Certified Gold Exchange, Inc.

ORE-VISION

Views and Analysis on the Economy and Precious Metals

A QUARTERLY NEWSLETTER

4th QTR 2009

VOLUME 25, NO.4

US Debt Crisis May Cause "Fall of Rome" Scenario Duncan Says

Patrick Rial

U.S. budget deficits will continue to pile up in the next decade, eventually reaching an unsustainable level that may result in an economic collapse, according to Richard Duncan, author of "The Dollar Crisis."

The U.S. has little chance of resolving its deteriorating financial position because the manufacturing industry continues to shrink, leaving the nation with few goods to export, said Duncan, now at Singapore-based Blackhorse Asset Management.

In "The Dollar Crisis," first published in 2003, Duncan argued that persistent current account deficits by the U.S. were creating an unsustainable boom in global credit that was destined to break down, resulting in a worldwide recession.

"The bad news is at the end of a 10-year period we're still not going to have fixed the problem," Duncan said in an interview in Hong Kong yesterday. "Eventually it will lead to high rates of inflation well down the line and really destabilize things to the point where there may be irreparable damage. A kind of 'Fall of Rome' scenario."

The federal budget deficit will total $1.6 trillion this year, while combined shortfalls are forecast to total $9.05 trillion in the next 10 years, according to projections from the nonpartisan Congressional Budget Office.

The U.S. has run a current account deficit every year since 1982 except one, with a peak of $788 billion in 2006. Foreign purchases of U.S. debt has propped up the dollar and allowed a credit-fueled spending boom by the nation's consumers, according to Duncan.

Falling Wages

U.S. workers are now likely to face declining wages and that may create a political backlash against free-trade policies, he said. The nation's jobless rate jumped to a 26-year high of 9.7 percent in August, while wages logged a 2.6 percent increase from the previous year.

"As unemployment remains above 10 percent well into the foreseeable future, it won't be long before Americans start voting for protectionism," Duncan said. "That's going to be bad because protectionism will mean world trade will diminish and will overall reduce global prosperity."

Once the U.S. debt burden becomes too large and the government can no longer sell debt to the

Continued on page 8

The Fed's Interesting Week

Ron Paul

It has been an interesting week indeed for the Federal Reserve. Early this week, it was announced that President Obama intends to reappoint Fed Chairman Ben Bernanke to a second term in January, signaling a vote of confidence in him.

Bernanke seems to be popular with the administration and with Wall Street, and with good reason. His lending policies have left big banks flush with newly created cash that covers up old mistakes and allows for new ones. By buying up mountains of Treasury debt he has also enabled spending to soar to ridiculous levels that should startle any responsible economist, and scare any American concerned about the value of the dollar.

Continued on page 2

Also Inside This Issue:

The Fed's Interesting Week

Continued from page 1

However, these highly sensitive decisions about our money are not made by economists, they are made by politicians.

Bernanke, like most of his predecessors, is the politician's best friend. However, there is no reason to believe any other central planner would behave any differently, considering the immense political pressure on the Fed.

Fed policies have been as bad for the economy as they are good for politicians and bankers, as the recently released numbers on the debt and deficit demonstrate.

For the first time since World War II the annual budget deficit is projected to be over 11 percent of the nation's gross domestic product. It is also projected that by 2019 the national debt will be 68% of GDP.

Our path, if unchanged, is completely untenable.

The administration claims that it inherited a dire situation from the last administration, which is absolutely true. However, that hasn't stopped them from accepting all the policies and premises that got us here, and accelerating those policies to rapidly make a bad situation much worse.

The bailouts started with the last administration. They have gotten bigger with this one. The last administration gave us expanded government involvement in healthcare with a new prescription drug benefit.

This administration gave us a renewal and expansion of SCHIP, and now the current healthcare takeover attempts. In reality, we can afford none of this,

Continued on page 4

Gold: Hyperinflation: Millions, Billions, Trillions And Then...

John Ing

$16 for a loaf of bread? Money carried in wheelbarrows? Hyperinflation, an event from the past?

Most investors today are now familiar with the lessons of the Great Depression. But few are so sanguine about the lessons of the 20s and the Weimar Republic's hyperinflation. History is full of examples of countries that failed to pay their debts, opting instead for hyperinflation to pay their bills. Inflation simply reduces the value of debt, hurting creditors and postpone the inevitable adjustment. History also shows that deficit spending and printing money is so addictive and politically expedient that governments rarely manage to reverse the downward spiral. Hyperinflation is a greater evil that wipes out savings and destroys more economies than depressions. Right now, hyperinflation is a greater risk than the 1930's style depression that so many fear.

In the last century there were over 25 episodes of hyperinflation with most occurring in the half century. While many know of the Weimar Republic hyperinflation, few recall the French hyperinflation in the 1800s, nor of China's from 1935 to 1949. Ukraine faced hyperinflation in 1994. And fast forward today, Zimbabwe is still experiencing hyperinflation.

In the last two decades, inflation was like the five-cent cigar. The lack of inflation has allowed America's politicians to spend more, promise more and the consequences have resulted in a series of bubbles. Easy money allowed homebuyers to buy homes they could ill afford leading to an inflation in property prices and of course the inevitable bust. But few people remember that America has experienced double-digit inflation in 1910s, 1920s, 1940s, 1970s and even in the early 80s. It seems like only yesterday that we were on the verge of a collapse of the world's financial system. A year on the steep rally that started in March has been fed by the identical recipe of cheap money and big doses of government spending that spawned previous bubbles.

Recession, What Recession?

The good news is that Washington, contained the meltdown through government support and bailing out Wall Street. The bad news is that the record amount of debt will cause yet another and deeper wave of financial crisis. The really bad news is that America's creditors are running out of patience, and the unprecedented monetary easing and fiscal expansion will push down the dollar causing a bigger decline and hyper-asset inflation. Having just emerged from an economic trauma caused by excessive spending and debt, what we don't need now is more spending and debt.

While largely a twentieth century phenomenon, in every decade we have experienced hyperinflation. A study of some 20 hyperinflation episodes reveals that most lasted about five years and all were preceded by up to a decade of excess government spending such as today. And in all hyperinflations there was a common ingredient of loose spend and the excessive printing of money by these heavily indebted countries.

One thing is now clear. When governments spend more than they bring in, monetize their debts with increased supplies of fiat currency to fill the gap, great countries can go insolvent. Weimer Germany became the world's largest debtor facing huge war reparations that exceeded its GDP and could not pay their bills so took to printing money that ended in hyperinflation. France's eighteen century collapse was caused by printing so many assignats that businesses closed and it took over forty years for a full recovery. In Zimbabwe today, Robert Mugabe expropriated land, printed dollars and the economy came to a halt, revived only when they used outside currencies. Or there is Argentina, which monetized its deficits and is going through a second bout of hyperinflation. And then there was China's near bankruptcy caused by Chiang Kai-Shek's numerous wars with Japan and the

Continued on page 5

ON PRINTED AND BORROWED MONEY

Peter Souleles

The warning signs have never been so many and so obvious. Every single economic indicator for housing, employment, consumer spending, foreclosures, tax collections, commercial property, trade and shipping is unsettling. And yet the stock market rises. I hope I am wrong but it is my view that the speed and trajectory of the current rally could well be matched by the suddenness and depth of a subsequent plunge if meaningful structural changes are not implemented.

In the meantime anemic growth will fail to provide the new jobs needed by new entrants into the workforce and this will be worsened by the baby boomers that have either come out of retirement or delayed retirement due to worsening finances.

Through all this, gold and silver keep stepping on the system's heels like an Ethiopian runner on the second last lap. Suddenly the bell will ring and gold and silver will break into a sprint for the final lap. When exactly this will happen is hard to say. But where will you be when the line is crossed? Cheering because you backed the winner or whingeing because you didn't realize that gold and silver have genes that have withstood the test of time and human stupidity without mutation?

I urge every American to take a snapshot of both their finances and their surrounds. I want them to sit down and write how they feel about their nation, their economy and their future. Take plenty of snapshots dear people because the decay that lies ahead will be telling. Have at least some evidence of the "glory days" of consumerism to show and tell your grandchildren about when they are older.

Everyone has their eyes glued to the Dow Jones, the TV and the computer screen waiting for some kind of breakthrough to happen. There will be no breakthroughs just breakdowns for as long as government at all levels is seen as the savior rather than the Judas who has betrayed its people.

The people of course carry a great deal of the blame. The siren song of bankers with the full orchestral backing of the US Fed proved too powerful and sweet to ignore. The concert as you know has been sponsored throughout by cheap Chinese money. In the 19th Century the Chinese government had tried to ban the importation of opium into China by the British. This time round there were no Opium Wars, there was just pride that America was seen as the best place for Chinese money. The nation was and still is hallucinating on borrowed money. What could not be borrowed has been printed.

So what should be done?

So far there has been talk of deleveraging but the process is far from over due to the government's persistence in blowing air into a burst balloon. This has provided some expensive stabilization to a terminal situation which will either cause an even bigger heart attack or alternatively a very long and drawn out illness. Deleveraging must be allowed to happen. Yes, it will cause loss of jobs and homes, businesses and investment portfolios but it must happen. Every gardener and forestry worker knows that pruning and back burning is necessary. *Unless this deleveraging takes place people will not be able to deleverage their life styles and this is where the crux of the problem lies. This deleveraging will cause further pain and losses, but will stop when that which is left is productive rather than seductive, deserving rather than self-serving and needed rather than wanted. This is the simple formula that should be applied at all levels.*

You see Americans cannot just demand universal healthcare at the expense of sending the nation broke. They must also take care of their health. If you are a smoker and are diagnosed with lung cancer then a surcharge of $xxx thousands of dollars should be imposed on you (or your estate). Would you be covered for a car accident if driving while under the influence of drugs or alcohol? With health care being the way it is, it simply rewards negligence and not just bad luck or old age.

Continued on page 4

Mini Inflation Blow-Off

Steve Saville

Coming into September the markets had the potential to experience either a deflation scare or a mini blow-off in inflation-related plays. Within the first few trading days of September it became apparent that it was more likely going to be the latter.

The blow-off in inflation-related plays is taking most equities and commodities higher, with gold and silver stocks leading the way. It will probably end within the next two months, but it hasn't ended yet.

A point we would like to emphasise today is that the price surge currently underway is the natural result of the large increase in the supply of money engineered by governments and their central banks in the midst of the great deflation scare that occurred during the final four months of last year.

As we have noted many times in TSI commentaries over the years, under the current monetary system it is invariably the case that rising fear of DEflation is accompanied by acceleration in the rate of monetary INflation. Some time later the effects of the money-supply growth appear in market prices, but by that time the rate of monetary inflation has generally tapered off.

The result is a strange inverse correlation between the actual inflation rate (the rate of money-supply growth) and inflation expectations. Specifically, the highest rates of money-supply growth tend to go hand-in-hand with the lowest inflation expectations, and vice versa. In this respect, the most recent 12-month period has been 'par for the course' in that we had rampant monetary inflation combined with widespread fear of DEflation during

Continued on page 6

The Fed's Interesting Week

Continued from page 2

but shady monetary policy allows Washington to continue along its merry way, aggravating all our economic problems.

Not everyone in government finds it acceptable that the Fed wields so much power and privilege in secrecy.

Last week, a federal judge ruled against Fed secrecy, compelling them to release under the Freedom of Information Act information regarding which banks received emergency loans, and under what terms.

The Fed will, of course do everything in its power to fight this ruling and it is certainly not the last word on the issue. Still, it is encouraging to see that the interests of the taxpayers were defended victoriously in court, while the Fed only sees the plight of its big banker friends.

Meanwhile HR 1207 and S604, legislation to open up the Fed's books to a complete audit, continue to gain momentum in Congress as the people continue to insist on real transparency of the Federal Reserve.

One way or another, the days of Fed autonomy are coming to an end, as well they should.

No one should have the power to debauch the currency and gut the economy as they do.

It is time they answered for their actions, so the people can understand that we truly are better off with freedom instead of Fed tyranny.

Article by:
Dr. Ron Paul
August 31, 2009
www.ronpaul.com

ON PRINTED AND BORROWED MONEY

Continued from page 3

Instead of just letting shareholders in entities such as General Motors taking direct hits, they should also let depositors take a percentage hit on their savings as well. If losses are not flushed out of the system then no lasting improvement can be expected. Telling people that their savings are safe and guaranteed but then lumping bank losses and failures onto the public purse is a circuitous subterfuge that breathes life into a monster rather than slaying it.

Instead of cash for clunkers, the government should have been distributing public transport tickets worth $4000 for each clunker handed in and also upgrade the system in the process.

As for the bonuses of high flying bankers and CEO's I strongly urge that they be placed into a trust and be paid out only after five years subject to conditions. *In addition to deleveraging, the top 5% of the population (by wealth and income) must desist from accumulating more wealth in the downturn unless it wants to risk a calamitous response and climax.*

The system has a moral obligation to look after the weak. It does not however have a mandate to MAKE its people weak. Unfortunately this is exactly what it has done unwittingly through a string of wars, budget deficits, irresponsible spending and social molly coddling. At the root of all this lies the destruction of that part of its constitution which provides that only gold and silver will be considered as currency. Unfortunately western nations everywhere have followed suit.

The currency of a nation is the lifeblood of all transactions. A currency cannot simply be a promise to pay tomorrow; it must in fact BE payment today. The toil and sweat of people whether they be social security contributors or foreign investors cannot continue to be converted into Government IOU's anymore than toilet paper can be converted into the Magna Carta. People must snap out of the catatonic state they have fallen into. The past, if it could speak would laugh at us and the future (if it were here) would condemn us.

In the third paragraph I urged Americans to take stock of where they have been and where they have arrived. Unless individuals AND governments do this exercise the nation will drift until it goes over the edge. The nation and all its individual citizens must draw up a balance sheet of the good and the bad and in the process must make gold and silver the only two common denominators of all future transactions. It is these two pillars that guarantee that we live within our means.

Whether gold hits $1000 and silver $20 is neither here nor there. In the years and generations ahead these metals will still be here and the phoney substitutes that rely on an increasing string of zeroes will become the money in Monopoly Games distributed by Santa Claus.

Whether you view gold and silver as investments, insurance or both is academic. Gold and silver are to financial health, what logic is to human intellect. Ignore them and you will succumb to madness when the system unravels.

Just take note of the Chinese Government urging its people to invest in gold and silver whereas the US administration is encouraging more debt and more consumption. The future will belong only to those that have a disciplined system and people. Both are missing in the USA.

And so I ask, "where, oh where are you Messrs Jefferson and Jackson?" Where are the men and women with virtue, a philosophy, a vision and a strategy? Unfortunately they are nowhere, because people everywhere have been electing politicians rather than leaders for far too long. If Americans and people everywhere want better days then sacrifices must be made and true leaders who can make unpopular spending cuts must be elected.

Article by: Peter Souleles
Sydney Australia
September 5, 2009

Gold: Hyperinflation: Millions, Billions, Trillions And Then...

Continued from page 2

Communists which caused his government to takeover the banking system in order to fund its deficits with printed yuans that ended in hyperinflation and the collapse of his government.

What is Hyperinflation?

The major cause of hyperinflation is a massive increase in the supply of paper money to finance a sovereign government debt, usually over 100 percent of GDP. One far reaching consequence of the global financial meltdown is that debt made a bad slump worse, particularly those with high debt to GDP ratios. We believe that despite the green shoots of recovery, the United States is running up such an enormous national debt as a percentage of GDP that they risk eventual default. Indeed, a look at America's monetary base shows it has exploded at an unprecedented 110 percent flooding the financial system with money.

Another obvious parallel, is that the hyperinflation countries in the past often abandoned a tangible backing such as gold or silver in favor of printing a fiat currency. Many even created financial instruments as substitutes for money. For example in the French experience, land for a time backed the assignat in the modern day equivalent of a mortgage backed security. Without the need of a monetary discipline like gold or silver to back money, governments find it too tempting to resort to the printing press to pay their bills. After all, money is a form of a government liability so a paper currency without an implicit backing other than a state based faith, is dependent upon public confidence.

Milton Friedman once said, "Inflation is always and everywhere a monetary phenomenon". Inflation enabled governments in the past to reduce or avoid repayment of their debt burdens. Inflation also makes certain assets worth more and today we have a healthy dose of hyper-asset inflation. When too much money chases too few goods it creates pricing pressures. Stock markets and tangible assets are up. Price inflation is next.

We believe a look at the crises of the past gives us a better understanding of the present and the future. Today there are too many similarities with past hyperinflations from the usage of the Fed's quantitative easing methods to pay for deficits caused by wars and excess spending, to the mobilization of the banking system as surrogates of the central bank, to the Fed's mark up of Wall Street's toxic assets to pay off loans. The US is not the first country to resort to the printing presses but the sad truth today is that no one, including "Helicopter Ben" is talking about how to fill the gaping hole in the federal budget. History shows that hyperinflation is often the obvious solution, choice and consequence.

Hyperinflation in the Weimar Republic

Before World War I, Germany was a prosperous country with a gold-backed currency. Germany abandoned the gold backing in 1914 to finance the war with some 160 billion marks. The dollar then was worth 4.20 marks. After WW1, Germany became the biggest debtor in the world facing huge war reparations primarily to the Americans who had become the creditor to the world. Today, the roles are reversed with America, the biggest debtor while China now plays the role America played then. Germany's debt to GDP was over 100 percent. In order to pay for the war reparations under the Treaty of Versailles, the German government borrowed heavily issuing more and more paper. By December 1922, the mark fell to 8,000 marks per dollar. Postage stamps even had a face value of 1 billion marks, and by November 1923, the dollar was worth 4.2 trillion marks as monthly inflation ran at 322 per cent.

So much money was issued that over 130 companies were commissioned to print banknotes, not dissimilar to California who recently was forced to issue IOUs to honor its debts. Tangible or hard assets like diamonds or art were hoarded instead of worthless paper. Corruption flourished. Price controls were ineffective. The German people soon lost all confidence in their money. Pianos were bought by non-musical families. Tellingly, the great German industrial businesses like Krupp, Thyssen and Stinnes survived and prospered calling for a lower mark so that German goods would be cheap and help out exports. Industrialists with taxable assets did exceptionally well as did farmers who owned productive land and crops. Between 1919 and 1920, stocks went up 95 percent.

Savers were the big losers. To collect its debts, the French occupied the Ruhr. Debtors became winners. Inflation then was seen to be good. In late 1923, hyperinflation was exhausted as monetary reform created the Rentenmark backed by real estate and bonds with a certain value of gold but this time, fixed in quantity. Late in November 1923, Adolf Hitler arrived on the scene with the Munich beer hall Putsch.

Hyperinflation in France

Continued on page 7

Mini Inflation Blow-Off

Continued from page 3

September-December of last year, and now we have increasing concerns about an inflation threat following several months of relatively slow growth in the money supply.

The current relatively slow rate of money-supply growth will, of course, lead to another deflation scare, which will inevitably prompt aggressive re-inflation by the monetary authorities, and, after the usual delay, another surge in market prices.

The upshot is that when the periodic deflation scares occur -- and we can be confident that more of them will occur in the future -- there will be a tendency to give credence to deflation forecasts that are based on fallacies such as "the money-supply growth doesn't matter because it is small compared to the contraction of credit" or "the money-supply growth won't lead to higher prices because the 'velocity of money' is low" or "there won't be an inflation problem for the foreseeable future because the Fed's money injections are insignificant relative to the fall in the market value of debt".

The fact is that rapid growth in the money supply ALWAYS matters; there is just a lengthy time lag between the cause (the money-supply growth) and the most obvious effect (rising prices). In this regard, it is never 'different this time'.

Keep this in mind during the next deflation scare, assuming, of course, that governments and central banks react to future perceived deflation threats as they have reacted to past threats.

Article by:
Steve Saville
September 22, 2009

Wells Fargo CEO Sees Bad Loans Rising

Marshall Eckblad

NEW YORK -- Wells Fargo & Co. Chief Executive John Stumpf reiterated Wednesday that he expects the San Francisco bank's nonperforming assets, or troubled loans, to increase next quarter. He also said the bank has used 21% of its credits for losses tied to some commercial and foreign loans from Wachovia Corp., which Wells Fargo purchased last year.

Speaking at a financial services conference in New York hosted by Barclays PLC, Mr. Stumpf said Wells Fargo has used $2.2 billion of an available $10.4 billion in credits for losses from the most troubled of Wachovia's commercial and foreign loans. Wells Fargo has a remaining $8.2 billion to cover future losses from the loans, which include mortgages tied to commercial properties like office buildings and housing developments.

Separately, Mr. Stumpf said he expects the bank's levels of nonperforming loans, or loans that may become uncollectible, to increase. "Considering the current economic environment, we would expect our nonperforming assets to continue to increase," Mr. Stumpf said. Wells Fargo issued a similar forecast when it reported its earnings for the second quarter.

Mr. Stumpf's message is a contrast to remarks on Tuesday from the chief executive of Regions Financial Corp., C. Dowd Ritter, who said nonperforming loans at his regional bank, based in Birmingham, Ala., likely peaked in the second quarter.

Wells Fargo bought its teetering rival, Wachovia for $12.7 billion at the end of last year after the Charlotte, N.C., bank began to crumble under losses from billions in risky home loans. A crucial component of Wells Fargo's merger of the two banks is whether Wachovia's piles of risky real-estate loans perform as Wells Fargo initially expected over the coming quarters and years.

During this decade, Wachovia expanded aggressively into mortgages for commercial properties such as housing developments and office buildings. Analysts widely expect commercial real-estate loans to hit banks with heavy losses over the coming year since losses from commercial loans typically rise months or years after losses from home loans surface.

At the time of the purchase, Wells Fargo was permitted by accounting rules to declare $96.2 billion of Wachovia's loans as "credit-impaired," or likely to produce losses. Wells Fargo was allowed to immediately write off the $40.9 billion losses it expected those loans to generate in order to prevent the bank from being damaged by Wachovia's loan troubles.

Of the $40.9 billion in credits for Wachovia losses, Wells Fargo said Wednesday that it has used $3.8 billion thus far to offset losses on Pick-A-Pay loans, a risky type of home mortgage.

"Overall, our impaired loans, including Pick-A-Pay and commercial real estate, have performed in line with our original expectations," Mr. Stumpf said. He called those loans "the two loan portfolios of most interest to investors."

Wachovia issued more than $120 billion of the risky home loans, which offered borrowers the option of four monthly payments, including a minimum payment that increased the loan's balance.

Wells Fargo expects the most troubled Pick-A-Pay loans, whose losses can be covered by the credits, to generate another $22.7 billion in losses.

Article by:
Marshall Eckblad
September 17, 2009

Gold: Hyperinflation:
Millions, Billions, Trillions And Then...

Continued from page 5

In his book, "Fiat Money Inflation in France", Andrew Dickenson White describes how the French in April 1790, issued 400 million "livres" in paper money called assignats secured by the confiscated lands of the French Church during the Revolution. These early mortgage-backed securities or assignats bore interest at 3 percent and were secured by the aforementioned land. Mirabeau their brilliant leader and a great orator of the National Assembly with Obama-like enthusiasm argued that the issuance of assignats was "a loan to an armed robber" and, "that infamous word, paper money ought to be banished from our language." But in September of that year, the government had spent the available funds. Mirabeau reversed course and called instead for the issuance of even more assignats to cover the growing national debt of some 2.4 billion, declaring that the issuance of more assignats would get government lands into the hands of the people instead of the old privileged classes. The public however hoarded that cash and money didn't reach the real economy. Of course that did not last too long as some citizens actually asked for the underlying lands instead of the paper assignats. By the end of 1791, the purchasing power of the assignat declined to the point that businesses closed and in their place came a speculating class. Mirabeau himself was found to have secretly received bribes.

Also, around that time a new debtor class was created with expropriated church lands and an early shadow banking system was created from this new land-based debt allowing for the issuance of more money. The government lands were even revalued upwards. By December 1791, billions of assignats were issued. The merchant class at first benefited as higher prices made the inventory on their shelves more valuable. Inflation was seen to be good or so they thought. Corruption flourished.

White noted that businessmen became gamblers, politicians became businessmen and in the city centers came the quick growth of stock jobbers and Bernie Madoff-type pyramid schemes. The government even declared a new tax on married men on incomes of 10,000 francs and upon all unmarried men of 6,000 francs. The rich soon fled, hid their wealth and only a portion of the tax was actually raised. The government then responded by confiscating the lands from those who had left the country enabling the government to issue more paper. Andrew White describes that the market price for bread was equivalent to $16 per loaf, but later, could not be bought for paper money at any price. By 1795, over 40 billion assignats were issued. While France's fiat money inflation lasted for nearly ten years, it required another 40 years to bring about a full recovery. Napoleon Bonaparte took over the bankrupt government and its immense debt. At his first cabinet meeting, Napoleon declared that he would be pay cash or pay nothing. In 1797, Napoleon wrote, "While I live I will never resort to redeemable paper". He never did, and Bonaparte confiscated all the gold and France was forced to live within its means. Andrew White's essay on Fiat Money and Inflation was first published in 1876 and again in 1918.

Hyperinflation in China

China's hyperinflation teaches us about the dangers of a central bank exerting too much control over an independent banking system. Between 1935 and 1949, China experienced hyperinflation as the Nationalist government under Chiang Kai-Shek printed large amounts of paper currency to pay for wars and debts. In the first year, bank loans accounted for 49 percent of the government's revenue. Prior to 1935, China had no central bank but a vibrant privately owned banking system centered largely in Shanghai. The banking system was disciplined by the threat of a run on the bank, which kept it from issuing more liabilities than assets. However, with the arrival of the Nationalist government in 1927, a consolidation of the banks began as the Nationalists needed the banks to help fund its ever-bigger deficits. And with parallels to today under no constraints, the banking system soon became an instrument of the government. And like today, the Chinese central bank guaranteed the private banks' bonds, so the banks could issue even more paper. So much money was printed that Chinese currency notes had to be printed in England.

The Chinese government bonds were backed by silver but in 1934, the United States introduced the Silver Purchase Act, which caused a run in the price of silver, causing a flight from Chinese bonds. All institutions and individuals who owned silver were ordered to exchange specie for the new currency, not unlike Roosevelt's confiscation of gold. The Nationalists' takeover of silver allowed the government to print currency without a backing, placing the country on a fiat currency system. The newly created Bank of China consequently printed more money, guaranteeing the notes issued by the three largest government banks. Of course the value of China's paper money collapsed. By July 1935, the Nationalist government became the majority shareholder in each private bank, effectively ending private banking. In June 1937, 3.41 yuan was worth $1.00, but by May 1949, it took 23,280,000 yuan to be worth $1.00. Chiang was forced to leave the country amid the Great Inflation, paving the way for Mao Zedong.

Article by:
John Ing
September 24, 2009

To be continued……….

US Debt Crisis May Cause "Fall of Rome" Scenario

Continued from page 1

public the Federal Reserve will likely step in and monetize it, resulting in high levels of inflation, he said.

Economic Crisis

The MSCI World Index plunged by a record 42 percent last year as the collapse of Lehman Brothers Holdings Inc. triggered a credit crunch that forced financial institutions to post more than $1.6 trillion in losses and writedowns.

As an analyst, Duncan began warning of imbalances in Thailand's economy in 1993 that eventually led to the devaluation of the baht in 1997 and a regional economic crisis. The nation's SET Index dropped as much as 88 percent from its 1994 peak to a low in 1998. Prior to joining Blackhorse, Duncan was the head of investment strategy at ABN Amro Asset Management. He has also held positions at James Capel, Indosuez W.I. Carr and Salomon Brothers.

Article by:
Patrick Rial
prial@bloomberg.net
September 23, 2009

The Outstanding Public Debt
National Debt:
11,794,513,150,207.89
The estimated population of the United States is **307,571,081**
US citizen's share of this debt is
$38,346.25
The National Debt has continued to increase an average of
$3.79 billion per day
Business, Government and Financial Debt exceeds
$59 Trillion

Cash From Clunkers

Let's have a $4,500 subsidy for everything.

Americans are streaming back into auto showrooms, and one reason is the "cash for clunkers" subsidy. Democrats are naturally claiming this is a great success, while Republicans are claiming that because the program has run out of clunker cash so quickly, this proves government can't run the health-care system. How do we elect these people? What the clunker policy really proves is that Americans aren't stupid and will let some other taxpayer buy them a free lunch if given the chance.

The buying spree is good for the car companies, if only for the short term and for certain car models. It's good, too, for folks who've been sitting on an older car or truck but weren't sure they had the cash to trade it in for something new. Now they get a taxpayer subsidy of up to $4,500, which on some models can be 25% of the purchase price. It's hardly surprising that Peter is willing to use a donation from his neighbor Paul, midwifed by Uncle Sugar, to class up his driveway.

On the other hand, this is crackpot economics. The subsidy won't add to net national wealth, since it merely transfers money to one taxpayer's pocket from someone else's, and merely pays that taxpayer to destroy a perfectly serviceable asset in return for something he might have bought anyway. By this logic, everyone should burn the sofa and dining room set and refurnish the homestead every couple of years.

It isn't clear this will even lead to more auto production over time, since the clunker cash may simply cause buyers to move their purchases forward. GDP will get a fillip in the third and perhaps fourth quarters, which will please the Obama Administration. But the test will be if auto sales hold up next year and into the future once the clunker checks go away. The debate over the subsidy may even have prolonged this year's auto slump as buyers delayed their purchases waiting for the free lunch.

All of Washington professes to be surprised that the $1 billion allocated to the subsidy has been used up so quickly, but giving away money is one thing government knows how to do. The Clunkers who are in Congress are now patting themselves on the back for their great success, and the House quickly voted to pass out another $2 billion in clunker coupons. With a $1.8 trillion budget deficit, who's going to notice this pocket change?

Clearly, we spoilsports need an attitude adjustment to Washington's new economics. And since money is no object, let's give everyone a $4,500 voucher for other consumer goods. Let's have taxpayers subsidize the purchase of kitchen appliances, women's clothing, the latest Big Bertha driver—our Taylor-made is certainly a clunker—and new fishing boats. These are hardly less deserving of subsidies than cars, and as long as everyone thinks we can conjure wealth out of $4,500 giveaways, let's go all the way.

ORE-VISION
Views and Analysis on the economy and Precious Metals
Published by Certified Gold Exchange, Inc.
PRECIOUS METALS ASSET MANAGEMENT
***New* PriceMatchPlus®**
1-800-300-0715
www.certifiedgoldexchange.com