

Going to the Roots of the Problem (PART 1 of 4)

Wednesday, February 24, 2010 - by Dr. Edwin Vieira, Jr.

Edwin Vieira, Jr.

The following is an expanded version of an address I was asked to present recently. The subject is “radical”, in the sense that it digs down to the roots of the problem. But for that very reason it needs airing. Therefore, I put it out here for general consumption, and perhaps consternation. Please add it to the “I told you so” folder in your “favorites” list.

Once upon a time, not so very long ago, a certain nation was one of the richest countries in the world. [World War II] had left it a creditor nation; it was owed * * * billion[s of] dollars by Britain alone. The derelict state of the European economies gave [this country] an assured market for its exports, while making it difficult to import much from Europe, thus enabling th[is] country to protect its own * * * industries. After the neglect of the thirties there was money for public spending and the country was * * * absorbing a flow of immigrants * * * [who] were not illiterate and unskilled, but scientists, skilled workers, intellectuals.

What country was this? The United States? No-Argentina. [1]

The whole world knows what has happened in Argentina since then, and is still happening there. Informed individuals also know why: because Argentina’s dysfunctional leadership classes adopted faulty economic and political principles. Moreover, Americans can expect much the same thing to happen here, if the same conditions precedent are fulfilled. For although

History may never repeat itself exactly, bad principles will bring about similar perverse consequences whenever and wherever they are put into operation. And America's equally dysfunctional leadership classes have adopted the most dangerous of those principles. So, absent a radical correction in this country's present course, the Argentina-ization of the United States is very likely to take place.

As in Argentina, America's present economic and political systems are controlled by arrogant men and women steeped in avarice and ambition, and driven by their appetites for abusive power. The lyric by Enrique Santos Discepolo, master composer of the tango, sums up the situation here just as it did in postwar Buenos Aires:

Don't you see, you poor fool, that whoever's got the most dough is right?
That honor's sold for cash, and morals for pennies? That no truth can
withstand two bucks? [2]

Simply put: *Greed, accompanied by every manner of chicanery, both economically in the marketplace and politically in public office, has become this country's one and only "hard currency".*

Nowhere does this appear more starkly than in the political arena. Contemporary politicians recognize no limits to their raw power. Observe that I do not say their "authority" - because to the extent that they act outside of the Constitution, they have no legal authority whatsoever (and, in the strictest sense, no power, either). Yet most of them do imagine themselves entirely outside of the Constitution - at least in terms of the constraints it imposes on them when they act under color of law in the

guise of “government”. Indeed, they openly express their disdain for the Constitution. For instance, recently, Speaker of the House of Representatives Nancy Pelosi was asked at a press conference where in the Constitution Congress finds authorization to enact national health-care legislation. Her response was, “Are you serious? Are you serious?” No one asked whether she was serious - because, of course, everyone knew that she was.

That Representative Pelosi was quite serious is as disturbing as it is revealing. For the Constitution explicitly commands that public officials “shall be bound by Oath or Affirmation, to support this Constitution”. [3] So, every time that officials treat constitutional limitations on their prerogatives as some kind of contemptible joke, they are in effect committing perjury. Yet America is saddled with governments, at every level, comprised largely of individuals for whom the willingness to commit serial perjury in furtherance of their own selfish interests appears to be a condition of obtaining and operating within public office.

Inasmuch as “Oath[s] or Affirmation[s], to support th[e] Constitution” are ultimately made to the American people as a whole, these rogue public officials plainly feel no sense of legal or moral obligation to the people. Doubtlessly they are strengthened in this malign conviction by their belief that the electoral system is so tightly controlled by the two major political parties and their clients and partisans in special-interest groups and the big media that the people can do nothing to change the situation in any event. In this belief, however, they are woefully mistaken.

Political loyalties move on a two-way street. Masses of economically deprived, socially dislocated, and politically disenfranchised, disgruntled, and disgusted people - who have next to nothing left and therefore almost nothing more to lose - are unlikely to entertain any obligation to the political system under which they happen to live, or to the political parties, politicians, and special-interest groups that run that system for their own parochial benefit. When America's economy slips into the free-fall of hyperinflation or depression, impoverished people will rebel. First, against ever-worsening conditions, by demanding that public officials correct the situation. Then, when their protests accomplish little or nothing, they will rebel against incumbent officials at the next election. Finally, when they discover that the two major political parties are really one party with an empty cranium and a pair of duplicitous faces, and that changing the political personalities in office does not ameliorate the conditions that arise out of the government's hare-brained economic policies, they will rebel against this country's A general disdain for legality will become the order of the day. *After all, if public officials refuse to obey the Constitution, which is the sole source of their authority, what obligation has anyone else to obey any law that those officials enact or attempt to enforce?* Now, as many as 200,000,000 to 300,000,000 firearms and an immense store of ammunition are estimated to be held in private hands throughout this country. Can anyone believe that, in the midst of what promises to become the most severe economic crisis of modern times, perhaps of all time, this profusion of armaments - in the hands of people who have been rudely stripped of their financial security, disabused of their political illusions, and driven to the edge of desperation by homelessness, hunger, and loss of hope - will not come into play in the most direct manner possible? Can anyone believe

that these people's natural and justified antagonisms against public officials, politicians, and special-interest groups will not turn to rancor - rancor to hatred - hatred to an urge for revenge - and an urge for revenge into actual violent retaliation in more than a few isolated instances and in only a short period of time? Of course, no sensible person wants this to happen. But no sensible person can deny that it could, and very likely would, happen under the posited circumstances.

One can only speculate as to how widespread and intense such violent reactions could become in the course of a catastrophic economic collapse throughout the United States. The circumstances that provoked previous episodes of mass violence in America, however, pale in comparison to what should be expected from hyperinflation or depression today. For instance:

During the six days of the so-called "Watts Riots" of 1965 in Los Angeles, California, over 30,000 adults took to the streets as rioters, 34 people were killed, 1,100 were injured, and upwards of \$100 million worth of property, including some 1,000 buildings, was destroyed, looted, vandalized, or otherwise damaged. The riots were triggered by an altercation incident to a simple arrest for alleged drunk driving - but their suppression required more National Guardsmen and police than the total of American Armed Forces personnel whom President Lyndon Johnson deployed to take over the entire Dominican Republic in that same year. And suppression of the rioters did not address, let alone alleviate, the riots' underlying causes, which were chronic in the community - including such socio-economic problems as high unemployment, substandard living conditions, and a lack

of adequate public education, together with political grievances linked to institutionalized racial discrimination in the city.

In the Los Angeles riots of 1992, again the triggering event was relatively trivial - the questionable acquittal of three local police officers on charges of using excessive force to make an arrest. [4] Within hours of the “not guilty” verdicts, rioting broke out and then continued for three days, with live television coverage of arson, assaults, looting, and vandalism by rioters, and suppression of the disturbances by National Guardsmen and police, being broadcast nationwide. Overall, 50 people were killed; more than 4,000 were injured; and some \$1 billion worth of property was destroyed or damaged.

These events teach certain lessons that Americans would be imprudent to imagine do not apply to themselves today:

First, each of the riots in Los Angeles erupted over a relatively minor event - but one which people on the spot linked to long-standing, widespread, and serious animosities derived from social, economic, and political grievances that public officials had failed, neglected, or refused to address. In the course of a major nationwide economic collapse, such events - and many much more serious - will be quotidian and legion.

Second, the Los Angeles rioters obviously believed that mass violence could and should be employed as a justifiable form of political activism, when nothing else worked. In this, one might note, they were in rough agreement with the men who wrote the Declaration of Independence. And the timeless wisdom of the Declaration - that “mankind are more disposed

to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed”, but that “when a long train of abuses and usurpations * * * evinces a design to reduce the[People] under absolute Despotism, *it is their right, it is their duty, to throw off such Government*” - will surely gain many more adherents as insufferable economic catastrophe, caused by the nincompoops in the General Government, sweeps across America.

Third, probably very few of the participants (other than perhaps adventitious *semi*-professional looters) expected to gain anything in terms of significant personal profit or meaningful social betterment as a consequence of the upheavals in Los Angeles. Most of the rioters could never have expected the riots to bring about any specific political reforms, but instead engaged in them simply as a staging of anguished, despairing, and defiant political street-theater, the value of which inhered in the unmitigated violence through which the dialogue was communicated to a national audience. People who find themselves in dire economic straits throughout America tomorrow may also be expected to turn to the red-curtained drama of mass violence in order to “send a message” across the footlights. This message, however, will not be sent from a very small part of the country to the rest of it, but from the entire country to the very small part that constitutes the failed economic and political leadership classes. So the level of violence will be far greater, and its focus far narrower and much sharper.

Fourth, although the territory in which they broke out was limited in extent, the riots in Los Angeles were so severe that they could not be put down with only the local police forces available, but instead required deployment

of the regular Armed Forces (in the form of the National Guard). Major civil disturbances throughout the entire length and breadth of the United States will render this country ungovernable in short order, even if the entire National Guard were mobilized and none of it defected to the popular side.

Fifth, although those in positions of political power eventually suppressed the Los Angeles rioters with armed force, the cost was exceedingly high in relation to what might have been the bill for nonviolently correcting the worst of the underlying conditions that had spawned the people's grievances before those grievances finally took shape in destructive rebellion. Today, even worse shortsightedness is evident. For *nothing* is being done by the political and economic leadership classes to lift the crushing burden of debt - much of it unconstitutionally incurred in the first place - from the American people's shoulders. Instead, more and more debt is being shoveled into the national account - eventually to be billed to common people through taxation and inflation - precisely in order to "bail out" the very institutions and individuals responsible for the present financial mess.

Sixth, the rioters in 1965 and 1992 were neither organized nor disciplined; and although some were armed, no *concerted and systematic* use of arms throughout the disaffected communities occurred. Neither did the rioters attempt to extend their violence into other areas, so as to attack the people they considered their oppressors in those people's own neighborhoods. Under similar circumstances in the near future, this almost certainly will not be the case. And,

Seventh, in general, the more extensive the underlying socio-economic dislocations, and the more callous the disregard for these problems exhibited by the political apparatus, the more likely the eruption of mass violence that the perpetrators will rationalize as their only effective means to protest, broadcast, and redress their grievances with petitions written in the harsh language of destruction. Which augurs ill for the present time, inasmuch as no one can believe that the socio-economic problems that underlay the riots in 1965 and 1992 in Los Angeles alone were anything but minor in comparison to the dislocations that full-blown hyperinflation or depression - or even the run-ups to those conditions - will bring about in contemporary society throughout America.

Now, if Americans are to deal intelligently with this situation, they must understand the reasons for it. Basically, the reasons relevant here are that one vitally important constitutional principle has been flouted since 1913 and that another such principle is now being systematically disregarded.

The central economic problem plaguing this country since 1913 has been the presence of the Federal Reserve System. Without the Federal Reserve System's debt-currency scheme having effectively supplanted the constitutional monetary system based upon silver and gold, it would have been *impossible - not simply improbable, or difficult, but impossible* - for politicians in the public sector and speculators in the private sector to have amassed the staggering level of unpayable, unconstitutional, and unconscionable debt that now bears down upon this country.

The critical political problem now emerging is the absence of a proper "homeland-security" structure based on "the Militia of the several States",

which the Constitution itself declares to be “necessary to the security of a free State”. Instead of thoroughly organizing and preparing the American people at the State and Local levels to deal with economic and social crises by themselves and with their own resources, public officials are setting up a centralized *para*-military police-state apparatus, which in a major nationwide crisis will impose upon this country the very worst kind of “homeland insecurity” in the style of the East-European communist “people’s republics” of the 1950s.

These two problems are inextricably interlinked. The people in political and economic control in Washington, D.C., and New York City may be knaves; but they are not all fools. They know that the Federal Reserve System - indeed, any central-banking scheme that circulates instruments of debt as “currency” - is inherently unstable, and will eventually self-destruct. And they realize that, here in the United States, “eventually” is no longer far off. Either they do not want to replace the Federal Reserve System, or they do not know how to replace it (at least in time). In any event, they have decided to attempt to “manage” its ever-more-destructive effects and thereby somehow “muddle through” with their power, wealth, and social positions intact - and the staggering costs of saving themselves to be imposed on hapless common Americans.

A major breakdown of the monetary and banking systems will, to some degree or other, negatively impact upon *every* economic transaction and relationship everywhere throughout the United States. So the crisis will inevitably and inexorably entail social unrest on an immense scale. Even if most State and Local police forces are marginally adequate to deal with the unrest that arises within their own jurisdictions, they will need to be

coordinated in conformity with some overall national plan, so that a unified national effort can be made to stem the crisis. This will require a central apparatus of command and control. All the more so if State and Local police prove inadequate to the task. For which reason, more than any other, the Department of Homeland Security was originally created.

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Footnotes:

1 - Nicholas Fraser & Marysa Navarro, *Evita: The Real Life of Evita Perón* (New York, New York: W.W. Norton & Co., 1996), at 77

2 - Quoted in Robert D. Crassweller, *Perón and the Enigmas of Argentina* (New York, New York: W.W. Norton & Co., 1987) at 81

3 - U.S. Const. art. VI, cl. 3

4 - The underlying incident was the infamous beating of one Rodney King by four LAPD officers, an horrific videotape of which was aired repeatedly throughout the country.

Going to the Roots of the Problem (PART 2 of 4)

Thursday, February 25, 2010 - by [Dr. Edwin Vieira, Jr.](#)

Edwin Vieira, Jr.

In light of the self-evident dangers it poses to Americans' constitutional liberties, a nationwide network of police agencies centrally controlled from Washington, D.C., is bad enough. For if such a network is not itself a "national police state", it certainly provides the instrumental basis for one. Unfortunately, the deep thinkers in the "homeland-security" business are working feverishly to insinuate into their scheme not simply all civilian law-enforcement agencies throughout America, but also the regular Armed Forces. As a practical matter, this is arguably sensible (from their point of view), inasmuch as hyperinflation, depression, or hyperinflation coupled with depression will surely set off eruptions of mass violence beyond the capabilities of most if not all State and local police departments to put down, particularly in urban areas.

Anyone even randomly surfing the Internet these days will stumble upon overwhelming evidence of the antagonism and rancor already rising at a fever pitch among common Americans against the self-serving, self-perpetuating political and economic leaders whom they quite rightly believe to have sold them and their country down the river Styx. One can easily imagine how intense and irreconcilable this anger will become - and in what eruptions of mass violence it will manifest itself - in the course of a catastrophic collapse of the economy throughout the United States. Thus, the political leadership in Washington, D.C., and the economic string-pullers in New York City know that they stand on shaky ground today, and anticipate that their footing will become even less secure tomorrow. Moreover, they understand that when they can no longer depend upon the

good will of the people, they must be able to suppress collective manifestations of the people's ill will. To crush dissent of the intensity to be expected during a nationwide economic collapse will require vast numbers of "boots on the ground" - which explains the ever-mounting emphasis by officials in "homeland-security" agencies on involvement of the Armed Forces in domestic "peacekeeping".

Concerned Americans should pay serious attention, therefore, to a study prepared by Nathan Freier for the Strategic Studies Institute of the United States Army War College in November of 2008, entitled *Known Unknowns: Unconventional "Strategic Shocks" in Defense Strategy Development*. Under the heading "Violent, Strategic Dislocation Inside the United States" appears the following passage:

Widespread civil violence inside the United States would force the defense establishment to reorient priorities in extremis to defend basic domestic order and human security. * * * [U]nforeseen economic collapse, loss of functioning political and legal order, purposeful domestic resistance or insurgency * * * are all paths to disruptive domestic shock.* * * DoD might be forced by circumstances to put its broad resources at the disposal of civil authorities to contain and reverse violent threats to domestic tranquility. Under the most extreme circumstances, this might include use of military force against hostile groups inside the United States. Further, DoD would be, by necessity, an essential enabling hub for the continuity of political authority in a multi-state or nationwide civil conflict or disturbance.

A whole host of long-standing defense conventions would be severely tested. Under these conditions and at their most violent extreme, civilian

authorities, on advice of the defense establishment, would need to rapidly determine the parameters defining the legitimate use of military force inside the United States. Further still, the whole concept of conflict termination and/or transition to the primacy of civilian security institutions would be uncharted ground. [5]

These statements and their implications are disquieting. For example:

"Widespread civil violence inside the United States would force the defense establishment to reorient priorities in extremis to defend basic domestic order and human security."

But is not setting "priorities" with respect to "basic domestic order and human security" the prerogative and duty of the *civilian* political structure, and not of "the defense establishment"? If "the defense establishment" itself were "reorient[ing] priorities", then would not "the defense establishment" be effectively in charge?

"DoD might be forced by circumstances to put its broad resources at the disposal of civil authorities to contain and reverse violent threats to domestic tranquility."

But are not the "broad resources" of the Department of Defense already "at the disposal of civil authorities", under any and all circumstances? Does not the Constitution in Article I, Section 8, Clause 14 delegate to Congress the exclusive and plenary authority "[t]o make Rules for the Government and Regulation of the land and naval Forces"? And, that being so, how could the Department of Defense enjoy legal autonomy and discretion in this matter, such that it could be "forced" *only* "by circumstances", and not be

ordered to act by Congress *and required to obey*, irrespective of what the "circumstances" might be? Or do some people in "the defense establishment" envision their "broad resources" as ultimately subject only to their own independent command and control?

*"[U]nforeseen economic collapse, loss of functioning political and legal order, purposeful domestic resistance or insurgency * * * are all paths to disruptive domestic shock."*

But are any of these potential calamities really "unforeseen" at the present time? Certainly they are not unforeseeable, in light of the inherent instability and fragility of America's monetary and banking systems, and the questionable competence of and patent mismanagement by the people who all too often have been and remain in charge of them. In fact, is the sequence posited here not only perfectly foreseeable, but also actually foreseen *and even expected* in the not-so-distant future: namely, "economic collapse", followed by "loss of functioning political and legal order", followed by "purposeful domestic resistance or insurgency" that will serve as a pretext for domestic deployment of the Armed Forces?

"DoD would be, by necessity, an essential enabling hub for the continuity of political authority in a multi-state or nationwide civil conflict or disturbance."

But if the Department of Defense were truly "an essential enabling hub", then "the continuity of political authority" would be sustained primarily, if not solely, by military force. Under the Constitution, however, *military force can never be any*, let alone the "essential", source of "political authority". The *only* institutions of an even *quasi*-military nature to which the Constitution

explicitly assigns the authority and the responsibility "to execute the Laws of the Union" and "suppress Insurrections" are "the Militia of the several States", which are separate from and independent of the regular Armed Forces.

Moreover, what sort of catastrophe could cause "a multi-state or nationwide civil conflict" so grave as to threaten "the continuity of political authority"? Plainly, it would not be merely an economic collapse. Rather, it would have to entail an economic collapse *coupled with actions by the political authorities that would have alienated to the point of rebellion tens and tens of millions of Americans in many States or even nationwide*. In that case, though, would "the continuity of [a] political authority" capable of such blunders and of such oppression arguably be desirable or even defensible?

"Under these conditions and at their most violent extreme, civilian authorities, on advice of the defense establishment, would need to rapidly determine the parameters defining the legitimate use of military force inside the United States."

But if under such exigent circumstances "civilian authorities" were acting "on advice of the defense establishment", who would be likely to call the shots? Indeed, if conditions were "at their most violent extreme", would not the "civilian authorities" be compelled by their own inexperience, insecurity, and possibly incompetence simply to defer to "the defense establishment", particularly if the latter insisted that "the continuity of political authority" depended upon such deference?

Moreover, what could be more imprudent than to allow "the defense establishment", in the midst of a crisis, to advise "civilian authorities" as to "the parameters defining the legitimate use of military force inside the United States"? For obvious reasons of conflict of interest as well as legal incompetence, those who are called upon to execute "military force" should *never* be consulted as to what supposedly constitutes "the legitimate use" of such force. They should be *told*, not asked, what constitutes such "legitimate use". Besides, has not the Constitution, particularly in the Bill of Rights, already set out for both civilian officials and the Armed Forces "the parameters defining the legitimate use of military force inside the United States" – or should the Constitution simply be disregarded?

"[T]he whole concept of conflict termination and/or transition to the primacy of civilian security institutions would be uncharted ground."

But were this "whole concept" "uncharted ground", what guarantee would exist that a return to civilian control over "security institutions" would ever occur – particularly if it would occur only upon the "advice of the defense establishment"? Besides, does not the Constitution establish the *absolute* "primacy" of civilian control over *all* "security institutions", including every component of "the defense establishment", *at all times*? And, that being so, on what *legal* ground could such primacy ever be overridden by, and direction of "security institutions" ever turned over to, "the defense establishment"?

Within the confines of this particular strategic study, these thorny questions are unanswered. But, if one consults History's textbook, they are not unanswerable.

As Richard Weaver once observed, "ideas have consequences" – and, one might add, egregiously bad ideas almost always engender disastrous, even if perhaps unintended, consequences. The lesson that History teaches, but that the deep thinkers in the "homeland-security" apparatus in Washington, D.C., apparently have not absorbed, is that once politicians (in any country) have turned to the Armed Forces to put a lid on domestic dissent arising out of failed economic and social policies, the Armed Forces quickly conclude that they are able and even entitled to become political powers in their own right, on their own initiative, and on their own terms. After all, why should the Armed Forces not exercise control over the policies and other decisions civilian officials make concerning the deployment of the Armed Forces, particularly when those officials' incompetence or corruption has brought about the domestic disturbances the Armed Forces' members are expected to risk their lives to quell? And then why should the Armed Forces themselves not promulgate, or at least oversee, policies on all economic and social matters in the first place? Could they fail any more miserably than have the civilian officials? And then why should the Armed Forces not select, or at least exercise a veto over the selection of, the civilian leadership, so as to forefend future blunders by imbeciles who have insinuated themselves into top positions?

Once they had been called in as domestic "peacekeepers", the Armed Forces would be uniquely positioned to take over politically, because they could quite correctly point to the civilian leadership as the efficient cause of the chaos, thereby delegitimizing and even demonizing that leadership – both in its present embodiment in certain individuals, *and in principle altogether*. Indeed, essentially all of the old leadership groups, institutions,

and structures, whether in the sphere of national politics or in the upper echelons of the economy, could easily be convicted in the court of public opinion with neither trial nor appeal, because once the country had come under some variety of "martial law" the only "official" position permitted to be aired would be the one that had passed the Armed Forces' censorship. And with that mass of propaganda as a base, real convictions before "military tribunals" of the most despised among the old leadership groups could easily follow.

Real convictions before "military tribunals" might even need to follow, in order to convince an enraged populace that the Armed Forces seriously intended to stamp out and punish civilian political corruption and incompetence once and for all. (So, before the bright lights in Washington, D.C., finalize their plans to deploy the Armed Forces for the purposes of domestic "peacekeeping" in the midst of the social and economic chaos for which they themselves are primarily responsible, they should recall that the sword of "martial law" in the hands of others in desperate circumstances can cut in more than one direction.)

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Footnotes:

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Going to the Roots of the Problem (PART 3 of 4)

Friday, February 26, 2010 - by Dr. Edwin Vieira, Jr.



Edwin Vieira, Jr.

Even without much expenditure of electronic soap for their "brainwashing" by the Armed Forces' psy-ops contingents, the American people in their anonymous millions would likely accept these turns of events, and the "official" explanations for them, because by then: (i) Control of the country by the Armed Forces would appear to be the only way that a modicum of economic and social order could be restored. (ii) The Armed Forces would not yet have been compromised, but would still generally be seen as truly "American" in composition, attitudes, and goals. (iii) The Armed Forces would imagine themselves capable of embodying popular aspirations and serving popular needs – governing on behalf of the great mass of the people, rather than of special interests. And (iv) the Armed Forces' intervention would be excused as fundamentally "democratic", because most people would at least tacitly support it. (Only a few die-hard constitutionalists would point out –until they were suppressed – that just about everything the Armed Forces were doing was patently illegal to the point of criminality.)

Furthermore, whatever the level of their true popular support, were the Armed Forces deployed to suppress widespread civil unrest emanating from a major breakdown of the economy, they would have a particularly compelling institutional incentive of their own to maintain themselves in the foremost positions of political and economic leadership thereafter: namely,

securing the continued viability of this country's massive military-industrial complex. For the effectiveness of the Armed Forces, and therefore the credibility of their newly assumed role as guardians of the political system, would absolutely depend upon the smooth functioning of that complex.

In this, of course, the Armed Forces would inevitably command the support of the two other sides of "the iron triangle": namely, the industrialists and the workers who, directly or indirectly, would constitute and derive incomes and other benefits from the military-industrial complex. And as the complex expanded – which it doubtlessly would, if only in response to the increasingly diverse tasks the Armed Forces would have to undertake as domestic "peacekeepers" – more and more industrialists and workers in other areas of production and services would become to significant degrees economically dependent upon, and therefore politically supportive of, the complex's smooth functioning, and therefore would favor continued tight control by the Armed Forces over the domestic governmental apparatus. So that, at length, most of the domestic economy would be at least *quasi*-"militarized" in what could be called the ultimate "warfare-welfare state" – with the overwhelming emphasis on "warfare", because the supposed "welfare" of the political and economic systems would be tied inextricably to the power of the Armed Forces.

Of course, as has proven true everywhere else, having no training in economics or statecraft, politicized Armed Forces in this country would be unable to solve the underlying economic and social problems that rationalized their politicization in the first place. That does not mean that they would not try to address these problems – using familiar forms of interventionism. For example:

Fully compulsory labor unionism, first in all "defense"-related industries, then throughout the economy. Not (as unionism operates today) compulsory solely with respect to employers, who now must bargain collectively with labor organizations only if their employees more or less freely choose such organizations to represent them; but compulsory with respect to employees as well, who will be required to join labor organizations that some administrative agency such as the National Labor Relations Board certifies as appropriate for each industry.

Prohibition of strikes, coupled with compulsory arbitration of labor disputes by some governmental agency. This, with the tacit understanding that, all other things being equal, arbitrators will almost invariably rule in favor of labor organizations.

As the quid pro quo for employers' acquiescence in such compulsory unionism and arbitration, governmentally directed mandatory "investing" of private funds in selected "defense"-related industries. If Congress enjoys the authority, pursuant to the Commerce Power, to compel each and every American to purchase medical insurance from private vendors, under the threat of taxes and other penalties, *which power it now claims to have*, why will it not (especially under pressure from the Armed Forces) claim to have just as much authority to compel *everyone*, whether private individuals or financial institutions, to become "patriotic investors" by purchasing stocks, bonds, or other securities in particular "defense"-related industries? Is any random individual's *personal* medical care more important to the *national* health than are the economic foundations that support the Armed Forces? In an era in which the "war on terror" rationalizes every sort of departure from the Bill of Rights and other constitutional guarantees, why should an

individual's or firm's mere private property in money be exempt from compulsory "investment" in what would be called "war bonds"?

Prohibitions on transfers of private capital overseas, and requirements that Americans liquidate their foreign investments and other holdings and repatriate the capital to the United States. Which will cruelly disappoint those Americans who imagine that they can protect their wealth by secreting it in off-shore hideaways.

Forced loans for "defense"-related purposes from the private sector to the government for far longer terms or at far lower rates of interest than the free market will accept. This could involve the "nationalization" of private pension funds, CDs, and other forms of personal savings, by requiring that they be "invested" in particular United States Treasury obligations tied to the military-industrial complex. As long ago as 1871, in order to rationalize the constitutionality of legal-tender paper currency (the so-called "Lincoln Greenbacks"), the Supreme Court relied on the notion that the General Government could coerce loans from the people.[6] Inasmuch as emission of the "Greenbacks" was initially upheld as a "war" measure, the same reasoning would plainly apply to any other form of forced loans imposed to finance "defense"-related public expenditures.

Direct emission of a national currency, either through effective nationalization of the banks or the emission of new "Greenbacks" from the Treasury itself. After all, the Federal Reserve regional banks, all National Banks, and State banks are the mere creatures of various statutes, and therefore could be abolished or absorbed into the government pursuant to some new statutes. And nothing prevents Congress from authorizing the

Treasury itself, without the intermediation of the banks, to emit as much paper currency as politicians themselves dare, or are told by the Armed Forces, to inject into the markets.

And so on...and so on...and so on...

That these and other such schemes would not work as advertised would not prevent them from being tried – and being stubbornly persisted in, too, their serial failures notwithstanding. So America would be wracked with chronic, incurable economic instability. Which would engender continuous political confusion, as the Armed Forces manipulated or even installed token civilian regimes staffed with incompetent puppets and "yes men", followed by new bouts of military sting-pulling or outright intervention aimed at cleaning up the last crisis, and so on, along the sorry lines South American republics such as Argentina have followed for generations.

In addition, thoroughly politicized Armed Forces, unfettered by effective civilian constraints, would likely feel the need, and would have the ability, to justify the expensive existence of the military-industrial complex by inserting themselves into, if not instigating outright, ever-expanding overseas military adventures. Thus, the present "war on terror" – in addition to whatever other forms of aggressive imperialism could be fomented, ostensibly to "defend our freedoms" in a "homeland" that the "war on terror" itself had rendered no longer free – would drag on forever, at untold costs in lives and treasure.

As dark as these clouds would be, they could contain something of a thin silver lining. Perhaps America would be minimally fortunate. Perhaps she

would end up with her own version of Juan Domingo Peron, who if an authoritarian was at least not a murderous thug. Even better if he were accompanied by an Americana version of Evita Peron, who truly cared for *los descamisados gringos*: America's "shirtless ones", the common people. But for that horse to run in the money in History's derby would be the longest of long shots.

There are, of course, other, more-desirable alternatives available:

1. Reform of the monetary and banking systems along constitutional and free-market lines is certainly possible – although it will not be easy, because: (i) the Federal Reserve System cannot simply be "abolished" at one fell swoop without generating massive dislocations throughout the markets; and (ii) the legislation necessary for proper reform cannot be enacted in Congress in the foreseeable future.

Instead, Americans need to create an alternative constitutional and sound currency – actually consisting of, not simply "backed by", silver and gold-to compete with Federal Reserve Notes in the marketplace. This step must be taken at the State level, for several reasons. *First*, it cannot be moved through Congress, whereas among the fifty States there must be at least a few in which the political and economic climate is such that State legislators can be convinced to take appropriate action. *Second*, the States enjoy the legal authority to adopt an alternative currency – indeed, as the Constitution declares, "No State shall * * * make any Thing but gold and silver Coin a Tender in Payment of Debts".[7] *Third*, the States' exercise of their legal authority to adopt an alternative currency is constitutionally immune from interference by Congress, as even the Supreme Court has

held on more than one occasion.[8] *Fourth*, the States have a political and legal responsibility to their own citizens to protect the public health, safety, and welfare – which under contemporary conditions necessitates adopting a sound currency to replace the collapsing Federal Reserve Note before it is too late. *Fifth*, this approach has the benefit of being prudent, because it is both experimental and incremental – yet once the experiment has been tried and proven workable in one State it can (and surely will) quickly spread to others, because no real alternative exists, other than Americans' supine and stupid acquiescence in the collapse of the Federal Reserve System, with all the dire consequences that will entail. Admittedly, the adoption of an alternative currency will not eliminate all of the economic problems the present faulty monetary and banking systems have caused; but it will mitigate them and provide a solid foundation for further reforms.

2. Reform of "homeland security" would be even simpler than dealing with the collapsing Federal Reserve System. As the Second Amendment to the Constitution declares, "[a] well regulated Militia" is "necessary to the security of a free State". Not a Department of Homeland Security based in Washington, D.C., let alone the regular Armed Forces, but "[a] well regulated Militia". "A well regulated Militia" is the *only* thing the Constitution identifies as "necessary" for any purpose, and the *only* thing it identifies as serving the specific purpose of "security". Moreover, the only other place in which the Constitution uses any other word related to "security" is in its Preamble, where it lists as one of its purposes "to * * * secure the Blessings of Liberty to ourselves and our Posterity".

Thus, the Constitution links "security" to freedom and liberty, *and only to freedom and liberty*. Therefore, to have "homeland security" *in the*

constitutional sense requires "[a] well regulated Militia" in each and every one of "the several States". And what is "[a] well regulated Militia"? As Article 13 of Virginia's Declaration of Rights of 1776 so aptly put it, "[a] well regulated militia, composed of the body of the people, trained to arms, is the proper, natural, and safe defence of a free state". That is, "[a] well regulated Militia" consists of WE THE PEOPLE themselves - in the final analysis, the only possible guarantors of freedom in a self-governing society. For part four click below.

Going to the Roots of the Problem (PART 4 of 4)

Saturday, February 27, 2010 - by [Dr. Edwin Vieira, Jr.](#)

Edwin Vieira, Jr.

Therefore, if Americans want a stable and prosperous economy, they want a free economy (that is, one based on the free market). If Americans want a free economy, they want "a free State", that being the only kind of political system that will support and defend the free market. And if Americans want "a free State", they want "[a] well regulated Militia" in every State. Moreover, for all of these reasons, the members of the Armed Forces – all of whom take an oath or affirmation to support the Constitution – should support "[a] well regulated Militia" in every State, too.

If each or even most of the States already had "[a] well regulated Militia" in place, Americans would not now be faced with the likelihood of

uncontrollable violent social unrest arising out of a nationwide economic collapse. For, not only would Americans be trained and equipped to deal with economic shocks and concomitant social disruptions, but also they would have put into effect proper institutions to prevent or lessen the severity of such shocks – in particular, an alternative sound currency that would enable them to operate outside of the Federal Reserve System.

So it is certainly possible that, as the economic crisis intensifies and its true genesis becomes widely known, people throughout the States will prevail upon their State legislators to revitalize their Militia – first, to forestall, or if necessary to contain, violent social unrest within their jurisdictions; second, to provide alternative economic institutions, and in particular an alternative currency, in order to stabilize their local economies; and third, to assert other aspects of State sovereignty under the aegis of the Second, Ninth, Tenth, and Fourteenth Amendments to the Constitution.

These reforms will not be self-executing, however. To be put into place they will require a great deal of effort from people in every walk of life and at every level of American society. Thus, even more pertinent today than they were in his day are Benjamin Franklin's words of warning: "We must all hang together, or we shall all surely hang separately."

In this process the middle class must play a decisive role, in its members' own personal interests as well as in their country's interest. Wealthy people worried simply about the likelihood and sequence of hyperinflation, depression, or hyperinflation coupled with depression in America – and about how they might be able to protect their own businesses, incomes, and accumulated wealth under such circumstances by this or that

economic "hedge" – are viewing their world through rather ill-fitting rose-colored glasses. The rules for successful entrepreneurship, prudent investing, and the retention of accumulated wealth, after all, are as much *political* as they are economic. Ultimately, these rules are grounded in *constitutional* law. Change the political rules to a significant degree, and even the best-laid economic plans, worked out under the false assumption that the original political rules will always continue in operation, will prove worthless. And when hyperinflation, depression, or other economic calamities strike, if the Armed Forces are politicized as instruments of domestic repression, then the political rules familiar today will no longer be operative.

Moreover, in the new political environment, merely continuing his business in operation, maintaining his income, and securing his accumulated wealth will become matters of low priority for anyone with high economic, social, or political visibility who has or might run afoul of the new regime.

So those myopic investors and entrepreneurs who are trying to figure out how they can personally profit to the maximum degree from, or even how they can just continue to do business with some modicum of success during, the coming collapse of America's economy – under the childish illusion that the political rules will always remain favorable to their doing so – had better start thinking instead of how they can contribute, in every way they can, to whatever efforts their fellow citizens are making to prevent that collapse, to fend off the *para*-militarized national police state that collapse will turn loose, and to return this country to the rule of constitutional law. Right now, before time runs out.

Once again, History provides the example. On the night of the 9th of June, 1772, under the leadership of John Brown, one of Rhode Island's "first and most respectable merchants", a contingent of patriots set out from Sabin's Tavern in Providence to attack the British Navy's schooner *Gaspee* after she had run aground on the sand spit at Namquit Point. Rowing down Narragansett Bay in whaleboats, they boarded and captured "that troublesome vessel", then burned her to the waterline in protest against her captain's heavy-handed enforcement of the Mother Country's revenue laws. [9]

By September of 1772, an outraged King George III had offered huge rewards "[f]or the discovering and apprehending the persons who plundered and burnt the *Gaspee* schooner"; had promised full pardons to any accomplices who informed on the main perpetrators; had determined that "the persons concerned in * * * that daring insult, *should be brought to England, to be tried*"; and had established a Commission of Inquiry "to the end that [suspects] may be accordingly arrested and delivered to the custody of the commander of [the British] ships and vessels in North America".[10] But no one betrayed John Brown or any of the other patriots.

Not surprisingly, Rhode Islanders immediately denounced as the very zenith of tyranny the claim of the Crown to ship Americans to England to be tried. On the other side, the loyalist Governor of Massachusetts, Thomas Hutchinson, recognized that [p]eople in this Province [that is, Massachusetts], both friends and enemies to government, are in great expectation from the late affair at Rhode Island, of the burning the King's schooner; and they consider the matter in which the news of it will be received in England, and the measures to be taken, as decisive. If it is

passed over without a full inquiry and due resentment, our liberty people will think they may with impunity commit any acts of violence, be they ever so atrocious, and the friends to government will despond and give up all hopes of being able to withstand the faction. [11]

Admiral Montague says that Lord Sandwich will never leave pursuing the colony [of Rhode Island], until it is disfranchised. If [the Gaspee incident] is passed over, the other colonies will follow the example. [12]

Although widely and rightly denounced as "Too infamous to have a friend, Too bad for bad men to commend", [13] Lord Sandwich, First Lord of the Admiralty, was correct on this score.

Yet although they had brought it upon themselves, Rhode Islanders did not stand alone in this crisis. On the 12th of March, 1773, Virginia's House of Burgesses appointed "a standing committee of inquiry" – the members of which included such outstanding patriots as Peyton Randolph, Richard Henry Lee, Patrick Henry, and Thomas Jefferson – whose business it shall be, to obtain the most early and authentic intelligence of all such acts and resolutions of the British Parliament, or proceedings of the administration, as may relate to, or affect the British colonies in America; and to keep up and maintain a correspondence and communication with our sister colonies, respecting these important considerations.

In particular, the committee was instructed, without delay, [to] inform themselves * * * of the principles and authority, on which was constituted a court of inquiry * * * in Rhode Island, with powers to transport persons

suspected of offences committed in America, to places beyond the seas, to be tried.

And the House of Burgesses requested "the different Assemblies of the British colonies * * * to appoint some person or persons * * * to communicate from time to time, with the * * * committee". [14]

In response to this request, beginning with Rhode Island, all of the Colonies then established Committees of Correspondence, the work of which aroused and unified Americans in opposition to Britain's suppression of their liberties.[15] Indeed, the Committees of Correspondence were of critical importance in the formation of the Continental Congress. [16]

Well, now, just who was this "John Brown" of Providence, Rhode Island, who ignited the *Gaspee* affair, and with its flames set afire one of the brightest torches lighting the way towards America's War of Independence? After John Hancock of Boston, Massachusetts, Brown was probably the wealthiest man in New England, whose family fortune later endowed Brown University, in Providence. For his part in burning the *Gaspee*, though, Brown could have been convicted of treason and piracy – the punishments for which, if his ignominious death on the scaffold had not been enough, would have included the forfeiture of all his worldly goods to the Crown. (Hancock, too, would have stood in the shadow of the public executioner to pay the supreme penalty for his own acts of treason against Great Britain, had Major John Pitcairn and his Redcoats apprehended him in Lexington on the 19th of April in 1775.)

Although a shrewd merchant, John Brown did not organize the attack on the *Gaspee* because it was a good profit-making venture, a sound economic investment, or a clever hedge against inflation or depression. Neither did he mount the attack to curry favor from the political Establishment. To the contrary: From the moment he gathered his fellow patriots at Sabin's Tavern, he stood to lose everything, including his life. His participation in the *Gaspee* affair was the riskiest speculation he had ever made or would ever make – under the circumstances, at least supremely reckless, in the view of the world perhaps insane. He was, after all, spitting in the eye of the entire British Empire, the supremely puissant "New World Order" of his day. Yet he – along with John Hancock, George Washington, and many other rich and influential Americans who wagered their all in the forefront of the fight for liberty – was eventually victorious!

So it is not impossible for the well-to-do to be clear-sighted, courageous, patriotic, and even self-sacrificing. Or at least it was not impossible then, although apparently it is very difficult these days. It should not, however, be *too* difficult, even today. For unlike John Brown, who in the comfort of his rich surroundings had nothing material to lose if he and his fellow Americans had simply sat down quietly under British rule, the wealthy among the middle class today have everything to lose if patriotic Americans – especially including themselves – do not stand up, muster their financial and other resources, and bring an end to the Federal Reserve System and the emerging national para-military police state.

Because the Federal Reserve System will destroy the economy; and the *para*-military police state *will* clamp down on society in the aftermath of financial collapse; and then those who have wealth that can be stolen by

political looters *will* have it stolen. Perhaps not as soon as tomorrow. But too soon for comfort.

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Footnotes:

9 - See THE DESTRUCTION OF THE GASPEE, in John R. Bartlett, Editor, *Records of the Colony of Rhode Island and Providence Plantations* (Providence, Rhode Island: A. Crawford Greene, 1862), Volume VII, at 57-192

10 - *Id.* at 107-108, 104, 111.

11 - *Id.* at 102.

12 - *Id.* at 103.

13 - *Quoted in The American Heritage Book of the Revolution* (New York, New York: American Heritage Publishing Co., Inc., 1958), at 276.

14 - J.R. Bartlett, *Records of the Colony of Rhode Island*, Volume VII, at 226-227

15 - See *id.* at 227-239

16 - See David Ammerman, *In the Common Cause: American Response to the Coercive Acts of 1774* (Charlottesville, Virginia: University Press of Virginia, 1974), at 20-23.

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HEDGING NON-GOLD INVESTMENTS WITH GOLD

An Address

CARA Bahamas Conference

Freeport, Grand Bahama

Januray 17, 2010

Antal E. Fekete

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Ladies and Gentlemen:

The cliché that the present credit collapse is “the greatest financial crisis since 1929” is the understatement of the century. One measure of the crises is the ratio of gross private debt to nominal GDP. This ratio captures the idea how many years of current output it would take to retire outstanding debt. In these terms, the crisis is truly unprecedented. The world plunged into the present crisis with far greater debt than the debt outstanding at the time when it plunged into the Great Depression in 1929. Add to this the qualitative change in the structure of debt. The most exotic of the Roaring Twenties era debt was brokers’ margin lending on the stock purchases of clients. Today, in addition, we have: (1) derivative instruments valued up to one quadrillion dollars, (2) adjustable-rate

mortgages, (3) the unquantifiable off-balance-sheet activities of financial institutions, and (4) the junk-bond activities of private equity firms. The unwinding, or should I say unraveling, of this financial esoterica will greatly increase the underlying debt. The momentum of change in the debt-tower will insure that debt — and bankruptcies — will continue to rise even as the economy contracts.

The greatest amplifier of the debt burden: falling interest rates

I won't beat around the bush and say it without hesitation that the greatest underlying cause of the present crisis is the ongoing destruction of capital induced by the falling interest-rate structure. Economists and accountants are still blind to the fact that falling interest rates amplify the burden of debt. According to Fischer's Paradox: "*The more debtors pay, the more they owe*". **In this single sentence we have the essence of deflation.** Payments of the debtors are discounted at the lower current rate of interest — not at the higher rate at which the debt was originally contracted!

This may be the nightmare that keeps Ben Bernanke awake and his printing presses in high gear. All in vain: falling prices defy the printing presses. Last year the fall in CPI was the steepest since 1932 at 2 percent. Forget monetarism, forget the Quantity Theory of Money. Forget Friedman. Call it Fekete's Paradox if you will: "*The more the Fed tries to pump up commodity prices with its printing presses, the more they will fall*". The explanation of this paradox is found in the contrarian behavior of the speculators. Yes, they will snap up the newly printed dollars and run with them. But run they will in the wrong direction. They run not

to the commodity market as hoped by Bernanke, but to the bill market where the fun is. They front-run Bernanke and his team. They effectively corner the market for T-bills before Bernanke can buy his quota, without which he cannot print more dollars. Then speculators turn around and feed the T-bills to the Fed *on their own terms*. Thus the Fed's effort to induce inflation will fail — just as the effort of the Bank of Japan to pump up prices was a dismal failure in 2002.

Greenspan surfing the tsunamis

In a testimony to Congress Alan Greenspan has described the financial crisis as a “once-in-a-century credit tsunami”. His simile is as misleading as it is inappropriate, on at least two counts. First, geologists do understand the cause of a tsunami; Greenspan and other policy-makers do not understand why the global financial crisis has occurred. Second, while geologists understand tsunamis, they do not cause them. In contrast, policies implemented at the Fed and at the Treasury are directly responsible for the financial tsunami. Worse still, policy-makers fight the destructive effects of the tsunami with means that can only be described as counter-productive. They make the crisis worse, not better.

They had encouraged a debt-financed speculative bubble in asset prices that created a 25-year illusory prosperity but was doomed to burst, ushering in a self-aggravating economic downturn. They are utterly ignorant about the role of capital and debt in the productive process. They believe that credit can replace capital, so that capital destruction can be repaired with more credit expansion. The vast majority of their colleagues at the universities are not any better informed, either.

Gold as the ultimate extinguisher of debt

If we accept the thesis that exorbitant debt and the destruction of capital is at the root of the present crisis, then we'll be directed to the solution of the problem.

The solution is gold. The reason why there can be no resolution of the crisis without gold is two-fold.

(1) Gold is the only form of capital that is immune to destruction under any circumstances.

(2) Gold is the only ultimate extinguisher of debt.

I shall deal with the first reason in a moment. Here I just point out that when a debtor repays his debt by handing over Federal Reserve notes to his creditor, the debt is not extinguished. It is merely transferred to the Federal Reserve bank that issued the note. Transferring debt is not the same as extinguishing it. One reason for the present plight of the world is that for the past forty years gold, the only ultimate extinguisher of debt, has been forcibly prevented by the U.S. government to discharge its debt-extinguishing function. As a consequence the debt-tower has kept growing, rain or shine. Conversely, until policy-makers at the Fed and the Treasury will understand that there is no substitute for gold in taming the debt-monster, their tinkering at the edges will keep making the global debt crisis worse.

Unfortunately, the news is not good in this regard. Bernanke is a dyed-in-the-wool chrysophobe. He would hardly be competent to make the necessary changes that

would restore gold as the ultimate extinguisher of debt in the international monetary system.

Here I come to the point of my talk. What can the individual investor do to make sure that his investments will not be completely wiped out in the coming financial Armageddon?

Gold as the only form of capital that cannot be destroyed

In wartime capital destruction normally presents itself as physical destruction of plant, equipment, and products at various stages of production. By contrast, in peacetime, capital destruction takes place on paper, through the consolidation of balance sheets. Take the simplest case when a bankrupt economic entity is overtaken by another in order to save whatever can be saved. Clearly, that part of the assets of the latter that have a counterpart in the liabilities of the former cannot be saved. It will be wiped out.

It follows that no asset that also occurs as liability in the balance sheet of a counter-party is safe against destruction through consolidation — even if that counter-party is the government. We must remember that every government experiment with irredeemable currency in history has been an abysmal failure.

In the extreme case, when the balance sheets of all economic entities are consolidated in a holocaust, and all paper assets are wiped out, gold is always a survivor: the only asset that cannot be destroyed through inflation, through deflation, or through any other malady of the monetary system.

This means that gold, and only gold, qualifies as an instrument of hedging paper assets. Every investor owes it to himself to provide an adequate level of insurance against risks that prey upon the value of paper investments. But unless this insurance consists of physical gold held by the investor himself on his own premises, it will be ineffective.

Trading insurance makes no sense

This also shows that the attitude of most investors with regard to gold is faulty, not to say foolish. They keep talking about the “performance” of gold. They trade gold: buy it when they expect the gold price to rise; they sell it when they expect the gold price to fall. Many of them are finished with gold saying that “the bloom is off the roses”. This attitude is akin to that of the property-owner who thinks that he is saving money by cancelling his insurance coverage hoping to reinstate it later. It never occurs to him that it may not be possible to reinstate, if the external conditions change drastically.

The best policy concerning insurance is to buy it and “forget about it”. No regrets if the occasion to collect insurance compensation never arises. It is not a loss: it should be looked at as a gain.

A simple gold-accumulation plan, aiming at a gold hedge equivalent to 10-15 percent of net worth, with monthly additions will suffice, with the proviso that it is preferable to increase the hedge when the gold price is down.

Gold investors typically get nervous as they listen to rumors that the volatility in the price of gold indicates that the value of gold has become unstable. They

forget that it is not gold that is unstable, but the dollar in which the gold price is quoted. Gold has been, is, and will be the paragon of stability. Ultimately, the price at which you have purchased your hedges is unimportant.

Tips for hedging

Buy anonymously and don't talk about it. Don't worry that you can't sell anonymously: you are not going to sell, just like you are not going to cancel your fire insurance policy as long as you own the house. Don't worry about capital gains taxes on your gold that you hold as hedges against paper assets. **Since you never sell, you never incur a tax liability.** There is no way the government can impose or collect taxes on paper profits. At any rate, those so called profits on your gold hedges should never be considered as profits. They should be looked at as advances on payments of insurance compensation for anticipated losses. It would be foolish to take these "profits" and spend them. Those losses may disappear, together with the gold profits, creating the impression that your hedges don't work. They do, but the results have to be interpreted correctly. Spending gold profits is tantamount to cancelling the insurance policy prematurely. The big test is still ahead. The crisis is not over, not by a long shot.

The shape of things to come

The world lives in a delusion. It sets great stores on Keynesian nostrums, hoping that public debt-financed government spending, or inflating the money supply will resolve the crisis. They won't. The first-mentioned Keynesian remedy will fail because replacing private debt with public debt means jumping from the frying pan into the fire. A true solution must reduce total debt. The second-mentioned

Keynesian remedy will fail to induce the intended inflation because the newly created money just won't go where the Fed would like it to go: to the commodity, real estate, and stock markets. Instead it **will go to the bond market to facilitate bond speculation**: borrowing short and lending long, putting a downward pressure on the yield curve. Alternatively, it will be used to retire private debt. In either case, the result will be deflationary, not inflationary.

As the decrease in debt reaches a threshold, it will have two immediate consequences. One: unemployment will skyrocket. Two: the financial system will self-destruct in a spectacular fire-work that will make the fact obvious to one and all. Concerning the first consequence, the U.S. must face the situation squarely that during the boom years it has dismantled much of its industrial park producing consumer goods for the mass market. It no longer has the factories needed to employ the armies of unemployed people that will be laid off in the financial sector: at brokerages, real estate agencies, insurance companies, not to mention banks.

Concerning the second consequence, it must be stated that the U.S. financial system is bankrupt already: it self-destructed during the long-drawn-out decline of interest rates to zero. This bankruptcy is camouflaged by the wholly misconceived measure of allowing the banks, pension funds and insurance companies to cook their books. They can only balance their books through the trick of overstating the value of their assets and understating the value of their liabilities. The government and the accounting profession are accomplices. Not only do they fail to prosecute violators of the accounting code, they even cheer them on and encourage others to do the same. Worst of all, they set the example.

The Fed carries dead assets such as mortgage-backed bonds with no bid and no market at a positive value.

Revaluation of gold

The nation is lulled into a false sense of security. When the truth dawns on the nation that the American financial system is working without capital (following in the footsteps of the Japanese banks that have been brain-dead for over a decade), the shock will greatly aggravate the crisis. It would be better to let the truth come out now, so that the process of re-industrializing the country and recapitalizing the financial system by an appropriate revaluation of gold could start without delay.

- The alternative to the revaluation of gold, seriously suggested by some respectable economists, is a complete debt-jubilee, that is, forgiving any and all dollar-denominated debt, starting with the government debt through mortgages and corporate debt, all the way down to the short-term liabilities of banks, including bank deposits. This is, of course, the ultimate shock-therapy with all the unknown consequences that it may bring with it in its train. Nobody knows how the unfairly dispossessed creditors, including all the pensioners and holders of life insurance policies will react. Nobody knows what the unjustly enriched debtors will do with their godsend, the transfer of unencumbered assets to their possession. **Maybe bloodshed in the streets can be avoided. Maybe not.** The still unsolved problem of unemployment strongly suggests the latter.

At any rate, why take the risk, when this dormant asset, gold, has been lying around fallow for some forty years and is waiting for rehabilitation. It has the two prerequisite properties that fit the need just like the glove fits the hand: **the ultimate extinguisher of debt, and capital indestructible *par excellence*. With a proper revaluation of monetary gold, much of the existing debt-burden could be alleviated and new productive capital could be accumulated.**

I am not suggesting that sufficient wisdom presently resides in the leadership of the world to see this. **But as their false remedies will be tried, and one after the other will backfire, the ultimate solution to the crisis, gold-revaluation, would dawn on the world.**

Let's face it: the only reason why this plausible solution to the long-festering problem of runaway debt has not been applied already is sheer envy. Those who saw in gold only a "barbarous relic" would always look with envy at those who saw in gold the ultimate extinguisher of debt and the only indestructible form of capital. They would do everything in their power to deny the latter any benefit of their superior foresight.

Calendar of Events

Seminar at the Martineum Academy, Szombathely, Hungary, March 25-29, 2010

Is the Global Financial Crisis Over?

Sponsored by the Gold Standard Institute, with the participation of Darryl Schoon, Rudy Fritsch, Sandeep Jaitly, Peter van Coppenolle, Nathan Narusis, Professor Fekete. Among other topics, there will be a presentation of the latest research on

the gold basis, the world's pension and insurance woes due to the destruction of capital in the financial sector, still unrecognized by the mainstream, and an exclusive business idea how to turn the ridiculously undervalued "legal tender" gold coins to your advantage.

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