INSIGHT FROM AN AUSTRIAN ECONOMIST

Presented November 2008 by Charles Savoie

"PAPER NOTES ARE NOT MONEY"---Alexander Del Mar, 1836-1926, statistician and financial historian, mining commissioner of the United States Monetary Commission of 1876 and author "History of Monetary Crimes" 1899

"***FOREIGN GOLD HOLDINGS FACE OTHER DANGERS. THEY INVITE THE WRATH OF, AND PROHIBITION BY, THE U.S. GOVERNMENT.*** Although a California federal court recently declared such a prohibition unconstitutional, ***THE U.S. GOVERNMENT HAS FOR MANY YEARS OPPOSED GOLD INVESTMENT IN FOREIGN COUNTRIES*** on the fallacious grounds that they cause our imbalance of payments and weaken the dollar. We must therefore assume that the very Administration that devalues the dollar will oppose anew all such obvious attempts at escaping or even profiting from the devaluation. And we doubt that the U.S. Supreme Court would void a law or decree that either prohibits or confiscates through taxation such gold profits. ***THE INVESTOR WHO NEVERTHELESS PURSUES THIS DEFENSE FROM INFLATION MUST ANTICIPATE BEING DECLARED A CRIMINAL AGAINST THE PEOPLE AND HUNTED DOWN BY FEDERAL INVESTIGATORS AND TAX COLLECTORS***."---Hans Sennholz, classic Austrian economist, American Opinion Magazine, January 1965, page 54

"***FEW TASKS IF ANY ARE MORE IMPORTANT TO THE CHAMPION OF FREEDOM THAN TO SECURE A SOUND MONETARY SYSTEM***."---Hans Sennholz, American Opinion, May 1965, page 23

"***THE U.S. GOVERNMENT CONTINUES TO MANIPULATE THE GOLD SITUATION***."---ibid, page 29

"A DOLLAR DISASTER AND A COLLAPSE OF THE WORLD'S DOLLAR STANDARD SEEM INEVITABLE TO THIS WRITER."---page 31

"***THE PLANNERS OF THE GREAT SOCIETY ARE WAITING FOR A NATIONAL EMERGENCY WHICH THEY THEMSELVES MAY PRECIPITATE TO CONVERT THE COUNTRY TO A GARRISON STATE.***"---Hans Sennholz, American Opinion, November 1965, page 71

In presentations at Silver Investor I have frequently made many critical remarks about economists. As a class they have literally begged to have darts thrown at them. It does seem that the majority of economists are mere shills for the fiat money machine. Go along to get along is the path of least resistance. If a young person desires a foundation fellowship or scholarship sponsored by some tentacle of the Money Power, he or she must be compliant and afterwards must teach theories of economics supportive of the abusive artificial system. The point as to whether there exists enough precious metals for remonetization is outside the scope of this presentation. It will be addressed later. As for economists being mere academic rodents, there are exceptions---some honest economists have existed. Hans Sennholz (born at Brambauer, in North Rhine-Westphalia, Germany on February 3, 1922, passed away June 23, 2007) was a student of Ludwig Von Mises in the Austrian School of Economics. This is a basic, bedrock school that avoids mumbo-jumbo and sticks to practical realities. It doesn't lend itself to misrepresentation. Sennholz was an economics instructor at Grove City College, Pennsylvania, 1956-1992, and was president of the Foundation for Economic Education, 1992-1997.

Sennholz wrote a column, "Principles Of Economics" for American Opinion magazine for some years. Let's look at some of his remarks from three 1965 issues, starting with January (pages 53-54) ---

“Whether we interpret the LBJ election as a mandate for the “Great Society” or merely a desire for status quo, we must anticipate more spending and inflating, more easy money and lower money value. While Federal spending undoubtedly will continue to rise, taxes may again be lowered, which will leave an ever-growing budget deficit. Federal spending is offered as the common remedy against poverty, unemployment, illiteracy, urban blight, and a hundred problems and vices.”

(This tune still hasn’t changed after 42 years. Though the LBJ budgets looked enormous at the time, what would Sennholz have been able to say about the Bush years? Language itself is beggared to offer expletives of sufficient impact to convey the description of profligacy! Legions of parasites who feed like pigs at the Federal hog trough still want to take from those who have and give to those who won’t work because they make claims such as they have a “mental disorder” that prevents them from being able to work, or other invented excuse to rid themselves of personal accountability. Just continue to lay more debt on the living and the unborn. “Debt isn’t a burden because we owe it to ourselves” is a familiar toxic myth heard in mainstream economic circles.)

“The first and foremost victim of the “Great Society” will be the U.S. dollar. Its precarious state of health is already the concern of most informed bankers and economists all over the Free World. With over $27 billion in current liabilities and little more than $15 billion of gold in Fort Knox, of which some $12 billion constitute legal reserves for Federal Reserve notes and bank reserves, the U.S. dollar is dangerously overextended. Only $3 billion of free gold “support” more than $27 billion in foreign claims against it.”

(Yes, the LBJ years were the so-called Great Society years. They commenced with Kennedy’s head being split open in Dallas in November 1963. Johnson busied himself with attacks on silver coinage and intensifying the drive to eliminate silver certificates. As for the bankers and economists Sennholz mentioned, obviously he knew people that few, if any, of us knew. Yet the topmost bankers were concerned with transitioning away from the still prevailing system of gold redemption for dollars, except for certain bankers especially in France, a feat they accomplished just after mid 1971. Sennholz didn’t survive to see any audit of U.S. gold holdings. Those who put the world off the gold standard prefer certain subjects remain obscured. Their view is that average citizens lack the "maturity" to understand, and therefore acquiesce to, efforts made to impoverish them.)

"***NO ONE CAN KNOW HOW LONG OUR MONEY MANAGERS CAN CONTINUE TO MANIPULATE THE SITUATION THROUGH FOREIGN GOLD LOANS, INTERNATIONAL MONETARY FUND ASSISTANCE, GENTLEMEN'S AGREEMENTS, FOREIGN AID, AND OTHER DEVICES***. But we do know that every overextension must end in bankruptcy and embarrassment if the debtor continues in his spendthrift ways."

(Sennholz attested to the fact of official gold manipulation, identifying himself as a man of conscience, who had no use for dishonesty.)

"The recent election barred conservatives from salvaging the dollar through balanced budgets and credit stability. But it does not prevent them from adjusting their personal lives and fortunes to the inevitable decline of the dollar. By personally escaping the ill effects of inflation, as far as this can be done in the short run, they not only save themselves from economic ruin and injustice, but also serve society by preserving productive capital."

"As inflation depreciates all claims to money, all such investments should be avoided, including savings accounts, various life insurance policies, industrial and government bonds, mortgages, pension funds, and other claims to money. Instead, the conservative, who is as thrifty as ever, seeks investments in real goods. He prefers to buy a home or land, or a business partnership; he buys common stock ***AND SILVER***, or expands his inventory of merchandise and other real goods."

(I am very familiar with an individual who stubbornly told me, "Well I'll go with the U.S. dollar" upon my urgings to move savings accounts into silver coins. This is not a person who is stuck to know what to do when a traffic light shifts from red to green. Yet the inflationary problem is no less clear-cut, but this individual's reasoning fails at this point. We can save in dollars, but that is an unwise policy, like the wolverine that ate a porcupine and died from quill punctures.)

"Such an escape from inflation entails certain risks that flow from economic changes and the problems of management. To buy a home, for instance, is to run the risk of loss in case the neighborhood deteriorates, or the house may be overpriced when purchased. To buy an apartment house entails all the tasks and headaches of management. To buy common stock entails the risk of price decline if the company loses money. But no matter how annoying these problems of investment and the tasks of management may be, ***THEY ARE MINOR WHEN COMPARED WITH THE RISKS WHICH MONEY SAVINGS FACE IN THE FUTURE.”***

(Residential real estate was a different picture in 1965. What Sennholz knew as certainty was that the government’s inflationary policies were going to continue to callously swindle all with funds in savings accounts, which the banking community assures us is very thrifty!)

“In recent years many investors have shifted some funds to foreign countries, or have purchased foreign gold or gold certificates. When the dollar is devalued they hope to escape devaluation losses by holding sounder foreign money or gold. This writer is not convinced that this escape from dollar inflation and devaluation can be successful. The U.S. dollar is the primary reserve currency of the world. When it breaks, all other Free World currencies have no choice but to follow us in currency devaluation. The American depositor in a Swiss bank, for instance, will face a franc devaluation equal to the dollar devaluation.”

(All paper currencies are now, and have been for many years, children’s play money used by adults as the real thing.)

“Foreign gold holdings face other dangers. ***THEY INVITE THE WRATH OF, AND PROHIBITION BY, THE U.S. GOVERNMENT.*** Although a California federal court recently declared such a prohibition unconstitutional, ***THE U.S. GOVERNMENT HAS FOR MANY YEARS OPPOSED GOLD INVESTMENT IN FOREIGN COUNTRIES*** on the fallacious grounds that they cause our imbalance of payments and weaken the dollar. We must therefore assume that the very Administration that devalues the dollar will oppose anew all such obvious attempts at escaping or even profiting from the devaluation. And we doubt that the U.S. Supreme Court would void a law or decree that either prohibits or confiscates through taxation such gold profits. ***THE INVESTOR WHO NEVERTHELESS PURSUES THIS DEFENSE FROM INFLATION MUST ANTICIPATE***

BEING DECLARED A CRIMINAL AGAINST THE PEOPLE, AND HUNTED DOWN BY FEDERAL INVESTIGATORS AND TAX COLLECTORS."

(Last month's presentation featured a highly placed banker in 1960 who railed against Americans owning gold anywhere. Sennholz realized the Federal Government is in the hip pocket of the Money Power. In the end there is no defense for our Constitutional rights, principles developed from such earlier monumental documents as the Magna Carta, other than to be politically active, or to revert to revolutionary principles. It is the business of the free marketplace---not of any government---to determine what shall be used as money.)

"The American investor who buys foreign gold mining stock, for instance, South African gold mining stock traded at the London Stock Exchange, may fare differently. He may indeed profit greatly from currency devaluation, ***PROVIDED THE U.S. AND BRITISH GOVERNMENTS DO NOT IMPOSE SPECIAL CAPITAL GAINS TAXES ON THE RISE OF THE GOLD MINING STOCK.*** At the present such a radical measure which would constitute a hostile act against South Africa appears unlikely."

(Sennholz knew the paper money conspirators are keen to close every loophole and block every exit in their campaign to impoverish those outside their circle.)

"In our belief, the best defense against monetary depreciation is investment in land and real goods. Even common stock holdings are no longer inflation proof ***AS SOON AS THE GOVERNMENT IMPOSES COMPREHENSIVE PRICE CONTROLS."***

(Price controls are no feature of any free society. These may be called Socialist but Fascist is a more closely accurate term. They are attempts to deny the inflation the government has caused with its artificial currency, and they are additionally maneuvers on the part of the monopolistic big rich to drive competitors out of the marketplace. They always generate shortages and dampen investment in all affected sectors. As far as land investments are concerned, this is governed by timing as much as any other sector. It is certain Sennholz realized as much. The Astors bought undeveloped land on the fringes of New York, held it, then when the city's growth reached their tracts, the value soared. I had an uncle who bought raw land in East Texas. One parcel had as a geologic structure underground, the

Hainesville Dome, associated with a petroleum deposit for which he turned down an offer of many millions. The main thing to remember about land investments is to buy at the bottom of a price cycle and to remember that illiquidity is frequently a problem for choices not favored by location. Nothing will ever be as liquid as the monetary metals!)

"The relative stability of the stock market during World War II, when the U.S. government inflated and depreciated the dollar at a reckless rate, illustrates this point. Today the steel industry is enmeshed in price controls that are imposed that are imposed by Presidential threats, accusations, and investigations. The same doubts arise regarding investments in all other businesses and capital goods that would be subject to price and rent control."

(The LBJ years were very tough on independent steel concerns. His Pilgrims Society buddies like Roger Blough of U.S. Steel (made cover of Time Magazine on July 20, 1959) and Harold Holmes Helm of Bethlehem Steel who were allegedly irked by the price ceilings, were benefitted by the choking out of smaller concerns with vastly smaller capital and credit access. Of course since those years the plans shifted with "Trilateralization," another Pilgrims Society front, in the export of most of our heavy industry. Mr. Helm of Chemical Bank and numerous corporations was chairman of The Pilgrims admissions committee.)

"Rampant inflation and stringent price controls create the most difficult circumstances for any personal defense against monetary depreciation. And yet, even then the investor who uses his knowledge of classical economics can escape the brunt of monetary destruction. Investments in least essential industries prove to be rather profitable whenever the government imposes price controls on basic and essential industries. In the socialistic countries of Europe "unessential" industries, such as recreation and entertainment, jewelry, art and coin collections and many "unessential service" industries, which governments usually do not bother to control or whose very nature prevents controls, are very profitable even under socialism. Let us hope that we shall never experience these dreadful manifestations of radical socialism."

(The Founding Fathers would never have conceived of wage and price controls. These are a bizarre form of theft and straight out of hell. Commenting in

American Opinion for May, 1965, Sennholz wrote in "Inflation---Government's Quiet Thief," pages 23-32---excerpts) ---

"Few policies are more calculated to destroy the existing basis of a free society than the debauchery of its currency. Few tasks, if any, are more important to the champion of freedom than to secure a sound monetary system. Throughout the history of civilization, governments have been the chief cause of monetary depreciation. Variations in the supply of metallic money due to new gold and silver discoveries occasionally affected money value. But these changes were rather moderate when compared with those caused by government coin debasements or paper money inflations. Especially since the rise of nationalism and socialism, governments all over the world have embarked upon an unprecedented inflationary trend, the disastrous effects of which can only be surmised."

(It would be very beneficial if those of us who stand for metallic money could enlist the support of the National Rifle Association. I offered "Guns And Silver" here many essays ago and there was no effect. Can it be the NRA cares only about lead and brass shell casings, and if their money fails entirely, it's just a "so what, we can go out and shoot a deer" kind of deal? The right to keep and bear arms having been protected, by itself doesn't answer every other quality of life consideration. New gold and silver discoveries, historically, is a matter which many paper money oriented economists have twisted to their advantage. They like to harp about the Comstock Lode and how the flood of new silver allegedly caused the need for the Coinage Act of February 1873. We can't get into that here but it's another fascinating view into duplicity.)

"The collectivistic state both breeds and in turn feeds on inflation. It breeds inflation because "expansionism" forms an integral part of the prevailing economic doctrine, which guides the monetary policies of the Great Society. Every one of its chief features encourages inflation. The large number of spending programs lays a heavy financial burden on the public treasury, which is tempted to provide the necessary funds through monetary expansion. At first, the Welfare State may merely endeavor to redistribute wealth and income in accordance with its conception of fairness and on the basis of political strategy."

(Pork barrel politics, grabbing funds from others to lavish on those who would vote to reelect a career Congressman or Senator, lends itself to those able to submerge their conscience.)

"Without income of its own, the government may at first derive its spoils and benefits from the income and property of wealthy producers."

(But which wealthy are we talking about? Not those with Wall Street law firms representing them, who have organized myriads of trusts, veritable cans without labels, and tax exempt foundations, admitted by economic historian Lundberg to often list phenomenally valuable assets as worth $1.)

"But this very convenient and popular method of redistribution is soon exhausted while the demands on the state go unabated or even increase. As the raising of taxes on the masses of people is rather unpopular, and therefore politically inexpedient, the Welfare State is tempted to provide the promised benefits through deficit financing. ***IT RESORTS TO DEFICIT AND CURRENCY EXPANSION AS THE LEAST PAINFUL AND MOST DECEITFUL METHOD OF FUND RAISING***."

(This is the well known "inflation tax." As more dollars are created, prices for everything are bid up. As this is written, silver shows $9.41 the ounce on the COMEX---killing the messenger. Food prices however, are up, and continue to rise. A steep, sustained rise started in 2000 worldwide and can only worsen as the central banks inflate.)

"To give "scientific" justification to the policy of progressive currency depreciation, a host of self-styled progressives and socialists have developed intricate theories and doctrines. From the days of John Law down to those of Lord Keynes and his disciples, authors and statesmen have propagated the blessings of monetary expansion. ***THEY ASCRIBE TO GOVERNMENTS THE MAGIC POWER OF CREATING REAL WEALTH OUT OF NOTHING***, of raising the national income through efforts of the central bank and its printing presses."

(An anecdotal report reached me during the summer concerning an area elementary school teacher who took her class on a tour of the North Texas currency printing plant. The children were all dazzled by the sights and sounds, the whizzing machinery, the Federal Reserve notes in sheets, the armed guards, and by her smiling assertion that "this is where our nation's wealth comes from!")

"Most parts of the Free World conduct monetary and fiscal policies in accordance with the doctrines expounded by the most famous economist of the twentieth century, John Maynard Keynes. His "General Theory of Employment, Interest, and Money" is the most influential economic book of the present era. For almost thirty years it has shaped, and continues to shape, American economic policies."

(Refer to the "Britain Against Silver" series for details of Keynes association with the Rothschilds, various members of The Pilgrims Society of Great Britain, and his saboteur's role as a member of the Royal Commission on Indian Currency, whose members shafted silver in 1926, with global repercussions. It was a landmark event even more monumental than the Crime of 1873. Keynes, 1883-1946, fiat paper money mob hit man, who played a role in causing the Great Depression,) ---

"According to the Keynesian system, unemployment is never to be corrected by a readjustment of wage rates. Instead, it is to be countered by deficit spending called "government investment" and by low interest rates artificially produced by the monetary authority. The Keynesian remedies for unemployment can all be summarized in a single term---inflation. According to Professor Jacob Viner, "Keynes reasoning points obviously to the superiority of inflationary remedies for unemployment. In a world organized in accordance with Keynes specifications there would be a constant race between the printing press and the business agents of the trade unions." ***LIKE ALL DEMAGOGUES, KEYNES DID NOT BOTHER ABOUT THE DISASTROUS CONSEQUENCES OF INFLATION***. In fact, he even boasted about this neglect, stating that "in the long run we are all dead."

"The disastrous effects of monetary depreciation strengthen the demand for Welfare State measures. The effects of inflation provide socialists with the chief arguments for an extension of government functions and powers. Inflation causes displacements in the distribution of income and property. As lenders and borrowers, most people usually do not take into account variations in the objective exchange value of money."

(Inflationary trends are why it's essential to differentiate between nominal and inflation adjusted dollar sums.)

"If the monetary value should decline, the lenders are bound to suffer losses in purchasing power while the borrowers gain a corresponding amount. There are long term contracts that do not have to be fulfilled until a later point in time. There are long term employment contracts or contracts for the supply of materials, all of which involve money payments over time that entail inflationary risks."

(Fractional reserve banking protects the bankers from some lending losses while ordinary lenders have no such approach.)

"It is a popular, although erroneous, belief that inflation affects only wealthy individuals because they are said to be the money lenders. This may have been true during the Middle Ages when economic wealth was concentrated with a few wealthy noblemen and merchants, while the masses of people were struggling for mere survival. But ever since the nations of the West emerged from feudalism and mercantilism, and tried individual freedom and enterprise, an ever growing number of people were able to save some part of their rising incomes, so that probably most people today are lenders on net balance."

(This situation has changed in the last 43 years, so that personal and private debt versus savings is a negative today.)

"They are the millions of creditors of life insurance companies, pension funds, savings banks, and similar institutions. Millions own government savings bonds and other money assets. It is true they may have charge accounts and other consumer debt. But in most cases savings probably exceed obligations. This single fact indicates that the people at large are vitally interested in sound money."

(Again, this situation has radically shifted from net savings to net debt. From his statements regarding government caused inflation, it appears unlikely he would have advised purchase of savings bonds from any government unwilling to reign in its expenditures. Pensions? Which pension plans aren't at real risk, other than those in the form of hard precious metals and in some few cases, precious stones?)

"While most individuals mainly save in the form of money or claims to money, and thus are liable to be victimized by inflation, wealthy industrialists and capitalists usually are debtors on net balance. They may be indebted to bondholders, banks and other financial institutions. They probably recognize the disastrous nature of inflation and therefore are hedging against it by avoiding investments in money or claims to money."

"The disastrous nature of inflation becomes clearly apparent when we contemplate the magnitude of the losses inflation is inflicting on millions of American creditors every year. Even at the modest rate of three percent annual depreciation, the annual losses to creditors and gains to debtors amount to more than $20 billion a year. ***THE IMPACT OF THIS SILENT TRANSFER OF SAVINGS AND WEALTH ON MILLIONS OF INDIVIDUAL LIVES SURPASSES ALL IMAGINATION.***"

(Usually persons on fixed incomes, often the elderly, are hit hardest by the government's "inflation tax." They have to choose between heating and air conditioning, and often food, and harsh prescription drugs, that one of the tentacles of the Money Power screws them with.)

"Professor Hayek illustrates the same phenomenon with a statistical inquiry into the losses suffered on savings during the last forty-five years. "What," he asks, “would be the present value in various countries of the accumulated savings of a person who for a period of forty-five years, from 1913 to 1958, had put aside every year the equivalent in money of the same value and invested it at a fixed rate of interest of 4 percent?” According to Hayek, only in Switzerland would the saver have retained some seventy percent. In the United States and Canada he would still have approximately fifty-eight percent. In the British Commonwealth he would have kept some fifty percent, in Germany thirty seven percent, and in France and Italy between eleven and twelve percent.”

(The 1913 start date appears uncoincidental. With the rise of fiat currencies no rational basis existed for the thoughtful saver to rely on such eroding vehicles as a means of storing his or her labor or business income, other than for limited short term contingencies. Freidrich Hayek, 1899-1992, another famous Austrian economist) ---

“Considering such staggering losses on the part of the thrifty and provident, the rising clamor for Welfare State measures is not surprising. These losses strengthened the demand for social security, aged health care, and government controls over prices and rents. They foster federal aid and subsidies and otherwise provide the chief arguments for an extension of government power.”

(Extensions of government power---yes; a government that can provide all, while a mere myth, is in real terms one that must take all first. The Founding Fathers understood the role of government was to defend our borders, to prevent fraud in the marketplace, and to keep the peace---not to take the place of the free enterprise system! The government has no business acting as supplier of taxpayer funded raw material to a users cartel.)

"Long term employment contracts tend to inflict inflationary losses on millions of skilled and professional people. Within a few years of employment they may lose some ten percent or more of their income through monetary depreciation. Their relative social position in society declines with the consequent decline of real income and wealth. This effect is all the more significant as it hurts especially that class of people that is most influential ideologically. There cannot be any doubt that teachers and ministers shape and significantly direct the moral trends of the future. As fixed income receivers, they are especially victimized by inflation. This fact, in addition to their losses on savings, partially explains why most intellectuals are known to be more radical in political and economic outlook than many other groups of society."

(That's correct, and now he becomes more interesting)---

"Monetary depreciation inflicts special losses on yet another economic sector. All politically controlled industries are especially vulnerable to inflation because their prices are not permitted to adjust to the monetary depreciation. Being subject to government control, their prices are fixed by "authoritative" decree in accordance with "authoritative" judgments of fairness and adequacy. American railroads and public utilities are eminent examples. Throughout the last thirty years of planned inflation they faced continuously rising production costs. But their own charges and prices were determined by government committees and commissions. Without fail, ***PRICES WERE AUTHORIZED ONLY AFTER LENGTHY PUBLIC HEARINGS LONG AFTER INFLATION HAD RAISED THE PRODUCTION COST. IN ADDITION, THE PUBLIC AUTHORITIES ARE TEMPTED TO "FIGHT" INFLATION THROUGH RESISTING PRICE INCREASES BY INDUSTRIES UNDER THEIR CONTROL***. Thus squeezed by rising costs and relatively rigid prices, the financial position of these unfortunate industries deteriorated considerably. Today their economic plight has become a national dilemma. Can it be surprising that some of them joined the public chorus clamoring for federal aid and subsidy?"

(The Fascist/Socialist "Planned Economy" really took off during the Franklin Roosevelt years. No wonder I am researching a presentation to be called "FDR Grand Scale Criminal." Similarities between Franklin Roosevelt and Benito Mussolini will be noted and documented.)

"The worst economic effect of monetary depreciation is the trade cycle with boom and bust. What has been more damaging to individual freedom and the enterprise system than the recurrence of recessions and depressions? It was during the Great Depression when interventionism and Socialism made their greatest strides. And today, each new recession gives new impetus to the forces of statism."

(The NRA---National Recovery Administration---was a Fascist/Socialist agency in the Roosevelt administration, created by the so-called National Recovery Act of 1933. It dictated prices and wages to a broad spectrum of industries. It was ruled unconstitutional in 1935; however, many of its features were revived in the Wagner Act of 1935. The Reconstruction Finance Corporation was another major entity in the Roosevelt era and it too had ulterior purposes.)

"Inflation at first produces conditions that appear favorable to everyone concerned. Businessmen make profits which are generally larger than usual. Employment and wages increase rapidly; for which, of course, the labor unions and the administration in power claim credit. The general atmosphere is one of confidence and prosperity. But then the inflation induced activity tends to raise factor prices. The costs of labor, capital, and materials increase. In fact, they soar until profit margins return to normal and finally turn into losses. Another recession commences."

(The pattern is distressingly familiar. In order to squelch opposition to inflationary policy, "educators" propagate misleading economic theory, the media routinely conducts orgies of misinformation, and Congressional inflation sponsors blame others. The racketeers back of the Federal Reserve System sit back and gloat.)

"Recessions and unemployment are caused by maladjustments between prices and costs, not by mysterious lacks in consumption spending. Currency expansion causes price and income upheavals. It wastes resources by causing malinivestments and boom consumption. It may temporarily lead to utilization of labor and other resources hitherto priced out of the market. But it does not correct or alleviate maladjustments. It causes them."

"Monetary expansion must solely be blamed for the numerous trade cycles that have plagued this country from its beginning. ***WHETHER IT WAS THE DEBAUCHERY OF THE CONTINENTAL CURRENCY BY CONGRESS, OR BY EXPANSIONARY ADVENTURES OF THE FIRST AND THE SECOND UNITED STATES BANKS***, the inflations of the U.S. Treasury during the British-American war and the Civil War, the greenback and silver inflations, the World War I inflation, all these adventures in currency expansion constituted the causal preludes for the ensuing depressions."

(At last we find an error in Sennholz's reasoning. Currency expansion causes inflation; however, it is more specifically the issuance of unbacked currency that is at fault. I defy anyone to really demonstrate anywhere in history that an inflationary episode was truly the fault of silver. Earlier in his remarks he mentioned about buying silver for protection against inflation. Considering the timeline he mentioned, he must have been thinking of the Comstock Lode silver and the inflation it allegedly caused. It did not create an imbalance with the gold supply, as the Comstock also produced great amounts of gold, and the California gold strikes it followed after had sent much gold into the economy. There was no gold silver imbalance before the Comstock, proved by such instances as the sinking of the treasure ship in 1857 that sent the country into a panic. Get it straight for once and forever---neither gold nor silver can possibly cause inflation.)

(William Lewis Herndon, who commanded the U.S. Central America, sank with his ship and a cargo of some 30,000 pounds of gold, on September 12, 1857, in an Atlantic hurricane.)

"Likewise, the Great Depression had its beginning in the bursts of credit expansion by the Federal Reserve System in 1924-1925 and again in 1927-1928. Without these inflationary adventures the stock market boom of 1928-1929 could not have developed and the ill-fated crash would not have occurred. Since the end of World War II, the four recessions were preceded by four booms that were kindled by Federal Reserve credit expansion."

(What he said is correct; however, it is often overlooked, or left unstated, that the main driver for the Great Depression was Great Britain's attack on the world's monetary silver structure, starting in 1926. This merciless fact is profusely documented, including from multiple Congressional sources, in the 324,000 plus word series "Britain Against Silver" in archives of Silver Investor. It is additionally documented in "Silver Tour of China" 1930 and 1931.)

"Full employment through currency expansion has become the official doctrine that guides the economic policies of most Administrations. Whether it is deficit financing or easy bank credit, the consequences are always the same. The economic boom that is created is short-lived and inevitably ends in another slump. If however the monetary authorities should someday decide to keep the boom alive through continuously feeding it with ever-larger quantities of new money and credit, they would initiate the "crack-up-boom" with its panicky flight into gold and other real value."

(Isn't that what we see today? Will an angry American public demand that Congress close the COMEX because it has prevented them from sourcing silver? Will the Silver Users Association companies all shut down operations to help the Federal Reserve System squelch silver for more months?)

"***THIS FLIGHT WOULD SIGNAL THE COLLAPSE OF THE CURRENCY***. The Administration that created the boom may finally want to "fight" it through all-round controls on prices, wages and rents. The runaway inflation may lead us quickly into Socialism. Contrary to the wishful thinking of the expansionists, inflation sooner or later must come to an end. Once the people begin to realize that inflation is no Act of God, but the willful policy of the monetary authority, they may react by reducing their cash holdings, savings and claims to money, and increase their purchases of goods and services. This reaction, which in terms of the mathematical economists is called an "increase in the velocity of money," would accelerate the rise of goods prices and the depreciation of the currency."

(Those in the know have been doing this far in advance of the general public. I started in February 2002 and in summer 1998 in mining shares.)

"THE VERY AUTHORITIES THAT INFLATED THE CURRENCY WILL THEN BLAME THE PEOPLE FOR THE DEPRECIATION AND URGE

THEM TO "HOLD THE LINE ON PRICES AND WAGES. They may urge the citizenry to buy more savings bonds or even raise income taxes in order to reduce the people's spending power. Of course, all these measures must be futile because they aim at symptoms rather than causes. They enhance the spending power of the government and concomitantly reduce the freedom of the people. ***GOVERNMENT ALONE IS STRICTLY ACCOUNTABLE FOR INFLATION BECAUSE GOVERNMENT ALONE DETERMINES THE MONEY SUPPLY."***

(As we progress we'll see what Sennholz believed to be the consequences of price controls.)

"The people's freedom is greatly reduced by yet another concomitant effect of monetary depreciation. When our money incomes rise on account of inflation we are lifted into progressively higher income brackets. Inflation together with the feature of tax progression allows the government to absorb an ever-larger share of the people's earnings. Inflation pushes us all towards the top rate of income taxation, the seventy-seven percent tax bracket."

(While tax brackets and rates have undergone change since 1965, it remains true that the rich without trusts and foundations are at a disadvantage to those having these advantages. John D. Rockefeller said---"Own nothing; control everything.")

"Business income and taxation are especially affected by monetary depreciation. When prices rise, a distortion in profits takes place. They are made to appear far larger than they actually are. Inflation drives the cost of replacing plant and equipment far above the original cost***. BUT FOR TAX PURPOSES THE GOVERNMENT RECOGNIZES ONLY THE ORIGINAL COSTS AND THUS FORCES BUSINESS TO OVERSTATE ITS ACTUAL EARNINGS***. It levies income taxes on imaginary profits that, in reality, are inflationary costs of replacement."

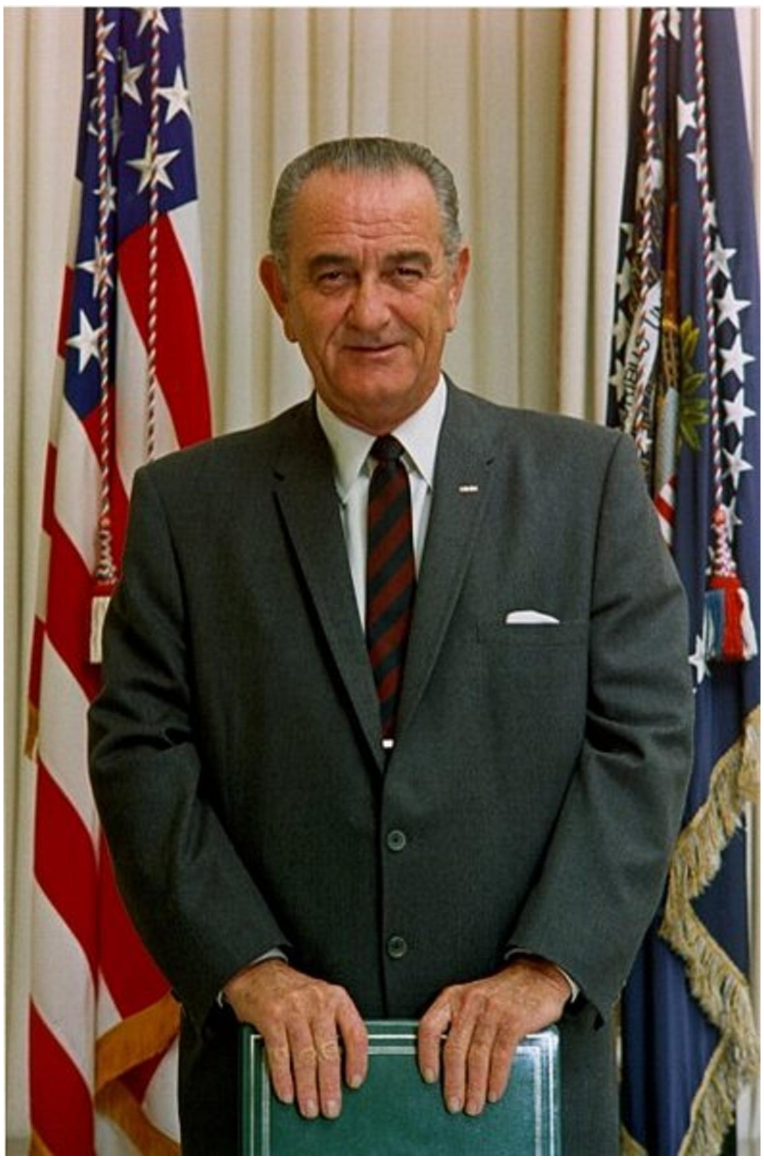
"An analysis of 1947 and 1948 industrial earnings and taxes found the cost of replacing plant and equipment today is usually from two to three times its original cost. Yet depreciation can only be based on original cost. Figures indicate that in each of the years 1947 and 1948 American non-financial corporations fell $10.1 billions short of recovering the current dollar cost of making good the annual wear, wastage and obsolescence of their facilities. If to these figures representing underdepreciation there be added so-called profits reported as earnings on inventory valuation and amounting to $8.2 billion in the same period, there has been, for the last two years, an overstatement of real profits by these corporations amounting to $28.4 billion. If to these $28.4 billion are added the $24.3 billion of taxes paid by non-financial corporations to the Federal Government during those two years, we have a total of $52.7 billion. The total so-called profits before taxes of this same industrial group were $62.1 billion."

"The real profits of all American non-financial industry, therefore, after correcting for this inflation distortion, were the difference between these figures, or approximately $9.4 billion---an average of $4.7 billion per year. Compare this if you will with the average annual industrial profits of $5.4 billion during the five prewar years."

(Sennholz noted that the realistic basis of earnings valuation meant that the corporations discussed overpaid Federal taxes by $11.1 billion in 1947-1948. He then asks, "Can it be surprising that American economic growth is painfully slow and sluggish?")

"In the last few years of dollar weakness the spectacular outflow of gold from the United States has attracted the attention of most economists. Even the Washington planners cannot deny the precarious position of the U.S. Treasury in international payments. But while the U.S. Government ***CONTINUES TO MANIPULATE THE GOLD SITUATION THROUGH FOREIGN GOLD LOANS, INTERNATIONAL STANDSTILL AGREEMENTS, GENTLEMEN'S AGREEMENTS, AND OTHER SYMPTOMATIC REMEDIES***, it now faces a situation that is potentially even more embarrassing than the international gold crisis. ***IT FACES A DOMESTIC DILEMMA IN THE FORM OF A SILENT DISAPPEARANCE OF ALL SILVER COINS***."

(This was a topic that had the nation in an uproar. For the first time in our national history, a new President and the bad boys in Congress were ganging up on silver to eliminate silver coinage. The hard money advocates could muster only two victorious points---retention of 40% silver content in Kennedy halves, dated 1965-1969, and maintenance of circulating silver certificates, until summer 1968. Bankers were furious that citizens were hoarding silver coins and the vending machine industry was frantic with worry and Lyndon Baines Johnson, Pilgrims Society member, publicly stated there would be no benefit to hoarders for saving silver coins. I was in a laundromat---or washateria, if you prefer, when I first saw the new clad coins comingled with silver coins. I was only 11 at that time but I realized with a great sense of urgency that I must attempt to persuade a "caretaker" to capture as many silver coins as possible. I was laughed down. Today I am holding well---let us say---a small percent of the silver coins that escaped the Silver Users Association. LBJ, architect of the so-called "Great Society," puppet for the New York bankers) ---



"What would you do if the silver quarter in your pocket should soon be worth fifty cents in silver? You probably would save it, melt it if you have facilities, or sell it to a silver dealer for fifty cents. ***AT LEAST YOU WOULD STORE IT AS A PURCHASING POWER RESERVE WHICH NO FUTURE INFLATION CAN EVER DEPRECIATE. YOU HAVE GENUINE COMMODITY MONEY THAT IS SAFE FROM THE VICISSITUDES OF INFLATIONARY POLICIES***."

(There was a proposal to allow a doubling of spendable value for all silver coins. The banking community wasn't supportive of it. It would be hard to figure what percent of the population scrambled to hoard silver coins, but it was probably less than half the public. It can be stated with certainty that the 1964 Kennedy halves, the last of the 90% silver half dollar coins, were snapped up by the public but fast and banks limited how many of these any particular customer could obtain. Gresham's Law went into full force. Why spend silver coins in vending machines or otherwise when the new clad coins, indisputably of cheaper composition, would suffice? The race was on between the general public and the banking system, including all the Federal Reserve branch banks, to remove silver coins from circulation. The Treasury Department then acted as never before to bend over backwards to accommodate the Silver Users Association and its "needs.")

"This is what may happen soon to all of our silver coins. The last few years witnessed rapidly rising silver prices which today are quoted at $1.29 per ounce troy in the international silver markets. This means that the silver value of every U.S. dollar has risen to one hundred cents, the half-dollar to forty-seven cents, the quarter to 23.5 cents and the dime to 9.4 cents. When the market price of silver reaches $1.38 per ounce, the silver value of all subsidiary silver coins is calculated to reach the stated money values. ***ABOVE THIS PRICE THE SILVER VALUE OF ALL COINS WILL BE HIGHER THAN THE MONEY VALUE, AT WHICH TIME THE COINS WILL NO LONGER BE USED AS MONEY, BUT SOLD AND USED AS METAL***."

(The Treasury Department and Congress made it illegal to melt silver coins. That restriction went by the wayside when enough clad coins were placed into circulation, so that the silver users could start accessing that source of supply. Every 90% U.S. silver coin held by silver investors is literally a piece of American monetary history rescued from the refiners and smelters. The Salinas-Price proposal for Mexico would avoid the problem Sennholz described by not featuring a stated value on their coins. I looked at some of my Canadian Maple Leafs last night and was again appalled by the "$5" that appears on the reverse.)

"Last year, when the silver price reached $1.29 an ounce, the silver dollar reached its parity value and promptly disappeared from circulation. The minor coins will reach this point at $1.38 per ounce. ***BUT THE U.S. TREASURY IS TRYING TO PEG THE PRICE AT THE PRESENT LEVEL THROUGH HEAVY SALES OF SILVER FROM ITS CURRENCY STOCKPILE. IT IS NOW LOSING SILVER STEADILY, WHICH IS HASTENING THE DAY WHEN THE MARKET PRICE WILL BREAK THROUGH ITS PRESENT LEVEL AND CHASE ALL SILVER COINS INTO HIDING."***

(Silver coins started going into hiding as soon as it became public knowledge that there were discussions about ending silver coinage. First to disappear were the Mercury dimes, walking liberty halves and standing liberty quarters, as these were scarcest. When the composite coins hit the marketplace the silver rush accelerated. I met a school principal once who told me he arranged to get all the silver coins from the school lunchroom line, starting in fall 1962. Austrian economist Ludwig Heinrich Von Mises, 1881-1973, under whom Sennholz studied) ---

(The Von Mises Institute is based in Auburn, Alabama http://mises.org/)

"But we would be naïve to assume that the monetary authorities will stand idly by waiting for the day of serious coin shortage. Long before this day arrives, we must anticipate a new coinage law that requires a gradual replacement of our silver coins with nickel or stainless steel coins. We expect this change during the current year."

(What took place is described in "LBJGWB Silver" in Archives of Silver Investor. It includes many of President Johnson's tawdry remarks about silver coins and Treasury Secretary Henry H. Fowler's asinine gibberish about the pretty orange edges of the new quarters. Fowler, who was with the War Production Board in 1944, was with the anti-silver Brookings Institution in 1960-1961, and left Treasury to become a Goldman Sachs partner) ---

"The silver certificates still in circulation are gradually withdrawn and quietly replaced with Federal Reserve notes. The certificates afford the bearer the legal right to demand silver dollars or bullion. ***BUT NO ONE SHOULD ASSUME THAT THE U.S. TREASURY IS STILL HONORING ITS LEGAL OBLIGATION WITHOUT A LOT OF FUSS AND FEATHERS, CERTIFIED SIGNATURES, AND A LENGTHY WAITING PERIOD, ALL OF WHICH AIM AT DISCOURAGING US FROM CLAIMING OUR LEGAL RIGHTS***."

(The Commercial & Financial Chronicle features assorted accounts of people receiving silver granules, like jewelers casting shot, rather than bullion or silver dollars, for the certs they turned in. Treasury representatives apparently had instructions from Secretary Dillon, who became an executive committee member of The Pilgrims Society in New York, to employ devious tactics to fluster those who stood for redemption, including the stall jobs Sennholz mentioned. Yet for the Silver Users Association, metal moved without delay, including ingots returned by other nations from the World War II Lend-Lease program.)

"The most spectacular effect of monetary depreciation is the gold and foreign exchange dilemma. When inflation raises the prices of goods and services, gold becomes the cheapest export commodity."

(Bear in mind that the insane $35 official price cap on gold was still solidly in effect. Mining execs, led by Donald H. McLaughlin of Homestake Mining, argued unsuccessfully against the price discrimination.)

"Gold, like any other commodity, tends to move from places of low value to places where it is valued more highly. It tends to leave countries where its purchasing power is declining and flows to countries where its value is higher. ***A GOVERNMENT THAT DEPRECIATES ITS CURRENCY, AND THUS MAKES GOODS PRICES RISE, DRIVES GOLD OUT OF ITS COUNTRY.*** Gold is so sensitive to monetary policies that a mere anticipation of inflation and credit expansion induces it to move."

"Our easy money predilection continues to reduce our waning gold reserves until we may face international payment bankruptcy. ***THIS MAY COME IN THE FORM OF A SUDDEN SUSPENSION OF GOLD PAYMENTS***, a dollar devaluation, or comprehensive foreign exchange control. In all these cases the U.S. Government would revoke its contractual obligation to redeem all dollar obligations in gold at a given rate of exchange. Such an American bankruptcy not only would inflict huge losses on foreign central banks and foreign investors and depositors, who are holding more than $28 billion in U.S. currency or dollar claims, but also would shatter the leading position of the U.S. dollar in international trade and finance. It would inflict a fatal blow to American prestige in the world and to the American position of Free World leadership."

(A sudden suspension of gold payments---that's exactly what happened under "Tricky Dick" Nixon in August 1971. As for the full consequences predicted by Sennholz, that has taken longer than he would have believed, but as the line from the 1975 film "Hard Times" by Bronson said---"Things have a way of coming around." Of all nations, France was most outraged by the gold suspension.)

"American gold losses are caused by the imbalance in the rates of monetary depreciation between the U.S. and its important trade partners in the rest of the world. Between the two world wars this imbalance worked in favor of the United States, and European gold came to the United States in large quantities. When, after World War II, the European countries finally began to put their monetary houses in order, i.e. when most governments refrained from further deficit financing and the central banks from excessive credit expansion, the balances of payments began to change."

"Of course, the European monetary stabilization was accompanied or even preceded by ***DRASTIC ECONOMIC REFORMS THAT SUBSTITUTED FREE MARKETS FOR GOVERNMENT PLANNING AND CONTROL***. Exchange controls were relaxed or abolished and foreign trade barriers lowered. But at the same time, the United States Government continued its policies of deficit financing and contra-cyclical credit expansion. And while the European governments tended to reduce the tax burdens on business and relaxed or abolished some bureaucratic controls, the business climate in the United States deteriorated steadily. During the Eisenhower regime federal and state business taxes were kept at the peak reached during the Korean War. Social Security and other wage taxes were raised. Depreciation allowances were greatly reduced and bureaucratic controls intensified. Three times within the short period of New Republican control the economy sank into recession."

(Imagine governments---any governments---finally choosing to do what is sensible and rational, rather than obstinately butting their collective heads on a stump with faulty monetary policies.)

"Laboring under such radical government intervention and suffering greatly from its effects, the economy literally depended for continuing operation on the frequent bursts of credit expansion emanating from the Federal Reserve System. The considerable lowering of member bank reserve requirements set free more than $5 billion of bank reserves for employment by commercial banks. The discount rates were lowered considerably during the periods of business decline."

(That $5 billion figure, paltry today in nominal terms, illustrates how much inflation has ensued since the Eisenhower years. On August 14, 1962, The Pilgrims Society of Great Britain hosted a meeting in honor of General Eisenhower, who was President from 1953-1961. I recall my father telling me that Ike was promoted ahead of "several hundred" other officers "more qualified" than him to become Supreme Allied Commander for the 1944 European invasion.)

"In this climate of radical government intervention the American balance of payments problem had its beginning. From 1949 on, the international payments of the United States exceeded its receipts almost continuously. In the period 1950-1956 the average annual loss of gold amounted to $1.5 billion. In the following years it rose to $3.5 billion a year. American gold stock declined from over $24 billion at the end of 1949 to less than $15 billion at the present. However, the rise of foreign short-term liabilities is even more ominous. They soared from about $7.5 billion to over $28 billion today."

"The precarious dollar situation concerns all the economies of the West. As the world's reserve currency, the dollar carries the money and credit structures of the Free World. Its weakness enfeebles all other currency systems and its collapse bears catastrophic consequences. As a reserve currency the dollar is used by foreign central banks, like gold, as a basis for currency creation of their own. When the dollar is inflated and moves abroad through unfavorable balances of payments, the whole world operating under the gold and dollar standard tends to be inundated through inflation of the reserve currency. At the same time, the United States Government can, for a number of years, continue its expansion without being called upon to settle its foreign obligations in gold."

(The last days of the dollar appear to be at hand. The rottenness has reached its ultimate extreme worldwide. I sometimes wonder if the U.S. hasn't secretly told China that if it attempts to convert its dollar holdings into gold, we'll launch nuclear strikes.)

"But having piled deficit upon deficit, and still continuing to announce huge spending programs, the danger of a collapse of the gold-dollar standard has become real and imminent. If foreign central banks were suddenly to demand gold for their dollars, they could topple the money and credit structure of the United States. This is not to imply that the situation is beyond the stage of possible repair. After World War II, most European countries succeeded in emerging successfully from similar situations. But such a repair would require a complete reversal of present economic and monetary policies of the United States Government. It would not suffice merely to stabilize the currency through balanced budgets and credit restrictions. Such a solution would immediately throw the American economy, which has more than 4 million unemployed even during boom times, into severe depression and unemployment."

(What may have been possible in 1965 is certainly impossible today. A totally corrupted monetary landscape must be scrapped and a new system resorted to. Hopefully we will revert to the standards that have never failed---precious metals.)

"No political party would dare to recommend, not to mention administer, this medicine for balance of payments corrections. Therefore, currency reform necessitates a simultaneous economic reform that reduces the unbearable burden of government intervention. Business taxes, which are now the highest in the Free World, would have to be lowered considerably, and the markets be freed from bureaucratic intervention."

(If the government does anything other than prevent fraud and violence in the marketplace, it has overstepped its legitimate bounds.)

"Whether an Administration that is capable of such a radical reversal of present day policies can soon be found is a political question. Without this radical reform, which is tantamount to a full retreat of the New Deal, Fair Deal, New Republican, New Frontier, and Great Society, ***A DOLLAR DISASTER AND A COLLAPSE OF THE WORLD'S DOLLAR STANDARD SEEM INEVITABLE TO THIS WRITER.*** This collapse may come in the form of a sudden announcement of a gold payment suspension by the governments of the United States, Great Britain, and all other Free World countries. Even Switzerland, the Free World's banker, would have no choice but to follow suit, because a sudden decline of the U.S. dollar in the international money markets would invite immediate withdrawal of large funds from Swiss banks."

"The American depositors, for instance, who in the past made Swiss franc deposits, would find it most profitable to withdraw their funds, reconvert them into U.S. dollars selling at large discounts, and then return them to the United States. Even countries that lack American deposits would have to follow the U.S. gold payment suspension because of its severe impact on foreign trade relations. But as soon as all world governments have announced their suspensions, great differences in effect will emerge. The weak currencies, no longer payable in gold, will decline considerably, while the sound currencies, although irredeemable too, but strong in purchasing power, will resist the decline."

(I don't think Sennholz believed that any irredeemable currency would remain sound indefinitely.)

"WE must anticipate the stronger European currencies to retain their old gold parities or merely suffer minor declines, ***WHILE THE BADLY OVEREXTENDED U.S. DOLLAR MAY SINK TO A FIFTY PERCENT DISCOUNT."***

(After nearly 96 years of intentional debauchery our currency has finally approached the wrapping paper and confetti stage.)

"In the end, all currencies no longer backed by gold will seek their international exchange ratios in accordance with their domestic purchasing powers. ***AT THIS POINT THE GREAT SOCIETY WILL BECOME THE CALAMITY DEAL***. When the U.S. Government suspends gold payments the $28 billion dollars now held abroad, in addition to all the U.S. cash not recorded abroad, may be returned to the United States. When the foreign dollar holders can no longer buy gold from us they may at least buy American goods and services. Thus, we must anticipate a great export boom, the monetary manifestation of which is the return of many billions of U.S. dollars to our shores. ***THIS RETURN WILL PROVIDE THE FUEL FOR A RAPID INCREASE IN DOMESTIC PRICES, WHICH IS THE VERY LINK THAT MAKES THE PRECARIOUS GOLD SITUATION A GRAVE CONCERN FOR EVERY PATRIOTIC AMERICAN***."

(2009 should see hyperinflation in America such as never seen before. Will it become as extreme as in 1923 Germany? At present I cannot feature that; yet, there will be startling increases in food prices, which could be the sorest point with the public, and food riots can be anticipated. Watch for supermarkets to have private security and additional police patrols of their parking lots to prevent food thefts. Women alone are at heightened risk as they return home with a load of groceries, as they may be followed by the desperate. Of course, there may also be disruptions in the food distribution chain, and many imported items may be cut off to the U.S. import market. See this item on the 2007-2008 "World Food Price Crisis"---
http://en.wikipedia.org/wiki/2007%E2%80%932008_world_food_price_crisis and

just wait till mid 2009 arrives! In 2008 so far there have been food riots in several dozen nations, 8 of them in Africa. Pakistani food riot in 2008)---

"The disastrous consequences of a gold payment suspension can only be surmised. We may finally experience what many other nations have encountered during this century---a rapid depreciation of the currency with all its calamities. Whether, under the intense economic, social, and political strains of such a currency disorder, we have the moral strength and economic wisdom to return to the ways of freedom, that is the question. When the U.S. dollar sinks to its knees under the weight of years of dealing and wheeling, spending and taxing, government welfare and omnipotence, will we crawl on to Socialism and tyranny? Or, will we yet have enough moral and intellectual strength to rise from the morass of the Great Society and once more walk the road of decency and freedom?"

(Hans Sennholz offered some cogent thoughts in American Opinion magazine, November 1965, pages 71-72)---

"***THE PLANNERS OF THE GREAT SOCIETY ARE WAITING FOR A NATIONAL EMERGENCY WHICH THEY THEMSELVES MAY PRECIPITATE TO CONVERT THE COUNTRY TO A GARRISON STATE.*** The plans were prepared several years ago, awaiting execution upon declaration of the national emergency and the executive orders of the President. The garrison state would not tolerate the significant features of the individual enterprise system. It would not suffer private control over the means of production. Nor would it tolerate free prices, wages, and rents as determined by the people's choices in the market. The garrison state is unadulterated socialism in its most radical manifestation."

"Its significant economic feature is government control over prices, wages and rents. This control usually comes in the form of a ceiling that is imposed on the very day the emergency is declared. Or the ceiling may even be lowered, which necessitates a "roll-back" of prices, wages, and rents to arbitrary levels. Price controls are imposed on the people because the government invariably indulges in huge inflation. We may surmise the enormous increase in government spending that would take place and the subsequent depreciation of the U.S. dollar by comparing the spending patterns during the last national emergency, World War II. In 1939 federal spending was less than $10 billion. In 1940 it barely exceeded $10 billion. But in 1942 it approached $60 billion, in 1943 was almost $90 billion, and in 1944 it reached $94.8 billion."

(Adjusting for inflation no longer suffices---parabolic increases in federal spending and deficits have intensified especially since the Reagan years.)

"If we take $135 billion (the present outflow of cash from the U.S. Treasury)) as the pre-emergency base, then we must anticipate federal expenditures in excess of $800 billion in the first emergency year, $1.2 trillion in the second year, and $1.3 trillion in the third year. ***THE PRICE CONTROLS WOULD AIM AT HIDING THE SYMPTOMS AND EFFECTS OF SUCH AN ENORMOUS INFLATION***."

(Yes, and their other factors would be to further impoverish the public, and to shatter businesses run by those not aligned with the power structure.)

"BUT WHENEVER THE GOVERNMENT HOLDS PRICES BELOW THE FREE MARKET EQUILIBRIUM PRICES, SHORTAGES OF GOODS AND SERVICES INEVARIABLY RESULT. At the controlled prices fixed below the free market prices the demand would exceed the supply. The severity of the shortage is determined by the difference between the government controlled price and the market equilibrium price that would emerge in a free market***. A CONTROLLED ECONOMY IS ALWAYS A SHORTAGE ECONOMY."***

(This is precisely what we have been witness to in the paper markets lowballing the valuations of silver and gold. Price capping causes shortages, period. Ron Paul, one of the few Congressional voices for sound economics, met Sennholz and claims to have been influenced by him http://en.wikipedia.org/wiki/Hans_Sennholz)

"THE GOVERNMENT USUALLY ENDEAVORS TO ALLEVIATE THE SOCIAL AND ECONOMIC EVILS OF THE SHORTAGES THROUGH COMPREHENSIVE SYSTEMS OF ALLOCATION AND RATIONING."

(Perhaps we will all be mailed Federal allocation coupons determining how much pork we may purchase, then go to the store and discover it isn't available because hog farmers have suspended operations due to unprofitability. But in any silver rationing, allocations would be set to go to the most nefarious of the swine---the Silver Users Association. Silver producers, don't allow any concentrate to go to the United States if this happens---choke the price fixers out!)

"Priorities of distribution are established according to official yardsticks of national importance and essentiality. First, second, and third priorities belong to the federal government and its agencies; fourth and fifth to industries working for the federal government; the sixth and seventh to the other levels of government. ***THE PRIVATE CITIZEN IS DISCRIMINATED AGAINST ALL THE WAY. HE IS DEPRIVED OF PRACTICALLY ALL THE AMENITIES OF LIFE THAT COMPRISE A CIVILIZED STANDARD OF LIVING***."

(Various well respected commentators have suggested that the standard of living of average Americans is set to be reduced to 50% of current standards.)

"However, in an emergency economy no one suffers a shortage of paper money. The federal government is spending ever larger amounts, generously rewarding its growing army of servants and industrialists laboring for the government cause. The growing goods shortage on the one hand, and the ample government spending on the other hand, create a surplus of cash that seeks employment in a number of interesting ways. First, people begin to pay off their personal debts. Businessmen liquidate their inventories in order to retire their business debts. The consumption of inventories is tantamount to a gradual impoverishment in terms of real goods."

(Personal debt in America is worse today than just about any time in recent memory, on the average. With an inflationary typhoon brewing via the Bush bailouts, what chance does the average person have to get out of debt?)

"Second, people begin to accumulate ever larger balances in their savings and checking accounts. Having retired their debts and saved large cash reserves, many may really believe that they never had it so good. They overlook the general impoverishment in terms of real goods."

(Which people today does this cash accumulation apply to, other than many professional people and financial hawks? It certainly doesn't encompass most wage earners---not in late 2008.)

"Third, with all this cash in their pockets people begin to spend ever larger sums on amusement, recreation and entertainment. These industries are service industries that can accommodate millions of additional people without much expansion of facilities. The quality of the service will decline, but its quantity can rise indefinitely. Thus, while the people become gradually impoverished in real goods, they seek entertainment, amusement, and recreation."

(There's a $1.75 movie house with seven screens nearby, that runs films after their run at the regular movie theatres concludes. People on minimum wage see these films as their weekly escape.)

"Finally, people will have and spend more money for education, which is a service industry similar to entertainment. Under radical socialism, with shortages of goods and surpluses of money, people want more education. The government endeavors to provide it. In fact, ***THE GROWING DEMAND FOR FORMAL EDUCATION PROVIDES GOVERNMENT THE WELCOME OPPORTUNITY TO SPREAD ITS VERSION OF EDUCATION, WHICH EMPHASIZES THE DESIRABILITY OF COLLECTIVISM AND SOCIALISM***. While people acquire more formal education, they lose sight of genuine knowledge and wisdom that flow from the knowledge and appreciation of individual liberty, private property, independence, and self-reliance. ***WHILE THEY ARE DESTROYED MORALLY AND INTELLECTUALLY PEOPLE ARE CONVINCED THEY NEVER HAD IT SO GOOD."***

"But the shortages of real goods and services usually give rise to the birth of new economic initiative and new productive effort. The mother who sees her children go hungry under the ration system may be willing to raise and secure food by her own initiative. She may be willing to pay a higher price although it is illegal. ***SHE MAY OFFER TO PAY ILLEGAL PRICES WHICH THE SOCIALISTS ARE QUICK TO DENOUNCE AS "BLACK MARKET PRICES."*** A perpetual insoluble conflict thus emerges between the socialist system of production and distribution and the market order. The former uses threats and coercion, fines and imprisonment, and many other devices designed to enforce obedience."

"But the very fact that the market order emerges again and again, ***IN SPITE OF PRISONS AND CONCENTRATION CAMPS, HANGMEN AND FIRING SQUADS***, gives us new assurance that the capitalistic market order flows from the very nature of man. And it gives us new hope that in the end freedom and its economic order will prevail triumphantly."

(As we move towards the close of 2008 with its shattering distortions, we expect more severe turbulence ahead for 2009 and beyond. Hard silver and gold hidden away in your own possession is your optimum defense.)