptable.' This report is also very important for understanding the Chinese position:

282 When US Secretary of the Treasury Timothy Geithner was asked about Governor Zhou's call for international currency reforms in 2009, he said that while he had not read the proposal he anticipated that the plan was 'designed to increase the use of the IMF's special drawing rights. And we're actually quite open to that.'

283 http://en.iwep.org.cn/upload/2013/02/d20130217144133297.pdf.

284 Some Thoughts on Current International Financial Crisis and East Asia's Responses Yu Yongding, IWEP, CASS, 20 January 2009.

The global financial and economic crisis has reached a critical stage [...] When helicopter-Ben drops tons and tons of dollar bills from the sky, what value does the dollar still have? When the balance sheet of the Fed is no better than a junk bond fund, it becomes a kind of junk bond fund. The Fed knows very well the inflationary consequences of the extremely loose monetary policy. Hence it has brought forward some new schemes, such as paying interest on reserves and possible selling Fed bonds to the financial institutions. However, the basic question is still unanswered: when the situation has changed, can the Fed withdraw the liquidity quickly enough to prevent current liquidity shortage and credit crunch from turning into hyperinflation and a free fall of the US dollar? In other words, will the US inflate away its debt burden? The result of such an inflation and devaluation scenario, let alone defaults, will be devastating for China, Japan and the rest of the East Asian countries, which hold some 3 trillion USD foreign exchange reserves, collectively. Currently, the Chinese government is facing two major challenges: minimizing the negative impact of the US financial crisis-led global slowdown on economic growth, and preserving the value of its foreign exchange reserves, which mostly are in the form of the US treasuries. More or less, this is an issue common to all North Asia. Hence the discussion of the reform of international financial system should put the issue of preserving the value of foreign exchange reserves high on the agenda. No matter what policies the US government has adopted and will adopt, the stabilization of US financial market and US economy should not be achieved at the expense of the rest of the world. No matter whether it is a devious attempt or unintended result, if serious inflation and a dramatic fall of the US dollar are allowed to happen, the consequences will be extremely grave. In other words, US policy in dealing with current financial crisis is not a pure sovereign matter but that it is an international matter [...] There should be a new framework to facilitate policy coordination among all major sovereign stakeholders in the world.

In the long run, the key issue is that the US dollar's hegemonic position, as virtually the sole international reserve currency should be changed. Because America's liabilities are denominated in terms of dollars, held by foreign countries as American assets, there are no effective disciplines can be imposed on the US monetary authority, and the smooth functioning of other sovereign countries will dependant entirely on the good-will and competency of the US monetary authority. The current US financial crisis has damaged the credibility of US authorities and the dollars permanently, and shown that to use the dollar as the only store of value, unite of account, and vehicle money is an unaffordable luxury for the rest of the world [...] We do not know what will be the next step or misstep of the Fed and the Ministry of Treasury will take, let alone the possible consequences. China, as the biggest holder of the US Treasuries, is asking the question as Rogoff did: 'Why would a government refuse to pay its domestic public debt in full when it can simply inflate the problem away?' The Chinese government has demanded guarantees by the US government for the safety of China's assets in the US. I do not know whether the Chinese government has got such any guarantees, or whether the US government has the ability to keep the promise, if they were given. No matter whatever the result is, the long-term solution lies in the reform of the international financial system that is characterized by the fact that the US dollar is the major reserve currency. The issue of a new reserve currency, a basket of reserve currencies or whatever, which will not be subject to the influence of a major country's domestic policy, should be high on the agenda of the reform of international financial system. Otherwise, the discussion of the reform of the international financial system cannot be very meaningful.

From China's perspective, there are three basic roads for the reform of the international monetary system: reform within the current framework of international monetary system,

strengthening regional financial cooperation and integration, and the internationalization of the RMB.

The reform of post Breton Woods system from within. The reform within the current framework means the reform of the IMF. Since the Asian Financial Crisis, the IMF's authority and credibility have deteriorated rapidly by its own missteps. Before 2007, the IMF failed to do anything to supervise, regulate, and contain the huge asset bubbles in international capital market. It even failed to forewarn the world on the coming subprime crisis in any significant way, let alone to had done anything to prevent the crisis from forming and breaking out since the turn of the century. Has IMF ever exposed the excess of the US financial institutions? Has the IMF ever pointed out that MBS, CDO and CDS have dangerous implications to the financial stability? Now has the IMF ever raised any questions on the Fed's desperate monetary policy? In 2008, the most important decision taken by the IMF was to toe the line of the US government to designate China as exchange rate manipulator. Here there is no need to discuss whether China erred or not. The thing is that the IMF has lost the sense of direction. I do not doubt the intellectual competency of IMF staffers. The thing is political influence. Lack of independence has damaged the authority of the IMF irretrievably. Any reform of the IMF less than a total overhaul is not acceptable. As a first step, voting share should be redistributed, and the role of East Asian countries should be increased significantly.

To make the IMF a more balanced international organization. The influence of the US should be reduced. Asia must have bigger say in the organization. At the operational level, there are five major issues should be discussed.

- First, the SDR should play a more important role. The question of whether and how the SDR should replace the US dollar as a reserve currency should be considered seriously.

- Second, how the BIS and the IMF should strengthen their cooperation so as to improve the supervision of financial stability in the global financial market.
- Third, IMF conditionality should be totally reconsidered. The action taken by the US government in dealing with current financial crisis has totally discredited the prescriptions provided to and imposed on the crisis-affected countries during the Asian Financial Crisis.
- Fourth, now we have G7-8, G20 and G whatever. How the division of labour of these forums and the IMF should be defined more clearly. Maybe, the UN should have more say on international finance and the IMF should be more cooperative with the UN.
- Last but not least, the IMF has been pushing capital account liberalization dogmatically. It should play a more positive role in helping developing countries in strengthening the management of Cross-Border Capital Flows. So far, the impact of the US financial crisis on Korea seems gravest in East Asia. I am wondering whether this is attributable to the unhindered cross-border capital flows. Korea allowed too much capital aimed at arbitrage and speculation to inundate its financial market after having implemented faithfully the IMF prescriptions during the Asian financial crisis. Now the Korea seems have no effective means to prevent capital from flowing out, which is attributable to the unwinding of carry-trade, and withdrawing of foreign capital because of liquidity shortage, credit crunch and need for capital injections. The IMF should adjust its position on capital account liberalization. The blindly push of free flows of cross-border capital flows should be stopped and a more measured attitude should be adopted by the IMF.

On regional financial cooperation:

- The dissatisfaction felt by Asian countries to the IMF's insensitivity toward Asian countries' suffering found its

initial expression in Japan's proposal of establishing an Asian Monetary Fund (AMF).

- On the whole, during the current global financial crisis, the performance of the East Asian governments in terms of financial cooperation and coordination is rather disappointing [...] Why can the 13 countries not get together and take concerted acts to demand the US government to safeguard the safety of their hard-earned foreign exchange reserves, which are mostly in the form of the US government securities. Are the governments in the region so sure that their people's assets are safe and the US government will not get rid of its huge debt burden by inflation, devaluation of the US dollar and defaults?

83. Why is a monetary reset desired by China?

In recent years, the Chinese calls to get rid of the so-called 'dollar trap' have intensified.[285] In 2011, the Chinese newspaper *People's Daily* criticized the irresponsibility of the US debt policy. Two years later, in 2013, the state news agency Xinhua distributed a commentary declaring that the time had come to 'de-Americanize' the world. What is remarkable about this article from our perspective is that it, in effect, calls for a Big Reset of the system and even the need for a 'new global financial system' that is not dependent on the US. Given the importance of the article, I quote from it extensively here:[286]

> As US politicians of both political parties are still shuffling back and forth between the White House and the Capitol Hill without striking a deal to bring normality to the body politic they brag about, it is perhaps a good time for befuddled the world to start considering building a de-Americanized world [...] instead of honoring its duties as a responsible leading power, a self-serving Washington has abused its superpower status and introduced even more chaos into the world by shifting financial risks overseas, instigating regional tensions amid territorial disputes, and fighting unwarranted wars under the cover of outright lies.
>
> As a result, the world is still crawling its way out of an economic disaster thanks to the voracious Wall Street elites, while bombings and killings have become virtually daily routines in Iraq, years after Washington claimed it has liberated its people from tyrannical rule.
>
> Most recently, the cyclical stagnation in Washington for a viable solution on a bipartisan federal budget and an approval for raising debt ceiling has again left many nations' agonized

285 In 2013, over 30% of China's foreign financial reserves was held in the form of US dollar assets.

286 http://news.xinhuanet.com/english/indepth/2013-10/13/c_132794246.htm.

> tremendous dollar assets in jeopardy and the international community highly agonized.
>
> Such alarming days when the destinies of others are in the hands of a hypocritical nation have to be terminated, and a new world order shouldering be put in place, according to which all nations, big or small, poor or rich, can have their key interests respected and protected interests on an equal footing.
>
> To that end, several cornerstones shouldering be laid to underpin a de-Americanized world [...] the world's financial system has to embrace some useful substantial reforms.
>
> The developing and emerging market economies need to have more say in major international financial institutions including the World Bank and the International Monetary Fund, so that they could better reflect the transformations of the global economic and political landscape.
>
> What may also be included as a key part of an effective reform is the introduction of a new international reserve currency that's to be created to replace the dominant US dollars, so that the international community could permanently stay away from the spillover of the Intensifying domestic political turmoil in the United States.
>
> Of course, the purpose of its promoting changes thesis is not to completely toss aside the United States, Which is useful impossible. Rather, it is encouragement to Washington to play a much more constructive role in addressing global affairs.
>
> And among all options, it is suggested that the beltway politicians first start with ending the pernicious impasse.

Chinese officials frequently point out that diversifying too rapidly out of the dollar would risk triggering a precipitous decline in the US currency, which would in turn erode the value of China's significant dollar holdings. Similar considerations apply to the euro: if the Chinese were to sell a significant amount of its euros during a period of euro weakness, this would depreciate the value of one of its core currency holdings.

Whatever doubts and possible setbacks the Chinese may have had with regard to the world's two main reserve currencies, they have no other currency options given the size of China's foreign exchange reserves. This is likely to have been an important reason why the Chinese authorities have decided in recent years to boost the share of gold in their country's reserves.

84. Will gold be part of a currency reset?

While most experts believe there will be no return to a full gold standard, gold will probably play a much greater role in the next phase of the financial systems.

The aforementioned OMFIF report points toward the likelihood of gold growing in importance within the international financial system:

> The role of gold during and after a move to a multi-currency reserve system is an important issue. Gold will probably play a greater role during the transition period. This is likely to be a period of substantial fluctuation in currency values as market actors attempt to find a new equilibrium. That is where the attraction of gold, an asset that is nobody's liability should stand out [...] Any sizeable increase in distrust of politicians, founded on suspicion that they – or central bankers – are debasing the currency, is likely to increase the attraction of gold as a hedge against all currencies [...] As the international community attempts to take on these challenges, gold waits in the wings. For the first time in many years, gold stands well prepared to move once more toward the center-stage. This could be the start of an immensely important phase in the history of world money.

The OMFIF has also called for extending a new SDR to include the so-called R-currencies – the renminbi, rupee, real, rand and ruble – and possibly gold:

> By moving counter-cyclically to the dollar, gold could improve the stabilizing properties of the SDR. Particularly if the threats to the dollar and the euro worsen, a large SDR issue improved by some gold content and the R-currencies may be urgently required [...] So well before the renminbi advances to a reserve currency status, gold might return to the heart of the system.

If we have learned anything from the history of money, it is that gold (or silver) have always been needed to rebuild trust in monetary systems. The former president of the Dutch central bank, Jelle Zijlstra, wrote in his biography:

> The intrinsic value of gold along with its romantic image has until the 1960s dominated the international monetary framework. It was perhaps a rather irrational anchor, however it was a stable anchor. Eventually, this changed, not because old-fashioned understandings had been replaced by more modern ones, but because the United States of America found the role of the dollar threatened by gold.

But now, some forty years later, the US may consider it useful to bring back gold to support the dollar.

Some American insiders have even been calling openly for a return to the gold standard. One such insider is neo-conservative Robert Zoellick, the former President of the World Bank, who wrote an open letter to the Financial Times in 2010 entitled 'Bring back the gold standard':

> The G20 should complement this growth recovery programme with a plan to build a co-operative monetary system that reflects emerging economic conditions. This new system is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves toward internationalization and then an open capital account. The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values. Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today [...] The development of a monetary system to succeed 'Bretton Woods II', launched in 1971, will take time. But we need to begin. The scope of the changes since 1971 certainly matches those between 1945 and 1971 that prompted the shift from Bretton Woods I to II.

According to Steve Forbes,[287] CEO of the eponymous magazine and an advisor to some of the 2012 presidential candidates, the 'debate should be focused on what the best gold system is, not on whether we need to go back to one.' It was therefore no surprise to see an interview with Professor Robert Mundell in Forbes Magazine in which he argues for a return to the gold standard for both the dollar and the euro.[288]

Mundell is seen as one of the architects of the euro and has been an advisor to the Chinese government. Mundell remarked:

> There could be a kind of Bretton Woods type of gold standard where the price of gold was fixed for central banks and they could use gold as an asset to trade within central banks. The great advantage of that was that gold is nobody's liability and it can't be printed. So it has a strength and confidence that people trust. So if you had not just the United States but the United States and the euro (area) tied together to each other and to gold, gold might be the intermediary and then with the other important currencies like the yen and Chinese Yuan and British pound all tied together as a kind of new SDR that could be one way the world could move forward on a better monetary system.[289]

287 http://www.forbes.com/forbes/2011/0606/opinions-steve-forbes-fact-comment-gop-prez-wannabes.html.

288 Mundell endorsed the gold standard on Pimm Fox's Bloomberg Television 'Taking Stock'.

289 http://www.forbes.com/sites/ralphbenko/2011/06/13/the-emerging-new-monetarism-gold-convertibility-to-save-the-euro.

85. Will China choose the path of cooperation or confrontation?

Since 2010, the Chinese banker Min Zhu has been the highest ranking Chinese banker within the IMF. He started as a special advisor in 2010 and was promoted to one of the four deputy managing directors directly under the IMF's managing director, Christine Lagarde. Zhu is the third Chinese to take on a senior position in an international financial institution. Shengman Zhang was a Managing Director of The World Bank and Justin Yifu Lin a former vice president and chief economist of The World Bank.

Since the Bretton Woods conference in 1944 a gentleman's agreement has been in effect that means the IMF's managing director is always a European and the president of the World Bank always an American. This 'agreement' is increasingly being questioned and many expect these two posts may soon open up to a candidate from one of the BRIC countries. (Brazil, Russia, India or China).

During the start of the roadshow for the internationalization of the renminbi in London in 2014, Professor Zhenya Liu remarked, 'China has a big population, and it needs a big chair in the (IMF) room.' According to the Chinese, the governance of the IMF needs to better represent the growing significance of developing economies. 'Excluding 20% of the world's population isn't good for anyone,' he said.

In an op-ed in the New York Times, titled 'The IMF needs a reset', two Western scholars explained that the IMF is experiencing a crisis of governance because:

> the governments of big developing countries become frustrated with the unwillingness of Western countries to adjust the distribution of power in the fund in line with their rising economic weight.

They point to the fact the four big BRICS have a combined share of almost 25% of world GDP, compared to just over 13%

for the four big European economies (Germany, France, Britain, Italy). But the four BRIC countries have only 10% of the IMF votes, compared with almost 18% for the four European nations. While China has been financing the US for over one trillion dollars since 2000, they have less than 4% of the IMF votes, compared to 16% for the US.[290] Of course, the US is doing everything possible to postpone the needed changes.

The growing divisions between the East and the West also came to light when OMFIF published a list of the main issues of the global economy after touring Asia in the summer of 2014:

– Policy divisions between Western and Asian economies seem to be growing. Increased Asian confidence and resilience are accompanied by belief that the West (and especially Europe) has lost its way. One Asian sovereign fund leader contrasted Asia's emphasis on long term returns with the short-termism and greed of Western investors. 'The result of the global financial crisis was that the man in the street was devastated while bankers enjoyed their bonuses.' He highlighted the difference between Western rigour on Asia over the 1997-98 financial crisis and European compromises made toward indebted countries in the EMU crisis.

– There is considerable suspicion about the IMF and an excessively Washington-focused view of the world. Quota reforms and governance changes at Bretton Woods institutions remain stymied by congressional refusal to ratify them. The result is frustration in leading Asian countries and a number of moves – whether through the Chiang Mai reserves-pooling initiative or the latest plan for a BRICS bank – for emerging markets to lower their IMF dependence.

– Internationalization of the renminbi is proceeding on many fronts. The Chinese authorities now accept that the

290 http://en.wikipedia.org/wiki/International_Monetary_Fund.

> renminbi is, de facto, part of a multiple reserve currency system in which the dollar continues to play the leading role.

But China has made clear they would prefer to choose the path of cooperation instead of confrontation although they would prefer to start with a 'new world central bank'.

86. Are there any Western studies on a monetary reset?

In a Chatham House study titled 'Beyond the Dollar Rethinking the International Monetary System' (2010),[291] the question for a needed reform of the current monetary system was studied by experts from the West and East as well.[292] It also called for an 'expansion of the role of the IMF's Special Drawing Rights'.

The report recommended the following changes to the international monetary system:

– Develop a multicurrency reserve system that is appropriate for a world of regional trading blocs – Europe, Asia, the Americas – alongside a still preeminent dollar.

– Encourage a more extensive use of Special Drawing Rights as a supranational currency alongside international reserve currencies that are issued by sovereign states or by sovereign states pooled together in a currency union, as is the case for the euro. Take steps to increase the use of and demand for SDRs, beyond official circles, in international trade and finance. The IMF should permit SDR accounts to be opened by private sector actors.

The Chinese, who participated in this study called for another study because they were surprised that a possible new role for gold was not mentioned.[293]

291 http://www.chathamhouse.org/publications/papers/view/109263.
292 http://www.worldeconomyandfinance.org/PDFs/beyond_the_dollar.pdf.
293 From the report: 'On behalf of Chatham House, I thank all those organizations that in different ways supported the work of the Taskforce, in particular the Chinese Academy of Social Sciences (CASS), and Professor Yu Yongding and Mr Zhang Yuyan. We hope that this report does justice to the confidence they placed in us.' http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/International%20Economics/r0212gold.pdf.

This led to a new study by the Chatham House Gold Taskforce titled 'Gold and the International Monetary System', which was published early 2012. The group acknowledged that gold bullion could serve as a hedge against the declining values of fiat currencies and that it plays a role as a reserve asset, but concludes that for the bullion to play a more formal role in the international monetary system, 'it would be imperative that it neither hinders the system's performance nor creates unacceptable constraints on national economic policies.'

The report even mentioned the idea that gold could be added to the SDR's currency basket:

> – Although an intriguing idea was considered by the Taskforce – to expand the IMF's SDRs basket to include gold – the proposal failed to convince most members of the group that this would actually bolster the international monetary system. In future, adding currencies from key developing countries, such as China, was thought to be desirable by many Taskforce members to better reflect their growing importance in the world economy.

One of the members of this Taskforce was House of Lords representative Lord Meghnad Desai,[294] who published a note around the same time in which he mentioned a role for gold within the SDR again:

> There are several ideas about gold – as a monetary base on its own, as an addition to the SDRs to 'harden them, as a 'circuit breaker' which gives an early warning as to the impending dangers.

In 2015, he sounded even more convinced about a future gold-backed SDR at a precious metals conference in Dubai:

294 Lord Desai is also chairman of the London based monetary think tank OMFIF.

> We could ask that gold be nominated as part of the SDR. That is one thing I think is quite likely to happen. This will be easier if China increases its official gold holdings.[295]

295 http://www.zerohedge.com/news/2015-04-12/gold-backed-sdr-quite-likely-happen-lses-lord-desai-warns.

87. So this explains why China has been all over gold since 2010?

The fact that China and other Asian countries (including Russia) are buying massive amounts of gold shows they think gold will play a larger role in the future phase of the monetary system. In the last few years we have seen a large move of physical gold from West to East. Huge Indian gold imports led to a huge distortion of India's trade balance, a collapse of the rupee (2013) and even an extra 10% import duty on gold. Russia has tripled it gold reserves since the start of the credit crisis in 2007. While Western banks are trying to scare customers away from buying gold China has been promoting precious metals as safe havens. Over 100,000 retail outlets sell gold and silver to the general public. A detailed analysis of the Chinese gold market shows almost 9,000 tonnes of physical gold have left the vaults of the Shanghai Gold Exchange (SGE) since 2009.

This does not include any gold buying for official Chinese central bank holdings, which are considered to be a state secret. In 2009, the PBoC published a doubling of its gold holdings after years of silence and in July 2015 the PBoC updated the gold reserves again, from 1054 to 1658 tonnes. In an online statement the Chinese central bank acknowledged it is accumulating much more gold in a program named 'Hiding gold with the people'. Gold bought by ordinary Chinese can always be confiscated in times of crisis:[296]

> Gold at a particular time is a good investment. But the capacity of the gold market is small compared with the scale of China's foreign exchange reserves. If a large number of foreign exchange reserves would (be used) to buy gold, this could easily lead to impact on the market … 'hiding gold with the people', has been the current situation.

296 http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2015/20150717164205743449367/20150717164205743449367_.html.

China currently holds some 1.5% of its foreign exchange reserves in gold, which is relatively low compared with developed countries and some developing countries. China would like to grow that percentage toward at least 5-10%, which would translate into roughly 5,000-8,000 tonnes, according to Song Xin, Party Secretary and President of the China Gold Association. In 2014 he wrote an article 'Gold will Support Renminbi as it Moves to Join World'.[297]

> For China, the strategic mission of gold lies in the support of renminbi (RMB) internationalization, and so let China become a world economic power and make sure that the 'China Dream' is realized. Gold is the only thing carrying the dual mantels of a commodity as well as a monetary substance. It's both a very 'honest' asset and forms the very material basis for modern fiat currencies. Historically, gold has played an irreplaceable role in responses to financial crises and wars as it comes to protecting a country's economic security. Because of this, gold carries with it an honored and divine-given strategic mission in the ascent of the Chinese people and the pursuit of the 'China Dream'.
>
> Gold is the world's only monetary asset that has no counterparty risk, and is the only cross-nation, cross-language, cross-ethnicity, cross-religion and cross-culture globally recognized monetary asset. Gold is the last protection for a country's economic security; it safeguards a nation's sovereignty in times of crises. A textbook example happened in 1997 during the Asian financial crisis. To work through Korea's severe debt problem, the IMF's condition for a rescue package was to sell large enterprises. In the end, the Korean government had no choice but to call on its people to donate gold to settle the foreign debt, and it was only through this act that the chaebols at the center of the country's economy and independence survived.

297 http://finance.sina.com.cn/nmetal/tzzs/20140730/153019863945.shtml.

From our country's point of view, gold has played an irreplaceable role in the development of our economic society. In the wars during the Revolution [1921-1937] gold provided strong support in the economic development of the liberated zones and achievements in reforms; in the three years of natural disasters, the nation used gold reserves to obtain information on living and production conditions and took actions to alleviate hardship. At the start of the great Reforms (1980s), gold boosted our foreign reserve levels and helped the promising private sector and it advanced society. After 1989, we suffered economic sanctions from Western countries for a while and the PBoC used our gold reserves to enter into swap agreements to obtain needed foreign currencies. Right now, gold is still serving its functions to protect against economic risks; contributing in ever more important ways to our financial security. For the moment, although in general the international scene is peaceful, conflicts can develop in certain regions. If there should be a blockade or regional war, there could be only one method of payment left: gold.

Gold is a monetary asset that transcends national sovereignty, is very powerful to settle obligations when everything else fails; hence it's exactly the basis of a currency moving up in the international arena. When the British Pound and the USD became international currencies, their gold reserve as a share of total world gold reserves was 50% and 60% respectively; when the Euro was introduced, the combined gold reserves of the member countries was more than 10,000 tonnes, more than the US had. If the RMB wants to achieve international status, it must have popular acceptance and a stable value. To this end, other than having assurance from the issuing nation, it is very important to have enough gold as the foundation, raising the 'gold content' of the RMB. Therefore, to China, the meaning and mission of gold is to support the RMB to become an internationally accepted currency and make China an economic powerhouse.

In this view, our gold reserves are very low, both in terms of a nominal level as well as a percentage of official reserves. From the nominal level, the total official reserves of gold in the world stands at 30,000 tonnes, of which the USA has been occupying the first place at 8133.5 tonnes – 26% of the world total. Germany has 3387.1 tonnes and Italy and France both hold more than 2,400 tonnes. Ours is 1054 tonnes at the sixths place – only 3.4% of the world total. As a percentage of a country's total reserves, US gold reserves amount to 71.7 % and European nations have kept their levels between 40% to 70%. The average of the world is about 10%, but for us it's only 1%.
That is why, in order for gold to fulfill its destined mission, we must raise our gold holdings a great deal, and do so with a solid plan. Step one should take us to the 4,000 tonnes mark, more than Germany and become number two in the world, next, we should increase step by step toward 8,500 tonnes, more than the US.
How to achieve growth in our gold reserve? Apart from the PBoC directly buying in the open market, we should use also use the following strategies:

1. Relax gold import controls [...] By relaxing import controls, the large-scale gold companies can then obtain this gold [...] and turn gold into official reserves as required.
2. Establish a gold reserve building fund. This can be seeded using capital from the State Treasury, and open it for participation by private-sector capital in the public. It should be controlled by the State and used to target diverse off-shore gold resources, acquire mines and raw gold.
3. Establish a Gold bank. We need to establish our gold bank as soon as possible, and enable it to break the barrier between the commodity and monetary world. It can further help us acquire reserves and give us more say and control in the gold market [...] its business would include: gold pricing (fix), gold financing and leasing, gold-guaranteed payments, gold

> saving accounts, gold lending, gold production chain financing and issuance and trading of paper gold and other gold investments. This gold bank can then naturally use market-oriented methods to change commodity gold into monetary gold reserves, thus help us increase our strategic gold reserves.

So the Chinese understand that gold has been used time and again to rebuild faith when a fiat money system has reached its endgame.

88. Any more information about China's gold card?

In 2012, the main academic journal of the Chinese Communist Party's Central Committee published an article that sheds light on China's strategy. The article was written by Sun Zhaoxue, president of both the China National Gold Corporation (CNG) and the China Gold Association (China Gold).[298] In 2011, he received the 'economic person of the year award' during a TV show broadcast live on CCTV, the state television channel. But in 2014 he was a suspect in an anti-corruption campaign targeting 'flies', lower-placed officials, as well as high profile officials (tigers).

The essence of his article was only picked up in the West when it was translated a year later.[299] He explains how China has a strategy of hoarding gold in order to safeguard the country's economic stability and to strengthen its defense against 'external risks', which could be translated as a collapse of the dollar or the euro or even the global financial system. Even more remarkable was his view that civil hoarding of gold was just as important for the Chinese national gold strategy:

> Individual investment demand is an important component of China's gold reserve system; we should encourage individual investment demand for gold. Practice shows that gold possession by citizens is an effective supplement to national reserves and is very important to national financial security. Because gold possesses stable intrinsic value, it is both the cornerstone of countries' currency and credit as well as a global strategic reserve. Without exception, world economic powers established and implement gold strategies at the national level.

298 http://koosjansen.blogspot.nl/2013/09/building-strong-economic-and-financial.html.

299 http://koosjansen.blogspot.nl/2013/09/building-strong-economic-and-financial.html (The original version appeared on 1 August 2012 in Qiushi magazine, the main academic journal of the Chinese Communist Party's Central Committee).

So while the US and the EU try to discourage its citizens from buying gold, China wants them to buy as much gold as possible.[300]

In the same article, Zhaoxue outlines why substantial national gold reserves are so important for countries like China:

> In the global financial crisis, countries in the world political and economic game, we once again clearly see that gold reserves have an important function for financial stability and are an 'anchor' for national economic security. Increasing gold reserves should become a central pillar in our country's development strategy. International experience shows that a country requires 10% of foreign reserves in gold to ensure financial stability while achieving high economic growth concurrently. At the moment, the US, France, Italy and other countries' gold accounts for 70% of forex reserves. After the international financial crisis erupted, (our) gold reserves were increased to 1054 tons but gold reserves account for less than 1.6% of financial reserves – a wide gap compared to developed countries.

Other senior Chinese officials have also called for a substantial increase in official gold holdings in the light of the worldwide debasement of currencies. The head of the research bureau at the People's Bank of China, Zhang Jianhua, said in an interview:

> The Chinese government should not only be cautious of the imported risk caused by rising global inflation, but also further optimize its foreign-exchange portfolio and purchase gold assets when the gold price shows a favorable fluctuation. No asset is safe now. The only choice to hedge risks is to hold hard currency – gold.

300 On national television, commercials have been shown telling the Chinese how they can easily buy gold and silver. http://rare-panda-coins.blogspot.nl/2009/09/chinese-tv-promotes-gold-and-silver.html.

To increase its gold exposure, China is also investing in foreign gold producers. According to Zhaoxue, the Chinese government is intent on accumulating 'additional high quality (gold) assets':[301]

> The state will need to elevate gold to an equal strategic resource as oil and energy, from the whole industry chain to develop industry planning and resource strategies [...] increasing proven reserves, merger and acquisitions, base construction and opening up offshore gold resources to accelerate increase of national gold reserves. Concurrently, actively implement a globalization strategy that will exploit overseas resources and increase channels to grow China's gold reserves. We should achieve the highest gold reserves in the warfare time.

In a company presentation, China National Gold (CNG) explains that China has an 'aggressive acquisition strategy' of large gold deposits worldwide. Because of this, the Chinese see CNG and some other Chinese mining companies as an optimal acquisition vehicles of international targets.[302]

China has overtaken South Africa as the world's largest gold producer, and it overtook India as the world's largest gold consumer in 2013. All national gold production is added to the national reserves, but the country also imports huge amounts of gold. Since the beginning of 2013, almost as much physical gold has been leaving the vaults of the national Shanghai Gold Exchanges every month as all worldwide goldmine production combined.

301 http://www.chinagoldintl.com/corporate/mission_statement/.
302 http://www.chinagoldintl.com/investors/presentations/ (slide 7, presentation September 2013).

89. Other monetary reset scenarios: looking further into the future

In 2014, the prominent Chinese economist Justin Lin published his book,[303] *Demystifying the Chinese Economy*, in which he proposed the creation of a new international currency, which he called 'paper gold' (p-gold). National currencies could then be pegged to this new currency in the same way that they used to be pegged to gold. In an interview with the Wall Street journal he explained why:

> By 2030, we will be moving to a world of multiple reserve currencies. The US dollar, euros and Chinese yuan, are likely to be the major reserve currencies. All these three economies will be around the same size then. Many people argue that a competitive reserve currency system will be stable because competition will discipline countries. If a country doesn't act responsibly, money will flow out and it could lose its status as reserve currency country I'm doubtful this will be stable. I don't think all the major countries will be able to implement all the structural reforms necessary. As a result, there would be a lot of opportunities for speculators to point to one country, say it has structural problems and is dangerous, and bet that people will move money out of one country into another. It would be like musical chairs. Instead, we need a supranational currency. Paper gold would be a supranational currency. Each country could use it as reserve to issue its own national currency. P-gold can avoid the inherent conflict of national interest and global interest when a national currency is used as a global reserve currency. The amount of paper gold each year could be increased according to certain principles, to avoid the inherent deflationary tendency of using gold as a reserve. If you try to retain multiple reserve currencies, every country will be hurt.

303 http://www.amazon.com/Demystifying-Chinese-Economy-Justin-Yifu/dp/0521181747.

In his first book, *Currency Wars*, Jim Rickards describes a scenario in which a new gold-backed dollar could be introduced in the US:

> A 'new' gold dollar will be created at ten times the value of the old dollar. A windfall profits tax of 90% would be imposed on all private gains from the upward revaluation of gold.

According to Rickards, such a gold revaluation, including a new gold-backed dollar, is one of the last instruments available to the Fed to avoid a total collapse of the dollar system. A revaluation may be needed because the Fed is quite insolvent, with a balance sheet that has grown to almost $3,500 billion. Surprisingly, the value of all international financial reserves of the US is only around 150 billion (including $11 billion in gold reserves), slightly more than Mexico's reserves and significantly less than Algeria's ($190 billion). To put this into perspective, China has some $3,500 billion in financial reserves, while Japan has over $1,300 billion.

One of the reasons for this low number is that the US, just like the IMF, still values gold at the historical price of just $42 per ounce. This is unusual because the ECB and many other central banks value their gold reserves at market prices. Perhaps the US government hopes to spread the message that gold is a metal with little value, while the dollar is the value of choice. A revaluation of the 9,000 tonnes of US gold reserves to $8,000 per ounce would mean over $2.2 trillion in gold assets instead of $11 billion at the time of writing.

China wants to increase its gold reserves 'in the shortest time' possible to at least 8,000 tonnes. This amount would put the Chinese on a par with the US and Europe on a gold-to-GPD ratio. This would open the way for a possible joint US-EU-China gold revaluation to support the financial system when needed. Such a reset could also be backed by Russia, which has accumulated over 1,000 tonnes, most of it since the start of the credit crisis in 2007.[304]

The UK only has some 300 tonnes of gold left after selling a large portion of their reserves near the bottom in 1999 to help

304 http://goldnews.bullionvault.com/china_gold_10000_120120092.

the US hold the price of gold down.[305] A study shows that most of China's gold imports in 2013 came from London vaults. This gold was first refined in Switzerland before it moved, probably permanently, from West to East.

The Chinese realize that the US could surprise the world with a unilateral gold revaluation. Wikileaks revealed a cable, sent from the US Embassy in Beijing in early 2010 to Washington, in which a Chinese news report[306] about the consequences of such a dollar devaluation was quoted:

> If we use all of our foreign exchange reserves to buy US Treasury bonds, then when someday the US Federal Reserve suddenly announces that the original ten old US dollars are now worth only one new US dollar, and the new US dollar is pegged to the gold – we will be dumbfounded.

Gold revaluations or fiat money devaluations have been debated by many experts, as it may be the only way to prevent worldwide hyperinflation. According to Ben Davies, co-founder and CEO of Hinde Capital, revaluing gold to back up and reset the monetary system could be one of the least disruptive ways out of the credit mess.

Tocqueville Gold Fund manager John Hathaway has also discussed the prospect of a serious and sudden revaluation of gold. In an interview, he remarked that he was afraid that people might lose confidence in central banking much sooner than most people think.[307] Hathaway knows what he is talking about, since he built his fund and fortune during the gold bull market of the 1970s when another crisis of (dollar) confidence was being fought.

305 Worldwide total gold holdings (public and private) are estimated to be around 160,000 tonnes. This is close to the amount of all gold ever produced. Gold will almost always be recycled, as it is so valuable.
306 http://www.forbes.com/sites/ralphbenko/2012/10/01/signs-of-the-gold-standard-emerging-in-china/.
307 http://kingworldnews.com/kingworldnews/KWN_DailyWeb/Entries/2013/6/13_Hathaway_-_Gold_To_Shock_World_With_Rapid_$1,000_Advance.html.

90. Does China understand the US war on gold?

In recent years, there have been numerous statements clearly showing that China has a good understanding of the 'dark forces' on Wall Street.[308] PBoC governor Zhou Zhaoxue revealed in his article that the Chinese do understand the hypocrisy of the US policy toward gold:

> After the disintegration of the Bretton Woods system in the 1970s, the gold standard, which had been in use for a century, collapsed. Under the influence of the US dollar hegemony the stabilizing effect of gold was widely questioned; the 'gold is useless' discussion began to spread around the globe. Many people thought that gold is no longer the monetary base, that storing gold will only increase the cost of reserves. Therefore, some central banks began to sell gold reserves and gold prices continued to slump. Currently, there are more and more people recognizing that the 'gold is useless' story contains too many lies. Gold now suffers from a 'smokescreen' designed by the US, which stores 74% of global official gold reserves, to put down other currencies and maintain the US dollar hegemony.

He then goes on to explain how the US is debasing the value of its currency in a move to reduce its mountain of debt:

> The rise of the US dollar and British pound, and later the euro currency, from a single country currency to a global or regional currency was supported by their huge gold reserves. Especially noteworthy is that in the course of this international financial crisis, the US shows a huge financial deficit but it did not sell any of its gold reserves to reduce debt. Instead, it turned on the printer, massively increasing the US dollar supply, making the wealth of those countries

308 Statement made by Prof. Ben Shenglin in 2015.

> and regions with foreign reserves mainly denominated in US dollar (like China) quickly diminish, in effect automatically reducing their own debt. In stark contrast with the sharp depreciation of the US dollar, the international gold price continued to rise, breaking $1900 US dollars per ounce in 2011; gold's asset-preservation contrasts vividly with the devaluation of credit-based assets. Naturally, the more devalued the US dollar, the more the gold price rises, the more evident the function of US gold reserves as a hedge.

Because China had over $1 trillion of US Treasuries in 2010, almost all of which had been accumulated between 2000 and 2010, dollar devaluation would be very negative for China.

So China appears to be up to speed with the underlying reasons for US intervention in the gold market. Additional proof of this can be found in a message[309] leaked by Wikileaks from the US Embassy in Peking about a Chinese newspaper report containing the following text:

> The US and Europe have always suppressed the rising price of gold. They intend to weaken gold's function as an international reserve currency. They don't want to see other countries turning to gold reserves instead of the US dollar or euro. Therefore, suppressing the price of gold is very beneficial for the US in maintaining the US dollar's role as the international reserve currency. China's increased gold reserves will thus act as a model and lead other countries toward reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB.

309 http://www.zerohedge.com/news/wikileaks-discloses-reasons-behind-chinas-shadow-gold-buying-spree.

Zhang Jie, deputy editor-in-chief of the China Gold Association, also understands the Fed's manipulation of the gold market by storing gold for other nations:[310]

> For the Fed, it is crucial that the dollar dominates the world and so the Fed will store gold reserves from countries all over the world to control the gold settlement system.

310 http://therealasset.co.uk/china-rush-gold/.

91. Everything seems to change suddenly. Is this all part of a greater China plan?

After the start of the financial economic warfare against Russia in 2014 China decided not to join the Western sanctions. China understood that it could well be the next victim of such non-military US aggression and decided to back Russia complete. By joining forces within the BRICS alliance the Chinese took the initiative for a new BRICS bank, the New Development Bank (NBD), a new international payment system, which can be compared to the Western-oriented SWIFT system and the Asian Infrastructure Investment Bank (AIIB). At almost the same time, another important Chinese initiative was launched. The 'One Belt, One Road Initiative' (OBOR), a development strategy that focuses on the connectivity and cooperation among countries in Eurasia. It consists of two main components, the land-based 'Silk Road Economic Belt' (SREB) and ocean-going 'Maritime Silk Road' (MSR).

All these developments within a relative short timeframe underline China's push to take a bigger role in global affairs. President Xi Jingping seems to be the powerful initiator behind these new initiatives. China has clearly decided to invest portions of its huge financial assets to create an infrastructure that will benefit China and many other countries for centuries to come. So China decided to take advantage of the Western aggression against Russia an agreed on several long term agreements, including huge investments in Energy and railroad projects.

The new infrastructure plans covering Asia and Europe and East Africa consist of two parts:

- Silk Road Economic Belt was announced by President Xi Jinping on a visit to Kazakhstan. This 'belt' includes countries situated on the original Silk Road through Central Asia, West Asia, the Middle East and Europe. The idea is to integrate the region into a large economic area through building infrastructure and broadening trade. Many of the countries

that are part of this 'belt' are also members of the China-led Asian Infrastructure Investment Bank (AIIB).

– Maritime Silk Road is a complementary initiative aimed at closer collaboration in Southeast Asia, Oceania and North Africa, through trade using – the South China Sea, the South Pacific Ocean and the Indian Ocean. It was proposed by Xi Jinping during a speech to the Indonesian Parliament in October 2013.

The powerful image of the old Silk Road trade route is well known through the marvelous tales of Marco Polo's travels across Eurasia to China. China's development of the world's greatest economic construction project, The New Silk Road, is much more than a revival of this old trade route. It can be seen as part of the battle for dominance in the Eurasian mainland, a great worry for the US. In *The Grand Chessboard: American Primacy and its Geostrategic Imperatives*, a major work by Zbigniew Brzezinski, National Security Advisor during the 1977-1981 Carter administration, his thesis was that no Eurasian challenger should emerge that is capable of dominating Eurasia and thus also of challenging America's global pre-eminence. So China can expect quite a bit of resistance to its ambitious resurrection of this ancient Silk Road, which will connect China, Russia, Europe and Africa in a huge infrastructural system for over 8,000 kilometers. It will create an economic zone that bridges a total population of over four billion people.

The OBOR plan, with its (high-speed) railroads, highways and bridges, will cover almost one third of the earth and will even include fiber optic networks. In China's vision, all countries and cities along the route will benefit from this economic development. The first major development project will take place in Pakistan, where the Chinese will construct, under a long term lease, a deep water port on the Arabian Sea. Thus, the 'New Silk Road' extends a number of already existing projects.

China intends to finance all of this through its newly created Asian International Infrastructure Bank (AIIB), for which China

attracted some 60 nations within a year. They will become the founding member and members even include the UK, after failed attempts by the US to persuade allies against joining the bank.

Some understood the significance of these Chinese initiatives right away. The Huffington Post published a story in which they explained:

> For very different motives, the key pillars of the region (Iran, Turkey, Egypt and Pakistan) are re-orienting eastwards. It is not fully appreciated in the West how important China's 'Belt and Road' initiative is to this move (and Russia, of course is fully integrated into the project). Regional states can see that China is very serious indeed about creating huge infrastructure projects from Asia to Europe. They can also see what occurred with the Asia Infrastructure Investment Bank (AIIB), as the world piled in (to America's very evident dismay). These states intend to be a part of it.

92. Does the US feel threatened by these Chinese initiatives?

These developments indicate that a monetary, economic and geo-political 'reset' process has already started. China clearly wants to cement its regional dominance. The Chinese, like the Russians, clearly want to end the current dollar hegemony and the BRICS alliance wants to compete with the current US-dominated world, with institutions like the World Bank and the IMF. During the annual IMF spring meeting in May 2015, the BRICS Ministers of Finance and the presidents of their central banks held a meeting in which they discussed 'a completely new economic system,' according to reports by the Chinese state press agency.

The Wall Street Journal reported that the US 'had lobbied hard against Chinese plans for a new infrastructure development bank [...] including during teleconferences of the Group of Seven major industrial powers.' China has tried to calm the nerves of the West by stating it seeks cooperation and not confrontation. The news in early 2015 that even the UK would become one of the founding members of the new Asian Infrastructure Investment Bank (AIIB) has shocked many in the West.

Larry Summers, who served as a Secretary of the US Treasury between 1999 and 2001, immediately understood the significance of these developments, and wrote in an op-ed for the Washington Post:

> March 2015 may be remembered as the moment the United States lost its role as the underwriter of the global economic system. I can think of no event since Bretton Woods comparable to the combination of China's effort to establish a major new institution and the failure of the United States to persuade dozens of its traditional allies, starting with Britain, to stay out.

This British announcement was also highly criticized by the US. The Financial Times quoted an unnamed US official:

> We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power. This decision was taken after no consultation with the US.

Summers was also critical of the US strategy toward the newly founded AIIB:

> The US misjudged the situation tremendously, put pressure on allies and developing countries to under no circumstances be part of AIIB [...] Largely because of resistance from the right, the United States stands alone in the world in failing to approve International Monetary Fund governance reforms that Washington itself pushed for in 2009. By supplementing IMF resources, this change would have bolstered confidence in the global economy. More important, it would come closer to giving countries such as China and India a share of IMF votes commensurate with their increased economic heft.

With Britain and many more major European countries signing up as founding members of the AIIB, the US economic hegemony has been dealt an enormous blow. For the first time since the end of the World War II, the US is not in the driving seat during the foundation of a highly significant global institution. Of course, this will not change the world economic system overnight, but when we look back in five, ten or even fifteen years' time, March 2015 may be remembered as a turning point in economic history.

93. Is China preparing Plan B or are they pressurizing the US to modernize the IMF, the World Bank and current dollar system?

An analyst once remarked that 'Great powers often don't just want to join other powers clubs, they want to start their own.' While the Chinese have said they want the AIIB to cooperate closely with the IMF, the World Bank and the Asian Development Bank (ADB), the BRICS-oriented AIIB is a clear rival for these US-dominated organizations. Behind all these plans lies the imperative to secure supplies of natural resources and to develop international markets for Chinese products. It is part of the battle for the dominance over Eurasia between the US and BRIC countries like Russia, India and China.

The BRICS alliance understands that a common voice from, in total, over three billion people cannot be ignored or marginalized by the West with less than one billion people.

As mentioned, one of the prime reasons for the establishment of the AIIB has been Chinese frustration with 'the slow pace of reforms and governance in global established institutions like the IMF, World Bank and Asian Development Bank, which it claims are dominated by American, European and Japanese interests.' As Summers has pointed out, all of this has taken place because the Chinese leadership has had to wait a full five years for a change in the IMF voting structure.

The Asian Development Bank (ADB) has published a report stating that the region requires up to $9 trillion in infrastructural investments in the coming years. Although China is the largest investor in the region, it has merely 5% of the voting rights in the ADB, while Japan and US have a total of 26% of the voting rights (13% each). This can be seen as an attempt to keep the Asia investment developments under Western control.

This same kind of US dominance can be found within the voting structures of the IMF and the World Bank. According to some, international politics play an important role in IMF decision making. The most important decisions within the IMF

require a special majority of 85% of the votes, giving the US, with over 17% of the votes, an effective veto. France, a country with just over 65 million people, currently has more voting rights (4.29%) within the IMF than China (3.99%) with 1.3 billion inhabitants. Belgium, with just over 10 million people, has more voting rights (1.86%) than Brazil (1.72%), a country with a population exceeding 200 million.

Another criticism is that the US move to more neoliberalism and global capitalism since the 1980s has led to a change in the functions of the IMF. Criticasters claim allies of the US receive 'bigger loans with fewer conditions.' Foreign governments who are non-allies have to sacrifice their political autonomy in exchange for IMF funds and often have to sell assets crucial for their economy to foreign (often US) companies.

The former Tanzanian President Julius Nyerere, who was angered that debt-ridden African states were forced to hand over their sovereignty to the IMF (and World Bank), once asked: 'Who elected the IMF to be the ministry of finance for every country in the world?' And now the Chinese have openly asked for a 'new world wide central bank.'

Joseph Stiglitz, a former chief economist at the World Bank, has also agreed that the IMF 'was reflecting the interests and ideology of the Western financial community.' The 'helpful hand' by the IMF and World Bank toward military dictatorships friendly to the West has been criticized as well.

94. Which currency will the AIIB use?

Of course the AIIB will serve as an instrument of Chinese foreign policy. An article, which appeared in Chinese state-controlled *The Global Times*, denied the notion that China wants a yuan-based global economic system:

> The establishment of the Asian Infrastructure Investment Bank (AIIB) has been depicted by a few overseas media outlets as if China is building its own version of the Bretton Woods system […] Some foreign observers claim that the AIIB is the beginning of the Chinese yuan's hegemony. What they are actually trying to imply is that 'China is another US'.
> This kind of statement is nonsensical and uses historical experience to fool readers. It is divorced from the truth and shows no common sense and doesn't stand up to any scrutiny. Through the Bretton Woods system, the US was able to wield supreme influence over its allies which had been severely battered during the war. China today is in a totally different position. The AIIB will not confront the WB (World Bank) or IMF, nor will it turn the current international monetary order upside down. The spirit of the AIIB is diversity and justice.

According to other Asian media reports,[311] the AIIB wants to establish an AIIB-currency basket with China set to push for the yuan to take a prominent role. We quote from a report in the South China Morning Post:

> Beijing will push for the yuan to be included in a basket of currencies used to denominate and settle loans from the Chinese-led Asian Infrastructure Investment Bank (AIIB).

311 *The South China Morning Post*, http://www.scmp.com/news/china/economy/article/1766627/china-seeks-role-yuan-aiib-extend-currencys-global-reach.

> Beijing will also encourage the AIIB and the Silk Road Fund[312] to set up special currency funds and issue yuan-denominated loans through both institutions [...] there were three options: the yuan, the US dollar or an AIIB currency basket. It said that of the three the US dollar would be the most cost-efficient and convenient, and the yuan the most expensive and least convenient. A currency basket was the most attractive option, it said, because it would be more resilient to market shocks. Hao Hong, chief economist and managing director of research at Bocom International, said the AIIB's grand vision for infrastructure investment came with challenges but China should do its best to establish the yuan as a currency for settlement and denomination. 'If the US dollar is used instead, it weakens China's bid for the yuan to become a truly global currency and to challenge the hegemony of the US dollar.'

According to David Marsh (OMFIF), the New Development Bank (NDB), which was proposed by the BRIC countries in 2014, is a 'clear potential rival to the International Monetary Fund (IMF) and the World Bank.' He wrote that the NDB [and AIIB – WM] represents the biggest challenge to the world monetary establishment since the creation of the Bretton Woods institutions 70 years ago. He thinks the NBD will be 'a renminbi-based institution':

> The credo will no doubt be that 'all currencies are equal' – but the renminbi will be more equal than others. Beijing's long-running efforts to optimise cross-border use of the Chinese currency, especially for trade-linked transactions, and whittle away at the dollar's 'exorbitant privilege', will gain a further boost. On the other hand, the IMF's Special Drawing Right (SDR) – supplemented perhaps by inclusion of the renminbi as well as some of the other countries' currencies – may well be given a role [...] [but] the dollar will not be given any prominence in the bank's balance sheet and operations.

312 http://www.asiaasset.com/news/scsilrd_da_2104.aspx.

The BRICS account for 30% of world GDP and houses 45% of the world's population. The BRICS have already started with a huge de-dollarization program in which bilateral 'currency swaps' exclude the need for dollars in bilateral trade. Another important development is the set up of the Shanghai Cooperation Organization (SCO) in which most Asian countries, including Russia, India and China now cooperate. The SCO countries control 20% of the world's oil and almost 50% of the world's gas reserves. It is an important element for the implementation of China's 'New Silk Road Economic Belt' expanding an international railroad network all the way to Germany and the Port of Rotterdam in the Netherlands.

Albert Cheng of the World Gold Council remarked in 2015 that China wants to integrate gold into the One Belt, One Road project (OBOR) in the 'next decade'. The announcement of a Chinese led Gold Fund[313] in 2015 is another indication of a move in this direction. The $16 billion fund, larger in size than all other gold funds worldwide combined, will be active in the field of exploration, development and production of gold in countries, which are part of the New Silk Road project.[314] Song Yuqin of the Shanghai Gold Exchange has stated, 'Asians have a tradition of collecting gold. The gold trade is expected to become a significant component of transactions by 'Belt and Road' countries.'

313 Two top Chinese gold producers Shandong Gold and Shaanxi Gold own together 60% in this fund, which will include a gold ETF and investments in gold miners equities.

314 On 11 May 2015, China's largest gold mining company, China National Gold Group Corporation (CNGGC), announced it has signed an agreement with Russian gold miner Polyus Gold to deepen ties in gold exploration.

95. What is the relation between the AIIB and the Eurasian Economic Union?

In 2014, Belarus, Russia and Kazakhstan formed an economic union called the Eurasian Economic Union (EAEU), on initiative of the Kazakh president and dictator Nazarbayev. He is of the opinion that the dollar is an 'illegal and non-competitive means of payment [...] the world currency was never adopted by any communities or organizations.' Just like China and Russia, Nazarbayev believes the world is heading toward a new monetary system based on a 'non-defective currency'.

In recent years, we have seen the EAEU aggressively expanding and Armenia and Kyrgyzstan are now members as well. Turkey and Vietnam could be next. The current EAEU flag displays the whole of the Eurasian continent, including the eastern part of the Middle East. According to Russian media reports, Putin and Xi Jinping want to tie the development of the EAEU into the Silk Road economic project. The Russian President Putin:

> The integration of the Eurasian Economic Union and Silk Road projects means reaching a new level of partnership and actually implies a common economic space on the continent.

Other Russian media reported the following:[315]

> [...] The partnership's reach is extremely wide, from Russia-China cooperation within the Shanghai Cooperation Organization (SCO) to the Russia-China stake in the new BRICS development bank, and to Russian support to the Chinese-led Asian Infrastructure Investment Bank (AIIB) and the Silk Road Foundation [...] Beijing and Moscow, along with the other BRICS nations, are fast moving to trade independently of the US dollar, using their own currencies. In parallel, they are studying the creation of an alternative SWIFT system

315 http://sputniknews.com/columnists/20150410/1020714196.html.

> – which will necessarily be joined by EU nations, as they are joining the AIIB.

According to the former highly respected Indian diplomat Bhadrakumar, this new cooperation between Russia and China is not something to be ignored:

> Clearly, the cold blast of western propaganda against the EAEU failed to impress China [...] China's integration with the EAEU means in effect that a real engine of growth is being hooked to the Russian project. In reality, China is the key to the future of the EAEU. Significantly, [Chinese President] Xi has combined his visit to Moscow with a tour of Belarus and Kazakhstan, the two other founder members of the EAEU [...] This is vital for the implementation of the Silk Routes via Russia and Central Asia.

A 2014 study by the EU Institute for Security Studies explains why Russia is so interested in adding Cyprus or Greece to the EAEU:

> Sergey Glaziev, Putin's advisor on Eurasian integration who seems to have played a key role in the Russian efforts to scupper EU-Ukraine Association in the autumn of 2013, wrote an article in December 2013 outlining the future prospects for the Eurasian Union. His vision includes the idea of inviting some EU member states to quit the EU and join the Eurasian Union. He suggests that 'Cyprus could be used as a pilot project for transition from the European to Eurasian integration. For Greece and Cyprus, it would open new opportunities to boost the export of their goods and services to the market of the Customs Union of Russia, Belarus and Kazakhstan [...] Turkey would be a welcome participant in the Eurasian integration. At this point, the participation of Greece, Cyprus and Turkey in the Eurasian economic integration is unrealistic due to their external commitments to the EU. To accomplish this objective, the first two states must withdraw from the EU,

> while Turkey will have to quit the customs union with the EU. This may entail their expulsion from NATO.[316]

In 2015, during the celebration of the 70th anniversary of the allied victory in World War II, Indian, Chinese, and Russian troops paraded together on the Red Square and China and Russia agreed to tie development of the Chinese Silk Road project to the Russian sponsored Eurasian Economic Union (EAEU). The Russian deputy minister of defense said:

> Moscow and Beijing will seek the reconstruction of the current world order together. […] Our Chinese colleagues have emphasized that we have similar positions on the problem of challenges and threats. They noted the necessity of reconstruction of the current world order, moving away from double standards and strengthening of equal and mutually profitable relations between all countries in the world.[317]

According to the state-controlled Russia Today, the 'military cooperation between Russia and China will be aimed against mono-polar world and double standards.'

The founding members of the AIIB include well over a quarter of the world's nations; 16 of the world's 20 largest economies are on board. Gold seems to be an integral part of Chinese AIIB (One Belt One Road) plan. There have even been some preliminary talks for an EAEU joint currency, the Altyn, which means gold. Not surprisingly, the main countries involved, Belarus, Kazakhstan, Russia and China, have all increased their gold reserves in recent years.

316 http://www.iss.europa.eu/uploads/media/CP_132.pdf.

317 http://rt.com/politics/257821-russia-china-challenges-military/.

Gold Reserves (tonnes)	Q1 2000	Q4 2014
Armenia	1.35	–
Belarus	0.01	42.44
China	395.01	1,054.09
Kazakhstan	56.04	191.79
Kyrgyz Republic	2.58	3.94
Russia	422.60	1,208.19

Source: World Gold Council/Bullionstar

So it seems that this 'push westwards' is China's way of showing that it will be a new global power. US President Barack Obama has even used these developments to defend the Trans-Pacific Partnership (TPP): 'If we don't write the rules, China will write the rules out in that region.'

Since Russia's annexation of the Crimea after the regime change in the Ukraine, China has been careful not to condemn Russia's action. The Chinese have a few good reasons not to be very vocal about Russia new moves. First, it is not in China's culture to behave like the world's policeman. To the contrary, China, just like Russia, would welcome a less aggressive US, telling the world how to behave, mostly inspired by their own (business) interest. China also benefitted from Western sanctions toward Russia. The gap left behind after the many cancelled business contracts with European countries was eagerly filled by Chinese companies.

Putin has proposed that Chinese companies should invest even more in Russia. Surprisingly, he indicated only two no-go areas – platinum and gold. This is another reminder about the unique place precious metals still have. Putin seems to be well aware of the growing importance of gold within our monetary system, also visible in the repatriation (or discussions about this) in at least four European countries.

96. What is Russian perspective on gold?

The Chinese stance can be likened to the position adopted by Russian leader Vladimir Putin. On a number of occasions, he has publicly criticized the privileges the US enjoys in the current system. Speaking at a youth summer camp in 2011, he said:[318] 'They (the Americans) are living like parasites off the global economy and their monopoly of the dollar.' He has called for 'another world reserve currency', and at the 2009 G20 gathering, then President Dmitry Medvedev showed everyone a sample coin for a future goldens world currency.[319]

At the 2004 meeting of the London Bullion Market Association (LBMA) in Moscow, the deputy chairman of the Russian central bank Oleg V. Mozhaiskov delivered a speech in which he accused central banks and bullion banks of being involved in the management of the price of gold.[320] He concluded that the gold market 'may be less than free'. When the Gold Antitrust Action Committee (GATA) requested a copy of this speech, the LBMA refused to release it. When the Bank of Russia learned about this, it supplied GATA with an English translation within a week.

GATA was formed in early 1999 to expose the manipulation of the gold market. At first, the founders of GATA believed the manipulation involved various bullion banks, such as JPMorgan, Chase Bank, Goldman Sachs. It was some time later that they realized the manipulation was far vaster and included the Fed, the US Treasury and other central banks such as the Bank of England. Since then, GATA has always claimed that the yearly gold market deficit was being met by surreptitious selling by central banks.

318 http://www.reuters.com/article/2011/08/01/us-russia-putin-usa-idUSTRE77052R20110801

319 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeFVNYQpByU4

320 http://news.goldseek.com/LemetropoleCafe/1330458367.php

While the Western media has ignored these GATA claims, the Russians and Chinese have been very interested in GATA's research.[321] Both countries understand and resent the enormous advantages the US has benefited from, since the introduction of the gold dollar standard in 1944.

During his speech at the LBMA meeting, Mozhaiskov cited GATA's work and explained why gold market manipulation was important to the US likening the central bank to a giraffe, Mozhaiskov quoted a poem well-known in Russia: 'The giraffe is tall, and he sees all.' He acknowledged that the sharp increase in the use of derivatives and the central bank leasing of gold have depressed the gold price in recent years. According to Mozhaiskov, gold is mainly 'a financial asset, not just a precious metal', and due to international financial circumstances, gold and other hard assets were 'more desirable for investment'.

So Russia and China fully understand that the present dollar system is on its last legs and that gold will probably always be a part of the world's monetary system. The old saying 'He who has the gold makes the rules' has been known in the East for thousands of years.

321 According to GATA, three conference calls have been held with the Chinese Investment Corporation, a Chinese sovereign wealth fund, between 2002 and 2013.

97. Could the US confiscate foreign gold holdings?

As always, the future will unfold in a way that we cannot foresee right now. The crucial question is whether an international consensus over a reset of the global financial system can be reached in time.[322]

A breakdown in trust between the most important economic powers could result in a worst-case scenario of escalating trade-, financial- and even real wars, which could include gold confiscations.

There are some who explain China's rush to build up its gold reserves by inferring that the US would prefer to revalue gold together with the EU and China instead of going it all alone. As soon as China's gold reserves as a percentage of GDP reach the same level as that of the US and the EU, the three powers could lead the world in a smooth transition to a system based on SDRs with a form of gold-backing, as proposed by Mundell and the IMF. This scenario is also posited by James Rickards:

> The Fed will do everything they can. When they can't win the battle against deflation, they devalue the currency against gold, cause gold's the only thing that can't fight back. If the Fed wins we'll get inflation and gold will go up. If deflation prevails, we'll wake up one morning and gold will be revalued. The catalyst for a spike into the $ 2,500 to $ 3,000 price range will be an announcement by China [...] that they have acquired 4,000 or more in their official gold reserve position. This will put China on an equal footing with the US in terms of a gold-to-GDP ratio and validate gold as the real foundation of the international monetary system. Once that position is validated, gold will move to the $ 7,000 range [...] Any lower price level is deflationary and must be avoided at all costs by central banks. The key is that the US and IMF do not want gold

322 The US, the European Union and China together represent 60% of the world's GDP.

> to achieve its full potential price (of around $7000) until China has acquired its appropriate share of official gold reserves. Any other outcome is unacceptable to China.

Rickards says he expects the Chinese to 'command a seat at the top table of the central banks. He has also warned that, should there be another dollar panic, the US might not hesitate to confiscate foreign gold holdings stored with the New York Fed in order to introduce a new gold-backed dollar.[323] The introduction of a gold standard by the US could be needed to avoid chaos and regain trust:

> A return to a gold standard is a possibility, but I don't see that in the immediate future, I think we need to have a collapse first. A collapse of the dollar standard and the petro-dollar deal. Then it [the dollar] will have to be replaced with something, which will either be the SDR or gold. By confiscating foreign official gold holdings and private gold on US soil, the Treasury would possess over 17,000 tons of gold, equal to 57% of all official gold reserves in the world. This would put the United States in about the same position it held in 1945 just after Bretton Woods. Such a hoard would enable the United States to do what it did at Bretton Woods, dictate the shape of the new global financial system.

Since the 1930s, countries stored their gold in the US,[324] for fear of a German or Russian invasion during and after World War II. Soon after the financial meltdown at the end of 2008 central banks began to realize the importance of holding gold as a safe haven. Some European central banks stopped selling gold and

323 In his book *Currency Wars*. http://www.itulip.com/forums/archive/index.php/t-23752.html.
324 Stored at the Federal Reserve Bank of New York, not in Fort Knox.

others started to repatriate their physical gold holdings from the US. A former Director of the United States Mint explained:[325]

> Finally, more countries are repatriating their gold. For them, an audit is not enough. They would like their gold back. Azerbaijan, Ecuador, Iran, Libya, Mexico, Romania and Venezuela is a short list of countries that have requests into their custodians to transfer some or all their gold back to their countries.

The repatriation of over 120 tonnes of Dutch gold from New York in 2014 and efforts from the German central bank (Bundesbank) to repatriate 300 tonnes since 2013 demonstrate that this trend of gold repatriations has picked up recently. In France, the leading right-wing politician Marine Le Pen demanded that French gold should be brought back home. She also demanded that France stop selling gold and said that they should use financial reserves to buy more gold and she wants a complete audit of France's 2,400 tons of gold. The national bank of Austria also decided to start a process for the repatriation of their foreign gold holdings in 2015. These gold repatriations by European countries are another sign that we are reaching the end of a calm monetary period of over 40 years.

So we can conclude that gold is making a remarkable comeback into our financial system and even that a new gold standard is being born without any formal decision. At least, that is how Ambrose Evans-Pritchard, an influential international business editor of *The Telegraph*, described the on-going efforts by countries to lay their hands on as much physical gold as possible last year.

> The world is moving step by step towards a de facto Gold Standard, without any meetings of G20 leaders to announce

325 http://www.moneynews.com/Ed-Moy/gold-central-bank-audit-dollar/2014/06/13/id/576839/.

> the idea or bless the project [...] Neither the euro, nor the dollar can inspire full confidence, although for different reasons. EMU is a dysfunctional construct, covering two incompatible economies, prone to lurching from crisis to crisis, without a unified treasury to back it up. The dollar stands on a pyramid of debt. We all know that this debt will be inflated away over time – for better or worse. The only real disagreement is over the speed [...] The central bank (gold) buyers are of course the rising powers of Asia and the commodity bloc, now holders of two thirds of the world's $11 trillion foreign reserves, and all its incremental reserves. It is no secret that China is buying the dips, seeking to raise the gold share of its reserves well above 2%. Russia has openly targeted a 10% share. Variants of this are occurring from the Pacific region to the Gulf and Latin America. And now the Bundesbank has chosen to pull part of its gold from New York and Paris. Personally, I doubt that Bundesbank had any secret agenda, or knows something hidden from the rest of us. It responded to massive popular pressure and prodding from lawmakers in the Bundestag to bring home Germany's gold. Yet that is not the end of the story. The fact that this popular pressure exists – and is well organised – reflects a breakdown in trust between the major democracies and economic powers. It is a new political fact in the global system.[326]

He also quotes Mohammed El Erian, Pimco's former chief investment officer, who is afraid that the repatriation of gold might lead to a growing international mistrust in our financial system:

> In the first instance, it could translate into pressures on other countries to also repatriate part of their gold holdings. After all, if you can safely store your gold at home – a big if for some countries – no government would wish to be seen as one of the

326 http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100022332/a-new-gold-standard-is-being-born/.

last to outsource all of this activity to foreign central banks. If developments are limited to this problem, there would be no material impact on the functioning and well-being of the global economy. If, however, perceptions of growing mutual mistrusts translate into larger multilateral tensions, then the world would find itself facing even greater difficulties resolving payments imbalances and resisting beggar-thy-neighbour national policies.

These developments could have big repercussions, just like the repatriation of gold in the 1960s, which led to the implosion of the London Gold Pool in 1968.

David A. Stockman, a former director of the US Office of Management and Budget who worked under President Reagan in the 1980s, also expects gold to shine again:

> People are going to realize this has been a giant con game, not simply since the bottom in March 2009, but for several decades, and now it's coming to an end. And as even Alan Greenspan had to admit the other day when he appeared before the Council on Foreign Relations, there is another currency out there that is not controlled by the central banks and is not printed at this kind of lunatic rate by the central banks – it's called gold. It [gold] will be rediscovered, and when it's rediscovered as the monetary breakdown gathers force and intensity, the price of gold is going to head upward at a pretty rapid rate.[327]

327 http://kingworldnews.com/kingworldnews/KWN_DailyWeb/Entries/2014/11/15_David_Stockman_On_Monetary_Breakdown_%26_Skyrocketing_Gold.html.

98. Are there any signs of a coming global monetary reset yet?

At the 2014 edition of the Chinese International Finance Forum (IFF) 'a new global financial order has been discussed with China.'[328] This forum, which is not that well-known abroad, is the most prestigious economic conference in China every year.[329]

The IFF Forum points to several 'top priorities' needed to transform the current monetary system:

– establishing new global financial frameworks
– formulating new regulatory systems
– reconstructing new pattern of the world finance

For three days the forum (including UN, World Bank and IMF participants) discussed 'the new framework for the global financial and economic system.'

The *China Daily* reported:

> A new global financial order is essential in the rapidly changing global economy, and strategic dialogues and cooperation are needed to reform the current system, international financial experts said at a forum in Beijing.

Cheng Siwei, chairman of the (IFF) remarked:

> The world today is facing a revolution. It is imperative to construct a new global financial framework and to formulate new

328 http://www.examiner.com/article/finance-experts-call-for-a-new-global-financial-order-at-beijing-conference.

329 The IFF Board consists of Mr. Cheng Siwei as the Chairman; Mr. Paul Volcker as the Honorary Chairman; Mr. Han Seung-soo, Mr. Jean-Claude Trichet, and Mr. Kevin Rudd as the Co-Chairman. The IFF 'is an independent, non-profit and non-governmental international organization and a regular platform for global top-level dialogue and academic research in the fields of finance and economics'. It was founded in 2003 and its members come from China, US, EU and international organizations such as the UN, and a large number of financial institutions.

> rules for global financial market. The new global framework, new global rules, global balance and global governance require us to engage in renewed strategic dialogue and thinking.

Jean-Claude Trichet, former president of the European Central Bank, in his role as a co-chairman of the IFF told the forum via a video link:

> The world has gone through the global financial crisis [...] new rules have been discussed not only inside the advanced economies, but with all emerging economies, including the most important emerging economies, namely, China.

These views were also shared at the LBMA Forum in Singapore. Zhou Ming, General Manager of the Precious Metals Department at ICBC remarked: 'With the status of the US dollar as the international reserve currency being shaky, a new global currency setup is being conceived.

These moves came after the Chinese credit rating agency Dagong downgraded US debt from A to A- in 2013 and China had entered into a very large number of currency swap agreements with dozens of countries, which will result in the decline of dollars used for Chinese trade. In 2014, at the annual meeting of the Bretton Woods Committee, Paul Volcker also proposed working toward a monetary reset.

In a speech titled 'A new Bretton Woods?' he remarked:[330]

> By now I think we can agree that the absence of an official, rules-based cooperatively managed, monetary system has not been a great success. In fact, international financial crises seem at least as frequent and more destructive in impeding economic stability and growth [...] The agreed changes in IMF governing structure are important in achieving a sense of political legitimacy for its governing structure and decision-making. But that is not enough – it means little without substantive agreement on the need for

330 http://www.brettonwoods.org/publication/remarks-by-paul-a-volcker-at-the-bretton-woods-committee-annual-meeting-2014.

> monetary reform and practical approaches toward that end [...] A new Bretton Woods conference? We are long ways from that. But surely events have raised, whether we want to admit it or not, some fundamental questions that have been ignored for decades.

At a conference organized by the Ludwig von Mises Institute in Germany in 2014, Jürgen Stark, former vice president of the Bundesbank and also former chief economist of the ECB, concluded that 'the system is out of control.' According to media reports, he warned the attendees directly against a probable collapse of the global monetary system. He said that the ECB 'has completely lost all ability to control and the economic situation,' and that 'the whole system will not survive [...] it is pure fiction now.' Stark even recommended allocating savings into 'traditional safe havens such as gold or silver.'[331]

During a panel discussion at the World Economic Forum in Davos in early 2014, the IMF's chairwoman Christine Lagarde said it was time to 'move to another monetary policy.' In her prepared remarks she mentioned the word 'reset' more than ten times in a two and a half minute timeframe, as if she had decided to prepare the world for the coming changes in the world wide financial system.

Here are some of her other remarks:

> The financial sector regulatory environment has to be finalized and has to be constantly re-examined, reformed and organized in such a way that it responds to the creativity on the financial markets, that's reset number one.
> Reset number two [...] is a reset of the monetary policies by most central bank of the advanced economies. They've been going into unconventional territories. They've have done a great job at keeping the crisis at the level where it was, but now gradually they're going to have to move to another monetary policy.

331 http://globaleconomicanalysis.blogspot.com/2014/05/former-bundesbank-vice-president.html#ldjHYwcdkYSeQ4mW.99.

In a recent interview, Wall Street insider Jim Rickards also agreed on the need for a global monetary reset. His views can be seen as the American side of the reset card:[332]

> Yes, there is a probability the SDR will be the new global reserve currency. Gold and oil would then be priced in SDRs. It will be used for some of the balance of payments between countries, the creation of reserves and probably the financial accounts of the world's largest corporations. So Siemens, General Electric and IBM will produce their financial statements in SDRs, because they're global corporations [...] they want a paper SDR to replace the paper dollar. The question is, will people go along with that? Our global leaders may have to go back to gold not because they want to but because they need to restore confidence [...] The Fed right now wants the price of gold to be higher. The Fed's problem today is not inflation it's deflation. The Fed wants controlled inflation and they can't get it. So how do you get inflation? You have to change expectations. So allowing the price of gold to go up helps to increase inflationary expectations. It can't go too far too fast, it can't do what we just described. But the Fed wouldn't mind if the price of gold would go to $1400, $1500, $1600 dollars because that would get people into an inflationary mind set; trying to get them spending more dollars, borrowing more, etc. That's what the Fed wants. Where the Fed is wrong is to think that they can just dial it up or down. They did do that in 2011 when gold went to $1900, the Fed was very fearful gold would go to $2000, a big psychological threshold, so they had to push it down [...] I know for a fact that SAFE, which is a Sovereign Wealth Fund that manages the foreign exchanges reserves of the People's Bank Of China, bought 600 tonnes of physical gold through June and July 2013. I know this from the Perth Mint and Chinese dealers. At this moment the gold is on the balance sheet of SAFE but this can be

332 http://www.ingoldwetrust.ch/interview-jim-rickards-on-the-death-of-money.

> flipped to the PBoC's sheet like it happened in 2009[333] [...] China right now has an interest in keeping the price low because they want to buy more. But at some point, if there will be inflation in the US, they want the price to go higher because that's their hedge. That's the reason they're buying gold [...] China has got $4 trillion dollars in reserves, their preference is a stable dollar. If the US devalues the dollar by 10%, that's a wealth transfer of $400 billion from China to the US.[334] China's hedge is gold, if the dollar would go down gold goes up [...] I know wealthy Americans taking measures like getting a second passport and moving their money offshore [...] They're ready for the collapse, but want to milk the system in the meantime.

Another insider who is very vocal about the need for a monetary reset is legendary Hedge Fund manager George Soros. In a television interview he points to the following facts:[335]

> I believe that basically the system is broke and needs to be. The system we now have has broken down, only we haven't quite recognized it. So you need to create a new one and now is the time to do it [...] You need a new world order where China has to be part of the process of creating it. They have to buy in [...] And I think this would be a more stable one where you would have coordinated policies. I think the makings of it are already there because the G20 effectively is moving in that direction [...] So there is a general lack of confidence in currencies and a move away from currencies into real assets. [...] Especially in the area of commodities.

333 In June 2015 the PBoC added 604 tonnes to its official gold holdings. http://mobile.reuters.com/article/BigStory11/idUSKCN0PU0V220150720?irpc=932
334 Only 30% of Chinese financial reserves are in dollar holdings. So wealth transfer should be around $130 billion.
335 https://www.youtube.com/watch?v=uYtdxpLr9Rw&feature=player_embedded&app=desktop.

So we have seen many indications about the coming changes for our monetary system. This does not mean we have to expect a worldwide reset earlier than previously expected. The planned changes in monetary and geopolitical affairs will take time to discuss and to prepare. With the start of the Asian Infrastructure Investment Bank, the new Silk Road initiatives and many other BRIC projects, we could well conclude the global reset has already started. If you are lucky, the effects on your life maybe small but it could turn your life upside down as well.

In my humble opinion, China owns all the keys now and they will do what is in their best interest to reach their long term goals. They will continue to play chess on all boards and to support both Russia (big neighbour and needed for commodities) and the US (worldwide partner for geopolitical and economic reasons). The Chinese leadership understands they need at least another ten to twenty years to improve their own financial and military structures before they can be in a position to compete with the US for worldwide leadership.

But there is a risk that a new crisis will occur before a planned reset could be unrolled and chaos will take over. The US could even be forced to impose martial law or other far-reaching measures to control the public and the economy. As early as 2006, the US[336] government secured a $400 billion contract with Halliburton to set up internment camps spread over the US.[337] These could well be used to detain a great number of US citizens in case of a large-scale revolt as a result of a full market collapse.

336 http://www.in!_niteunknown.net/2011/12/13/obama-administration-was-prepared-to-call-a-bank-holiday-in-2009-video/. Former vice-President Dick Cheney was CEO of Halliburton between 1995 and 2000.

337 http://rt.com/usa/news/psyop-activists-internment-resettlement-526/. http://articles.marketwatch.com/2006-01-24/news/30897064_1_kbr-national-emergency-homeland-security-contract. The manual of 326 pages explaining the running of these 'correctional facilities' can be found on the internet.

99. Do we need to fear more financial repression?

The term 'Financial Repression' (FR) was first employed by McKinnon and Shaw in 1973. Investopedia defines financial repression as 'measures by which governments channel funds to themselves as a form of debt reduction.' One example of FR is holding interest rates lower than the rate of price increases in order to lower government interest expenses.

Economist Carmen Reinhart has identified some other forms of financial repression:

- Strict investments regulations
- Nationalizations (confiscations of pensions)
- Regulation of cross-border capital movements
- Prohibition of certain investment assets
- Special taxes (for the rich)
- Direct interventions ('plunge protection team' Wall Street)
- Haircuts on deposits (bail-in)
- Closure of banks (bank holidays)

Since the beginning of 2003, there has been an agreement between Japan and the US to support financial markets by buying equities. Authorities in Hong Kong have admitted that they supported the Hong Kong stock exchange during the Asia Crisis of 1998. In a 2013 survey of 60 central banks by Central Banking Publications and RBS, 23% said they own shares in listed companies or plan to buy them.[338]

Mohamed El-Erian of PIMCO, the global bond investment management company, acknowledged recently that instances of financial repression are increasing in the US. Support for his analysis comes from an unexpected corner. Ex-Fed Governor Kevin Warsh openly admitted that his former colleagues 'are forced to suppress markets.' Clearly the gold and silver markets fall into this category. This confirms the desperate attempts

338 http://www.bloomberg.com/news/2013-04-24/central-banks-load-up-on-equities-as-low-rates-kill-bond-yields.html.

made by the ruling financial and political elite to maintain the current status quo.

History has shown that the closer we come to a major reset, the more likely it is that forms of financial repression will be activated. The reset of the Cyprus banking system demonstrated that very few of those affected were prepared in advance. Worldwide, a number of countries are preparing legislation in anticipation of the same kind of bail-in as the one in Cyprus. The ongoing limitations for Americans on investing abroad are strong indications that more capital controls will be used in the coming years. US citizens in particular should consider spreading their risks and assets geographically.

Governments in need of cash can use pension funds, as we have seen in many occasions in world history. A recent IMF report[339] is very clear on this:

> The distinction between external debt and domestic debt can be quite important. Domestic debt issued in domestic currency typically offers a far wider range of partial default options than does foreign currency-denominated external debt. Financial repression has already been mentioned; governments can stuff debt into local pension funds and insurance companies, forcing them through regulation to accept far lower rates of return than they might otherwise demand. But domestic debt can also be reduced through inflation.

Or a two-year Treasury note could be become a 20-year bond, as was explained by another IMF paper in 2014:[340]

> Possible remedy. The preliminary ideas in this paper would introduce greater flexibility into the 2002 framework by providing the Fund with a broader range of potential policy

339 http://www.imf.org/external/pubs/ft/wp/2013/wp13266.pdf.
340 http://www.imf.org/external/np/pp/eng/2014/052214.pdf.

> responses in the context of sovereign debt distress, while addressing the concerns that motivated the 2002 framework. Specifically, in circumstances where a member has lost market access and debt is considered sustainable, but not with high probability, the Fund would be able to provide exceptional access on the basis of a debt operation that involves an extension of maturities (normally without any reduction of principal or interest). Such a 'reprofiling' operation, coupled with the implementation of a credible adjustment program, would be designed to improve the prospect of securing sustainability and regaining market access, without having to meet the criterion of restoring debt sustainability with high probability.

The 'war on cash' is another risk. JP Morgan Chase has already been 'restricting the use of cash in selected markets, restricting borrowers from making cash payments on credit cards, mortgages, equity lines and auto loans, as well as prohibiting storage of cash in safe deposit boxes', according to a media reports.[341]

A Swiss pension fund, SNB's, has been in discussion with its bank following negative deposit rates. The fund manager calculated that he would save 25,000 CHF per year on every CHF 10 million deposit by putting the cash into a vault. But his bank refused to make that withdrawal possible. Withdrawing cash was regarded as 'interference with the SNB's monetary policy goals.'

In a recent study, the Liechtenstein-based asset management company Incrementum dived a little deeper into this subject, under the title 'The War against Cash';[342]

> As a result of global low interest rate policies, traditional savings vehicles, especially savings accounts, have become less and less attractive. Since they earn practically no interest anymore, there is a growing incentive to withdraw money

341 http://www.zerohedge.com/news/2015-04-25/war-cash-migrates-switzerland.
342 http://www.incrementum.li/wp-content/uploads/2015/06/In_Gold_we_Trust_2015-Extended_Version.pdf.

from bank accounts and hoard it. In recent months especially, another facet of financial repression is increasingly gaining momentum: numerous (supposed) star economists, including the likes of Paul Krugman and Larry Summers, are currently overtly propagating the opinion that too much is being saved and not enough is being invested. In order to compensate for this imbalance, interest rates should be pushed into negative territory. According to Keynesian logic, this will supposedly boost consumption and provide urgently needed stimulus to the economy. In order to be able to implement negative interest rates, Larry Summers, Harvard economist and former US treasury secretary, bluntly demanded the global abolition of all cash currency at an IMF research conference. His presentation gave the impression of being a declaration of war against cash. The primary goal according to Summers should be to enable governments and banks to push interest rates below the level of zero. Consequently, every saver would then have to pay a fee for the warehousing of his money. In order to prevent a run on banks, cash would have to be completely abolished.

Other economists are making similar arguments. Kenneth Rogoff (‘*Paper money is the decisive obstacle standing in the way of further interest rate cuts by central banks. Banning it would be a very simple and elegant solution to this problem.*’) and Willem Buiter, chief economist of Citigroup, are also pleading in favor of the abolition of cash. Without cash, it would no longer be possible to escape negative interest rates, and one would finally be able to ‘boost’ the economy. Even though the idea is controversial according to Buiter, and there are a number of drawbacks (resistance of the population, high rates of cash usage among poor and elderly people, loss of seignorage income of central banks and governments, loss of privacy and security risks due to cyber-attacks), these disadvantages are ‘negligible’.

However, the criticism of cash has an additional background: due to tiny minimum reserve requirements, banks are in a

permanent state of 'latent illiquidity'. Deposits are the base of the fractional and massively leveraged credit pyramid. A bank run due to a loss of confidence would quickly lead to a collapse of this credit pyramid. Banning cash currency is therefore the only effective tool the 'junta of paper money jugglers' has at its disposal to block all escape routes from the paper money system for the citizenry. The emergency exits would thus be locked down. Moreover, in a cash-less society, assets could be more easily monitored, controlled, taxed and if occasion demands, expropriated. This final factor is seen as ever more essential for governments which are buried in debt up their eyebrows. Restriction of cash holdings thus represents a major pillar of financial repression and moreover the last hurdle prior to the possible introduction of negative interest rates.

Numerous examples show that the path toward the abolition of cash is already pursued:

- In Italy, Spain, and Greece, the possession and use of cash has already been significantly restricted. Since 2011, it is illegal in Greece to perform cash payments exceeding EUR 1,500. In Italy, this limit stands at EUR 1,000 and in Spain at EUR 2,500.
- Denmark wants to abolish the legal obligation to accept cash.
- In France, legal cash payments will be limited to EUR 1,000 from September 2015. Moreover, currency exchange offices are obliged to store the personal data of anyone engaging in foreign exchange transactions exceeding EUR 1,000. Purchases of gold also have to be reported to the authorities from now on, as well as gold shipments within the country, which curiously have to be reported to customs. As one might expect, the measures are justified by invoking the 'war on terror'.

100. What is your advice to investors?

The risks involved with holding a significant portion of personal wealth within the framework of conventional banking and securities arrangements is increasing. Authorities will soon decide that conventional levels and methods of taxation no longer suffice. We can expect new measures to help recapitalize the system such as the 'IMF's one-off capital levy, Cyprus's bank deposit confiscation, or outright sovereign defaults.'

Everything within banking and securities institutions (paper assets) are 'visible forms of wealth'. Tangible (hard) assets are less visible and therefore less vulnerable to broad edicts targeting private wealth.

During the crisis of 2008, policymakers reacted ad hoc but now they have had much more time to plan well-orchestrated responses for a new crisis.

Even the Norway Sovereign Wealth Fund unveiled a new strategy to buy real estate and stocks instead of bonds. The $900 billion oil fund is buying stocks as a safe haven, because governments just like money and sovereign bonds cannot print shares of good companies. The oil fund already owns 2.5% of every listed European company and wants to grow this towards 5% of almost every European listed company.[343]

Gold fund manager John Hathaway believes holding physical gold is the safest type of investment at this moment in time:

> When the market reverses, the diminished physical anchor to paper claims, concerns over title and encumbrances on central bank bullion, and worries over the drift of public policy will drive liquid capital into gold. However, this time around, it seems to us that the major recipient of flows will be the physical metal itself. Holders of paper claims to gold will receive polite and apologetic letters from intermediaries offering to settle in

343 http://www.zerohedge.com/news/2014-06-24/norway-sovereign-wealth-fund-unveils-new-strategy-buy-5-every-european-stock.

> cash at prices well below the physical market. To those who wish to hold their wealth exclusively in paper assets, implicitly trusting the policy elites to resurrect normally functioning capital markets and economic conditions, we say good luck. For those who harbor doubts on such an outcome, we say get physical.

I would like to add that physical silver is an even better investment. At the moment of writing (summer of 2015), gold is over 75 times more expensive than silver. Historically, the norm has been ten to 15 times. Given the growing shortages in the silver market I expect an enormous re-rating of the 'poor man's gold'.

Since 2007, I have stuck to my general model portfolio, which is really quite simple:

- 25% cash
- 25% precious metals (gold/silver)
- 25% real estate (mostly your own home)
- 25% equities (good 'hard assets')

This portfolio has weathered all storms well, since the start of this credit crisis. It is my personal insurance against any possible scenario.

Epilogue

History reveals countless examples of failed monetary systems. After the debasement of the Roman Denarius and the subsequent fall of the Roman Empire, it took five hundred years before a developed civilization re-emerged in Europe.

In the 1980s, the leaders of the Soviet Union were convinced their communist Ruble-regime would last forever and they continued waving from the balcony until the bitter end. After the collapse of the Soviet Union, savers and pensioners reliant on the value of the Ruble remained behind in poverty.

Us Westerners concluded that our dollar-system, based on free markets, was a superior one because all of the communist countries 'switched over' to our side after the fall of the Berlin Wall. Now, with more and more markets controlled by central bankers, it is clear Western capitalism has reached its end. We have now entered an era of state capitalism. China is a perfect example. Just like Russia, the US, the EU, the Arab World, the UK and Japan. The economies of West and East are now intertwined in a way never seen before.

In the same manner as the communists leaders did at the end of the 80s, our governments, (central) bankers, institutional investors and even accountants have all joined forces to pretend all is still fine. But of course most of them know our economic system will fall apart once they stop QE, an euphemism for printing ever more money.

Since the start of the credit crisis, world central banks' balance sheets grew some $10 trillion ($10,000 billion), rising to $22 trillion, almost entirely in the form of government debt. Central bankers have been monetizing all net debt issuance (2015), in an effort to reflate the $200 trillion in global outstanding debt. Yes, that's $55 trillion more than 'when the world almost collapsed because of too much debt', in late 2008. Since money can only be created as (new) debt, fund managers, charging yearly fees of 1%, have seen their revenues (and bonuses) exploding again.

Wall Street and City-traders will continue to 'milk the system' for as long as possible.

Some decided to 'jump ship' and have even started to warn about this financial endgame. Like Bill Gross[1] did in his December 2014 investment outlook:[2]

> How could they? How could policymakers have allowed so much debt to be created in the first place, and then failed to regulate their own system accordingly? How could they have thought that money printing and debt creation could create wealth instead of just more and more debt? [...] But each of these central bankers is trying to achieve the same basic objective: Solve a debt crisis by creating more debt?

Because of these central bank policies applied since 2009, real free bond markets no longer exist. The roll-out of Zero Interest Rate Policies (ZIRP) around the world, implies that central banks are really the only buyers left in many bond markets. We are therefore trapped in a vicious circle of more deflation, more QE and even lower yields leading to more deflation. Central banks will have to double down once more. Trillions of sovereign bonds on balance sheets no longer represent their book value, since the principal can't ever be repaid. Only a debt restructuring can solve this problem. That's why more and more money has started fleeing towards the general stock markets and other hard assets.

Even Alan Greenspan, the former chairman of the Federal Reserve, has been sounding the alarm bell. Not in public of course, but during private conversations at a New Orleans conference:[3]

1 According to Fortune magazine Gross is 'the 188th richest American, and his net worth is around $2.2 billion'.

2 http://uk.businessinsider.com/bill-gross-investment-outlook-december-4-2014-12?r=US&IR=T

3 http://www.neopresse.com/finanzsystem/alan-greenspan-es-fehlt-nur-noch-der-funke-der-die-inflation-zum-explodieren-bringt/

> The Fed's balance sheet is the tinderbox for the US economy. It is mathematically impossible to cover future government promises, which by default includes debt and derivatives of the major too big to fail banks. [...]

That's why authorities are now turning to precisely those measures which we so despised in the former Russian communist system. Economic figures are increasingly being manipulated and colored to reflect a rosier picture. Good news is often the result of propaganda and the work of spin-doctors. The economy and its financial markets are being increasingly centrally controlled. Interest rates are manipulated, gold wars are fought and authorities, almost openly, prop up stock markets.

As a result, a huge disconnect between the price and the value of almost all assets has emerged. Government bonds, priced as risk free, might lose most of their value, while gold, by many seen as worthless, may rise tenfold in the next decade. The value of gold, going up and down, can be compared to one's view of the land, from a boat floating on the waves. It's not the land that's moving up or down, just the boat. Indeed, black has turned into white, while white has turned into black.

For the very first time in history, a financial and monetary crisis has emerged which is so severe that it has the capacity to end in an all-encompassing distrust of paper assets. This could even lead to an unprecedented wave of hyperinflation in which prices of real goods explode, debts melt away, the economy collapses and banks world-wide will have to close. Bank holidays happen, even in recent times. In Greece (2015), Cyprus (2013), Soviet Union (1991) and Argentina (2001).

In most of these cases savers lost almost all their wealth, while smart investors who had invested their money in precious metals succeeded in preserving their capital. As happened in many of the other crises of the last 1000 years.

It can't happen in the US? We know President Barack Obama organized a conference call, on his very first day as President

in 2009, discussing the possibilities of declaring such a bank holiday.[4]

Central bankers are therefore very much aware that it is essential to come up with a monetary reset plan before this will occur. Authorities will do everything possible to modify the financial system in order to avoid another 2008-style collapse. It's not a matter of if, but only when, they will introduce their reset plans. Should the ongoing negotiations about such a financial reset fail to lead to a satisfactory settlement among the world's main trading partners, things could get spooky.[5] Wars have been started with much less at stake.

The only force to halt a growing world disorder is a joint US-Chinese effort on many fronts. We know China is fully aware of this shared responsibility and prefers to work on a joint reset, engineered by the US-controlled IMF. The idea to reintroduce the IMF's Special Drawing Rights (SDR), with or without a gold link, could work out quite well. It could give us all enough extra time to work on a global debt restructuring. But the US might feel tempted to take the initiative again. As they have done many times during periods of financial stress in the last 100 years.[6]

When this book was first published in early 2014, the idea of a financial economic reset was completely new. Since then, China has surprised the world with a broad range of economic initiatives (AIIB, NDB, OBOR), even telling the world that the days of a unipolar world centered around the dollar are a product of the past. And now, just one and a half years later, it's evident we are witnessing the very first stages of a global reset, an event

4 http://www.infiniteunknown.net/2011/12/13/obama-administration-was-prepared-to-call-a-bank-holiday-in-2009-video/

5 As early as 2006, the US government secured a $400 billion contract with Halliburton to set up internment camps spread over the US. These could well be used to detain a great number of US citizens in case of a large scale revolt. See http://www.marketwatch.com/story/kbr-awarded-homeland-security-contract-worth-up-to-385m

6 Start Fed in 1913, New Deal (dollar devaluation) in 1933, Bretton Woods Conference 1944, closing 'gold-window' in 1971.

which will have enormous repercussions on monetary, economic and geopolitical affairs.

While timing is always a little troubling for me, I dare to say the next ten years (2015-2025) will bring some of the biggest changes to our financial architecture since the Bretton Woods conference in 1944. It will be essential to track new developments on a day-to-day basis. I will report on these on thebigresetblog.com.

I would like to end by thanking you for your time and interest.

Willem Middelkoop,
Bargemon, August 2015

Appendix I – Demonetized Currencies (1700-2013)

Currency name & currency code	Start	End	Duration	Destroyed by
Yugoslav 1994 Dinar (YUG)	1994	1994	1 mo.	Hyperinflation
DDR Kuponmark (DDK)	1948	1948	1 mo.	WWII
Hungarian Bilpengoe (HUB)	1946	1946	1.5 mos.	Hyperinflation
Hungarian Adopengoe (HUA)	1946	1946	2 mos.	Hyperinflation
German Gold Mark (DEG)	1923	1923	2 mos.	Hyperinflation
Slovenia Laibach Lira (SIL)	1944	1944	2.5 mos.	WWII
Krajina (Serbian Republic) October Dinar (HRKO)	1993	1994	3 mos.	Hyperinflation
Yugoslav October Dinar (YUO)	1993	1993	3 mos.	Hyperinflation
Kazakhstan Ruble (KZR)	1993	1993	3 mos.	Hyperinflation
North Korean Won (KPO)	1959	1959	3 mos.	Hyperinflation
Hungarian Milpengoe (HUM)	1946	1946	3 mos.	Hyperinflation
Serbian Republic October Dinar (BASO)	1993	1994	4 mos.	Other War
Polish Zloty Lublin (PLL)	1944	1945	4 mos.	WWII
Hungarian Red Army Pengoe (HUR)	1945	1945	6 mos.	WWII
Uzbekistan Coupon Sum (UZC)	1993	1994	8.5 mos.	Hyperinflation
Kepulauan Riau Rupiah (IDRR)	1963	1964	8.5 mos.	Replaced with IDR
Japan Base Metal Kammon(JPK)	1904	1905	9 mos.	Hyperinflation
Japan Gold Oban (JPO)	1904	1905	9 mos.	Hyperinflation
Japan Silver Momme (JPM)	1904	1905	9 mos.	Hyperinflation
Transnistrian Ruble (PDR)	1994	1994	11 mos.	Hyperinflation
Ukraine Karbovanetz (UAK)	1992	1993	11 mos.	Hyperinflation
Brazil Cruzeiro Real (BRR)	1993	1994	1	Hyperinflation
Albanian Lek Valute (ALV)	1992	1993	1	Discontinued
Krajina (Serbian Republic) Reformed Dinar (HRKR)	1992	1993	1	Hyperinflation
Latvia Ruble (LVR)	1992	1993	1	Hyperinflation
Lithuania Talonas (LTT)	1992	1993	1	Hyperinflation
Macedonian Denar (MKN)	1992	1993	1	Hyperinflation

Moldovan Leu Cupon (MDC)	1992	1993	1	Hyperinflation
Serbian Republic Reformed Dinar (BASR)	1992	1993	1	Hyperinflation
Yugoslav Reformed Dinar(YUR)	1992	1993	1	Hyperinflation
Moldovan Ruble Kupon (MDR)	1991	1992	1	Hyperinflation
Slovenia Tolar Bons (SIB)	1991	1992	1	Renamed SIT
Brazil Cruzado Novo (BRN)	1989	1990	1	Hyperinflation
Chinese Gold Chin Yuan (CNG)	1948	1949	1	Chinese Civil War
Chinese Silver Yin Yuan(CNS)	1948	1949	1	Chinese Civil War
Sinkiang Gold Yuan (CNSG)	1948	1949	1	Chinese Civil War
Azerbaijan Toman (IRZT)	1945	1946	1	Conquered by Iran
Austrian Allied Military Schillings (ATM)	1944	1945	1	WWII
Czechoslovak Red Army Korunu (CSR)	1944	1945	1	WWII
Romanian Red Army Leu (ROR)	1944	1945	1	WWII
Soviet Ruble of 1923 (SUB)	1923	1924	1	Hyperinflation
Russian Ruble of 1922 (RUFR)	1922	1922	1	Creation of the USSR
East Africa Florin (XEAF)	1920	1922	1	WWII
Monaco Franc Germinal (MCG)	1920	1921	1	Emergency measure
North Russian Ruble (RUNR)	1919	1920	1	Creation of the USSR
Austrian Krone (ATK)	1918	1919	1	WWI
Transcaucasian Ruble (ZKRR)	1917	1918	1	Russian Civil War
German New Guinea Mark (PGM)	1914	1915	1	WWI
German Southwest Africa Mark (NAP)	1914	1915	1	WWI
Confederate States Reformed Dollar (CSAR)	1864	1865	1	US Civil War
French Franc (Mandats Territorial) (FRM)	1796	1797	1	Hyperinflation
French Franc (Assignats) (FRA)	1795	1796	1	Hyperinflation
Paper Poland Florin Zloty (PLF)	1794	1795	1	Partitioned by Austria
Krajina (Serbian Republic) 1994 Dinar (HRKG)	1994	1996	2	Hyperinflation
Georgia Kupon Larit (GEK)	1993	1995	2	Hyperinflation
Belarus Ruble (BYL)	1992	1994	2	Hyperinflation (Indirect)
Bosnia Dinar (BAD)	1992	1994	2	Hyperinflation

Yugoslav Convertible Dinar (YUN)	1990	1992	2	Hyperinflation
Argentina Peso Argentino (ARP)	1983	1985	2	Hyperinflation
Oman Rial Saidi (OMS)	1970	1972	2	Act of Independence
Ghana Old Cedi (GHO)	1965	1967	2	Replaced with GHC
French Franc Nouveau (FRF)	1960	1962	2	Renamed French Franc
Korean Military Won (KROM)	1945	1947	2	Replaced with KPP
Italy 'Badaglio' Lira (ITLB)	1943	1945	2	WWII
Italy 'Mussolini' Lira (ITLM)	1943	1945	2	WWII
Italy American Military Lira (ITA)	1943	1945	2	WWII
Italy British Military Lira (ITB)	1943	1945	2	WWII
Reichs Karbowanez (UAC)	1942	1944	2	WWII
US 'Hawaiian' Dollar (USDH)	1942	1944	2	WWII
Spanish Nationalist Peseta (ESPN)	1936	1939	2	WWII
Soviet Transcaucasian Ruble (ZKSR)	1922	1924	2	Creation of the USSR
Far Eastern Republic Ruble (DBRR)	1920	1922	2	Creation of the USSR
Soviet Armenian Ruble (AMSR)	1920	1922	2	Creation of the USSR
Soviet Azerbaijan Ruble (AZSR)	1920	1922	2	Creation of the USSR
Armenian Ruble (AMR)	1918	1920	2	Creation of the USSR
Azerbaijan Republic Ruble (AZR)	1918	1920	2	Creation of the USSR
Khiva Tenga (KHVT)	1918	1920	2	Creation of the USSR
Germany Darlenskasse Ost Ruble (DEOR)	1916	1918	2	WWI
Peru Inca (PER)	1880	1882	2	Discontinued
Haiti New Paper Gourde (HTN)	1870	1872	2	Hyperinflation
Maryland Red Shillings (CMDR)	1781	1783	2	Hyperinflation
New Jersey New Shilling (CNJN)	1781	1783	2	Hyperinflation
Vermont State Shilling (CVTS)	1781	1783	2	Hyperinflation
Bosnia New Dinar (BAN)	1994	1997	3	Replaced with BAM
Russian Ruble (RUR)	1991	1994	3	Hyperinflation
Brazil Cruzeiro (BRE)	1990	1993	3	Hyperinflation
Nicaragua Cordoba (NIC)	1988	1991	3	Hyperinflation

Brazil Cruzado (BRC)	1986	1989	3	Hyperinflation
Laos Liberation Kip (LAL)	1976	1979	3	Hyperinflation
Viet Nam South Dong (VNS)	1975	1978	3	Union of Vietnam
Biafran Pound (BIAP)	1967	1970	3	Conquered by Nigeria
Katanga Franc (KATF)	1960	1963	3	Act of Independence
Portuguese India Escudo (INPE)	1959	1962	3	Act of Independence
Reunion Franc (REF)	1959	1962	3	Hyperinflation
German Sperrmark (DES)	1951	1954	3	Discontinued
German Allied Mark (DEA)	1945	1948	3	WWII
Japanese Allied Yen (JPA)	1945	1948	3	WWII
Nationalist Manchurian Yuan (CNNY)	1945	1948	3	Chinese Civil War
Netherlands Indies Gumpyo Roepiah (NIDR)	1943	1946	3	WWII
Malaya Gumpyo Dollar (MYAG)	1942	1945	3	WWII
Philippine Guerilla Peso (PHG)	1942	1945	3	WWII
Netherlands Indies Gumpyo Gulden (IDDJ)	1941	1944	3	WWII
Romania Infinex Leu (ROI)	1941	1944	3	WWII
Canton Dollar (CNDC)	1935	1938	3	WWII
Danzig Mark (DZGM)	1920	1923	3	WWI
Memel Mark (MMLM)	1920	1923	3	WWI
Soviet Khiva Ruble (SUVT)	1920	1923	3	Creation of the USSR
Georgian Ruble (GER)	1918	1921	3	Creation of the USSR
Bukhara Tenga (BKHT)	1917	1920	3	Creation of the USSR
Mexico 'Inconvertible' Paper Peso (MXI)	1913	1916	3	Hyperinflation
Confederate States Dollar (CSAD)	1861	1864	3	US Civil War
Maryland Black Shillings (CMDB)	1780	1783	3	Hyperinflation
Afghanistan Dostumi Afghani (AFAD)	1998	2002	4	Hyperinflation
Afghanistan Rabbini Afghani (AFAR)	1998	2002	4	Hyperinflation
Angola Kwanza Reajustado (AOR)	1995	1999	4	Hyperinflation

Tatarstan Shamil (RUTS*)	1992	1996	4	Part of Russia
Croatian Dinar (HRD)	1991	1995	4	Other War
Congolese Zaire (CDZ)	1967	1971	4	Act of Independence
Zambian Pound (ZMP)	1964	1968	4	Act of Independence
Algerian New Franc (DZF)	1960	1964	4	Act of Independence
Ruanda-Urundi Franc (BRIF)	1960	1964	4	Act of Independence
German Bekomark	1954	1958	4	Discontinued
German Libkamark	1954	1958	4	Discontinued
Djibouti CFA Franc (DJC)	1945	1949	4	Act of Independence
Indonesia Guerilla Rupiah (IDG)	1945	1949	4	Replaced with IDN at par
Taiwan Nationalist Yuan (TWN)	1945	1949	4	Chinese Civil War
French Franc (Allied Military Provisional) (FRP)	1944	1948	4	WWII
Burmese Gumpyo Rupee (BUG)	1941	1945	4	WWII
Croatian Kuna (HRC)	1941	1945	4	WWII
French Indochina Military Yen (ICFG)	1941	1945	4	WWII
Hong Kong Military Yen (HKG)	1941	1945	4	WWII
Japanese Military Yen (XJPM)	1941	1945	4	WWII
Nanking/CRB Yuan (CNPN)	1941	1945	4	WWII
New Hebrides Franc (NHF)	1941	1945	4	WWII
Oceania Gumpyo Pound (XOGP)	1941	1945	4	WWII
Philippine Gumpyo Peso (PHJ)	1941	1945	4	WWII
Serbian Dinar (SRDD)	1941	1945	4	WWII
Germany Behelfszahlungsmittel (XDEB)	1940	1944	4	WWII
Soviet Bukhara Ruble (BKSR)	1920	1924	4	Creation of the USSR
Latvia Ruble (LVB)	1918	1922	4	Hyperinflation
Ruble Sovnazki (RUFS)	1918	1922	4	Creation of the USSR
Russian Ruble Sovnazki (RUFS)	1918	1922	4	Hyperinflation
Yugoslav Kronen (YUK)	1918	1922	4	WWI
Spanish Escudo (ESE)	1864	1868	4	Latin Monetary Union

Alabama Confederate Dollar (CSALD)	1861	1865	4	US Civil War
Arkansas Confederate Dollar (CSAKD)	1861	1865	4	US Civil War
Florida Confederate Dollar (CSFLD)	1861	1865	4	US Civil War
Georgia Confederate Dollar (CSGAD)	1861	1865	4	US Civil War
Louisiana Confederate Dollar (CSLAD)	1861	1865	4	US Civil War
Mississippi Confederate Dollar (CSMSD)	1861	1865	4	US Civil War
North Carolina Confederate Dollar (CSNCD)	1861	1865	4	US Civil War
South Carolina Confederate Dollar (CSSCD)	1861	1865	4	US Civil War
Tennessee Confederate Dollar (CSTND)	1861	1865	4	US Civil War
Texas Confederate Dollar (CSTXD)	1861	1865	4	US Civil War
Tajikistan Ruble (TJR)	1995	2000	5	Hyperinflation
Zairean New Zaire (ZRN)	1993	1998	5	Hyperinflation
Angola Kwanza Novo (AON)	1990	1995	5	Hyperinflation
Israel Shekel (ILL)	1980	1985	5	Hyperinflation
Chinese Old Jen Min Piao Yuan (CNP)	1948	1953	5	Hyperinflation
Romanian New Leu (RON)	1947	1952	5	Hyperinflation
Indonesia 'Java' Rupiah (IDJ)	1945	1950	5	Act of Independence
Indonesia 'Nica' Guilder (IDD)	1945	1950	5	Act of Independence
Netherlands Indies Gumpyo Roepiah (IDDR)	1941	1946	5	Hyperinflation
Polish Cracow Zloty (PLK)	1940	1945	5	WWII
Slovak Koruna (SKO)	1940	1945	5	WWII
Italian East Africa Lira (AOIL)	1936	1941	5	WWII
Rif Republic Riffan (MARR)	1921	1926	5	Other War
Ukraine Grivna (UAG)	1917	1922	5	Creation of the USSR
Southwest Africa Mark (NAM)	1915	1920	5	WWI
Serbian Dinar (SRBD)	1913	1918	5	WWI
South African Republic Pound (ZAPP)	1905	1910	5	Switched to GBP

Greek Phoenix (GRP)	1828	1833	5	Replaced with GRS at par
Transnistrian Kupon Ruble (PDK)	1994	2000	6	Hyperinflation
Peru Inti (PEI)	1985	1991	6	Hyperinflation
Rhodesian Pound (RHP)	1964	1970	6	Act of Independence
North Viet Nam Piastre Dong Viet (VDD)	1953	1959	6	Hyperinflation
Germany Reichskreditkas-senscheine (XDEK)	1940	1946	6	WWII
Bohemia and Moravia Koruna (CSM)	1939	1945	6	WWII
Japan Military Yen (CNPY)	1939	1945	6	WWII
Estonia Marka (EEM)	1918	1924	6	Hyperinflation
Fiume Krone (FIUK)	1918	1924	6	WWII
West Indies Joe (GYJ)	1830	1836	6	Act of Independence
French Livre (Assignats) (FRL)	1789	1795	6	Hyperinflation
Belarus New Ruble (BYB)	1994	2001	7	Hyperinflation
Russian Federation Ruble (RUR)	1991	1998	7	Hyperinflation
Argentina Austral (ARA)	1985	1992	7	Hyperinflation
Equatorial Guinea Franco (GQF)	1985	1992	7	West African Monetary Union
Viet Nam New Dong (VNN)	1978	1985	7	Replaced 10:1 VNN
Peseta Guineana (GQP)	1968	1975	7	Act of Independence
Qatar-Dubai Riyal (XQDR)	1966	1973	7	Act of Independence
Gambia Pound (GMP)	1964	1971	7	Act of Independence
Malawi Pound (MWP)	1964	1971	7	Act of Independence
Congolese Republic Franc (CDG)	1960	1967	7	Hyperinflation
Viet Minh Piastre Dong Viet (VDP)	1946	1953	7	First Vietnam War
Hungarian Korona (HUK)	1918	1925	7	Hyperinflation
Connecticut Continental Shilling (CCTS)	1776	1783	7	Hyperinflation
Delaware Continental Shilling (CDES)	1776	1783	7	Hyperinflation

Georgia Continental Shilling (CGAS)	1776	1783	7	Hyperinflation
Maryland Continental Shilling (CMDS)	1776	1783	7	Hyperinflation
Massachusetts Continental Shilling (CMAS)	1776	1783	7	Hyperinflation
New Hampshire Continental Shilling (CNHS)	1776	1783	7	Hyperinflation
New Jersey Continental Shilling (CNJS)	1776	1783	7	Hyperinflation
New York Continental Shilling (CNYS)	1776	1783	7	Hyperinflation
North Carolina Continental Shilling (CNCS)	1776	1783	7	Hyperinflation
Pennsylvania Continental Shilling (CPAS)	1776	1783	7	Hyperinflation
Rhode Island Continental Shilling (CRHS)	1776	1783	7	Hyperinflation
South Carolina Continental Shilling (CSCS)	1776	1783	7	Hyperinflation
Virginia Continental Shilling (CVAS)	1776	1783	7	Hyperinflation
Irian Barat Rupiah (IDIR)	1963	1971	8	Replaced 1:12.63 IDR
Czechoslovak New Koruna (CSC)	1945	1953	8	Replaced 5:1 CSK
German Effektensperrmark (DERE)	1931	1939	8	WWII
German Kreditsperrmark (DERK)	1931	1939	8	WWII
Polish Marka (PLM)	1916	1924	8	WWII
Germany Darlenskasse Ost Mark (DEOM)	1914	1922	8	WWI
Kiau Chau Dollar (JPY)	1914	1922	8	WWI
Ottoman Empire Paper Lira (XOTL)	1914	1922	8	WWI
Montenegro Perper (MEP)	1910	1918	8	WWI
Chinese Paper Tael (CNTP)	1853	1861	8	Hyperinflation
New Hampshire Lawful Shilling (CNHL)	1755	1763	8	Act of Independence
Massachusetts Shilling Middle Tenor (CMAM)	1741	1749	8	Act of Independence

Massachusetts Shilling New Tenor (CMAN)	1741	1749	8	Act of Independence
Liberian Liberty Dollars (LRDL)	1991	2000	9	Other War
Rhodesia and Nyasaland Federation Pound (RHFP)	1956	1965	9	Act of Independence
South Korean Hwan (KRH)	1953	1962	9	Replaced 10:1 KRW
German Handelsperrmark (DERH)	1939	1948	9	WWII
German Registermark (XRDERM/DERR)	1939	1948	9	WWII
German Reichskreditkassen-schein (XDEK)	1939	1948	9	WWII
Sinkiang Yuan (CNSY)	1939	1948	9	Chinese Civil War
Meng Chiang (Bank of Inner Mongolia) Yuan (CNPM)	1936	1945	9	WWII
Peking/Tientsin/Northern China/FRB Yuan (CNPP)	1935	1944	9	WWII
Fiji Old Dollar (FJO)	1865	1874	9	Conquered by Britain
Connecticut Dollar (CCTD)	1783	1792	9	Creation of the USD
Delaware Dollar (CDED)	1783	1792	9	Creation of the USD
Georgia Dollar (CGAD)	1783	1792	9	Creation of the USD
Maryland Dollar (CMDD)	1783	1792	9	Creation of the USD
Massachusetts Dollar (CMAD)	1783	1792	9	Creation of the USD
New Hampshire Dollar (CNHD)	1783	1792	9	Creation of the USD
New Jersey Dollar (CNJD)	1783	1792	9	Creation of the USD
New York Dollar (CNYD)	1783	1792	9	Creation of the USD
North Carolina Dollar (CNCD)	1783	1792	9	Creation of the USD
Pennsylvania Dollar (CPAD)	1783	1792	9	Creation of the USD
Rhode Island Dollar (CRHD)	1783	1792	9	Creation of the USD
South Carolina Dollar (CSCD)	1783	1792	9	Creation of the USD
Virginia Dollar (CVAD)	1783	1792	9	Creation of the USD
Rhodesian Dollar (RHD/ZWC)	1970	1980	10	Act of Independence
French Affars and Issas Franc (AIF)	1967	1977	10	Act of Independence
Bulgarian Socialist Lev (BGM)	1952	1962	10	Replaced 10:1 BGL
India Haj Pilgrimage Rupee (XINP)	1950	1960	10	Replaced with INR
Somali Somalo (SOIS)	1950	1960	10	Replaced with SOS
Greek New Drachma (GRN)	1944	1954	10	Hyperinflation
British Military Authority Lira (LYB)	1941	1951	10	Hyperinflation

Austro-Hungarian Monetary Union Gulden (XATG)	1857	1867	10	Latin Monetary Union
Moldova Ducat (MDD)	1857	1867	10	Discontinued
Texas Dollar (TXSD)	1836	1846	10	Joined the US
Liberian JJ Dollars (LRDJ)	1989	2000	11	Other War
Ekuele (Epkwele) Guineana (GQE)	1975	1986	11	West African Monetary Union
Reunion Nouveau Franc (REN)	1963	1974	11	Act of Independence
Persian Gulf Rupee (XPGR)	1959	1970	11	Discontinued
Spanish Republican Peseta (ESPR)	1931	1942	11	WWII
Saar Franc (SAAF)	1919	1930	11	WWII
Angola Escudo Portuguese (AOE)	1914	1925	11	Replaced 1.25:1 AOA
Paper Newfoundland Pound (NFLP)	1854	1865	11	Replaced with NFLD
Ghana Revalued Cedi (GHR)	1967	1979	12	Replaced with GHC (Confiscation)
Saint Pierre CFA Nouveau Franc (XCF)	1960	1972	12	Act of Independence
Albanian Lek Foreign Exchange Certificates (ALX)	1953	1965	12	Exchange Certificate
North Korea People's Won (KPP)	1947	1959	12	Hyperinflation
German Behelfszahlungsmittel fuer die Deutsche Wehrmacht (XDEB)	1936	1948	12	WWII
Azerbaijan Manat (AZM)	1993	2006	13	Hyperinflation
Iraqi 'Swiss print' Kurdistan Dinar (IQDS)	1991	2004	13	Act of Independence
Argentina Peso Ley 18.188 (ARL)	1970	1983	13	Hyperinflation
Netherlands New Guinea Guilder (NNGG)	1950	1963	13	Act of Independence
Manchukuo Yuan (CNMY)	1932	1945	13	WWII
Soviet Chervonetz (SUC)	1922	1935	13	Discontinued
Ecuador Peso (ECP)	1871	1884	13	Renamed ESC
Paper Paraguay National Peso (PYN)	1857	1870	13	Renamed PYF
New Hampshire Colonial Shilling (CNHC)	1763	1776	13	US War of Independence
Rhode Island Colonial Shilling (CRHC)	1763	1776	13	US War of Independence

Angola Kwanza (AOK)	1977	1991	14	Hyperinflation (Indirect)
Guinea Syli (GNS)	1972	1986	14	Replaced with GNF (92.47% devaluation)
Somali Scellino (SOS)	1960	1974	14	Renamed in 1974
Nigerian Pound (NGP)	1959	1973	14	Act of Independence
Guinea Franc (GNI)	1958	1972	14	Act of Independence
Soviet New Ruble (SUN)	1947	1961	14	Replaced 10:1 SUR
Venezuela Venezolano (VEV)	1873	1887	14	Replaced 1:5 VEB
South German Vereinsgulden (XDSG)	1857	1871	14	Replaced with DEP
Turkmenistan Manat (TMM)	1993	2009	15	Hyperinflation
Sudanese Dinar (SDD)	1992	2007	15	Hyperinflation
Slovenia Tolar (SIT)	1991	2006	15	EURO
Chilean Escudo (CLE)	1960	1975	15	Hyperinflation
French Antilles Franc (XNF)	1960	1975	15	Act of Independence
Burmese Rupee (BUR)	1937	1952	15	Renamed BUK
East Africa Rupee (XEAR)	1905	1920	15	WWI
Crete Drachma (GKD)	1898	1913	15	WWI
Colombian Gold Peso (COG)	1871	1886	15	Hyperinflation
Argentina Peso Fuerte (ARF)	1860	1875	15	Replaced with ARG
Connecticut Shilling New Tenor (CCTN)	1740	1755	15	Act of Independence
Slovak Koruna (SKK)	1992	2008	16	EURO
Timor Escudo (TPE)	1959	1975	16	Act of Independence
British Caribbean Territories (Eastern Group) Dollar (XBCD)	1951	1967	16	Act of Independence
Indonesia New Rupiah (IDN)	1949	1965	16	Hyperinflation
Saint Pierre CFA Franc (XCFG)	1943	1959	16	Hyperinflation
Southern Rhodesian Currency Board Pound (RHSP)	1940	1956	16	Replaced with RHFP at par
Saudi Sovereign Riyal (SAS)	1936	1952	16	Replaced with SAR
Estonia Kroon (EEN)	1924	1940	16	WWII
Danzig Gulden (DZGG)	1923	1939	16	WWII
German Rentenmark (DEN)	1923	1939	16	WWII

Saudi Arabian Riyal (SAA)	1916	1932	16	Formation of the Kingdom of Saudi Arabia
Italian Somaliland Rupiah (SOIR)	1909	1925	16	Replaced with XITL
Bulgarian Lev Srebro (BGS)	1904	1920	16	WWI
Azores Milreis (APM)	1895	1911	16	Hyperinflation
US Paper Dollar (USP)	1862	1878	16	Discontinued
North Korea Foreign Won (KPX)	1978	1995	17	Discontinued
Chinese Soviet Yuan (CNSD)	1931	1948	17	Chinese Civil War
Hankow Dollar (CNDH)	1914	1931	17	WWII
Heilungkiang Tiao (CNHT)	1914	1931	17	WWII
Kansu Dollar (CNDK)	1914	1931	17	WWII
Kirin Tiao (CNKT)	1914	1931	17	WWII
Kwangtung Dollar (CNDG)	1914	1931	17	WWII
Manchurian Dollar (CNDM)	1914	1931	17	WWII
Peking Dollar (CNDB)	1914	1931	17	WWII
Shanghai Dollar (CNDA)	1914	1931	17	WWII
Shantung Dollar (CNDS)	1914	1931	17	WWII
Szechwan Dollar (CNDZ)	1914	1931	17	WWII
Kiau Chau Dollar (KCHD)	1897	1914	17	WWI
Puerto Rican Peso (PRS)	1881	1898	17	Switched to USD
Spanish Real/Peso Duro (ESR)	1847	1864	17	Replaced with ESE at par
US Continental Dollar (USC)	1775	1792	17	Creation of the USD
Uruguay Peso Nuevo (UYP/UYN)	1975	1993	18	Hyperinflation
Angolan Escudo (AOS)	1958	1976	18	Hyperinflation
Djibouti Franc (DJA)	1949	1967	18	Act of Independence
Chinese Custom Gold Units (CNU)	1930	1948	18	Chinese Civil War
Italian Lira (XITL)	1925	1943	18	WWII
Latvia Lat (LVA)	1922	1940	18	WWII
Lithuanian Lita (LTB)	1922	1940	18	WWII
Riksdaler Riksmynt (SEM)	1855	1873	18	Scandinavian Monetary Union
Chinese US Dollar Foreign Exchange Certificates (CNX)	1979	1998	19	Exchange Certificate
Congo CFA Franc (COF)	1973	1992	19	Act of Independence
Gabon CFA Franc (GAF)	1973	1992	19	Act of Independence
Brazil Cruzeiro Novo (BRB)	1967	1986	19	Hyperinflation

North Viet Nam New Dong (VDN/VNC)	1959	1978	19	Union of Vietnam
Albanian Lek (ALK)	1946	1965	19	Replaced 10:1 ALL
Colombia Paper Peso (COB)	1886	1905	19	Hyperinflation
North German Thaler (XDET)	1838	1857	19	Austro-Hungarian Monetary Union
South German Gulden (XDEG)	1838	1857	19	Austro-Hungarian Monetary Union
Paper French Livre Tournois (FRT)	1701	1720	19	Hyperinflation
Guinea-Bissau Peso (GWP)	1976	1996	20	West African Monetary Union
Luxembourg Convertible Franc (LUC)	1970	1990	20	EURO
Bulgarian Lev Foreign Exchange Certificates (BGX)	1966	1986	20	Exchange Certificate
Cambodia Old Riel (KHO)	1955	1975	20	Discontinued
South Viet Nam Republic Dong (VNR)	1955	1975	20	Hyperinflation
Libyan Pound (LYP)	1951	1971	20	Act of Independence
Belgian Belga (BEB)	1925	1945	20	WWII
Madagascar Franc (MGG)	1925	1945	20	WWII
Czechoslovak Pre-War Koruna (CSO)	1919	1939	20	WWII
Luxembourg Financial Franc (LUL)	1970	1991	21	EURO
Uganda Shilling (UGS/UGW)	1966	1987	21	Hyperinflation
Ghana Pound (GHP)	1958	1979	21	Act of Independence
Laos Old Kip (LAO)	1955	1976	21	Replaced 20:1 LAL
Albania Franga (ALF)	1925	1946	21	Monetary Union with Yugoslavia
Hungarian Pengoe (HUP)	1925	1946	21	Hyperinflation
Russian Gold Ruble (RUER)	1897	1918	21	Russian Civil War
Nicaragua Silver Peso (NIP)	1881	1912	21	Replaced 12.5:1 NIG
Connecticut Colonial Shilling (CCTC)	1755	1776	21	US War of Independence
New Hampshire Shilling New Tenor (CNHN)	1742	1763	21	Act of Independence
Zairean Zaire (ZRZ)	1971	1993	22	Hyperinflation

Mali Franc (MLF/MAF)	1962	1984	22	Act of Independence
Bolivian Peso (BOP)	1963	1986	23	Hyperinflation
Palestine Pound (PSP)	1927	1950	23	Act of Independence
Soviet Gold Ruble (SUG)	1924	1947	23	Replaced 10:1 SUN
Tanu Tuva Aksha (TVAA)	1921	1944	23	WWII
Mozambique Libra Esterlina (MZL)	1919	1942	23	WWII
Yugoslav Serbian Dinar (YUS)	1918	1941	23	WWII
Luxembourg Thaler (LUT)	1848	1871	23	Replaced with LUM
Yugoslav Hard Dinar (YUD)	1966	1990	24	Hyperinflation
German Reichsmark (DER)	1924	1948	24	WWII
Austria Old Schilling (ATO)	1923	1947	24	WWII
Sinkiang Tael (CNST)	1912	1936	24	WWII
Yunnan Yuan (CNYY)	1912	1936	24	WWII
Brazil Mil Reis (BRM)	1822	1846	24	Hyperinflation
South Yemeni Dinar (YDD)	1965	1990	25	Union of Yemen
Malaya Dollar (MYAD)	1938	1963	25	Act of Independence
Austro-Hungarian Gulden (ATG)	1867	1892	25	Replaced 1:2 ATK
Paper Riksdaler Banco (SEO)	1830	1855	25	Replaced with SEM
Austro-Hungarian Kronen (ATK)	1892	1918	26	WWI
German East African Rupie (DOAR)	1890	1917	27	WWI
Massachusetts Colonial Shilling (CMAC)	1749	1776	27	US War of Independence
Ghana New Cedi (GHC)	1979	2007	28	Hyperinflation
Lebanon-Syria Pound (XLSP)	1920	1948	28	WWII
Zanzibar Rupee (ZZR)	1908	1936	28	Replaced 1:1.5 XEAS
Maryland Colonial New Shilling (CMDN)	1748	1776	28	US War of Independence
North Carolina Shilling New Tenor (CNCN)	1748	1776	28	US War of Independence
South Carolina Colonial Shilling (CSCC)	1748	1776	28	US War of Independence
Kuan-Tze (Frontier Bills of S'ung)	1131	1159	28	Hyperinflation
Tibet Tangka (TBT)	1912	1941	29	Replaced with TBR
Soviet Hard Ruble (SUR)	1961	1991	30	Breakup of USSR
Polish US Dollar Foreign Exchange Certificates (PLX)	1960	1990	30	Exchange Certificate

Madagascar and Comores CFA Franc (XMCF)	1945	1975	30	Act of Independence
British West Indies Dollar (XBWD)	1935	1965	30	Act of Independence
Haiti Silver Gourde (HTS)	1814	1844	30	Hyperinflation (Indirect)
New Jersey Colonial Shilling (CNJC)	1746	1776	30	US War of Independence
Ethiopian Dollar (ETD)	1945	1976	31	Act of Independence
Guyana British West Indies Dollar (XBWD)	1935	1966	31	Act of Independence
Rhode Island Shilling New Tenor (CRHN)	1740	1771	31	Act of Independence
Rhode Island Proclamation Shilling (CRHP)	1709	1740	31	Act of Independence
COMECON Transferable Ruble (XTR)	1960	1992	32	Breakup of USSR
Israel Pound (ILP)	1948	1980	32	Act of Independence
Angola Angolar (AOA)	1926	1958	32	Monetary Union with Portugese Colonies
Cameroon Mark (CMDM)	1884	1916	32	WWI
French Indochina Piastre of Commerce (ICFC)	1863	1895	32	Discontinued
Tunisian Franc (TNF)	1858	1891	33	Hyperinflation
Somalia Shilling (SOS)	1960	1994	34	Hyperinflation
Maldive Islands Rupee (MVP/MVQ)	1947	1981	34	Act of Independence
Mozambique Mil Reis (MZR)	1877	1911	34	Hyperinflation
Colombia Peso Oro (COE)	1837	1871	34	Discontinued
Korea Yen (KROY)	1910	1945	35	WWII
New Hebrides CFP Franc (NHF)	1945	1981	36	Act of Independence
First Mongol Issue (Pao-Ch'ao of Kublai Khan)	1236	1272	36	Hyperinflation
Bulgarian Heavy Lev (BGL/BGK)	1962	1999	37	Hyperinflation
Burmese Kyat (BUK)	1952	1989	37	Act of Independence
Ottoman Empire Piastre (XOTP)	1844	1881	37	Replaced with XOTL

Brazilian Dutch Gulden (BRG)	1624	1661	37	Conquered by Portugal
Second Mongol Issue (Pao-Ch'ao of Chih Yuan)	1272	1309	37	Hyperinflation
Djibouti Franc Germinal (DJG)	1907	1945	38	WWII
Netherlands Indies Gumpyo Gulden (NIDJ)	1905	1943	38	WWII
Ethiopian Silver Talari (ETT)	1893	1931	38	WWII
Union Latine Franc (XULF)	1889	1927	38	Latin Monetary Union
Union Latine Lira (XULL)	1889	1927	38	Latin Monetary Union
Haiti Piastre Gourde (HTT)	1776	1814	38	Replaced by HTS
Finland New Markka (FIM)	1963	2002	39	EURO
Tibet Silver Rupee (TBR)	1912	1951	39	Conquered by China
Rial Hassani (MAH)	1881	1920	39	Replaced with MARR
North Carolina Proclamation Shilling (CNCP)	1709	1748	39	Act of Independence
French Franc (FRF)	1962	2002	40	EURO
Czechoslovak Hard Koruna (CSK)	1953	1993	40	Renamed CZK
Paraguay Paper Peso (PYP)	1903	1943	40	WWII
Malagasy Franc (MGF)	1963	2004	41	Act of Independence
Sudanese Pound (SDP)	1957	1998	41	Other War
South African Pound (ZAP)	1920	1961	41	Act of Independence
Ottoman Empire Gold Lira (XOTG)	1881	1922	41	WWI
Philippine Peso Fuerte (PHF)	1857	1898	41	Act of Independence
Georgia Colonial Shilling (CGAC)	1735	1776	41	US War of Independence
DDR Ostmark (DDM)	1948	1990	42	Breakup of USSR
Iranian Toman (IRT)	1890	1932	42	Replaced with IRR
Peru Peso (PEP)	1821	1863	42	Replaced with PES at par
Maryland Proclamation Shilling (CMDP)	1709	1751	42	Act of Independence
Polish Heavy Zloty (PLZ)	1950	1994	44	Hyperinflation

Tangier Franco (MATF)	1912	1956	44	Act of Independence
Bulgarian Lev Zlato (BGZ)	1880	1924	44	Discontinued
Sao Tome and Principe Mil Reis (STM)	1869	1913	44	Replaced by STE at par
Paper French Colonial Livre (XFCL)	1776	1820	44	Replaced with FRG
Brazil Cruzeiro (BRZ)	1942	1987	45	Hyperinflation
Tonga Pound Sterling (TOS)	1921	1966	45	Act of Independence
Finland Markka (FIN)	1917	1962	45	Hyperinflation
Serbian Dinar (SRBD)	1873	1918	45	WWI
Cape Verde Mil Reis (CVM)	1869	1914	45	Hyperinflation
Massachusetts Old Tenor Proclamation Shilling (CMAP)	1704	1749	45	Act of Independence
South Carolina Proclamation Shilling (CSCP)	1703	1748	45	Act of Independence
East Africa Shilling (XEAS)	1921	1967	46	Act of Independence
Timor Pataca (TPP)	1912	1958	46	Replaced with TPE at par
French West African Franc (XAOF)	1895	1941	46	WWII
Afghanistan Kabuli Rupee (AFR)	1881	1927	46	Replaced 1.1:1 AFA
Hawaii Dollar (HWD)	1847	1893	46	Replaced with USD
Argentina National Peso (XARP)	1816	1862	46	Hyperinflation
Connecticut Shilling Old Tenor (CCTO)	1709	1755	46	Act of Independence
New Caledonia CFP Franc (NCF)	1945	1992	47	Act of Independence
Luxembourg Mark (LUM)	1871	1918	47	WWI
Haiti Paper Gourde (HTP)	1826	1873	47	Hyperinflation (Indirect)
Greek Drachma (GRD)	1954	2002	48	EURO
South Korean Old Won (KRO)	1905	1953	48	Hyperinflation
Costa Rican Peso (CRP)	1848	1896	48	Renamed CRC
Yugoslav Federation Dinar (YUF)	1945	1995	50	Hyperinflation
North German Vereinsthaler (XDNT)	1857	1907	50	Discontinued
Brazil Reis (BRD)	~1771	1822	51	Hyperinflation
Fiji Pound (FJP)	1917	1969	52	Act of Independence

Trinidad and Tobago Dollar (TTO)	1899	1951	52	Act of Independence
Scandinavian Monetary Union Krona (XSMK)	1872	1924	52	Scandinavian Monetary Union
Paraguay Peso Fuerte (PYF)	1871	1923	52	Discontinued
Western Samoa Pound (WSP)	1914	1967	53	Act of Independence
British West Africa Pound	1913	1966	53	Act of Independence
German Mark (DEP)	1871	1924	53	Hyperinflation
Italian States Lira Austriaca (XITA)	1813	1866	53	Latin Monetary Union
Delaware Colonial Shilling (CDEC)	1723	1776	53	US War of Independence
German Deutsche Mark (DEM)	1948	2002	54	EURO
Maltese Pound (MTP)	1914	1968	54	Act of Independence
Taiwan Yen (TWY)	1895	1949	54	Chinese Civil War
Argentina Gold Peso (ARG)	1875	1929	54	Replaced 1:0.44 ARM
Paper Riksdaler (SER)	1776	1830	54	Replaced with SEO
New Hampshire Old Tenor Proclamation Shilling (CNHP)	1709	1763	54	Act of Independence
Flying 'Cash' (Tang Dynasty)	~806	~860	~54	Suppressed by Government
Austria (New) Schilling (ATS)	1947	2002	55	EURO
Bermuda Pound (BMP)	1914	1970	56	Act of Independence
British North Borneo Dollar (BNBD)	1885	1941	56	WWII
Australian Pound (AUP)	1909	1966	57	Act of Independence
French Oceania (Tahiti) Franc (PFG)	1888	1945	57	WWII
East India Rix Dollar (XEIR)	1808	1865	57	Discontinued
Third Mongol Issue (Pao-Ch'ao of Chih-Ta)	1310	1367	57	Hyperinflation
Mozambique Escudo (MZE)	1922	1980	58	Act of Independence
Chinese Dollar/Yuan (Chungking/Shanghai Yuan) (CND)	1890	1948	58	Chinese Civil War
Montenegro Krone (MEK)	1852	1910	58	Replaced with MEP at par

Union Latine Drachma (XULD)	1868	1927	59	Latin Monetary Union
Union Latine Peseta (XULP)	1868	1927	59	Latin Monetary Union
New Zealand Pound (NZP)	1907	1967	60	Act of Independence
Danish Rigsbankdaler (DKR)	1813	1873	60	Scandinavian Monetary Union
Greenland Riksbankdaler (GLR)	1813	1873	60	Scandinavian Monetary Union
Dominican Republic Silver Peso (DOS)	1844	1905	61	Switched to USD (5:1 exchange)
French Franc Germinal/Franc Poincare (FRG)	1803	1864	61	Latin Monetary Union
Iceland Old Krone (ISJ)	1918	1980	62	Hyperinflation
Portuguese Guinea Escudo (GWE)	1914	1976	62	Act of Independence
Union Latine Franc (XULF)	1865	1927	62	Latin Monetary Union
Union Latine Franc (XULF)	1865	1927	62	Latin Monetary Union
Union Latine Franc (XULF)	1865	1927	62	Latin Monetary Union
Union Latine Lira (XULL)	1865	1927	62	Latin Monetary Union
Massachusetts Bay Shilling (CMAB)	1642	1704	62	Act of Independence
Flying 'Cash' (pien-ch'ien of the S'ung Dynasty)	~960	1023	63	Hyperinflation
Suriname Guilder (SRG)	1940	2003	63	Hyperinflation
Andorra Pesseta (ADP)	1936	1999	63	EURO
Sao Tome and Principe Escudo (STE)	1914	1977	63	Act of Independence
Jamaica Pound (JMP)	1905	1969	64	Act of Independence
New Jersey Proclamation Shilling (CNJP)	1682	1746	64	Act of Independence
Danish West Indies Rigsdaler (DWIR)	1784	1849	65	Replaced with DWIF
Mauritius Dollar (MUD)	1810	1876	66	Replaced with MUR
New Caledonia Franc Germinal (NCG)	1874	1941	67	WWII

New York Proclamation Shilling (CNYP)	1709	1776	67	US War of Independence
Pennsylvania Proclamation Dollar (CPAP)	1709	1776	67	US War of Independence
Virginia Proclamation Shilling (CVAP)	1709	1776	67	US War of Independence
Venezuela Bolivar (VEB)	1940	2008	68	Hyperinflation
Danish West Indies Dalare (DWID)	1849	1917	68	WWI
Luxembourg Gulden (LUG)	1848	1918	70	WWI
East India Company Dollar (XEID)	1788	1858	70	Discontinued
Portuguese Account Conto (PTC)	1931	2002	71	EURO
Argentina Paper Peso Moneda National (ARM)	1899	1970	71	Hyperinflation
El Salvador Peso (SVP)	1847	1919	72	Replaced with SVC at par
Vatican City Lira (VAL)	1929	2002	73	EURO
Bulgarian Lev (BGO)	1879	1952	73	Hyperinflation
Afghanistan Afghani (AFA)	1927	2002	75	Hyperinflation
Belgian Congo Franc (CBEF)	1885	1960	75	Act of Independence
Russian Paper Ruble (RUEP)	1843	1918	75	Russian Civil War
Russian Assignatzia (RUEA)	1768	1843	75	Replaced 3.5:1 RUES
Nicaragua Gold Cordoba (NIG)	1912	1988	76	Hyperinflation
Portuguese Mil Reis (PTM)	1835	1911	76	Hyperinflation
Madeira Islands Milreis (IPM)	1834	1910	76	Replaced with PTE
Thailand Silver Tical (THT)	1851	1928	77	Replaced with THB
Moroccan Franc (MAF)	1881	1959	78	Hyperinflation
Portuguese India Rupia (INPR)	1881	1959	78	Conquered by India
Guatemala Peso (GTP)	1847	1925	78	Replaced with GTQ
Honduras Peso (HNP)	1847	1926	79	Replaced with HNL
Irish Pound (IEP)	1922	2002	80	EURO
British Honduras Dollar (BZH)	1894	1974	80	Act of Independence
Romania Silver Leu (ROS)	1867	1947	80	Hyperinflation
Netherlands Rijksdaalder (NLX)	1690	1770	80	Replaced with XEIR
Colonial Shilling (XCCS)	1694	1776	82	US War of Independence

Great Ming Precious Notes	1368	1450	< 82	Hyperinflation (at least six different issues)
Turkish Lira (TRL)	1922	2005	83	Hyperinflation
French India Roupie (INFR)	1871	1954	83	Ceded to India
Sarawak Dollar (SWKD)	1863	1946	83	WWII
German States Convention Thaler (XDCT)	1753	1838	85	Convention of Dresden
Newfoundland Dollar (NFLD)	1865	1952	87	Joined Canada
Paper Luxembourgian Franc (LUF)	1914	2002	88	EURO
Straits Settlements Dollar (STSD)	1857	1946	89	WWII
Szechaun Paper (Sixteen Issuing Houses)	1024	1114	90	Hyperinflation
Portuguese Escudo (PTE)	1911	2002	91	Hyperinflation
Pound Sterling (CAP)	1766	1858	92	Act of Independence
French Indochina Piastre (ICFP)	1862	1955	93	Act of Independence
Hyderabad Sicca Rupee (INRH)	1858	1951	93	Replaced with INR
Reunion Franc Germinal (REG)	1851	1944	93	WWII
Greenland Krone (GLK)	1873	1967	94	Discontinued
Portuguese Guinea Mil Reis (GWM)	1879	1974	95	Act of Independence
Taiwan Tael/Dollar (TWT)	1800	1895	95	Conquered by Japan
Bahamas Pound (BSP)	1869	1966	97	Act of Independence
Austro-Hungarian Convention Gulden (XATC)	1759	1857	98	Austro-Hungarian Monetary Union
Bolivia Boliviano (BOL)	1863	1962	99	Hyperinflation
Russian Empire Paper Ruble (RUEP)	1818	1917	99	Russian Civil War
Danish Rigsdaler Courant (DKC)	1713	1813	100	Replaced 5:1 DKR
Hui-Tze (S'ung Dynasty)	1159	1263	104	Hyperinflation
Ceylon Rupee (LNR)	1872	1978	106	Act of Independence
Algerian Franc Germinal (DZG)	1851	1959	108	Hyperinflation
Chilean Peso/Condor (CLC)	1851	1959	108	Hyperinflation
Franc Guiana (GUF)	1851	1959	108	Act of Independence

Guadeloupe Franc (GPF)	1851	1959	108	Act of Independence
Martinique Franc (MQF)	1851	1959	108	Act of Independence
Mongol First Issue	1260	1368	108	Hyperinflation
Greek Silver Drachma (GRS)	1833	1944	111	WWII
Paper Daler (SEP)	1665	1776	111	Replaced with SER
Uruguay Peso Fuerte (UYF)	1862	1975	113	Hyperinflation
Portuguese Reis (PTR)	1797	1911	114	Hyperinflation
Ecuador Sucre (ECS)	1884	2000	116	Switched to USD
Netherlands East Indies Guilder (IDDG)	1828	1945	117	WWII
Italian Lira (ITL)	1882	2002	120	EURO
Peru Sol (PEH)	1864	1985	121	Hyperinflation
Spanish Peseta (ESP)	1874	2002	128	EURO
Austrian Paper Gulden (ATP)	1753	1892	139	Replaced 1:2 ATK
Belgian Franc (BEF)	1835	2002	167	EURO
Mexico Silver Peso (MXP)	1822	1992	170	Hyperinflation
Netherlands Guilder (NLG)	1814	2002	188	EURO

Source: http://dollardaze.org/blog/?page_id=0001

Appendix II – Wall Street Fines (2000-2013)

2000		
JPMorgan Chase	$ 0.2 million	6 June
	Violations of the SEC Limit Order Display Rule and for failing to establish, maintain and enforce written supervisory procedures.	

2001		
Bank of America	$ 35.6 million	28 July
	To settle a claim that the company mismanaged its funds while acting as a trustee and paying agent for state and municipal bonds.	
JPMorgan Chase	$ 1 million	25 September
	To settle regulators' allegations that it violated recordkeeping and reporting rules while acting as a transfer agent for bond issues.	
Bank of America	$ 22 million	6 October
	To settle four lawsuits accusing the company of cheating thousands of personal bankers out of overtime pay.	
Goldman Sachs	$ 1 million	27 November
	Failing to supervise an executive who was accused of conducting fraudulent trades (this fine is for Spear, Leeds & Kellogg, a unit of the Goldman Sachs Group).	

2002		
Wells Fargo	$ 0.15 million	21 February
	To settle accusations by securities regulators that it had inadequately supervised a broker who improperly switched customers among mutual funds.	

2002		
JPMorgan Chase	$ 125 million	1 April
	To settle a case involving more than 2 billion in claims related to copper trades that Sumitomo said were unauthorized.	
Wells Fargo	$ 42 million	17 April
	To settle claims that it overcharged management fees on trust accounts dating back to the 1970s.	
Citigroup	$ 215 million	19 September
	Predatory lending claims.	
Citigroup	$ 5 million	23 September
	Published misleading research.	
Bank of America	$ 490 million	2 October
	Misrepresented financial statements.	
Goldman Sachs	$ 1.65 million	3 December
	Violated e-mail recordkeeping requirements.	
Citigroup	$ 1.65 million	3 December
	Violated e-mail recordkeeping requirements.	
Citigroup	$ 400 million	20 December
	The fines were part of a settlement involving charges that ten banks, including Chase, deceived investors with biased research. The total settlement with the ten banks was $ 1.4 billion. The settlement required that the banks separate investment banking from research, and ban any allocation of IPO shares.	
Goldman Sachs	$ 110 million	20 December
	Fines for relief, funds for independent research and monies for investor education.	
JPMorgan Chase	$ 80 million	20 December
	Fines for relief, funds for independent research and monies for investor education.	

2003		
JPMorgan Chase	$ 6 million	20 February
	Profit sharing and tie-in trades related to IPOs.	

2003		
Goldman Sachs	$ 0.45 million	22 July
	Settlement of accusations by the SEC that its employees helped a client to make manipulative trades (fine was for Spear, Leeds, a unit of the Goldman Sachs Group).	
Citigroup	$ 101 million	28 July
	Settlement concerning Enron-related allegations of misconduct.	
JPMorgan Chase	$ 135 million	28 July
	Settlement concerning Enron-related allegations of misconduct.	
Citigroup	$ 19 million	28 July
	Dealings with Dynergy.	
Citigroup	$ 12.5 million	28 July
	Settlement to cease and desist from further violations.	
JPMorgan Chase	$ 12.5 million	28 July
	Settlement to cease and desist from further violations.	
Goldman Sachs	$ 9.3 million	4 September
	Improper trading in US Treasury Securities and futures.	
JPMorgan Chase	$ 25 million	1 October
	Settlement of allegations of unlawful IPO allocation practices.	
Citigroup	$ 1 million	29 October
	Failing to properly supervise activities.	

2004		
Goldman Sachs	$ 45.5 million	17 February
	Alleged NYSE rule violations.	
Bank of America	$ 10 million	10 March
	Failing to promptly produce documents related to a regulatory investigation.	

2004		
Bank of America	$ 375 million Allegedly permitting rapid trading of certain mutual funds in its Nations Fund family.	15 March
Bank of America	$ 675 million Illegal mutual fund trading (with FleetBoston, which was acquired by BoA).	16 March
Citigroup	$ 2.65 billion Settlement of the WorldCom securities class action suit.	10 May
Citigroup	$ 70 million Settlement of improper lending practices in 2000 and 2001.	27 May
Goldman Sachs	$ 2 million Settlement of an administrative proceeding with the SEC.	1 July
Bank of America	$ 69 million To settle a suit by Enron investors over the bank's role as underwriter for some debt offerings.	3 July
Citigroup	$ 0.27 million Orders restitution relating to managed future sales.	12 July
Citigroup	$ 0.25 million Failing to comply with their discovery obligations in 20 arbitration cases.	19 July
Citigroup	$ 5 million Violations relating to recordkeeping and supervision violations.	28 July
Goldman Sachs	$ 5 million Violations relating to recordkeeping and supervision violations.	28 July
Wells Fargo	$ 6.7 million To settle a lawsuit that accused Wells Fargo of illegally selling customer's financial information to telemarketers.	23 August

2004		
Citigroup, JPMorgan Chase & Bank of America	$ 111 million To settle a suit by the Retirement Systems of Alabama over losses stemming from the collapse of WorldCom stock and bonds.	1 October
Citigroup	$ 0.25 million Disseminating inappropriate sales literature.	25 October

2005		
Goldman Sachs	$ 40 million Settle allegations that they sought commitments from customers to buy shares after an IPO in a move to support the price after the stock began trading.	26 January
JPMorgan Chase	$ 2.1 Million Failing to keep records of all e-mail and other electronic communications and for providing incomplete records to investigators.	14 February
Citigroup	$ 75 million Settlement of a lawsuit from investors over its role in the collapse of the company Global Crossing.	3 March
Bank of America	$ 460.5 million Settlement with investors who bought WorldCom stock and bonds before the company filed for bankruptcy in 2002.	4 March
JPMorgan Chase	$ 2 billion To settle investors' claims that it did not conduct adequate investigation into the financial condition of WorldCom before the securities were sold.	16 March
Citigroup	$ 6.25 million Fined by the NASD regarding suitability and supervisory violations relating to mutual fund sales practices.	23 March
JPMorgan Chase	$ 120 million To settle a shareholders lawsuit over the 1998 purchase of a Chicago bank (Bank One unit of JPMorgan Chase).	23 March

2005		
JPMorgan Chase	$ 0.15 million	9 June
	Sales of restricted securities in violation of lock-up agreements as required.	
Goldman Sachs	$ 0.125 million	9 June
	Sales of restricted securities in violation of lock-up agreements as required.	
Citigroup	$ 2 billion	10 June
	Settlement of a class-action lawsuit filed by investors who argue that Citigroup helped a faltering Enron Corp. disguise billions of dollars in debt.	
JPMorgan Chase	$ 2.2 billion	14 June
	Agreed to pay 2.2 billion to Enron investors who accused the bank of participating in the accounting scandal that led to Enron's collapse.	
Bank of America	$ 1.5 million	16 June
	To settle federal regulators' charges that they violated recordkeeping rules by failing to preserve e-mail messages.	
Wells Fargo	$ 34 million	11 August
	To settle allegations that it imposed improper credit card processing charges.	
JPMorgan Chase	$ 350 million	16 August
	To settle claims over the role it played in the fraud that led to the collapse of Enron.	
JPMorgan Chase	$ 0.1 million	20 September
	Failing to file official statements from municipal bond offerings.	
Wells Fargo	$ 3 million	19 December
	For suitability and supervisory violations.	

2006		
JPMorgan Chase	$ 425 million	20 April
	To settle its part of a class-action lawsuit that contends that dozen of banks cheated investors out of hundreds of million of dollars from IPOs during the 1990s market boom.	

2006		
Goldman Sachs, Citigroup, Bear Stearns, Lehman Brothers, Merrill Lynch, JPMorgan Chase and Morgan Stanley	$ 13 million in total	1 June
	Settlement of claims that they favoured some customers in the $ 200 billion market for auction-rate bonds.	
Citigroup	$ 0.775 million	17 July
	Fined for deficient price target, ratings and other disclosures in research reports.	
Citigroup	$ 1.1 million	10 August
	Fined for failing to prevent brokers' submission of false information.	
Bank of America	$ 7.5 million	27 September
	Settlement of a money laundering suit.	
Wells Fargo	$ 12.8 million	6 October
	To settle a class-action lawsuit that claimed some workers were improperly exempted from overtime pay.	
Citigroup	$ 0.85 million	16 October
	Fined by the NASD for supervisory, recordkeeping, telemarketing and other violations.	
JPMorgan Chase	$ 2.2 million	22 November
	To settle claims that the company's Bank One unit discriminated against hundreds of employees on long-term medical leave.	
Citigroup, Bank of America, JPMorgan Chase, Wachovia and 35 other banks	$ 255 million in total	9 December
	Settle a lawsuit with the investors in Adelphia Communications, the bankrupt cable television company. The amount each bank owed was confidential.	
Citigroup, JPMorgan Chase and other defendants	$ 4.5 million	28 December
	To settle any liability related to the fraud that destroyed Enron five years ago.	

2007		
Bank of America	$ 0.55 million	16 January
	Fined by the NYSE Regulation because of the violation of the so-called 'firm quote' rule.	
Goldman Sachs	$ 0.6 million	16 January
	Fined by the NYSE Regulation because of the violation of the so-called 'firm quote' rule.	
Bank of America	$ 3 million	29 January
	Failing to comply with anti-money laundering rules in connection with high-risk accounts.	
Goldman Sachs	$ 2 million	14 March
	To settle 'naked' short-selling case.	
Bank of America	$ 26 Million	15 March
	To settle charges that its securities published fraudulent research reports on companies and failed to prevent leaks of reports that were used for improper trading.	
Wells Fargo	$ 6.8 million	26 April
	Settle a class-action lawsuit accusing it of improper nonprime mortgage lending practices.	
Citigroup	$ 15 million	6 June
	Fined by the NASD to settle charges related to misleading documents and inadequate disclosure in retirement seminars and meetings for BellSouth Corp.	
Wells Fargo	$ 0.25 million	28 June
	For failing to disclose in a research report that an analyst had taken a job with the company she was recommending.	
JPMorgan Chase	$ 0.5 million	13 December
	Failing to disclose payments to consultants to obtain numerous municipal securities offerings.	

2008		
Goldman Sachs	$ 11.5 million	5 February
	Settlement in Enron securities lawsuit.	

2008		
Citigroup	$ 1.66 billion	25 March
	Agreed to pay 1.66 billion to creditors of Enron who lost money when the energy trader collapsed in 2001.	
Citigroup	$ 33 million	4 April
	To settle a gender-discrimination lawsuit.	
Citigroup	$ 100 million	8 August
	To settle claims that the bank misled investors to buy auction-rate securities.	
JPMorgan Chase	$ 25 million	14 August
	To settle claims that the bank misled investors to buy auction-rate securities.	
Goldman Sachs	$ 22.5 million	21 August
	Settlement with state regulators for telling investors that auction-rate debt was as safe and liquid as cash.	
Citigroup	$ 18 million	26 August
	Settlement of accusations that it wrongly took funds from accounts of credit card customers.	
Citigroup	$ 0.3 million	13 December
	Failing to supervise commissions charged to customers on stock and option trades.	

2009		
Goldman Sachs	$ 5 million	4 March
	Settlement of SEC's charges that it systematically cheated their costumers of millions of dollars by improperly slicing bits of profit from countless trades.	
Citigroup	$ 2 Million	17 March
	Fined for range of trade reporting violations.	
JPMorgan Chase, Goldman Sachs, Morgan Stanley, Credit Suisse, Bear Stearns, Lehman Brothers, AIG and others.	586 million in total	1 April
	To resolve litigation over claims of fraud in the pricing of IPOs in the late 1990s.	

2009		
Citigroup	$ 1.72 million	15 April
	To settle allegations that it misled clients into thinking that the auction-rate securities they were buying were liquid like cash.	
Goldman Sachs	$ 60 million	11 June
	Settlement as part of a state investigation into subprime lending.	
Wells Fargo	$ 40 million	9 July
	To settle claims that employees misled investors about the value and safety of certain securities during the financial crisis.	
Bank of America	$ 33 million	3 August
	Misleading investors about billions of dollars in bonuses that were paid to Merrill Lynch executives at the time of the acquisition of the firm.	
Citigroup	$ 0.425 million	22 September
	Supervisory failures in Vonage IPO.	
JPMorgan Chase, Bear Stearns, Morgan Stanley and Credit Suisse Group	$ 100 million in total	10 October
	To settle a lawsuit over their roles in the bankruptcy of a Philadelphia mortgage lender.	
Citigroup	$ 0.6 million	12 October
	Failing to supervise tax-related stock transactions.	
JPMorgan Chase	$ 0.664 million	24 October
	To settle allegations that it misled clients into thinking that the auction-rate securities they were buying were liquid like cash.	
JPMorgan Chase	$ 75 million	3 November
	Company had made unlawful payments to friends of Jefferson County's commissioners in a scheme to win lucrative business from the county to sell bonds and trade in derivatives.	
Wells Fargo	$ 1.9 million	18 November
	Misleading clients by falsely assuring them that auction rate securities were a safe, liquid alternative to cash, certificates of deposit or money market funds.	

2010		
Wells Fargo	$ 160 million	17 March
	Wachovia Bank, a unit of Wells Fargo, has agreed to pay to settle accusations that it laundered Mexican drug money.	
Citigroup	$ 0.65 million	6 April
	Fined for direct borrow program deficiencies.	
Citigroup	$ 1.5 million	26 May
	Supervisory failures related to elaborate scheme to misappropriate millions in trust funds belonging to cemeteries.	
JPMorgan Chase	$ 48.6 million	3 June
	Fined by the financial regulator in the UK for failing to keep client funds separate from the firm's money.	
Goldman Sachs	$ 550 million	15 July
	Settlement with the SEC concerning materially misstated and omitted facts in disclosure documents for a synthetic CDO product (Abacus 2007-AC1).	
Citigroup	$ 75 million	29 July
	Settlement of civil charges that it had misled investors over potential losses from high-risk mortgages.	
Bank of America	$ 108 million	2 August
	Countrywide Financial, acquired by Bank of America, agreed to pay 108 million to settle federal charges that the company overcharged customers who were struggling to hang onto their homes.	
Bank of America	$ 600 million	3 August
	Countrywide Financial, acquired by Bank of America, agreed to pay 600 million to settle shareholder lawsuits in the largest payout so far from the mortgage crisis.	
Wells Fargo	$ 203 million	9 August
	The bank manipulated debit-card transactions without their knowledge to increase revenue from overdraft fees.	

2010		
Bank of America	$ 150 million	1 September
	Settlement between the SEC and BoA related to the acquisition of Merrill Lynch.	
Goldman Sachs	$ 27 million	8 September
	Fined by the British securities regulator for not disclosing the SEC's inquiry into the synthetic CDO (Abacus).	
Bank of America, Citigroup, JPMorgan Chase, Wells Fargo and more than 20 other banks	$ 175 million	22 October
	To settle a suit with legal trust pursuing claims on behalf of bankrupt Adelphia Communications Corp.	
Goldman Sachs	$ 0.65 million	9 September
	Failing to disclose Wells notices.	
Wells Fargo	$ 100 million	20 November
	Paid to Citigroup to resolve claims that it had unfairly wrestled Wachovia out of Citi's hands.	
Bank of America	$ 137 million	7 December
	To settle charges from the SEC and state and federal authorities related to its participation in a bid-rigging scheme in the municipal securities markets as a part of a continuing federal investigation.	

2011		
Bank of America	$ 410 million	23 May
	To settle its piece of a broad lawsuit involving excessive overdraft fees on debit cards.	
Bank of America	$ 20 million	26 May
	Settlement of federal complaints that they (Countrywide Financial) wrongfully foreclosed on the homes of military service members (most of the foreclosures began before Bank of America acquired Countrywide).	

2011		
Wells Fargo	$ 11.2 million	4 April
	Selling certain mortgage-backed securities while they knew they were worth far less than face value.	
Goldman Sachs	$ 10 million	9 June
	Agreed to pay a $ 10 million fine and stop holding private meetings of stock analysts and traders known as 'huddles' to settle an investigation by Massachusetts's chief securities regulator.	
JPMorgan Chase	$ 153.6 million	20 June
	To settle federal civil accusations that it misled investors in a complex mortgage securities transaction in 2007, just as the housing market was beginning to plummet.	
Bank of America	$ 8.5 billion	28 June
	To settle claims from investors about purchased mortgage securities.	
JPMorgan Chase	$ 211 million	6 July
	To resolve allegations that it cheated governments in 31 states by rigging the bidding process for reinvesting the proceeds of dozens of municipal bonds.	
Wells Fargo	$ 125 Million	7 July
	To settle a lawsuit over the sale of mortgage pass-through certificates.	
Wells Fargo	$ 85 million	20 July
	To settle civil charges that it falsified loan documents and pushed borrowers toward subprime mortgages with higher interest rates during the housing boom.	
Wells Fargo	$ 590 million	5 August
	To settle accusations that Wachovia, acquired by Wells Fargo, made misleading disclosures relating to the sale of securities between 2006 and 2008.	
Citigroup	$ 0.5 million	9 August
	Failing to supervise a sales assistant who misappropriated customer funds.	

2011		
JPMorgan Chase	$ 88.3 million	24 August
	Settlement with the Treasury Department over a series of transactions involving Cuba, Iran and Sudan.	
Citigroup	$ 0.77 million	3 October
	Hong Kong's regulator has fined Citigroup for failing to report a Ponzi scheme involving one of its former employees.	
Citigroup	$ 285 million	18 October
	Settlement of the SEC's charges that it defrauded investors who bought toxic housing-related debt that the bank believed would fail.	
Wells Fargo	$ 37 million	7 November
	Accused of rigging the bidding competition for business from state and local governments.	
Wells Fargo	$ 0.3 million	22 November
	Use of misleading marketing materials for REIT offering.	
Wells Fargo	$ 75 million	2 December
	To settle a class-action lawsuit brought by stock-holders who claimed Wachovia misrepresented the quality of its mortgages from 2006 to 2008.	
Bank of America	$ 315 million	6 December
	To settle claims by investors that they were misled about mortgage-backed investments sold by its Merrill Lynch unit.	
Wells Fargo	$ 148 million	7 December
	Settlement of charges that Wachovia Bank, now part of Wells Fargo, reaped millions of dollars in profits by rigging bids in the municipal securities market.	
Goldman Sachs	$ 10 million	14 December
	To settle claims over its handling of hedge-fund trading in the Arthur Nadel Ponzi Scheme.	

2011		
Wells Fargo	$ 2 million	15 December
	Unsuitable sales of reverse convertibles to elderly customers and failure to provide breakpoints on UIT sales.	
Bank of America	$ 335 million	20 December
	To settle allegations that its Countrywide Financial unit discriminated against black and Hispanic borrowers during the housing boom.	

2012		
Goldman Sachs	$ 1 Million	11 January
	To settle a suit brought by a group of computer technicians who said they weren't paid overtime for their work as contractors.	
Citigroup	$ 0.725 Million	18 January
	Fined for failure to disclose conflicts of interest in research reports and public appearances by research analysts.	
Wells Fargo	$ 75 Million	27 January
	Settlement of class-action lawsuit against Wachovia, acquired by Wells Fargo, over mortgage loans.	
JPMorgan Chase	$ 110 Million	6 February
	To settle consumer litigation accusing it of charging excessive overdraft fees.	
Citigroup, Bank of America, Wells Fargo, JPMorgan Chase & Ally Financial (the old GMAC).	$ 25 Billion	6 February
	Settlement with the government to end a nationwide investigation of abusive foreclosure practices stemming from the collapse of the housing bubble.	
Bank of America	$ 164 Million	9 February
	Settlement with the Office of the Comptroller of the Currency (OCC) on civil money penalties in connection with the unsafe and unsound mortgage servicing and foreclosure practices that were subject to comprehensive cease and desist orders issued by the OCC in April 2011.	

2012		
JPMorgan Chase	$ 113 Million	9 February
	Settlement with the OCC on civil money penalties in connection with the unsafe and unsound mortgage servicing and foreclosure practices that were subject to comprehensive cease and desist orders issued by the OCC in April 2011.	
Wells Fargo	$ 83 Million	9 February
	Settlement with the OCC on civil money penalties in connection with the unsafe and unsound mortgage servicing and foreclosure practices that were subject to comprehensive cease and desist orders issued by the OCC in April 2011.	
Citigroup	$ 34 Million	9 February
	Settlement with the OCC on civil money penalties in connection with the unsafe and unsound mortgage servicing and foreclosure practices that were subject to comprehensive cease and desist orders issued by the OCC in April 2011.	
Citigroup	$ 158 Million	15 February
	To settle US civil claims that it defrauded the government into insuring thousands of risky home loans by its CitiMortgage unit.	
JPMorgan Chase	$ 45 Million	13 March
	To settle a lawsuit alleging it charged veterans hidden fees in mortgage refinancing.	
Goldman Sachs	$ 7 Million	13 March
	Settlement with the CFTC over charges that it failed to diligently supervise activity in trading accounts.	
Citigroup	$ 1.248 Million	19 March
	Fined for charging excessive markups and markdowns on corporate and agency bond transactions and for related supervisory violations. Note: the fine was 0.6 million; the remaining $ 0.648 million was paid as restitutions to clients.	
JPMorgan Chase	$ 20 Million	4 April
	Civil monetary penalty to settle CFTC charges of unlawfully handling customer segregated funds.	

2012		
Goldman Sachs	$ 22 Million	12 April
	Fined by the SEC for failing to supervise equity research analysts' communications with traders and clients and for failing to adequately monitor trading in advance of published research changes to detect and prevent possible information breaches by its research analysts.	
Wells Fargo	$ 2.741 Million	1 May
	Fined for selling leveraged and inverse ETFs without reasonable supervision and for not having a reasonable basis for recommending the securities. Note: the fine was $ 2.1 million; the remaining 0.641 million was paid as restitutions to clients.	
Citigroup	$ 2.146 Million	1 May
	Fined for selling leveraged and inverse ETFs without reasonable supervision and for not having a reasonable basis for recommending the securities. Note: the fine was $ 2 million the remaining $ 0.146 million was paid as restitutions to clients.	
Citigroup	$ 3.5 Million	22 May
	Fined for providing inaccurate performance data related to subprime securitizations.	
Bank of America	$ 2.8 Million	21 June
	Bank of America's Merrill Lynch wealth-management unit was fined for overbilling customers over an eight-year period.	
Goldman Sachs	$ 30 Million	28 June
	Settlement of a legal dispute that originated from a multimillion-dollar breach of contract and fraud lawsuit.	
Wells Fargo	175 Million	12 July
	To settle accusations that its independent brokers discriminated against black and Hispanic borrowers during the housing boom.	

2012		
Bank of America	$ 375 Million	17 July
	To settle a case brought by Syncora Guarantee over toxic mortgage-backed securities during the 2008 crisis. Syncora said it was duped into insuring the mortgage-backed securities and that the quality of the underlying mortgages was misrepresented.	
JPMorgan Chase	$ 100 Million	24 July
	To settle litigation by credit card customers who accused the bank of improperly boosting their minimum payments as a means to generate higher fees.	
Goldman Sachs	$ 26 Million	31 July
	To settle a lawsuit brought by investors in a mortgage-backed securities offering, where the bank did not conduct proper due diligence.	
Wells Fargo	$ 6.58 Million	14 August
	To settle civil charges alleging it sold complex mortgage-backed instruments to municipalities and non-profits during the financial crisis without fully disclosing the risks.	
Citigroup	$ 590 Million	29 August
	To settle a shareholder lawsuit accusing the bank of failing to disclose fully its exposure to toxic mortgage products in the run-up to the financial crisis.	
Citigroup	$ 0.525 Million	21 September
	Fined by the CFTC for exceeding speculative position limits in wheat futures contracts.	
Goldman Sachs	$ 12 Million	27 September
	To settle charges that one of its former bankers worked on the campaign of a politician in Massachusetts in the US while trying to win business from the state.	
JPMorgan Chase	$ 0.6 Million	27 September
	Penalty for violating cotton futures speculative position limits.	

2012		
Bank of America	$ 2.43 Billion	28 September
	To settle a class-action lawsuit related to its acquisition of Merrill Lynch at the height of the financial crisis. The bank was accused of providing false and misleading statements about the health of the firm, which, unknown to the public, was racking up huge losses in late 2008 amid turmoil in the markets.	
Goldman Sachs	$ 6.75 Million	8 October
	To settle allegations it improperly marked trading orders that may have allowed some traders to execute their orders ahead of others.	
Citigroup	$ 2 Million	26 October
	Fined for leaking confidential information about Facebook IPO to a popular tech blog. The employee who did this was fired.	
JPMorgan Chase	$ 417 Million	16 November
	Settlement with the SEC over packaging and sale of troubled mortgage securities to investors.	
Goldman Sachs	$ 1.5 Million	7 December
	To settle charges it failed to supervise its traders and that it allowed one futures dealer to hide billions in dollars from sight and causing a $ 118 million loss.	
Citigroup	$ 1.279 Million	27 December
	Fined for unfairly obtaining the reimbursement of fees they paid to the California Public Securities Association from the proceeds of municipal and state bond offerings. Note: the fine was 0.888 million; the remaining 0.391 million was paid out as restitutions to clients.	
Goldman Sachs	$ 0.684 Million	27 December
	Fined for unfairly obtaining the reimbursement of fees they paid to the California Public Securities Association from the proceeds of municipal and state bond offerings. Note: the fine was 0.568 million; the remaining 0.116 million was paid out as restitutions to clients.	

2012		
JPMorgan Chase	$ 0.632 Million	27 December
	Fined for unfairly obtaining the reimbursement of fees they paid to the California Public Securities Association from the proceeds of municipal and state bond offerings. Note: the fine was 0.465 million; the remaining 0.167 million was paid out as restitutions to clients.	

2013		
Bank of America	$ 10.3 Billion	7 January
	Settlement with Fannie Mae to deal with questionable home loans it sold to the government-backed mortgage financer during the housing bubble. The bank will pay 3.55 billion in cash to Fannie Mae and it will also purchase 30,000 questionable mortgages for 6.75 billion that are likely to produce losses.	
Bank of America	$ 2.9 Billion	7 January
	Settlement for deficient practices on mortgage servicing and processing, improper fees, wrongful denial of modification and the robo-signing scandal (the practice of assigning bank employees to rapidly approve numerous foreclosures with only cursory glances at the glut of paperwork to determine if all the documents are in order).	
Wells Fargo	$ 1.97 Billion	7 January
	Settlement for deficient practices on mortgage servicing and processing, improper fees, wrongful denial of modification and the robo-signing scandal.	
JPMorgan Chase	$ 1.95 Billion	7 January
	Settlement for deficient practices on mortgage servicing and processing, improper fees, wrongful denial of modification and the robo-signing scandal.	

2013		
Citigroup	$ 794 Million	7 January
	Settlement for deficient practices on mortgage servicing and processing, improper fees, wrongful denial of modification and the robo-signing scandal.	
Goldman Sachs	$ 330 Million	7 January
	Settlement for deficient practices on mortgage servicing and processing, improper fees, wrongful denial of modification and the robo-signing scandal.	
Goldman Sachs	$ 330 Million	16 January
	To settle a federal probe into allegations that the bank improperly seized homes.	
Citigroup	$ 730 Million	19 March
	To settle claims that it misled debt investors about its condition during the financial crisis.	
JPMorgan Chase	$ 546 Million	20 March
	Settlement in the MF Global dispute.	
Bank of America	$ 1 Million	16 April
	Fined Bank of America's Merrill Lynch in a civil action for not getting the best execution price customer transaction involving non-convertible preferred securities and failing to properly supervise the process.	
Bank of America	$ 500 Million	17 April
	Settlement with investors who claimed they were misled by its Countrywide unit into buying risky mortgage debt.	
JPMorgan Chase	$ 4.5 Million	23 May
	Fined by the UK markets regulator for failing to keep up-to-date records of clients and lacking risk and compliance controls.	

2013		
Citigroup	Unknown	28 May
	Settlement with a federal agency that had accused the bank of misleading Fannie Mae and Freddie Mac into buying $ 3.5 billion of mortgage-backed securitises. Settlement was 'satisfactory' according to the FHFA, but declined to say how much the bank would pay.	
Bank of America	$ 0.9 Million	4 June
	Fined for losses incurred from unsuitable sales of floating-rate bank loan funds.	
Wells Fargo	$ 1.25 Million	4 June
	Fined for losses incurred from unsuitable sales of floating-rate bank loan funds.	
Citigroup	$ 968 Million	1 July
	To settle claims that Citi sold faulty mortgages to Fannie Mae.	
JPMorgan Chase	$ 410 Million	30 July
	To settle US Federal Energy Regulatory Commission allegations that the bank manipulated power markets and enriched itself at the expense of consumers.	
JPMorgan Chase	$ 23 Million	16 August
	To settle a lawsuit accusing it of mishandling money of pension funds and other clients by investing it in notes from Lehman Brothers, which later went bankrupt.	
Bank of America	$ 160 Million	28 August
	Bank of America's Merrill Lynch settled a class-action race discrimination lawsuit.	
Bank of America	$ 39 Million	8 September
	To settle claims of gender bias by women in its Merrill Lynch brokerage division.	
JPMorgan Chase	300 Million	9 September
	Settlement to resolve accusations that they forced homeowners into overpriced property insurance and entered into kickback arrangements that inflated the policies' prices.	

2013		
Wells Fargo	$ 869 Million	1 October
	To resolve disputes over faulty loans sold to the government-backed firm before 1 January 2009.	
JPMorgan Chase	$ 920 Million	20 September
	JPMorgan Chase, settling US and UK probes of a $ 6.2 billion trading loss, agreed to pay 920 million in penalties and admitted violating securities laws last year as top managers withheld information from the board.	
Citibank	$ 395 Million	25 September
	Agreed to pay $ 395 million to Freddie Mac as part of a settlement over defective mortgages sold to the government-controlled home-loan financier, the bank said Wednesday.	
JPMorgan Chase	$ 13 Billion	26 October
	To settle Federal Housing Finance Agency claims related to home loans and mortgage-backed securities the company sold to Fannie Mae and Freddie Mac. And misleading investors over bundling subprime mortgages into bonds before the financial crisis.	
Bank of America	$32 Million	30 September
	To settle charges about harassing debt collection calls to customers' cell phones.	
Citibank	$30 Million	3 October
	One of Citibank's analysts had improperly sent confidential research on an Apple supplier to big clients.	
J.P. Morgan Chase	$100 Million	16 October
	Paid to CFTC on conceding that 'reckless' behavior led to the trading debacle that generated about $6 billion in losses.	
Wells Fargo	$335 Million	6 November
	Settlement over claims that it had misled certain investors in the banks mortgages bonds.	

2013		
Bank of America	$864 Million	9 November
	Liable for fraud over defective mortgages sold by its Countrywide unit.	
J.P. Morgan Chase	$13 Billion	19 November
	To settle investigations into its mortgage-backed securities.	
Bank of America	$404 Million	2 December
	Settlement with Freddie Mac to resolve all residential mortgage repurchase agreements and other claims related to loans sold from 2000 to 2009.	
J.P. Morgan Chase	$108 Million	4 December
	For manipulating European and Japanese benchmark interest rates.	
Citibank	$95 Million	4 December
	For manipulating European and Japanese benchmark interest rates.	
Bank of America	$131.8 Million	12 December
	To settle charges it misled investors about mortgage backed securities it structured and sold.	
Citibank	$0.75 Million	13 December
	Fined for breaches of liquidity reporting rules	
Bank of America	$39 Million	27 December
	Settlement of a gender discrimination lawsuit by female brokers over objections that the accord would enshrine bias on Wall Street.	
Wells Fargo	$541 Million	30 December
	To settle claims that it sold defective mortgages to Fannie Mae.	

2014		
J.P. Morgan Chase	$2.6 Billion	7 January
	To settle allegations it failed to inform US authorities of suspicious activity by Bernard Madoff.	

2014		
J.P. Morgan Chase	$1.45 Million	4 February
	To settle a sex discrimination lawsuit that says the bank maintained a 'sexually hostile work environment' toward its female mortgage bankers.	
Citigroup	$110 Million	6 February
	For homeowners who were forcibly charged expensive property insurance premiums.	
Citigroup	$1.1 Million	18 March
	For illegal short selling in advance of five IPOs and for relation supervisory violations.	
Bank of America	$9.3 Billion	26 March
	To settle claims that it sold Fannie Mae and Freddie Mac faulty mortgage bonds.	
J.P. Morgan Chase	$2.9 Million	31 March
	Failed to properly register numerous sales assistants across the country and failed to maintain records identifying persons taking orders from customers.	
Goldman Sachs	$51.4 Million	2 April
	Fined by EU anti-trust regulators for running a cartel. This power cable cartel ran for almost 10 years (Goldman Sachs had bought an Italian cable company through its private equity fund).	
Citigroup	$1.1 Billion	7 April
	Settlement with a group of investors over repurchase claims on mortgage backed securities.	
Bank of America	$727 Million	9 April
	To settle allegations it misled customers when marketing credit card products promising to protect consumers against identify theft and job loss.	
J.P. Morgan Chase	$280 Million	5 May
	To resolve claims that it misled investors in billions of dollars' worth of mortgage-backed securities.	

2014		
Wells Fargo	$62.5 Million	29 May
	To settle claims from a group of institutional investors that the bank improperly advertised a risky securities lending programs as safe.	
Goldman Sachs	$1 Million	4 June
	Failed to provide complete and accurate information about trades performed by Goldman Sachs and their customers to regulators.	
Goldman Sachs	$67 Million	12 June
	To settle claims it cheated investors by suppressing competition in some of the biggest deals of the LBO boom before the financial crisis.	
Goldman Sachs	$0.8 Million	1 July
	Failed to have reasonably designed written policies and procedure sin place to prevent trade-throughs of protected quotations in NMS stocks in connection with trading in its proprietary alternative trading system, SIGMAX.	
Citigroup	$7 Billion	14 July
	To settle a federal investigation into the mortgage securities the bank sold in the run-up to the financial crisis.	
Bank of America	$16.6 Billion	20 August
	To settle US mortgage securities probe stemming from mortgage backed securities it sold to investors that in part led to the financial crisis.	

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