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Dollar Up—Gold Down—How Is That Possible?

Yesterday, suffering from information overload, I watched a documentary about a huge risk Henry Ford took in 1932, to develop a flathead V-8 engine, and re-design the Ford—a gamble that paid off, producing an iconic engine that was produced until 1954. Ford did this two years into the depression, when few had any money. Still, his showrooms were crowded with lookers, hoping the best years for America were ahead. This morning, in 2020, it was announced that Ford has ceased all North American operations.

The comparison of 1932 with the present gets made because the Great Depression shared commonality with our present economic situation—except our situation is much worse. In 1932, America was a young country, rich in natural resources (the most oil in the known world), with a solid manufacturing base. We had, 15 years earlier, for the sake of bankers, plunged ourselves into debt for WW1, a war which had no basis in reality, and we continued the spending spree, buying stocks on margin, until unsustainable debt knocked it all down.

That all happened under a gold standard, meant to control debt by disallowing government spending in excess of gold held by our nation. But, the greed aspect of human nature, always there to contend with, suspended requirements that we adhere to the gold standard—to fight a meaningless war, then turn the stock market into a lottery, requiring a small down payment to purchase stock—which was not supposed to become a problem because stocks only moved in one direction—up. Does that not sound familiar?

Debt is an insidious thing. There are few feelings worse than the realization that you no longer have reserves, and you are not sure how you will make it through the month (or through a virus lockdown). Now, most of us have an abiding knot in the stomach, indicating this will end badly, because, we don't have a manufacturing base, or possibly the social fabric, to go through what is coming. As a citizenry we have un-payable personal debt, with more debt heaped on us, and our children, by a government on an endless spending spree. And it's made worse by governments, unwilling to face the reality that we are nearing global default and global depression. Instead, the industrial countries continue on with massive spending, using *credit cards* on which they do not know the limits.

There's the argument, and here are the numbers? Estimates for GDP contraction for April indicate a one-third plunge. James Bullard, head of St. Louis Fed, sees up to 40% unemployed during April—most of whom will be sustained by taxpayer bailouts. Many of those jobs were in unproductive, unprofitable businesses—jobs that will not return. Congress passed, and the president signed into law, a 2.2 trillion dollar bailout, then followed it up—after a few days, with another 2 trillion. The powers that be know this is bad. They know the Fed balance sheet is just as likely to see 10 trillion as it is to see 5. They know April's dismal economic date will not correspond to any month in US history.

How bad it is getting is reflected in Fed meeting notes not being accessible until the virus scare is over—as in when Nixon closed the gold window for a short time? Which means we are not allowed to know who gets bailed-out, even though our children's labor will pay for it. It becomes more insane by the day: the Fed is now buying primary, corporate bonds that, as of yet, do not exist. Which means, corporations can go up to the Fed window, with freshly-issued corporate bonds, and sell them to the Fed, for printed, taxpayer money. No questions asked.

The deficit is bigger than during WW2, which cannot nearly be sustained by the tax base. So how does that get balanced? Debt, and a falling GDP, can only be made sustainable through rising taxes and inflation. And across the board the problems are on an exponential curve: the second huge leg down in the stock market has not arrived, because frightened money, from all over the globe, sustain it, and because wealth funds rebalance their portfolios in a falling stock market by buying more. As do pension funds (which will fail if not bailed out), because they have been unable to get the needed 8% to sustain themselves. Now, with the economic (virus) lockdown, they find themselves down another 20%.

The real crash will likely come in the bond market because there is no way to inflate away an inflation problem. The bond market is vastly bigger and more significant that the stock market, and when inflation, in government terms, gets above 10%, it will become apparent there is nothing the Fed can do.

All of the above implies that the dollar, at some point, will become one with difficult to find toilet paper. Can't say when—but sooner rather than later. Meanwhile, sovereign wealth funds (as in 2008) are selling precious metals to meet obligations—putting gold and silver in a down-holding pattern until economic facts become reality. Until then, we will each receive $1200, while our government hides trillions handed-out to corporations, anonymously—on our behalf? There has never been a better time to acquire gold or silver—if you can find it.

Someone asked today if I was *implying* the dollar would crash, taking with it 401Ks and pension funds. I confessed, but reminding them that by now they ought to have done their own work, *inferred* the *implied* facts, and acted on them

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