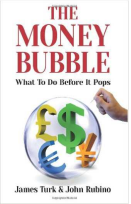

Turk J. Rubino J. The Money Bubble

We are condemned to repeat the past because we don’t remember it. The sequences of cultural moods shape the cycle, the crash resets it. The cycles have fractal configurations, they recur on different scales and the longer the cycle, the stronger the crash. Today’s world is at the end of a long cycle, a very bad place to be. The unlimited printing press of fiat money, unbacked currency allows governments to manipulate markets on an unprecedented scale and to more than double its already excessive national debt between 2007 and 2013. More currency does not equal more wealth; global financial system of this complexity is inherently unstable and with the bursting of this latest and greatest bubble, the world will return to some form of sound money.

We are turning a society based on thrift, industry and transparency into one based on debt, fraud and lies. Statisticians adjusted the formula of the Consumer Price Index assuming the consumers constantly switch from the first choice to the second or third one; government systematically understates inflation and overstates the GDP; unemployment doesn’t consider who stops looking work. Governments and Central banks use the newly created currency before its rising supply lowers its value. Banks have been using thus money in increasing aggressive way, increasing systemic leverage and fragility. With some of these profits thus generated they buy more favorable regulation from Government (regulatory capture). Systematic inflation in finance discourages thrift and saving and encourages borrowing and profligacy. In the real economy customers have little less from their money but secretly. Soaring debt has increased the risk of catastrophic collapse with all domestic civil unrests and geopolitical turmoil. The result is a more intrusive, secretive and coercive government. The infrastructure is evolving into a “turn-key totalitarian state” just waiting to be switched on by some future desperate, deranged or simply corrupt leader. The developed world is in a constant state of near-collapse and governments everywhere feel compelled to tinker with the markets, overtly or secretly, with an increasingly heavy hand. Like the central planning, the manipulators now dominate the global economy: artificial low interest rates, dishonest interest rates and currency exchange rates, cheap mortgages, inflated home prices, suppressed gold markets. Market signals are now distorted to the benefit of someone and trust begins to be eroded. In summary: the economy is in worse shape than that the governments say it is; consumers are getting less value from their money and their standard of living is actually eroding; markets are being secretly manipulated by the governments; the policy and the military are spying in seemingly unconstitutional ways; banks and other corporations are using their dominance of the financial system to commit increasingly blatant and far-reaching frauds. All these events happen simultaneously. The perception is that society’s institutions no longer work for the folk that they were originally designed to serve. The distrust on the system, institution and fiat currency is growing. The most of today’s political and financial malfeasance depends on easy money and that inflation is an ongoing policy of this pervasive new regime. The survival of today’s financial system depends on the ability of government to continue to borrow. Trends toward alternative means of saving, employing capital and transacting everyday commerce reach a tipping point. Today’s world is even more complex and fragile. There comes a moment when complex system goes critical, a very small trigger can set off a “phase transition” to a crisis and the global financial system implodes. The continue monetization of even-greater amount of debt, at the cost of ever-greater hot money flows and asset bubbles, will destabilize developed countries and will lean them to impose capita controls, bail-ins and other forms of assets confiscations that force investors to finance ongoing governments deficits. We are at the debt-event horizon, the point of no return when interest payments begin to swamp society’s ability to generate free cash to cover those payment. A policy option is a “debt jubilee”, a quantitative easing for the masses (helicopter money) to give money directly to borrowers with the proviso to use that to pay off debts. Banks should be intermediaries rather than create money, implying an end to fractional reserve banking. Asset prices will have to fall because inflated by excess borrowing. Because of government interventions, the game has continued but the political consensus breaks down.

A better financial system is possible. Today’s commercial banks would be split into two types: “banks of commerce” would take deposits and keep them safe for a fee, offering checking accounts where payments are made; “banks of credit” would pay interest on deposits and lend out depositor money but would have to match the duration of deposits with the duration of loans. It would be a saner world in which the sharply differentiated types of banks facilitated wealth protection and real wealth creation; banking system would be insulated from the vicissitudes of more volatile investment markets. In such a 100-percent reserve and duration-matched world there will be no need of lender of last resort and to intervene in the currency market; booms and busts will be fewer and less devastating. Without the alteration made by government in the way it calculates changes in price levels, CPI would have risen near double-digit rates; monetary authorities are depressing the exchange rate of gold. Excessive money creation to pay the debts (inflate or die) will show up more and bigger asset bubbles; fiat currency system is the policy's prime directive to siphon resources from its citizens without raising taxes or cutting benefits. A related policy is zero interest rates (ZIRP) to shift income from savers and retirees to debtors, including governments. Bitcoin's widespread acceptance would move the global financial system beyond the control of the world's central banks. But Bitcoin has two Achilles heels: they have to be stored somewhere and no place is 100 percent secure; the growing cyberwar capabilities can override the algorithms and to hijack the system.

Finance has no further to go and the migration of financial assets into tangible things is about to begin on a scale of unprecedented size. Gold never stopped to function as a money; very little gold is used in industry; new production adds only a 1.8 percent a year to the aboveground stock (gold thus achieve the "k-percent rule" of Milton Friedman). Gold is not an asset, it stopped to circulate because of the Gresham's Law, but remains a store of purchasing power and it continue to provide a highly useful alternative method for calculating prices. National currencies are distorted lens to see changes in process. Central banks own 18 percent of world's gold and they've used it to manipulate the metal's exchange rate by loaning it to large banks that sell it. But the game is to an end: gold is migrating from West to East and the vaults are being emptied. The "Fear Index" is the ratio of the amount of gold reserves valued at his exchange rate to the amount of fiat currency (M3). In Us the index is 2.27 percent, extremely low. A return to a normal value (years 1980, 1934 after the great depression) the gold would raise to 14,563. The "Gold Money Index" is the world fiat currency ($) to the total of gold reserves (oz). The value is now $ 12,003 per ounce.