The Big Reset

Willem Middelkoop

War on Gold and the Financial Endgame

AUP

The Big Reset

The Big Reset

Gold Wars and the Financial Endgame

Willem Middelkoop

AUP

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

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

ISBN 978 90 8964 599 9
e-ISBN 978 90 4852 219 4 (pdf)
e-ISBN 978 90 4852 220 0 (ePub)
NUR 781

To Moos and Misha

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

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

Table of Contents

Prologue

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

This book combines information from all previous books with an additional chapter on the expected Big Reset for the current worldwide monetary system. The book tells the story of a mostly hidden world of money and gold which I hope will also be of interest to a larger, international public.

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

special thanks to my wife Brechtje Rood who was responsible for the infographics in this book and who supported me in every way during this stressful year. Finally, I thank you for taking the time to read it.

Willem Middelkoop, Amsterdam, January 2014

Chapter 6 – The Big Reset

Gold is money, everything else is credit.
– J.P. Morgan (1906)

I hate to see gold rise because then I know all else is falling apart.
– Larry Kudlow, CNBC (2006)

The global financial system, that has produced more and more credit in increasingly easier ways, possibly has reached the point that it can no longer operate in an official way.
– Bill Gross, founder of investment company PIMCO (2012)

Rising prices of precious metals and other commodities are an indication of a very early stage of an endeavour to move away from paper currencies.
– Alan Greenspan, former Chairman of the Fed (2009)

Any overt Chinese declaration on the central role of gold would automatically damp Chinese people's faith in fiat currencies and could promote an unhealthy over-interest in the metal, with negative effects on the country's stability... China may announce a rise in gold reserves, as a result of accumulation over a reasonably long period, at a time that makes sense for the Chinese authorities. This points to a possible announcement at some time in the future when the gold price may be unambiguously rising.
– Official Monetary and Financial Institutions Forum (OMFIF), *Gold, the renminbi and the multi-currency reserve system* (2012)

INTRO

The world economy and its currency system can be compared to supertankers. All route changes have to be planned well in advance. If history has taught us anything, it is that a currency tends to lose its world reserve status over a long period of transition. The 'endgame' is often drawn out over decennia. The British pound first suspended its gold standard[238] at the start of World War I in 1914, but it was not until 1944 before the dollar became its successor (during the last Big Reset).

Although the US understands that the dollar will one day lose its world reserve currency status, the Americans will try to maintain their monetary supremacy for as long as possible. Actually, it was already apparent to the Americans back in 1971 that the endgame for this dollar-based system had begun.[239] For over 40 years, the US has used all its power, creativity and flexibility to keep its monetary allies on board. Every trick in the book has been used to convince countries to support the dollar and to marginalize the role of gold.

But since the Fed has started to monetize most of the newly issued debt as part of its QE operations, the point of no return has been passed. Probably even before 2020, the global financial system will have to find a different anchor. There are only two options: a reset planned well in advance or one that is implemented following a monetary crisis. We can expect the US to take the initiative again before a real crisis of confidence occurs.

238 In an attempt to reintroduce stability, a variation on the gold standard was reintroduced in 1925. This was abandoned on 21 September 1931.

239 Note that Nixon himself said in his TV adress that day: 'we will press for the necessary reforms for an urgently needed new international monetary system'.

74. Why do you expect a Big Reset of the global financial system?

Our financial system can be changed in almost any way as long as the main world trading partners can agree to the changes. There are two types of resets: those that are planned well in advance – such as the Bretton Woods reset in 1944 which affected almost the whole world – and smaller resets needed due to monetary developments. Examples of the latter are the introduction of the gold-backed D-Mark after the Weimar hyperinflation in 1923 in Germany, the closing of the gold window by the US in 1971, and the theft of depositors' money during the rescue of the Cyprus banking system in 2013.

Two major problems in the world's financial system have to be addressed: 1) the demise of the US dollar as the world's reserve currency, and 2) the almost uncontrollable growth in debts and in central banks' balance sheets. For all of these issues, central banks have only been buying time since the start of the credit crisis in 2007. Insiders predict that much more radical action will be needed before 2020.

In 2013, the Chinese openly said that the time had come to 'de-Americanize' the world. They called for 'the introduction of a new international reserve currency that is to be created to replace 'the dominant US dollar'.[240] The Chinese have been studying how a reset could occur for quite some time.[241]

But given how sensitive this issue is, nothing can be said in public. Any official comments about a new 'Plan B' will crash financial markets (Plan A) immediately. Central planners know the only way to plan a reset is to do it in total secrecy. That is why

240 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeFVNYQpByU4

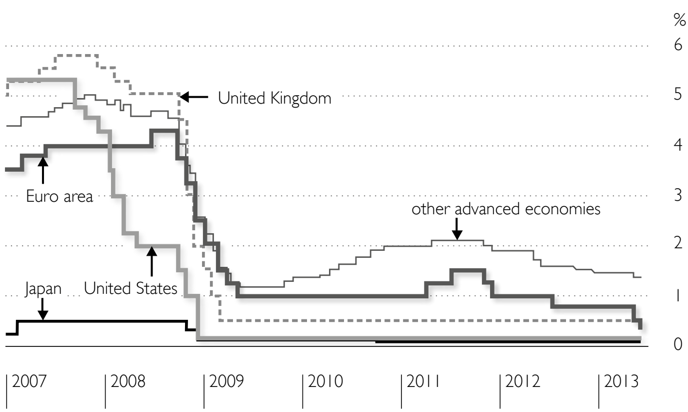
241 Reserve Accumulation and International Monetary Stability, 13.4.2010, http://www.imf.org/external/np/pp/eng/2010/041310.pdf

investors have to watch what central bankers do instead of what they say and prepare themselves well in advance.

Many monetary reforms, like the one in Cyprus, are executed on the weekends when financial markets are closed. On many occasions, there are no concrete warning signs. Only insiders and their 'smart-money' (i.e., hedge-fund) friends tend to be positioned well in advance.

But one thing is certain: in almost all monetary crises and resets, holders of (physical) gold (and silver) have come out financially unharmed. This is because 'gold is nobody's liability'. China stopped buying US Treasuries in 2010 and has been loading up on gold ever since, which is a sign not to be ignored. The Russians have been aggressively buying gold as well, ever since the start of the credit crisis in 2007. The fact that the US is still fighting gold with everything in its power is a clear indication that gold will probably be an important part of a planned reset. If not, it will at least be the best safe haven when the storm passes.

Policy rates advanced economies



Source: BIS

75. How can the international monetary system be changed?

Most people see our financial system as a binary system with only two options: it will work (0) or it will crash (1). They tend to forget that this is a highly flexible system, which can be adjusted in many ways. Because the current system is constructed by mankind and does not follow the rules of natural law, almost any desired change can occur.

In theory, all debts worldwide could be wiped out on a Sunday afternoon. We could start from scratch with a new balance sheet the next morning. If every citizen in the world was to be credited with let's say 1,000 newly designed Bancors, which would be accepted by all banks and businesses, we could start anew in an instant. We could even write off all mortgages and nationalize all real estate, and have a system whereby we pay rent to the state. These kind of scenarios are hard to comprehend, but when the need is highest, solutions can become very creative.

We do not live in a binary black and white world. Rather, reality is in 256 shades of grey. It is therefore much more logical to expect an outcome for our reset to range somewhere between 1 and 256. Some debts will be cancelled. Some parts of the financial system will be nationalized, as we have seen happening with banks and other financial institutions since 2008.

A new reset will simply bring our monetary system to the next phase. All parties involved (the US, the EU, the BRICS countries, Japan, the Middle East) have so much to lose if they wait too long implementing the necessary changes. And the US knows they have the most to lose. They understand they will need to take the initiative again, just as they did in 1944 (Bretton Woods 1.0) and 1971 (Bretton Woods 2.0). The wait is on for Bretton Woods 3.0.

76. Since when have people started planning a new international monetary system?

Soon after the worldwide crash of financial markets in 2008, the IMF and others began brainstorming about a possible next phase of our international financial system. In 2010, the IMF published a report that looked into the possibility of a financial system without a dollar anchor:[242]

> The current system has serious imperfections that feed and facilitate policies – of reserves accumulation and reserves creation – that are ultimately unsustainable and, until they are reversed, expose the system to risks and shocks that a reformed system could minimize. Ultimately, whether the International Monetary System (IMS) is stable or not will depend on the policies of the main economies in it. But the foregoing paper identifies a number of reform avenues that, other things equal, would contribute to making the IMS more stable, in and of themselves and by reducing the demand for international reserves and diversifying their composition. Many of these reforms would require relatively new and complex forms of international collaboration, and must therefore be seen as a long haul effort.

As if to underline its intention to reform the international monetary system, in 2012 the IMF added the Australian and Canadian dollars – the world's leading commodity-rich currencies – as official reserve assets. With this, the list of officially recognized reserve assets rose to seven. The dollar, euro, sterling, yen and Swiss franc were already officially classified as IMF world reserve currencies. This is a move one would expect in the first stages leading up to a reset. David Marsh, chairman of the

242 Reserve Accumulation and International Monetary Stability, 13.4.2010, http://www.imf.org/external/np/pp/eng/2010/041310.pdf

Official Monetary and Financial Institutions Forum (OMFIF), a London-based think tank, noted:[243]

> This marks the onset of a multi-currency reserve system and a new era in world money... For most of the past 150 years, the world has had just two reserve currencies, with sterling in the lead until the First World War, and the dollar taking over as the prime asset during the past 100 years ...The birth of the euro in 1999 has turned the European single currency into the world's no. 2 reserve unit, but it has been now officially accepted that the dollar and the euro share their role with smaller currencies... The renminbi has attracted widespread attention as a possible future reverse currency. But it's still some years away from attaining that status, primarily because it is not fully convertible.[244]

A reset planned well in advance can and probably will consist of different stages. Currently the US, together with the IMF, seems to be planning a multiple reserve currency system as a successor to the current dollar system. But it is likely to be a system that still has the dollar at its centre, with other important currencies added to the core. Since most economic blocs in this world[245] hold far too much debt, just as the US does, most will be interested in joining the US in its endeavour to preserve as much as possible of the status quo.

243 The OMFIF was founded in 2008 by two former FT journalists who wanted to create a forum at which central bankers and people from the financial industry could meet.

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

245 Except for Russia, which defaulted on its debts in 1998.

77. Will gold be part of a reset?

While most experts believe there will be no return to a full gold standard, gold will probably play a much greater role in the next phase of the financial systems.

The OMFIF report mentioned previously points towards the likelihood of gold growing in importance within the international financial system:

> The role of gold during and after a move to a multi-currency reserve system is an important issue. Gold will probably play a greater role during the transition period. This is likely to be a period of substantial fluctuation in currency values as market actors attempt to find a new equilibrium. That is where the attraction of gold, an asset that is nobody's liability should stand out… Any sizeable increase in distrust of politicians, founded on suspicion that they – or central bankers – are debasing the currency, is likely to increase the attraction of gold as a hedge against all currencies… As the international community attempts to take on these challenges, gold waits in the wings. For the first time in many years, gold stands well prepared to move once more towards the center-stage. This could be the start of an immensely important phase in the history of world money.

If we have learned anything from the history of money, it is that gold (or silver) have always been needed to rebuild trust in monetary systems. The former president of the Dutch central bank, Jelle Zijlstra, wrote in his biography:

> The intrinsic value of gold along with its romantic image has until the 1960s dominated the international monetary framework. It was perhaps a bit irrational anchor however a stable anchor. Eventually, this changed, not because

> old-fashioned understandings had been replaced by more modern, but because the United States of America found the role of the dollar threatened by gold.[246]

But now, some forty years later, the US may consider it useful to bring back gold to support the dollar.

Some American insiders have even been calling openly for a return to the gold standard.[247] One such insider is neo-conservative Robert Zoellick, the former President of the World Bank, who wrote an open letter to the Financial Times in 2010 entitled 'Bring back the gold standard':

> …the G20 should complement this growth recovery programme with a plan to build a co-operative monetary system that reflects emerging economic conditions. This new system is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves towards internationalisation and then an open capital account. The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values. Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today… The development of a monetary system to succeed 'Bretton Woods II', launched in 1971, will take time. But we need to begin. The scope of the changes since 1971 certainly matches those between 1945 and 1971 that prompted the shift from Bretton Woods I to II.

According to Steve Forbes, CEO of the eponymous magazine and an advisor to some of the 2012 presidential candidates, the

246 http://www.jcaschipper.nl/the-zijlstra-notes/
247 http://www.telegraph.co.uk/finance/personalfinance/investing/gold/8117300/Bring-back-the-gold-standard-says-World-Bank-chief.html

'debate should be focused on what the best gold system is, not on whether we need to go back to one'.[248] It was therefore no surprise to see an interview with Professor Robert Mundell in Forbes Magazine in which he argues for a return to the gold standard for both the dollar and the euro.[249]

Mundell is seen as one of the architects of the euro and has been an advisor to the Chinese government. Mundell remarked:

> There could be a kind of Bretton Woods type of gold standard where the price of gold was fixed for central banks and they could use gold as an asset to trade within central banks. The great advantage of that was that gold is nobody's liability and it can't be printed. So it has a strength and confidence that people trust. So if you had not just the United States but the United States and the euro (area) tied together to each other and to gold, gold might be the intermediary and then with the other important currencies like the yen and Chinese Yuan and British pound all tied together as a kind of new SDR that could be one way the world could move forward on a better monetary system.[250]

248 http://www.forbes.com/forbes/2011/0606/opinions-steve-forbes-fact-comment-gop-prez-wannabes.html

249 Mundell endorsed the gold standard on Pimm Fox's Bloomberg Television 'Taking Stock.'

250 http://www.forbes.com/sites/ralphbenko/2011/06/13/the-emerging-new-monetarism-gold-convertibility-to-save-the-euro

78. Will SDRs become the new world currency?

Soon after the fall of Lehman, the United Nations[251] called for 'a new Global Reserve System' based on Special Drawing Rights (SDRs), which have been in existence since 1969. This form of 'IMF money' could be relatively easily set up as a medium of exchange for international transactions to replace the dollar. The UN report:

> The global imbalances which played an important role in this crisis can only be addressed if there is a better way of dealing with international economic risks facing countries than the current system of accumulating international reserves. Indeed, the magnitude of this crisis and the inadequacy of international responses may motivate even further accumulations. Inappropriate responses by some international economic institutions in previous economic crises have contributed to the problem, making reforms of the kind described here all the more essential. To resolve this problem a new Global Reserve System–what may be viewed as a greatly expanded SDR, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations–could contribute to global stability, economic strength, and global equity.

In a 2009 speech, Governor Xiaochuan of the People's Bank of China (the Chinese central bank) also called for a new worldwide reserve currency system. He explained that the interests of the US and those of other countries should be 'aligned', which is not the case in the current dollar system. Xiaochuan suggested developing SDRs into a 'super-sovereign reserve currency discon-

251 Experts of the President of the General Assembly on reforms of the international monetary and financial system, http://www.un.org/ga/president/63/letters/recommendationExperts200309.pdf

nected from individual nations and able to remain stable in the long run'.

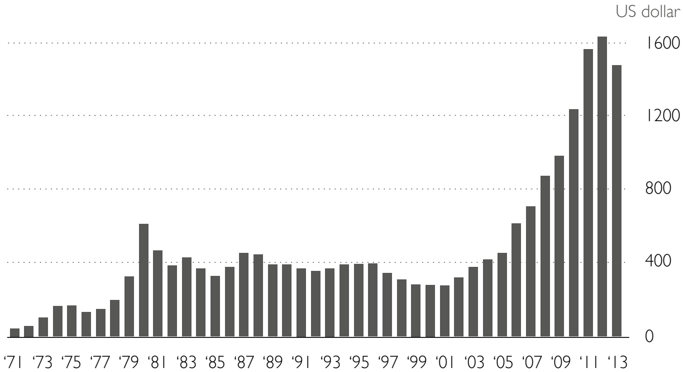
The OMFIF has also called for extending a new SDR to include the so-called R-currencies – the renminbi, rupee, real, rand and rouble – and possibly gold:

> By moving counter-cyclically to the dollar, gold could improve the stabilizing properties of the SDR. Particularly if the threats to the dollar and the euro worsen, a large SDR issue improved by some gold content and the R-currencies may be urgently required... So well before the renminbi advances to a reserve currency status, gold might return to the heart of the system.

According to some experts, the IMF needs at least five more years to prepare the international monetary system for the introduction of SDRs. Some doubt whether we have the luxury to wait that long. Another financial panic could break out well before the IMF is ready to implement its SDR plan.

Average yearly gold price

As a percentage of GDP



source: Incrementum

79. Some other reset scenarios

In his book *Currency Wars*, Jim Rickards describes a scenario in which a new gold-backed dollar could be introduced in the US:

> A 'new' gold dollar will be created at 10 times the value of the old dollar. A windfall profits tax of 90% would be imposed on all private gains from the upward revaluation of gold.

According to Rickards, such a gold revaluation including a new gold-backed dollar is one of the last instruments available to the Fed to avoid a total collapse of the dollar system one day. A revaluation may be needed because the Fed is quite insolvent, with a balance sheet that has grown to almost $ 3,500 billion. Surprisingly, the value of all international financial reserves of the US is only around 150 billion (including $ 11 billion in gold reserves), slightly more than Mexico's reserves and significantly less than Algeria's ($ 190 billion). To put this into perspective, China's reserves will reach $ 4,000 billion in 2014, while Japan has over $ 1,300 billion.

One of the reasons for this low number is that the US, just like the IMF, still values gold at the historical price of just $ 42 per ounce. This is unusual because the ECB and many other central banks value their gold reserves at market prices. The US government hopes to spread the message that gold is a metal with little value, while the dollar is the value of choice.

A revaluation of the 8,000 tonnes of US gold reserves to let's say $ 8,400 per ounce would mean over $ 2.2 trillion in gold assets instead of $ 11 billion at the time of writing.

The Chinese realize the US could surprise the world with a gold revaluation. Wikileaks revealed a cable sent from the US embassy in Beijing in early 2010 to Washington in which a

Chinese news report[252] about the consequences of such a dollar devaluation was quoted:

> If we use all of our foreign exchange reserves to buy US Treasury bonds, then when someday the US Federal Reserve suddenly announces that the original ten old US dollars are now worth only one new US dollar, and the new US dollar is pegged to the gold – we will be dumbfounded.

Gold revaluations or fiat money devaluations have been debated by many experts, as it may be the only way to prevent worldwide hyperinflation. According to Ben Davies, co-founder and CEO of Hinde Capital, revaluing gold to back up and reset the monetary system could be one of the least disruptive ways out of the credit mess.

Tocqueville Gold Fund manager John Hathaway has also discussed the prospect of a serious and sudden revaluation of gold. In an interview, he remarked that he was afraid that people might lose confidence in central banking much sooner than most people think.[253] Hathaway knows what he is talking about, since he built his fund and fortune since the gold bull market of the 1970s when a previous crisis of (dollar) confidence was being fought.

252 http://www.forbes.com/sites/ralphbenko/2012/10/01/signs-of-the-gold-standard-emerging-in-china/

253 http://kingworldnews.com/kingworldnews/KWN_DailyWeb/Entries/2013/6/13_Hathaway_-_Gold_To_Shock_World_With_Rapid_$ 1,000_Advance.html

80. What is China's master plan?

The Chinese have been quite secretive about their monetary strategy. It is a known fact that the Chinese have been accumulating huge amounts of gold since the start of the credit crisis. They know, even from their own history, that gold has been used time and again to rebuild faith when a fiat money system has reached its endgame.

In 2012, the main academic journal of the Chinese Communist Party's Central Committee published an article that sheds light on China's strategy. The article was written by Sun Zhaoxue, president of both the China National Gold Corporation (CNG) and the China Gold Association (China Gold). We should not underestimate his position, because in 2011 he received the 'economic person of the year award' during a TV show broadcast live on CCTV, the state television channel.

The essence of his article was only picked up in the West when it was translated a good year later.[254] He explains how China has a strategy of hoarding gold in order to safeguard the country's economic stability and to strengthen its defense against 'external risks', which could be translated as a collapse of the dollar or the euro or even the global financial system. Even more remarkable was his view that civil hoarding of gold was important for the Chinese national gold strategy:

> Individual investment demand is an important component of China's gold reserve system; we should encourage individual investment demand for gold. Practice shows that gold possession by citizens is an effective supplement to national reserves and is very important to national financial security. Because gold possesses stable intrinsic value,

254 http://koosjansen.blogspot.nl/2013/09/building-strong-economic-and-financial.html (The original version appeared on 1 August 2012 in Qiushi magazine, the main academic journal of the Chinese Communist Party's Central Committee)

> it is both the cornerstone of countries' currency and credit as well as a global strategic reserve. Without exception, world economic powers established and implement gold strategies at the national level.

So while the US and the EU try to discourage its citizens from buying gold, China wants them to buy as much gold as possible.[255]

In the same article, Mr. Sun outlines why substantial national gold reserves are so important for countries like China:

> In the global financial crisis, countries in the world political and economic game, we once again clearly see that gold reserves have an important function for financial stability and are an 'anchor' for national economic security. Increasing gold reserves should become a central pillar in our country's development strategy. International experience shows that a country requires 10% of foreign reserves in gold to ensure financial stability while achieving high economic growth concurrently. At the moment, the US, France, Italy and other countries' gold accounts for 70% of forex reserves. After the international financial crisis erupted, (our) gold reserves were increased to 1054 tons but gold reserves account for less than 1.6% of financial reserves – a wide gap compared to developed countries.

To increase its gold exposure, China is also investing in foreign gold producers. According to Mr. Sun, the Chinese government is intent on accumulating 'additional high quality (gold) assets':[256]

255 On national television, commercials have been shown to tell Chinese how they can easily buy gold and silver. http://rare-panda-coins.blogspot.nl/2009/09/chinese-tv-promotes-gold-and-silver.html

256 http://www.chinagoldintl.com/corporate/mission_statement/

> The state will need to elevate gold to an equal strategic resource as oil and energy, from the whole industry chain to develop industry planning and resource strategies (..) increasing proven reserves, merger and acquisitions, base construction and opening up offshore gold resources to accelerate increase of national gold reserves. Concurrently, actively implement a globalization strategy that will exploit overseas resources and increase channels to grow China's gold reserves. We should achieve the highest gold reserves in the shortest time.

In a company presentation, China International Resources[257] explains that China has an 'aggressive acquisition strategy' of large gold deposits worldwide. Because of this, China International Recources is viewed by China as an 'optimal acquisition vehicle of international targets'.[258]

Mr. Sun is also responsible for the only 'central enterprise' in the Chinese gold industry, China Gold. Founded in early 2003, this company controls the rollout of the official gold strategy. It coordinates gold production, mainly used to increase China's national gold reserves as well as its retail sales in all Chinese regions. According to its website, the company changed its mission statement in 2007 'in the face of the new situation', changing its goal 'to quadruple the holdings of resources and sales in four years'.

257 China National Gold own's 40%.

258 http://www.chinagoldintl.com/investors/presentations/ (slide 7, persentation September 2013)

81. How large are China's gold holdings compared with the West?

The Chinese want to increase their gold reserves 'in the shortest time' possible to at least 6,000 tonnes. That amount would put the Chinese on a par with the US and Europe on a gold-to-GPD ratio. This would open the way for a possible joint US-EU-China gold-supported financial system when needed. Such a reset could also be backed by Russia, which has accumulated over 1,000 tonnes, most of it since the start of the credit crisis in 2007.

China appears to be following a longer-term time schedule. As early as 2009, a 'task force' team of monetary experts, which had been set up after the collapse of Lehman at the end of 2008, had suggested that China's gold reserves should be increased to 6,000 tons by around 2013 and to 10,000 tons by around 2017.[259]

Other senior officials have called for a substantial increase in official gold holdings in the light of the worldwide debasement of currencies. The head of the research bureau at the People's Bank of China, Zhang Jianhua, said in an interview:

> The Chinese government should not only be cautious of the imported risk caused by rising global inflation, but also further optimize its foreign-exchange portfolio and purchase gold assets when the gold price shows a favorable fluctuation. No asset is safe now. The only choice to hedge risks is to hold hard currency – gold.

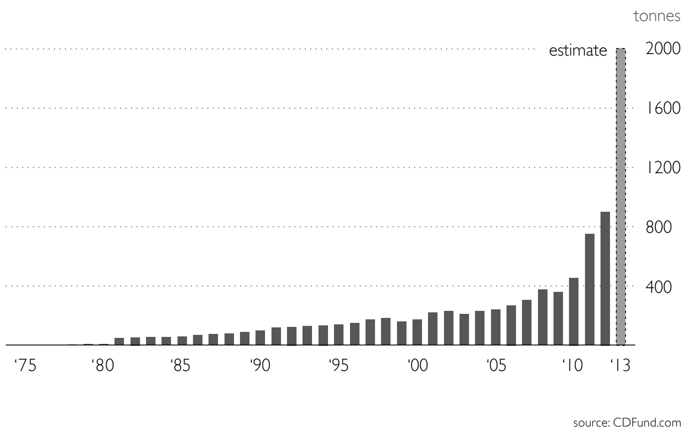
China has overtaken South Africa as the world's largest gold producer, and is now a larger gold consumer than India as the world's largest gold consumer in 2013. All national gold production is added to the national reserves, but the country also imports huge amounts of gold, which is distributed through the Shanghai Gold Exchange (SGE).

259 http://goldnews.bullionvault.com/china_gold_10000_120120092

Deregulation of the market has led to a constant increase in China's gold demand since 2004. In 2013, total Chinese gold demand[260] surpassed 2,000 tonnes for the first time. Total world gold production[261] (excluding China) is just 2,400 tonnes yearly.

A study shows that most of China's gold imports in 2013 came from London vaults. This gold was first refined in Switzerland before it moved, probably permanently, from West to East.

Gold demand China



260 A 2013 study by a Dutch gold blog showed that Western statistics underestimate total Chinese gold demand at least 200 tons.
261 Total demand for gold has been around 4,000 tonnes between 2005 and 2012, while the annual gold production amounts to only 2,800 tonnes. This shortfall must be filled by the sales of scrap metal and official (Western) gold reserves.

82. Does China understand the US war on gold?

Mr. Sun, chairman of China Gold revealed in his article that the Chinese do understand the hypocrisy of the US policy towards gold:

> After the disintegration of the Bretton Woods system in the 1970s, the gold standard which was in use for a century collapsed. Under the influence of the US Dollar hegemony the stabilizing effect of gold was widely questioned, the (American) 'gold is useless' discussion began to spread around the globe. Many people thought that gold is no longer the monetary base, that storing gold will only increase the cost of reserves. Therefore, some central banks began to sell gold reserves and gold prices continued to slump. Currently, there are more and more people recognizing that the 'gold is useless' story contains too many lies. Gold now suffers from a 'smokescreen' designed by the US, which stores 74% of global official gold reserves, to put down other currencies and maintain the US Dollar hegemony.

He then goes on to explain how the US is debasing the value of its currency in a move to reduce its mountain of debt:

> The rise of the US dollar and British pound, and later the euro currency, from a single country currency to a global or regional currency was supported by their huge gold reserves. Especially noteworthy is that in the course of this international financial crisis, the US shows a huge financial deficit but it did not sell any of its gold reserves to reduce debt. Instead it turned on the printer, massively increasing the US dollar supply, making the wealth of those countries and regions with foreign reserves mainly denominated in US dollar (like China) quickly diminish, in effect automatically reducing their own debt. In stark contrast with the

> sharp depreciation of the US dollar, the international gold price continued to rise breaking $ 1900 US dollars per ounce in 2011, gold's asset-preservation contrasts vividly with the devaluation of credit-based assets. Naturally the more devalued the US dollar, the more the gold price rises, the more evident the function of US gold reserves as a hedge.

Because China had accumulated over $ 1 trillion of US Treasuries between 2000 and 2010, a dollar devaluation would be very negative for China.

So China appears to be up to speed with the underlying reasons for US intervention in the gold market. Additional proof of this can be found in a message[262] leaked by Wikileaks from the US Embassy in Peking about a Chinese newspaper report containing the following text:

> The US and Europe have always suppressed the rising price of gold. They intend to weaken gold's function as an international reserve currency. They don't want to see other countries turning to gold reserves instead of the US dollar or euro. Therefore, suppressing the price of gold is very beneficial for the US in maintaining the US dollar's role as the international reserve currency. China's increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB.

Zhang Jie, deputy editor of 'Global Finance', also recognizes the Fed's manipulation of the gold market:[263,264]

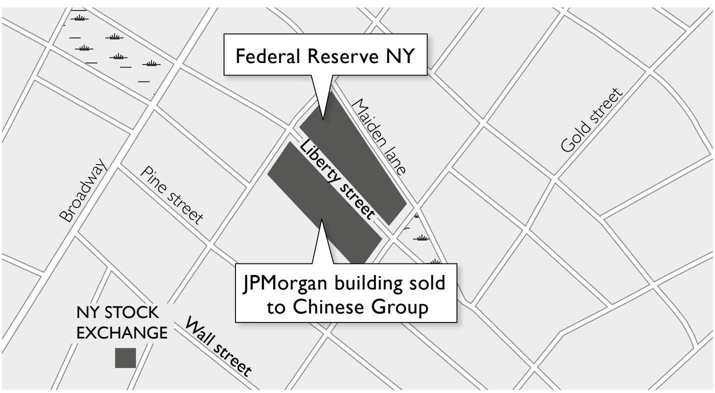
262 http://www.zerohedge.com/news/wikileaks-discloses-reasons-behind-chinas-shadow-gold-buying-spree

263 http://therealasset.co.uk/china-rush-gold/

264 http://www.ingoldwetrust.ch/gold-leasing-is-a-tool-for-the-global-credit-game

In the 1990s, the introduction of gold leasing effectively lowered the price of gold. Low gold and oil prices have caused great difficulties for China, the former Soviet Union and South Africa who were in dire need of foreign currencies. As a result, these countries had to sell resources or core assets very cheaply, which now have to be bought back more expensively. The West thus gained extensively by suppressing gold prices. …For the Fed, it is crucial that the dollar dominates the world and so the Fed will store gold reserves from countries all over the world to control the gold settlement system.

Much of these international gold reserves are stored in the underground vaults of the New York Fed. The sale of JPMorgan's office building at Chase Manhattan Plaza to a private Chinese company can be understood in this light. It is likely that the Chinese were most interested in the gold vaults located underneath the building. The only way the Chinese would feel comfortable storing their gold in the US is if they were completely in control of the vaults.



83. Why is a monetary reset desired by China?

In October 2013, the state news agency Xinhua distributed a commentary declaring that the time had come to 'de-Americanize' the world. This article in effect calls for a Big Reset and speaks about the need for a 'new global financial system', that is not dependent on the US Given the importance of the article, I quote from it extensively here:[265]

> ...it is perhaps a good time for the befuddled world to start considering building a de- Americanized world ...instead of honoring its duties as a responsible leading power, a self-serving Washington has abused its superpower status and introduced even more chaos into the world by shifting financial risks overseas...
>
> As a result, the world is still crawling its way out of an economic disaster thanks to the voracious Wall Street elites, while bombings and killings have become virtually daily routines in Iraq years after Washington claimed ' it has liberated its people from tyrannical rule. Most recently, the cyclical stagnation in Washington for a viable solution on a bipartisan federal budget and an approval for raising debt ceiling has again left many nations' agonized tremendous dollar assets in jeopardy and the international community highly agonized.
>
> Such alarming days when the destinies of others are in the hands of a hypocritical nation have to be terminated, and a new world order shouldering be put in place, according to which all nations, big or small, poor or rich, can have their key interests respected and protected interests on an equal footing. To that end, several cornerstones shouldering be laid to underpin a de- Americanized world... the world's financial system has to embrace some useful

265 http://news.xinhuanet.com/english/indepth/2013-10/13/c_132794246.htm

> substantial reforms. The developing and emerging market economies need to have more say in major international financial institutions including the World Bank and the International Monetary Fund, so that they could better reflect the transformations of the global economic and political landscape. What may also be included as a key part of an effective reform is the introduction of a new international reserve currency that's to be created to replace the dominant US dollars, so that the international community could permanently stay away from the spillover of the Intensifying domestic political turmoil in the United States. Of course, the purpose of its promoting changes thesis is not to completely toss aside the United States, Which is useful impossible. Rather, it is encouragement to Washington to play a much more constructive role in addressing global affairs.

Chinese officials frequently point out that diversifying too rapidly out of the dollar would risk triggering a precipitous decline in the US currency, which would in turn erode the value of China's significant dollar holdings. Similar considerations apply to the euro.

Whatever doubts and possible setbacks the Chinese may have had with regard to the world's two main reserve currencies, they have no other currency options given the size of China's foreign exchange reserves. This is likely to have been an important reason why the Chinese authorities have decided in recent years to boost the share of gold in their country's reserves.

84. The Russian point of view

The Chinese stance can be likened to the position adopted by Russian leader Vladimir Putin. On a number of occasions, he has publicly criticized the privileges the US enjoys in the current system. Speaking at a youth summer camp in 2011, he said:[266] 'They (the Americans) are living like parasites off the global economy and their monopoly of the dollar.' He has called for 'another world reserve currency', and at the 2009 G20 gathering, then President Dmitry Medvedev showed everyone a sample coin for a future goldens world currency.[267]

At the 2004 meeting of the London Bullion Market Association (LBMA) in Moscow, the deputy chairman of the Russian central bank Oleg V. Mozhaiskov delivered a speech in which he accused central banks and bullion banks of being involved in the management of the price of gold.[268] He concluded that the gold market 'may be less than free'. When the Gold Antitrust Action Committee (GATA) requested a copy of this speech, the LBMA refused to release it. When the Bank of Russia learned about this, it supplied GATA with an English translation within a week.

GATA was formed in early 1999 to expose the manipulation of the gold market. At first, the founders of GATA believed the manipulation involved various bullion banks, such as JPMorgan, Chase Bank, Goldman Sachs. It was some time later that they realized the manipulation was far vaster and included the Fed, the US Treasury and other central banks such as the Bank of England. Since then, GATA has always claimed that the yearly gold market deficit was being met by surreptitious selling by central banks.

266 http://www.reuters.com/article/2011/08/01/us-russia-putin-usa-idUSTRE77052R20110801
267 http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeFVNYQpByU4
268 http://news.goldseek.com/LemetropoleCafe/1330458367.php

While the Western media has ignored these GATA claims, the Russians and Chinese have been very interested in GATA's research.[269] Both countries understand and resent the enormous advantages the US has benefited from, since the introduction of the gold dollar standard in 1944.

During his speech at the LBMA meeting, Mozhaiskov cited GATA's work and explained why gold market manipulation was important to the US Likening the central bank to a giraffe, Mozhaiskov quoted a poem well-known in Russia: 'The giraffe is tall, and he sees all.' He acknowledged that the sharp increase in the use of derivatives and the central bank leasing of gold have depressed the gold price in recent years. According to Mozhaiskov, gold is mainly 'a financial asset, not just a precious metal', and due to international financial circumstances, gold and other hard assets were 'more desirable for investment'.

So Russia and China fully understand that the present dollar system is on its last legs and that gold will probably always be a part of the world's monetary system. The old saying 'He who has the gold makes the rules' has been known in the East for thousands of years.

269 According to GATA, three conference calls have been held with the Chinese Investment Corporation, a Chinese sovereign wealth fund, between 2002 and 2013.

85. Could the US confiscate foreign gold reserves stored in New York to introduce a new gold standard?

As always, the future will unfold in a way that we cannot precisely foresee right now. The crucial question is whether an international consensus over a reset of the global financial system can be reached in time.[270]

A breakdown in trust between the most important economic powers could result in a worst-case scenario of escalating trade and currency wars and even a slew of gold confiscations.

There are some who explain China's rush to build up its gold reserves by inferring that the US would prefer to revalue gold together with the EU and China instead of going it all alone.[271] As soon as China's gold reserves as a percentage of GDP reach the same level as that of the US and the EU, the three powers could lead the world in a smooth transition to a system based on SDRs with a form of gold backing as proposed by Mundell and the IMF. This scenario is also put forth by Wall Street insider James Rickards:

> The Fed will do everything they can. When they can't win the battle against deflation, they devalue the currency against gold, cause gold's the only thing that can't fight back. If the Fed wins we'll get inflation and gold will go up. If deflation prevails, we'll wake up one morning and gold will be revalued. The catalyst for a spike into the $ 2,500 to $ 3,000 price range will be an announcement by China, probably in 2014, that they have acquired 4,000 or more in their official gold reserve position. This will put China on an equal footing with the US in terms of a gold-to-GDP ratio

270 The US, the European Union and China together represent 60% of the world's GDP.

271 http://www.silverdoctors.com/tag/gold-revaluation/

> and validate gold as the real foundation of the international monetary system. Once that position is validated, gold will move to the $ 7,000 range in 2015 and beyond. Any lower price level is deflationary and must be avoided at all costs by central banks. The key is that the US and IMF do not want gold to achieve its full potential price (of around $ 7000) until China has acquired its appropriate share of official gold reserves. Any other outcome is unacceptable to China.

Rickards says he expects the Chinese to 'command a seat at the top table of the central banks… To lay out a future strategy that includes a gold-backed IMF super currency for which it has made no secret about its support.'

His ideas are shared by Jim Sinclair, Chairman of the Singapore Precious Metals Exchange:

> I expect a price of gold of $ 3000-$ 3500 before 2016 when I see the first attempts for the big reset with bail-ins. By 2020 the great reset will be in place. Physical gold markets will be disconnected from paper gold markets and the gold price might even rise to $ 50,000 per ounce.

Rickards has warned that, should there be another dollar panic, the US might not hesitate to confiscate foreign gold holdings stored with the New York Fed in order to introduce a new gold-backed dollar.[272] The introduction of a gold standard by the US could be needed to avoid chaos and regain trust:

> A return to a gold standard is a possibility, but I don't see that in the immediate future, I think we need to have a collapse first. A collapse of the dollar standard and the

272 In his book *Currency Wars*. http://www.itulip.com/forums/archive/index.php/t-23752.html

petro-dollar deal. Then it (the dollar) will have to be replaced with something, which will either be the SDR or gold. By confiscating foreign official gold holdings and private gold on US soil, the Treasury would possess over 17,000 tons of gold, equal to 57% of all official gold reserves in the world. This would put the United States in about the same position it held in 1945 just after Bretton Woods. Such a hoard would enable the United States to do what it did at Bretton Woods, dictate the shape of the new global financial system.

86. Do we need to fear more financial repression?

The term 'financial repression' (FR) was first employed by McKinnon and Shaw in 1973. Investopedia defines financial repression as 'measures by which governments channel funds to themselves as a form of debt reduction'. One example of FR is holding interest rates lower than the rate of price increases in order to lower government interest expenses.

Carmen M. Reinhart and M. Belen Sbancia have identified some other forms of FR, to which I have added my interpretations:[273]

- Strict investments regulations
- Nationalizations (confiscations of pensions)
- Regulation of cross-border capital movements
- Prohibition of certain investment assets
- Special taxes (for the rich)
- Direct interventions ('plunge protection team' Wall Street)
- Haircuts on deposits (bail-in)
- Closure of banks (bank holidays)

Since the beginning of 2003, there has been an agreement between Japan and the US to support financial markets by buying equities. Authorities in Hong Kong have admitted that they supported the Hong Kong stock exchange during the Asia Crisis of 1998. In a 2013 survey of 60 central banks by Central Banking Publications and RBS, 23% said they own shares in listed companies or plan to buy them.[274]

Mohamed El-Erian of PIMCO, the global bond investment management company, acknowledged recently that instances of financial repression are increasing in the US. Support for his

273 Carmen M. Reinhart and M. Belen Sbancia,

274 http://www.bloomberg.com/news/2013-04-24/central-banks-load-up-on-equities-as-low-rates-kill-bond-yields.html

analysis comes from an unexpected corner. Ex-Fed Governor Kevin Warsh openly admitted that his former colleagues 'are forced to suppress markets'. Clearly, the gold and silver markets fall is this category. This confirms the desperate attempts made by the ruling financial and political elite to maintain the current status quo.

History has shown that the closer we come to a major reset, the more likely it is that forms of financial repression will be activated. The reset of the Cyprus banking system demonstrated that very few of those affected were prepared in advance. Worldwide, a number of countries are preparing legislation in anticipation of the same kind of bail-in as the one in Cyprus. The ongoing limitations for Americans to invest abroad are strong indications that more capital controls will be used in the coming years. US citizens in particular should consider spreading their risks and assets geographically.