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LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

ECONOMIC WINTER

The Death of Paper Money

This year of 2014 marks an important centenary, not only as the 100th. anniversary of the beginning of the ghastly war to end all wars (the 100 year cycle is an important war cycle, as it is for most other cycles), but also, for the collapse of the international gold standard monetary system, which was the end of true gold backed national currencies.

In my previous cycle's commentary, I wrote exclusively about secular, long term, intermediate term and short term investment market cycles. I demonstrated that secular investment cycles occur within the long wave cycle seasons and that gold and gold equities always experience their secular bull and bear market cycles opposite to the equities markets in each of the four long wave seasons. This contrary seasonal relationship is clearly evident in an historical chart depicting the Dow/Gold price ratio, which was depicted in that commentary and is displayed on our Longwave website.

The move from one long wave season to the next is identified by certain financial highs or lows, most often by U.S. stock prices. These signals of seasonal change are identified on our "Lifetime Economic, Financial and Investment" chart. The move out of autumn into winter is always signaled by a peak in the price of the huge autumn stock bull market. So it was in 1837, 1873, 1929 and as it should have been after 2000. That it was not was entirely due to the fact that the Federal Reserve and other principle central banks were, and still are, in command of a fiat currency system. This is unprecedented; there has never been a time that the entire world has been subjected to such dishonest money that can be created at the whim of unelected bureaucrats acting on behalf of their private shareholders.

In 1838, Mayer Amschel Rothschild, founder of the international banking dynasty, in a letter from London to Rothschild agents in New York wrote- "Let me issue and control a nation's money and I care not who makes its laws. The few who understand the system, will either be so interested from its profits or so dependent on its favors, that there will be no opposition from that class, while on the other hand, the great body of people mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint and perhaps without even suspecting that the system is inimical to their interests."

On December 23, 1913, when President Wilson signed into law the Federal Reserve Act, the right to "issue and control money" was given to a Rothschild descendant through association with J. P. Morgan and a small coterie of banks, mainly headquartered in Europe.

Speaking in Congress, the day before the Act was signed into law by the President, Congressman Charles A. Lindberg, the father of the famous aviator, said: "This Act establishes the most gigantic trust on earth. When the President signs this bill, the invisible government by the Monetary Power will be legalized. The people may not know it immediately, but the day of reckoning is only a few years removed. The trusts will soon realize that they have gone too far even for their own good. The people must make a declaration of independence to relieve themselves from the Monetary Power. This they will be able to do by taking control of Congress. Wall Streeters could not cheat us if you Senators and Representatives did not make a humbug of Congress. The greatest crime of

Congress is its currency system. The worst legislative crime of the ages is perpetrated by this banking bill. The caucus and the party bosses have again operated and prevented the people from getting the benefit of their own government."

In a speech on June 10, 1932 in the House of Representatives in which he denounced the Federal Reserve, Congressman Louis McFadden said: "Some people think that the Federal Reserve banks are United States Government institutions. They are not Government institutions. They are private credit monopolies which prey upon the people of the United States for the benefit of themselves and their foreign customers; foreign and domestic speculators and swindlers; and rich and predatory money lenders. In that dark crew of financial pirates there are those who would cut a man's throat to get a dollar out of his pocket; there are those who send money into States to buy votes to control our legislation; and there are those who maintain international propaganda for the purpose of deceiving us and of wheedling us into granting new concessions which will permit them to cover up their past misdeeds and set again in motion their gigantic train of crime."

Shortly after he had signed the Federal Reserve Act, President Woodrow Wilson is purported to have written to a friend, "I am a most unhappy man; I have unwittingly ruined my country. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. No longer a government by free opinion, no longer a government by conviction and a vote of the majority, but a government by the opinion and duress of a small group of dominant men."

"Those who create and issue money and credit direct the policies of government and hold in the hollow of their hands the destiny of the people." Rt. Hon Reginald McKenna, British Chancellor of the Exchequer, 1912.

"The Federal Reserve System is a legal private monopoly of the money supply operated for the benefit of the few under the guise of protecting and promoting the public interest." Antony Sutton

Now, the chickens are coming home to roost. Monetary, financial and economic cycles are pointing to imminent collapse and the Federal Reserve should, and likely, will be held accountable for all that is about to befall us.

The Breakdown of the World Monetary System Based on the Dollar

Currencies are ruled by cycles. We have now reached a critical point in the functioning of major currencies. In this case it reminds me of 2007, when I published "This Is It" in anticipation of the financial crisis, because in that year several different time cycles associated with the economy and the stock market were converging. We now have a convergence of monetary cycles that either occurred in 2013, or are happening this year, in 2014.

1. Perhaps the most important of these cycles is the 100 year anniversary of the birth of the Federal Reserve on December 23rd, 1913. This paved the way for the eventual adoption of a fiat debt based paper currency to which we are all subjected, which is now in the process of failing.

2. This year is the 100th anniversary of the outbreak of World War I, at which time the principal combatants abandoned gold as a backing for their currencies. This effectively ended the true international gold standard monetary system.

3. In 1933 (80 years ago or 4 X 20), the U.S. abandoned the world gold exchange standard system, bringing to an end the world monetary system, which had been set up following World War I. The collapse of the international monetary system directly impacted world trade which was reduced by 80%.

4. In 1933 (80 years ago or 4 X 20), President Roosevelt revoked the right of U.S. citizens to convert paper dollars into gold; outlawed gold ownership and forced all Americans to redeem their gold for $20.67 (U.S.) per ounce.

5. The following year, 1934 (80 years ago or 4 X 20), America devalued the Dollar by 69% by increasing the price of gold from $20.67 (U.S.) per ounce to $35.00 (U.S.) per ounce.

6. Following meetings with Henry Kissinger in 1973, the Saudi Arabia government agreed that in the following year, 1974 (40 years ago or 2 X20) to price its oil exclusively in U.S. dollars, thus was born the Petrodollar. By 1975, all members of OPEC had agreed to accept only U.S. dollars for oil.

In 2000, Saddam Hussein launched the first challenge to the Petrodollar when he was convinced by France and a few other EU members to sell Iraq's oil for Euros. In 2003 (10 year cycle) the U.S. and Britain invaded Iraq on trumped up charges alleging that Saddam Hussein was in possession of weapons of mass destruction. We know the rest of the story.

In 2009, 5 years ago, Libya's Muammar Gaddafi launched a second challenge to the Petrodollar supremacy. Gaddafi had been elected chairman of the African Union and he pressed for the creation of a United States of Africa, which among other things would create a unified currency, the dinar backed by gold. He recommended that the African nations' oil would be sold for this gold dinar rather than the dollar. This was a dangerous challenge to the dollar and the U.S. could not allow it to go unanswered. It was proposed that brutal intervention in Libya was necessary on account of 'humanitarian' issues in that country.

The third challenge actually started in 2003 (10 years ago and half a 20 year cycle), when Iran announced its intention to abandon the petrodollar in favour of trading oil in multiple currencies. This was to be done through a new commodity exchange known as the Iranian Oil Bourse. This became fully operational in 2012. The principal purchasers of Iranian oil are China, India, South Korea and Japan and are using their own currency to effect their oil purchases. It is no wonder that the U.S. has been beating the war drums for Iran.

7. In 1803 (210) years ago, Napoleon reintroduced gold and silver coins in France, to replace the revolutionary hyperinflationary assignats (paper money). "While I live, I will never resort to irredeemable paper." Napoleon Bonaparte.

8. This year of 2014 marks the 70th. Anniversary of the Bretton Woods international monetary conference, which established the U.S. dollar as the world's reserve currency. That enormous monetary advantage is now being challenged by China.

9. Also, 2014 is the 50th anniversary of the last year that the U.S. minted silver coinage. "If anybody has any idea of hoarding our silver coins, let me say this. Treasury has lots of silver on hand, and it can be and will be used to keep the price of silver in line with its value in our present silver coin. There will be no profit in holding them out of circulation for the value of their silver content." President Lyndon Johnson, remarks at the signing of The Coinage Act, July 23, 1965. (A dollar's worth of U.S. silver pre-1965 circulating coinage contained 0.715 troy ounces of silver.)

10. In 1974 (40 years ago or 2X20) the U.S. lifted the ban on gold ownership by U.S. citizens.

W.D. Gann considered the 20 year cycle a very important financial cycle.

These converging currency and monetary cycle anniversaries are a warning, that likely this year, 2014, a major breakdown in world currencies is in the offing. Without doubt, the most critical aspect of the failure of fiat money is that such an event spells an economic catastrophe without any historical precedent. Fiat money is a credit/debt based monetary system, and is the lynch pin of our economies. If the fiat monetary system fails, as cycles are predicting, credit no longer operates and economies will cease to function effectively.

Never before in history has a paper monetary system survived when it has been sustained by an unlimited access to the printing press.

I have written on several occasions about the two French paper money schemes, John Law's paper money and the French revolutionary assignats and mandats. Both were the direct cause of huge price inflation and subsequently economic failure. Andrew Dickson White in his history of the French Revolutionary paper money era, Fiat Money Inflation in France, wrote, "It would be a great mistake to suppose that the statesmen of France or the French people were ignorant of the dangers of issuing irredeemable money. No matter how skillfully the bright side of such a currency was exhibited, all thoughtful men in France remembered its dark side. They knew too well, from what ruinous experience, seventy years before, in John Law's time, the difficulties and dangers of a currency not well based and controlled. They had learned how easy it is to issue it; how difficult it is to check its over issuance; how seductively it leads to the absorption of the means of the workingmen and men of small fortunes; how heavily it falls on all those living on fixed income, salaries and wages; how securely it creates on the ruins of prosperity of all men of meager means a class of debauched speculators, the most injurious class that a nation can harbor-more injurious, indeed, than professional criminals whom the law recognizes and can throttle; how it stimulates overproduction at first and leaves every industry flaccid afterward; how it breaks down thrift and develops political and social immorality. All this in France had been thoroughly taught by experience."

In both these French paper money episodes, gold and silver were outlawed by the State as alternative means of payment; although, the ultimate solution to both failed currency experiences was to return to sound money backed by gold and silver.

The lesson of these two fiat money episodes is that money printing begins at a relatively slow pace, but quickens as the economy and speculation expands. The end comes when the printing presses are operating day and night in a frantic effort to keep things from falling apart.

Similar frenzied monetary printing is now ongoing in a desperate effort to keep fiat currencies alive. As an example, thanks to Money and Markets, this is the Federal Reserve's panic stricken monetary response since the collapse of Lehman Brothers.

"Consider these outrageous facts:"

"Fact #1. Immediately prior to Lehman Brothers failure, the Fed reported that the monetary base stood at $849.8 billion (U.S.)"

This past October 30th. it was $3,607.7 billion (U.S.). That's an expansion of $2,757.8 billion (U.S.) or $2.7 trillion (U.S.)."

"Fact #2. This $2.7 trillion (U.S.) expansion has all taken place within just six years and one month.

If, instead, the Fed had continued to expand the monetary base at a normal pace (by the same amount as it had since 1961), it would have taken nearly 150 years to come this far.

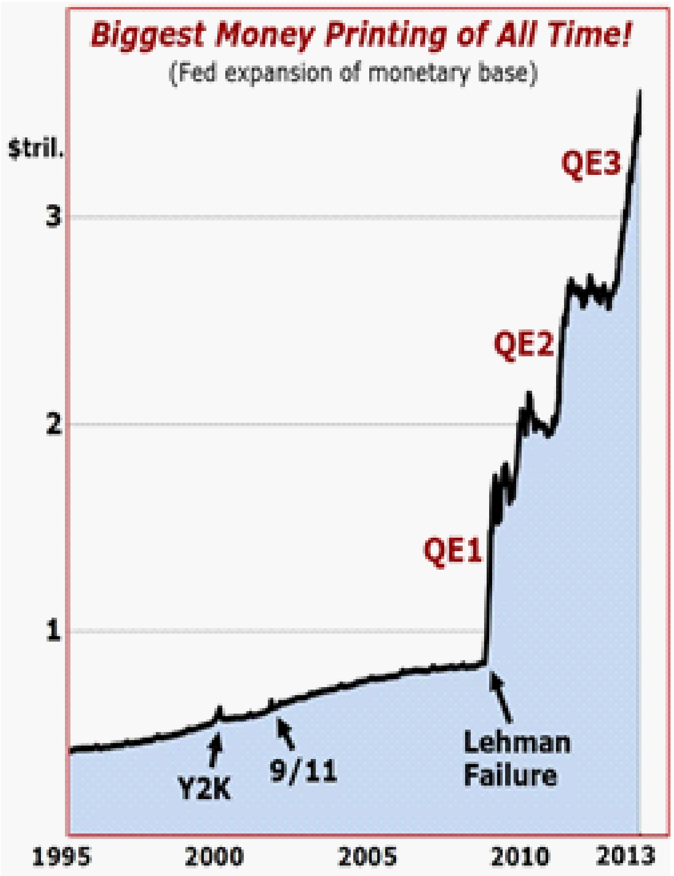
In other words, with normal growth, the Fed's recent $2.7 trillion (U.S.) monetary expansion would not have been achieved until the year 2158!"

"Fact #3. Prior to 2008, there were only two times the Fed embarked on extremely rapid monetary explosion of this type-first in anticipation of the widely feared Y2K bug; and later in the aftermath of the 9-11 terrorist attacks. However, as of the latest tally, the post-Lehman QEs have been

- a whopping 43 times larger than the dramatic Y2K expansion, and...
- an unbelievable 69.5 times larger than the Fed's explosive reaction to 9/11.

The most alarming fact of all is this...

While the Fed has used crisis after crisis to justify its monetary madness, it has not yet begun to resolve the underlying diseases that gave rise to those crises. It has merely papered over their symptoms."



Source: Money and Markets, Saturday, November 16, 2013.

All the capitalist central banks are printing money like mad in an effort, to perpetuate their fiat paper money currencies. This frantic printing of paper money is sure sign that the end is nigh for the era of fiat paper money, just as it was for the French fiat paper money fiascos.

Paper money is only money because government decrees that it is money. It is not honest money. It is contrary to the natural law of money. This is the concluding paragraph in Andrew Dickson White's book, Fiat Money Inflation in France, "Such, briefly sketched in its leading feature, is the history of the most skillful, vigorous, and persistent attempt ever made to substitute for **natural laws** in finance the ability of legislated bodies, and, for a standard of value recognized throughout the world, a national standard devised by theorists and manipulated by schemers. Every other attempt of the same kind in human history, under whatever circumstances, has reached similar results in kind if not in degree; all of them show the existence of financial laws as real in their operation as those which hold the planets in their courses." PP. 105.

"Today, the 'reserves' that banks rely upon to create new money have no intrinsic value whatsoever. In other words, where once a bank might issue paper money equal to ten times the value of gold or silver coins they held in the vault, today there isn't a single ounce of gold or silver coins backing our currency. Today, our money is created using nothing but fiat paper and computer entries as reserves! There is no real money anywhere. Even worse (yes there is 'worse'), every dollar in circulation is inextricably tied to debt. What we are forced to use today is **WORSE than** fiat money, **it is debt money**."

“Our entire monetary system, as it now stands, is based on nothing but debt. Every physical dollar as well as every digital dollar had to be borrowed into existence. So long as our entire money supply is made up of this debt money, the bankers are guaranteed to earn interest on every single dollar, every moment it exists. It also means our debt is inescapable. To pay off every loan, we’d have to give back every dollar the bankers have created. This would reduce our money supply to zero...it can’t be done.”

“So the bankers not only profit from this debt money system, but also, they’ve structured their business in such a way that we (operating within the rules of the system) can never escape it. Who in their right mind would hand over this kind of power and control to an unelected group of financial elites? It’s nothing short of economic slavery.”

“It is important to remember, we’re in this mess not just because of the ‘unscrupulous but highly intelligent individuals who conspired to gain control of our nation’s money supply, but also because of elected officials who handed it over and continue to support (and benefit from) the arrangement.”

Dishonest Money : Financing the Road to Ruin, Plummer, Joseph. BookSurge Publishing, 2009, Chpt. 7.

I highly recommend this book.

Those, the central bankers, who believe that they have the power to circumvent the natural law governing money and currency, are displaying hubris on a gigantic scale. Such hubris will be punished with the failure of paper money, but we will all suffer the consequences.

As we can see from the two French paper money escapades discussed earlier, the great enemy of government issued paper money is gold and silver. In this latest paper currency boondoggle, which is uniquely a worldwide phenomenon, silver, and more especially gold are once again the enemy of paper money and most importantly the enemy of the U.S. dollar, which is the world’s reserve currency.

The war on gold has been ongoing since gold as a backing for currencies was abandoned, but particularly after the U.S. dollar was set up as the global reserve currency at Bretton Woods in 1944.

The initial battle was waged between 1961 and 1968 when the London Gold Pool was formed under U.S. leadership to maintain the price of gold at $35.00 (U.S.) per ounce, which was the official exchange rate for an ounce of U.S. gold. That battle was won by gold with the result that the U.S. abandoned gold as a backing for the dollar in August 1971. From then on the U.S. dollar joined the currencies of all other countries in becoming fiat paper.

In December 1974, the U.S. lifted the ban on gold ownership by U.S. citizens, but began a concerted effort to discredit gold, including resorting to publicized gold auctions. In January 1975, two million ounces were offered at auction. Gold auctions were resumed in 1978 and were ended in the following year. During the 1970s the U.S. is estimated to have auctioned as much as 530 tonnes or 17 million ounces of gold.

The IMF, which is controlled by the U.S. sold by auction 25 million ounces of gold in June 1976. This was followed by a further 44 auctions, which culminated in May 1980. During these auctions the IMF disposed of 778 tonnes of gold.

Despite these sales the price of gold rose from $35.00 (U.S.) per ounce to reach $850.00 (U.S.) per ounce in January 1980.

Between 1989 and 1998, several different countries sold almost 2,100 tonnes of gold. Among the sellers were Canada, which sold all its gold holdings and Australia which disposed of most of its gold.

In July 1999, Gordon Browne the British Chancellor of the Exchequer began a gold auction of 25 tonnes per quarter until by the final auction Britain had divested 415 tonnes or 58% of the country's gold holdings. Apparently, according to Lonmin PLC CEO Nicholas Morell, Mr. Browne told him, "We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under control but we have now succeeded. The U.S. Federal Reserve was very active in getting the gold price down. So was the UK."

Following the British gold sales, there were no overt gold sales by any country. Rather, the sales went underground. This was accomplished by central banks lending gold to such entities as banks, hedge funds and in the early 2000s to gold producers, which sold the loaned gold and then repaid it out of production. Most producing gold companies have abandoned hedging to advance gold projects due to rising gold prices. No one knows how much central bank gold has been loaned. When I wrote, The War On Gold in September 1999, it was estimated that upwards of 10,000 tons of gold had been loaned by the major central banks. This amounts to approximately a third of total central bank holdings. We can guess that since 1999 central banks have loaned out considerably more of their gold holdings. No doubt, gold producing companies have repaid their borrowed gold, but banks, hedge funds and the like might have been trapped by rising gold prices and have been unable to repay the loaned gold except at a considerable loss. This might account for the savage attack on the gold price that has been waged since the price peak at $1,920 (U.S.) per ounce in September 2011 and would be similar to the reason for British gold sales after July 1999, that is bullion banks caught offside by the rising gold price.

This attack on the gold price has been made in the gold paper markets on the Comex.

The attacks on gold in the Comex are obvious and that is the way the Federal Reserve and the Treasury want it to be. They want those people, who would rather trust gold than fiat dollars, to know that they can use their unlimited supply of paper, at any time, to knock down the price of gold by selling short a huge amount of contracts in one trade, orchestrated to cause the maximum damage to the gold 'bulls'.

This has been their ploy on several occasions, most noticeably on Friday April 12th. and the following Monday April 15, 2013. This takedown of the Comex gold price was heralded by Goldman Sachs, which had issued a sell on gold just three days before (they knew the gold bash was coming).

On that Friday, on the opening 3.4 million ounces (100 tons) of gold were offered for sale in the June futures contract. Two hours later a huge sale of 10 million ounces or more than 300 tons was sent to the floor of the Comex. "This was clearly not the case of disappointed longs leaving the market-it had the hallmarks of a concerted 'short sale', which by driving prices sharply lower would seek to gain further momentum by prompting others to also sell their positions as they hit their maximum acceptable losses."

"The selling was timed for optimal impact with New York at its most liquid, while key overseas markets were open and able to feel the impact. The estimated 400 tonnes of gold futures selling in total equates to 15% of annual gold mine production." Tyler Durden in Zerohedge, April 15, 2013.

The selling continued the following trading day, Monday April 15, 2013. In those two days the price of gold, on the Comex, fell a total of $229.00 (U.S.) per ounce. The price losses on these two days amounted to almost one half of the total gold price losses experienced in 2013.

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Comex Gold, Daily Prices-Friday April 12, 2013- Monday April 15, 2013

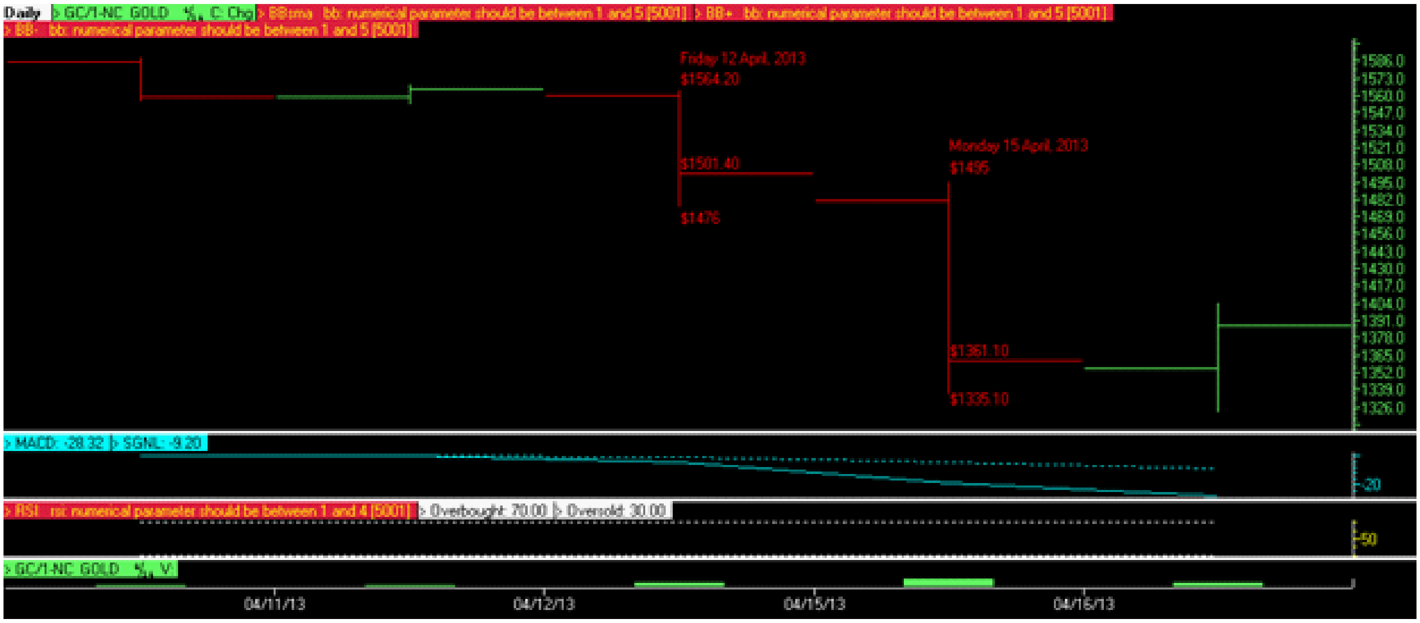

Chart: Thomson Reuters

"Of course, the gold and silver markets are manipulated. You either have to be blind or a Harvard Graduate with a doctorate in economics to ignore the fact."

"The purpose of the manipulation is the same as the purpose of the French Revolutionaries in attacking gold when they were printing their 'Assignats' paper money like crazy; to try to suppress the indicator which showed the destruction they were carrying out with unlimited printing of fiat money. Gold tells the truth so it is an enemy of those who wish to deceive their populations."

"Gold will triumph over paper. It always has, ever since the Chinese invented paper money many centuries ago. However, in the meantime paper money is twisting the economic facts to such a degree, that enormous distortions are taking place in the markets. Enormous investment mistakes are being made. All this will become evident in due course; a gigantic collapse is going to take place and many who think they are very wealthy will find they have next to nothing." Hugo Salinas Price in an Interview in Global Financial Blog by Guillermo Barba. February, 2014.

The paper money war on gold is drawing to a close. The war has been ongoing for 100 years, or since World War I combatants abandoned the pure gold standard system in favour of paper money. The 100 year cycle anniversary is a potent indication that the days of fiat paper currencies are coming to an end and that the gold's monetary role is likely about to be renewed. This, perhaps, will occur in 2017. December 22, 2017 being 300 years after Sir Isaac Newton, master of the Royal Mint introduced a new ratio between gold and silver, which had the effect of putting British currency on a de facto gold standard.

The powers that be, who have been trying to control the price of gold through selling short on both the Comex and the LBMA are running out of ammunition. This ammunition is physical gold itself. Below is a chart showing the amount of paper gold versus the Registered Gold available for delivery. You can see that it is now levered at 100 to 1 and at the highest level since 2000.

In his article published on the January 21, 2014, Chris Tell at Capitalist Exploits shows that there are 370,137 ounces of Registered Gold for delivery at the Comex. Any one entity can be long 300,000 ounces of gold (Maximum 3,000 contracts each contract worth 100 ounces). This is equal to 81% of the gold supply at the Comex should just one entity purchase a limit long position and demand delivery.

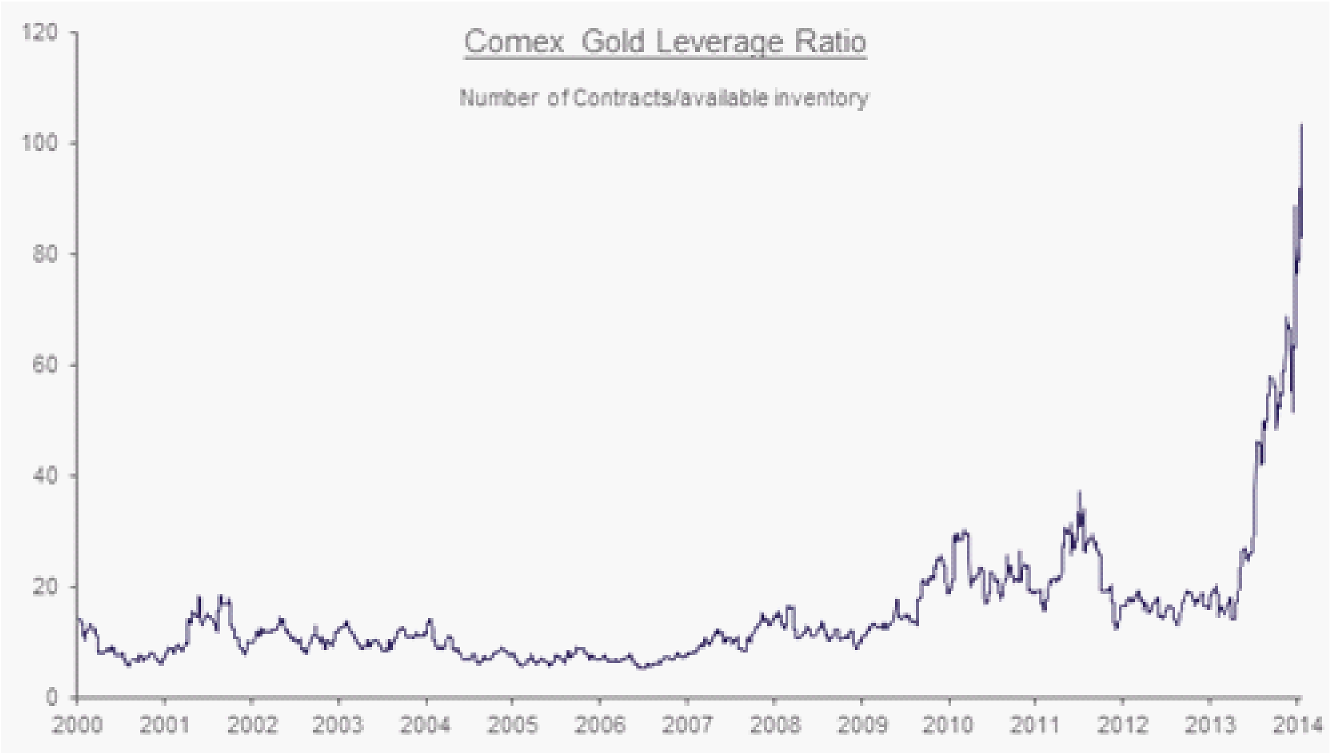

Chart: Chris Tell at http://capitalistexploits

It is a similar story for gold at the LBMA. In a Bloomberg clip dated December 21, 2013, Kenneth Hoffman reported “You could go into a vault in London a couple of years ago. The vaults were packed to the rafters with gold, and the gold would trade from me you to somebody else. You can walk into those vaults today and they are virtually empty. All that gold (26 million ounces has been transferred from London and has gone to Switzerland where it has been recast to higher grade formats and shipped off to Hong Kong and then to China never to return.”

This is corroborated here, http://www.ingoldwetrust.ch/alex-stanczyk-physical-supply-never-been-tighter

As in past fiat money regimes, governments have been desperately trying to maintain the facade that paper is as good as gold. It is a battle that they have never won and another one that they are about to lose.

We are now on the brink of a financial calamity, far greater than any yet experienced. What we are about to encounter will make the 2008 crisis seem minor by comparison.

Nevertheless, even in 2008, it seemed the world stood on the brink of disaster brought about by a debt collapse, principally in the United States and Great Britain. At that time credit essentially stopped operating. Banks refused overnight lending to other banks, because they did not trust the collateral for the loan.

According to Ellen Brown in a report entitled, Is Homeland Security Preparing for the Next Wall Street Collapse, published in Le Metropole Cafe, Gordon Brown, then British Prime Minister anticipated huge social unrest in Britain during the 2008 banking crisis.

“An article on BBC News on September 21, 2013, drew from an explosive autobiography called Power Trip by Brown’s spin doctor Damian McBride, who said the prime minister was worried that law and order could collapse during the financial crisis. McBride quoted Brown as saying:”

“’If the banks are shutting their doors, and cash points aren’t working, and people go to Tesco (a grocery chain) and their cards aren’t being accepted, the whole thing will just explode.”’

“’If you can’t buy food or petrol or medicine for your kids, people will just start breaking the windows and helping themselves.”’

“’And as soon as people see that on TV, that’s the end, because everyone will think that’s OK now, that’s just what we all have to do. It’ll be anarchy. That’s what could happen tomorrow.”’

“How to deal with the threat? Brown said, ‘We’d have to think: do we have curfews, do we put the Army on the streets, how do we get order back?”’

We can anticipate that Gordon Brown’s worst fears, and then some, are about to be realized. Excessive monetary printing by the world’s central banks is a sure sign that the end of the fiat paper currencies is at hand.

Natural law, which is the basis for the honest operation of all markets, has been circumvented by fiat money. There is no such thing today as a free market, where buyers and sellers determine prices independent of outside influence. Prices are manipulated by central banks printing copious amounts of paper money and by their banking cronies; stock and bond prices to the upside and precious metals and precious metals companies’ share prices to the downside. This grotesque price manipulation is almost at an end.

What we can deduce from our understanding of financial cycles is that stock bear markets, the world wide economic depression and the collapse of fiat paper money is about to unfold with unparalleled ferocity due to the hubris exhibited by world leaders and central bankers, who believe that through their ability to create money out of nothing, they have the means whereby they can defeat the natural law of money and the financial markets. We are going to pay a huge price for their unsurpassed arrogance.

Written By: Ian Gordon