

FSU Contrarian Roundtable Discussion

Have Central Bankers Won the War
Against Gold and Silver Bullion?

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with

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Sol Palha

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“To have gold is to be in fear, and to want it to be sorrow.”

Johnson

The answer to this rather provoking question is the central bankers have won and continue to win all the battles on their declared war on Gold. Let's look at the battlefield right now.

Gold bullion is really dropping in every strong currency and has been dropping for a while. It only appears that the central bankers are losing here at home, but that is an illusion for people who have no comprehension of the inflation process. Right now the central bankers are still in charge, though as each day passes, they are getting very close to the edge of a very **steep cliff**. A picture is said to explain a 1000 words, so I hope the 3 charts will save me from writing a few extra pages.

I will examine this topic in more detail in my follow up [articles](#) which will be debuting soon here. Their titles will be “The Sneak Fed attack on the Metals Market and “The Silent correction in Bullion” where I will examine the fall in the price of gold in over 13 currencies.

Gold in South African Rand



880 Rands or a whopping 124 US dollars

“Gold makes the ugly beautiful.”
Molifre 1622-1673, French Playwright

“Gold’s father is dirt, yet it regards itself as noble.”
Yiddish Proverb

“Gold like the sun, which melts wax, but hardens clay, expands great souls.”
Antoine Rivarol 1753-1801, French Journalist, Epigrammatist

Namibian Dollar



800 Namibian Dollars less or a whopping 123.24 US dollars

Lesotho Loti



800 Loti less or whopping 125.26 US dollars less

Is it not coincidental that all these 3 countries are neighbors and all three of them show the largest price differential in gold when it is priced in US dollars? Hum, be careful. We are entering a new era in the financial markets. I would hazard a guess that 90% of the analysts out there have no clue on how to price in currency wars into the financial equation. I will attempt to provide you with some clues as to how this war progresses.

So far looking at gold in 13 different currencies, it appears to be losing the battle in 12 of them. I am able to only show 3 charts here. The rest will be shown in my follow up essay. In my next article, The Sneak Fed attack on the Metals Market, I will examine certain schemes where by the **central bankers could have made and probably have made a fortune as a result of the rise in the price of Gold in US dollars.**

Conclusion

Look at the evidence above and you answer the question. Have the central bankers won the war on Gold to Date? The answer is right there. It hurts, it bites, it stings, but it does not lie. Do whatever you want, but the plain cold hard nail biting truth is staring you right in the face. Don't blink if you are trying to find an excuse.

“Fear has its use but cowardice has none.”

Mahatma Gandhi 1869-1948, Indian Political, Spiritual Leader

Will the central bankers win forever? No, they won't. A war is a composition of many many battles. So far the central bank penguin warriors have won all of the battles, but the day will come when they will lose battle after battle and finally they will lose the war. But they will fight tooth, nail and claw to the very bitter end. The war has just begun and the stakes have been increased be prepared for anything now.

In addition, be careful of those so-called **Gold advisors who are forever bullish on Gold stocks.**

As you will notice, I keep driving my point home with Gold and Silver bullion. I don't mention stocks very often, because stocks--no matter what they are--are nothing but speculation. Does that mean that I do not deal with them? Of course I do and I deal with them a lot. But when I do, I realize that I am speculating. I prefer Gold and Silver bullion because they are in your possession once you buy them. You don't have to worry about the CEO and the directors lying about earnings or earnings being diluted or illegal shenanigans.

If you chose to speculate, that is fine. But make sure that if you listen to advice that appears to be free, you do so with a healthy dose of salt, especially if there are several hundred thousand people listening to it. Individuals or corporations with that kind of power are known as market movers, meaning that they could shout out that it is a good time to invest in **horse manure** and the price would spike just because of their large following. As contrarians, you should know that the ones who are not very big are the ones to listen to and there are many such people who post articles on these sites. www.financialsense.com, www.gold-eagle.com, www.freebuck.com, www.goldseek.com, www.goldisfreedom.com, www.solari.com etc.

Do your own work and research and make sure you check everything--including *my* advice.

The bottom line is this: there is a huge war going on, there will be many casualties along the way, the strong and the brave will finally win, and the rest will be vaporized. This time round, Gold will finally win the war, but it won't come without many losses in the battlefield. Nothing good ever comes easy.

“An education obtained with money is worse than no education at all.”

Socrates BC 469-399, Greek Philosopher of Athens-

“Soap and education are not as sudden as a massacre, but they are more deadly in the long run.

Training is everything. The peach was once a bitter almond; cauliflower is nothing but cabbage

with a college education.” Mark Twain 1835-1910, American Humorist, Writer

"If money could talk, it would say Goodbye!"

...Unknown

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Have Central Bankers Won the Fight Against Gold and Silver Bullion?

The question of whether or not the US Treasury and Federal Reserve can successfully suppress the price of gold on the open market is, by its nature, not susceptible to a yes or no answer. The reason for this conundrum lies at the intersection of politics and economics. The fact that the government and its quasi-governmental allies in banking, brokerage and mining have been "successful" in gold price manipulation at all has been largely a function of a long-term shift in the consensus of politically acceptable fiscal and monetary behaviour.

It should be immediately apparent from the preceding paragraph that I accept the idea that the gold price has been and is manipulated by a consortium of interested parties, to include the Federal Reserve, the US Treasury, assorted hedge funds, bullion banks, central banks, and mining companies. Absent the ability to subpoena records and the officials responsible, it is highly unlikely that it will ever be possible to prove the case that such a collusive manipulation has indeed been taking place on a systematic basis over a number of years. The reason for this is that the American courts have, since the government defaulted on the gold clause of its bond obligations in the 30s, consistently supported the government in cases of "national interest" as defined of course by the government. The legal issues notwithstanding, there is also a broad consensus in the economics profession that accepts gold price manipulation on the basis that it can be equated to intervention in the currency markets.

However widely accepted this equation is, it is nevertheless false. In the wake of the abrogation by the United States of the Bretton Woods Agreement, gold was demonetised and relegated to status as a commodity like any other. Now, government intervention in say, the coffee market, might be countenanced under certain conditions, but it is hard to imagine it being conducted under the conditions of strict secrecy and questionable accounting such as surrounds its gold operations. Moreover, central banks print fiat money; they do not print gold or even mine it. It is clear that what is desired by those who control them is a situation in which they are released from the burden of accountability, the last vestiges of which were shed with apparent impunity with the destruction of the Bretton Woods edifice of law and transparency.

Related to the desire for zero accountability is the holy grail of infinite leverage. Authoritarian regimes from remotest antiquity have attempted to debase the coinage they issued. It is only in our age that technology, in the form of dirt-cheap processing power, has made possible a high-tech form of coin clipping via the derivatives markets. Not only can a derivative not be touched, smelled or seen, but the banks that use them are not even required to report their derivatives books on balance sheet. Banks have many regulators, but these are all concerned with the on-balance sheet borrowing and lending businesses that are their "traditional" businesses. The banking industry self-regulates derivatives with the enthusiastic support of the Federal Reserve, a private corporation that they, the banks, own.

This confers enormous power to manipulate quarterly earnings simply by altering the assumed discount rate used in calculating the net present value of expected future cash flows. In tandem with the regulatory edifice that has been built up over the past thirty years, this constitutes a formidable engine with which to drive the consolidation of the world banking industry. The model for this was the first Basel agreement on capital adequacy, which allowed the right of self-regulation to the handful of large financial institutions that operated interest rate swap warehouses and granted them higher credit ratings on the basis that they were able to hedge their balance sheets. At a stroke this gave them a strategic funding advantage, and forced anyone else who wished to compete to come to them for the tools with which to do it. Today something similar is happening thanks to Basel Two, which will confer similar advantages on the same cast of characters except this time with respect not to market related risk, but to credit itself. This can be confidently expected to drive yet another wave of international banking consolidation.

Yale economist Robert Shiller has drafted what must count as the manifesto of infinite leverage. This is his book, [*The New Financial Order: Risk in the 21st Century*](#). In Shiller's New Order cash will be criminalized, the better to canalise all flows of money. Derivatives contracts on all manner

of “risks” will be traded and indeed citizens will be required to use them to hedge their incomes, careers, and so on. It doesn’t take a genius, much less an economist, to work out that such a system is workable only by compulsion and that with Shiller Orwell’s nightmare is set to become ours.

The technology to drive this world is already with us and the bureaucracy is not far behind. The regulatory edifice created to combat “money laundering” is no such thing. It will not catch the Enrons of the world because it is not meant to, but it is admirably suited to control individuals. Married to this are a handful of firms such as AMS, Dyncorp, Lockheed and IBM that manage the software development and financial control and accounting functions for most of the Federal government. AMS, as an example, took over HUD’s internal financial control and accounting systems in 1996, and within two years had racked up \$60 billion in “undocumentable transactions.” It was then brought into the Treasury, where it presumably has worked the same sort of magic.

If this seems a little far afield of the gold market, it is not. Physical gold is flowing into the hands of those with the cash to buy it as is evidenced by more than a decade of a widening disparity between demand and mined supply of physical gold. That gap has been financed as it can only be financed, by the recycling of scrap and by the supply of physical gold from national reserves. This is the point. The Robert Shillers of the world can criminalize cash, I suppose, but they cannot suspend the workings of the international economy. The functions of audit and control can be subcontracted to “safe” hands, but this does nothing to alter the basic relations of value and risk. Indeed, what all this really represents is an invitation to racketeering, tax evasion, fraud, and ultimately a breakdown in the social compact. Gold is flowing out of national reserves and into the hands of individuals. Who are they, one wonders? Can it all be going to satisfy the desire for jewellery in China, India and the Middle East? I think not.

The question that really should be asked is not whether the gold “intervention” has worked, but how long will it work. The answer is presumably until citizens of the democracies restore the rule of law and accountability. Barring that, it will go on until all of those reserves are gone and all that is left is the question, cui bono.

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Central Banks Have Lost the War on Gold

Since Nixon closed the so-called “gold window” in 1971, effectively defaulting on the US government’s obligation to redeem dollars for gold, the world has been operating on a “fiat” currency standard with the US dollar as the prime reserve currency. Previously, international currency transactions were ultimately payable in gold. Now, all payments are made with currencies that are not backed by anything but the authority of government. After some fumbling around with various international currency standards, the world’s major economies settled on an arrangement called the “Basel Accord” which stipulated that central banks will diversify their assets away from gold and into baskets of national currencies. This process necessitated liquidating large quantities of gold from central bank coffers in exchange for currency and treasury

securities. Since central banks initially held much of the world's gold bullion, this large supply of gold coming into the markets depressed the price for many years.

Now, however, world central banks do not have the huge gold reserves of years past and have slowed down liquidation. In 1999, an agreement (the Washington Agreement) was signed that limited gold sales and leasing by central banks. Reduced gold supplies coming to the markets from central banks have lessened the influence that they hold over the gold price. This fact in combination with trend changes in global financial markets has ended the bear market in gold. Many practices such as the "gold carry trade" and gold mining company "hedging" relied heavily on central bank leasing of gold. In the gold carry trade, investors are allowed to "lease" gold from central banks at very low interest rates (often under 1%), sell the gold and invest the money in higher yielding securities. As a hedge against declining prices, gold mining companies can lease metal from the central bank and sell it for current operating income, agreeing to return the gold from future production. Both the carry trade and hedging had the effect of further depressing the gold price. However, these same practices cause big losses when the gold price rises so they have now been essentially discontinued. The Washington Agreement expires in 2004 and there will be much debate on the future of central bank gold when it comes time to renew.

Why do central banks care about the gold price? I don't think that they care about the price of gold as much as the stability of the current currency regime. Gold is not so much an enemy of the central bankers as it is an annoyance. A strongly rising gold price implies trouble with the currency regime. However, rising gold does not in itself constitute a crisis for central bankers unless they have leased out too much of their gold inventory and the gold loans default. This would be a public relations fiasco but not an economic disaster since no economically significant transactions are currently made in gold.

Certainly, central banks would prefer a stable gold price. But they have squandered their only tool to control it: their own gold supplies. The central banks should be able to coexist quite well with a much higher gold price; they have already survived a tenfold increase since the 1970s. The real enemies of the central banks are their own monetary mismanagement and the spendthrift fiscal policies of their associated governments. If there is still a central bank war on gold, then they have run out of ammunition.

I think that it is just dandy that central banks are slowly liquidating their gold. This means that they are taking back their own paper in exchange for real gold. Gold is a tool for individuals to defend their wealth against the paper hurricane of the central bankers. Gold in the hands of central bankers is an instrument of oppression. The less gold in the possession of central banks, the better gold will perform its wealth preservation function. One ounce of gold in your hands is worth at least two in the bank!

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The Fed's War on Gold

"The sinews of war, unlimited money"
- the Fifth Philippic. Cicero 106-43 BC

War is an organised conflict, rather than the sort of skirmish you might have with the IRS or parking officer. It is seen by some as a stimulus to social and technological progress, and Nietzsche even saw it as ennobling. Others condemn war as a destroyer of material wealth and ultimately civilisations. Is this at stake with the Fed's war on gold?

There is always something at stake, and it's usually **not** what is stated. The name a war is given is to act as a container for our thoughts: nothing more, nothing less. "The War of the Roses", "The Vietnam War", and "The War on Terror" are examples. Every war has victors, victims and collateral damage.

Polemics aside, what then are we to make of "the War on Gold"? What is at stake?

Let me state clearly that it is not gold itself. **Gold is just the battleground.**

Sun Tzu, in his classic work "**The Art of War**" recognizes nine varieties of ground over which a battle is fought. The tactics must vary according to the ground. The last of these nine types of ground is called "desperate ground." This is ground on which we can only be saved from destruction by fighting without delay, is desperate ground.

Gold, for the Fed, was desperate ground. It had to be conquered for the Fed to survive and retain its master franchise over money. It is this master franchise that is at stake.

Sun Tzu's strategy: "On desperate ground, fight."

Who fought to hold gold's ground as a means of exchange? GATA and a few gold bugs?

A later commentator on "The Art of War," Chia Lin, remarks: "if you fight with all your might, there is a chance of life; where as death is certain if you cling to your corner. A lofty mountain in front, a large river behind, advance impossible, retreat blocked." Another commentator, Ch'en Hao, says: "to be on 'desperate ground' is like sitting in a leaking boat or crouching in a burning house."

My friends, we have been burnt. We are sunk. The Fed has won the war, for now. They have maintained their franchise of total control over the monetary system.

However by winning this war, The Fed is creating the means of its own destruction. The conquering of Gold's territory as a means of exchange, is the loss of one more restraint on this group of despotic profligates that are destroying the value of their own stock of trade-money!

What can we do? Joseph Hertz, when discussing the probabilities of victory in the Second World War with King George VI said " All the same Sir, I would put some of the Colonies in your wife's name." In other words, he was even telling the King to spread his bets!

This will earn the ire of every true gold bug, but I doubt whether a gold standard will ever return. Times have changed; the battleground has moved on. Gold can still be a good investment, but like every investment, we should not become attached and regard it as a saviour.

I will leave the final words to Sun Tzu:



“One war cannot make sure of conquering”

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RMS Titanic Heavy Metal Ain't No Rock Band...

My answer is no... the central bankers have not won the war against heavy metal. Since most central bankers in our view fall into the category of [Monetary Charlatan Greenspan](#) and his Jackass Buddies, McTeer who predisposes couples to hold hands and buy a SUV, and Bernanke who thinks he's Gutenberg reincarnate, we suppose that their age is generally 55-60 or older. Although we feel that the younger jackasses probably do know who Elvis Presley was, and can recognize *Jailhouse Rock* and *You Ain't Nothin' But a Hounddog*, and that they may, in fact, recognize such lyric persuasion as Iron Butterfly's *In a Gadda Da Vida* (*however, you spell it*), they probably don't understand much in the way of the Rollin' Stones' *Jumpin' Jack Flash* or *Get Off of My Cloud*. Although we can envision Mr. Greenspan being able to recognize the 3rd Beethoven *Eroica* Symphony as *possibly Beethoven?*, (his Fed\$peak would convince us that it was Haydn's rework of Mozart in a new productivity paradigm?), we find it hard to believe that any of these central bankers, or their other G7 or G50 counterparts, ever heard of Commander Cody and the Lost Planet Airmen, Dream Theater, or Yngwie Malmsteen. For them, heavy metal is the electronic Ka-Khing of electronic funnie monie, being created out of thin air. Well...heavy metal is music to my ears, and not all heavy metal is a rock band, Sports Fans!

Dumb, Dumber, and Dumbest?

Certainly central bankers aren't *dumb*, or *dumber*, but they take my vote for **dumbest**...

Let's talk about **dumb**... the federal reserve system and its tentacles created in 1913 has been able to rewrite history books, influence the economic curricula at every major college and university in the USA, influence elections, produce economists who pontificate on the virtues of the FED, and have dumbed down a Nation under a once Constitutional Republic. The American People don't understand economics, money, heavy metal, bullion as money or as a commodity (it is both), and everyone in this country believes Abraham Lincoln was the second Jesus Christ. That's dumb. Well it has been going on for 90 years since 1913. Secession, and the right to secession from the federal union of the united states, was guaranteed to the states in the U.S. Constitution, or did you miss that one in the 8th Grade, Sports Fans? If you missed that one, you probably missed the money issue, the U.S. Dollar defined in the Constitution as a measure of weight at 371.25 grains of fine silver, as well. Ho, Humm! Ho! Ho! Ho! Merry Federal Reserve!



Being from the Mississippi Delta, Ah didn't...

Now let's talk about **dumber**.... There are a lot of folks in this country and on the planet, who are a helluva lot smarter than I, who just don't get it. Creating money out of thin air under the

Mandrake Mechanism? Money backed by debt is sheer lunacy. That's what central bankers do. They create money out of thin air. Federal Reserve Notes are the greatest Ponzi shell game in the history of the world, and very few Americans in this country know the smell of bacon (Bernanke and that printing press smokin' the bacon, aka inflating the currency, and destroying your wealth, dear reader) that's burnt to a crisp. Mr. T says it best: "You Fool!"

The **dumbest**? That's easy. The central bankers. All legal tender fiat paper funnie monie currencies, which are not backed by specie, aka heavy metal or bullion if you wish, ultimately ***inflate 'til they disintegrate*** into thin air, as they were initially created. That is written in stone as the history of paper money unbacked by specie, and it will repeat, according to our study of the Histories of the Markets. Central bankers are merely re-arranging the deck chairs in our view on the RMS Titanic. Our politicians inside the Beltway should also take heed to our next sentence. There are a helluva lot of pick 'em up trucks with gun racks, little ole ladies with 38 snub noses, and other folks who firmly believe in the right to bear arms under the Constitutional Republic. The corollary is: there is also a helluva lot of tar and feathers available in all 50 states, but I am not so sure about Iraq. **Dumbest** is in our view, is the cigar smoking pot bellied silk suit Gucci shoe position that the central bankers are going to hoodwink a Nation in perpetuity. Perpetuity means Forever, or until the *Twelfth of Never*. Sports Fans, it just ain't gonna happen. The days of central banking are numbered. **Dumbest** are central bankers not coming to grips with reality... there's not enough police, sheriff departments, or military in the United States of America to protect them from the Mob of Citizenry that may have the propensity to chase them with the Second Amendment... and the unwritten amendment of tar and feathers, when all hell breaks loose, and folks realize ***their*** Ponzi shell game of wealth stealing and destruction. That's a fact, Jack.



McTeer and Bernanke, wake up! Just how fast are your SUVs? Mebbe you Fat Cats need to phone home to the Roadrunner at Warner Bros., and get some extra tips for more ponies for those gas guzzlers? You Kool Kats, may need 'em, unless you guys run faster than your SUVs.

Et Tu Brute, et al Cronius Americanus?

Central bankers to be sure, and our privately owned banking cartel linked to the Bank of Rome, the House of Rothschild, and the House of Rockefeller, et al Cronius Americanus, have won many ignoble battles over the past 90 years destroying the Bill of Rights, the U. S. Constitution, and the Constitutional Republic. This cartel is so linked to the current moral decay of our DemoPublican (See: [Nelson Hultberg](#)) political fabric, that it makes me sick of the deception. (See: [McFadden's 1934 Speech](#) and [1932 Speech](#) on the Federal Reserve)

When our Nation under God, whom I implicitly Trust, wakes up and smells the foul stench caused by the federal reserve as the ultimate destruction of our basic freedoms (***the root of freedom is sound money***), the final battle will be in the streets. It will not be a good time to have ever been associated with banking, or central banking, whatsoever. *"What difference does it make if a market is a bull or bear? What's important are your options in playing the cards dealt, and winning the war against the monetary charlatans at the federal reserve."* – Miss Paula Bear

Heavy metal music is always part of my bride's, and, my listening pleasure...

Conclusionary Remarks

Heavy metal is not a generally well understood music, very akin to bullion, or the physical ownership of commodity and fiduciary money. We have been dumbed down and tricked into believing that pictures of Washington, Lincoln, Jefferson, Jackson, Hamilton, Grant, and Franklin on pieces of green paper imprinted as FEDERAL RESERVE NOTES are real money. They are not true notes of any kind, as they lack redeemability on demand to the bearer in specie, aka

heavy metal. They are a Ponzi shell game.... The biggest in economic history. Our Forefathers who created the Constitutional Republic understood sound money systems in creating the Republic (eh... these are the same Forefathers that despised the word **Democracy**, all of which have failed since ancient Athens).... And defined in the Constitution the US Dollar as a measure of weight at 371.25 grains of fine silver based on the Spanish Piece of Eight in circulation in Colonial Times. They understood, what we do not as a Nation dumbed down by the central banking cartel called the Federal Reserve.... Sound money is economic freedom and liberty.

It is **our** position that central bankers have so far been most victorious in the 90 year war on economic freedom... the final battle on Main Street America remains to be fought by all those that I affectionately call, Ma and Pa Kettle, and their kids, Joe Six Pack and Sally SUV. These Main Streeters aren't dumb at all... they just haven't yet been given the right educational materials.

This Bull market in heavy metal, which is caused by the global markets manipulations of the central bankers themselves, is to be believed in our view. I love it when fractional reserve bankers wet their silk suits and Gucci shoes. Jackasses, McTeer and Bernanke... just how frigging fast can you turkeys really run in a **Gold Derivative Banking Crisis?** Heavy Metal? Be in it, or lose it!

[Selected Bibliography](#)

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Bill Murphy

Chairman, Gold Anti-Trust Action Committee ([GATA](#))

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The Gold Anti-Trust Action Committee (GATA) was formed five years ago to take on a Gold Cartel which has been manipulating the gold price since the mid-1990's. Gold was trading below \$300 then, the price artificially suppressed hundreds of dollars an ounce below where it would have been in a free trading market.

GATA received the support from some of the major gold producers, mostly South African, and many individuals around the world. With a substantial amount of funds we retained one of the foremost anti-trust law firms in the US, placed ads in various newspapers, held our GATA African Gold Summit in Durban, South Africa in which five sub-Saharan nations attended, and presented our case around the world to all those who would listen.

During the past five years we accumulated substantial evidence the gold price was manipulated by a Gold Cartel consisting of various bullion banks such as JP Morgan Chase and Goldman Sachs, the Exchange Stabilization Fund, the Fed, the IMF and the BIS in Switzerland. The scheme to rig the gold price was put into high gear by former Treasury Secretary Robert Rubin. It was the essence of his "strong dollar policy." His underling at the time, future Treasury Secretary Lawrence Summers, co-authored a paper while a professor at Harvard titled, "Gibson's Paradox and The Gold Standard." The bottom line of the analysis is that "gold prices in a free market should move inversely to real interest rates." By suppressing the gold price, the US kept the dollar stronger than it would have been, kept interest rates lower they should have been and fueled a stock market bubble. Those were the motives for the price rigging operation.

To accomplish their mission, they surreptitiously dumped 10,000 tonnes of gold into the market place to suppress the price. Most of the gold world believes the central banks still have 28,000 to 32,000 tonnes of gold reserves in their vaults. They do not. They only have about half that much. Frank Veneroso, Reg Howe and James Turk all used *different* methodologies and discovered the central banks have lent/swapped out around 15,000 tonnes of gold. They have hid this fact from the world. We know that is the case because the IMF has instructed its member central banks to count lent/swapped gold as gold reserves. In other words, various central banks count gold that has been sold into the market place as gold reserves on their books. This is blatant deception. The gold is gone. Much of this gold has been hoarded by people all over the world. There is only one way they can get it back and that is for the price of gold to go high enough that the citizens of the world turn the gold back in as scrap to be refined.

This is very important. The central banks only have around 17,000 tonnes of gold left in their vaults. Gold demand exceeds supply by about 1500 tonnes per year. The gold price was suppressed for many years because The Gold Cartel fed enough gold into the market place to satisfy the yearly supply/demand deficit. But now they are hitting a wall. Much of the remaining gold still in the vaults is unavailable for their scheme. Meanwhile, demand for gold is picking up in various parts of the world. For example, China has just opened up the gold market to its citizens. The surging demand for physical gold is eating the cabal's lunch and is the main reason the gold price has rallied \$140 per ounce the past two years.

The price of gold is close to breaking into 14-year new high ground, which is going to stun a great many people. What will stun them more is when the price explodes like a volcano. This is going to occur because many of the price riggers will be forced to cover. They and others have massive short derivatives positions which are going to blow up. It could happen at any time. The Gold Cartel did all they could the past two weeks to take gold back down below \$400 and they failed. Bullion closed above \$400 for ten days in a row. This has to have the big shorts extremely nervous. My guess is some of the big ones are going to run for the hills very soon.

The gold fundamentals don't get much better than this. Besides an enormous short position out there, part of which must be covered, we have:

- Interest rates not far from zero in the US which makes gold a compelling investment
- Negative interest rates – inflation is greater than the Fed Funds rate, which has always been gold bullish
- Surging gold demand led by the Indians, Turks, Koreans, Arabs, Russians and Chinese
- A disappearing dollar
- Gold producers covering their hedges with Barrick Gold declaring they will do no more hedging ever, which means they will not be bombing the market with gold supply

Meanwhile a New Orleans Federal Court judge is allowing Blanchard & Co to sue JM Morgan Chase and Barrick Gold for manipulating the gold price. The case is now into Discovery. Ramifications from this trial alone could send the price of gold soaring.

Have "Central Bankers Won the War Against Gold and Silver bullion?" Hardly! The reverse is true. The gold price is going to explode and when it does it will expose the nefarious scheme of some of those central bankers. This includes the US, Britain and Germany among others. It is going to be quite a scandal. These central bankers are about to go down to their worst defeat ever. Can't happen soon enough for me.

Ed Bugos

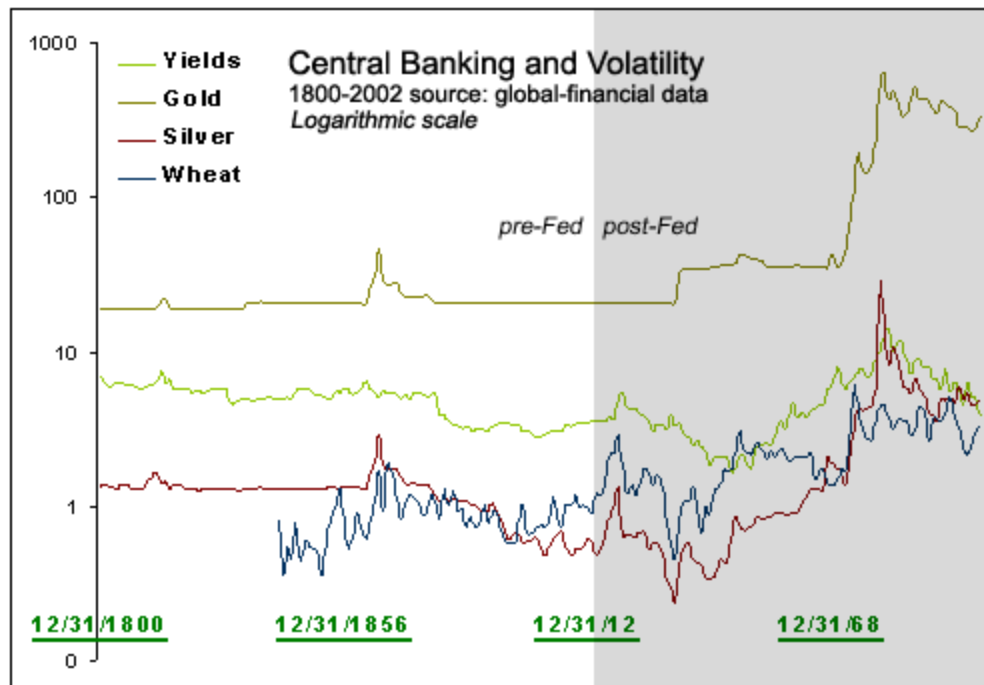
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**Have central bankers won the war on gold and silver bullion?
An Existential Matter**

The central bankers' war on gold is really a war on money. It is a war on markets, discipline, and progress. In any society based on private property and free exchange the need for money arises. It's a market phenomenon, the market's choice if you will.

Central banks, however, exist in order to protect a monopoly on bank notes – a banking cartel – from the discipline of the market, in order to control the process of inflation... to fool the market about its consequences... to redistribute incomes... and to finance the welfare / warfare state.

On the Federal Reserve's website is the slogan, "*The Federal Reserve, the central bank of the United States, was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.*"



By this graph they've failed. Or maybe stability isn't their true aim. Maybe it's their biggest lie.

Indeed, the reason that the banking system failed in the panic of 1907 (which was the rationale for the creation of the FRB) had nothing to do with the vagaries of the market. It's true that a market is inherently unstable in the sense that it is always changing. But it is a false claim to suggest that the volatility of the pre-Fed banking system in the United States was the result of the inherent weakness of a free market banking system (see Rothbard's many works on this).

It was but a system of State banks whose inflation policies were decentralized. There was some centralization due to the National Bank Act after the Civil War, but most banks operated outside of its jurisdiction. 1907 proved only that a central bank was necessary to control this process –

i.e. too many different kinds of bank notes produced at different rates proved disastrous. Thus a central bank was the next step in the war on gold.

Indeed, while it is true the annual production of gold is not fixed, the concept of sound money is not in the least intended to mean the “unattainable idea of stable money.” It just means to exclude government from influencing money and empowering the banking cartels in the process. It means to suggest that a free market, unregulated banking system would produce a money (and financial environment) much more stable than it has become since the Fed.

This truth is what the Fed wages its war on! If people knew that a free unhampered market – or banking system – could produce a more stable money, central banking would rollover and die.

Unlike the wars between nations, however, the wars Statists wage on markets are unwinnable.

It is only possible to appear to win the war on any market for as long as it doesn't bite back. Even the outlawing of markets (or exchange) within entire societies has historically resulted in the same, which is why communist economies ultimately collapse. We don't have to engage in war to defeat communism. We just have to sit back and wait – if that's at all possible.

However, to the extent the unhampered market does not choose gold as its money today, it would appear that central bankers have won their war on gold since their bank notes enjoy a wider circulation than gold does (as money), and owing to the size of government.

But in reality this war too is not winnable because it is a war on the market's preference. At best, it can only be prolonged. That is the closest that central bankers and Statists will ever come to winning their war on gold – by keeping it alive. It is lose-able after all.

The war can be prolonged so long as governments can grow in size without producing a crisis, and so long as the central banks can find new ways to centralize banking and monetary policy in order to solve the problems they themselves produce, and extend their life span – or the war. Yes I believe it's an existential question. The existence of a central bank implies a constant state of warfare with the market in matters of money.

For a current real world example of the existence of increasing centralization look no further than the gradual dismantling of Glass Steagall and the global implications for banking under the Fed's revamped Basel Accord, as well as recent activities surrounding the BIS – which many fear may become the world's next lender of last resort, or central bank.

The central banks' current war on gold reached its pinnacle of apparent accomplishment in 1999 with the announcement that the Bank of England planned to auction off its remaining gold, and with the speculative bubble on Wall Street – fueled by a manic expansion of fiduciary media – reaching a climax of its own, one of historic proportions I might add.

But rather than exemplary of their true success it produced positive consequences that could not be sustained, and negative consequences that in many instances remain invisible to this day – in the extent of resulting dislocation and systemic risk that has accumulated in the economy, the banking system, and for the value of (confidence in) the Federal Reserve Note.

In short, by what has been happening to the value of gold since 1999 we can only surmise that they are gradually giving up ground in this war, which has produced conditions that appear to be biting them in their proverbial behinds (conditions increasingly working against their policy aims).

And in fact, measuring the success of this war by what has happened to the value of the dollar against gold during the entire 20th century relative to its value in pre-Fed days it could be argued that central bankers have actually been losing their war on gold all along despite their success in restricting free coinage, advancing legal tender laws, and persuading commercial agents that a consistently devaluing bank note is still a superior medium of exchange to gold-based money.

In the final analysis, although it may ebb and flow, this war on gold is no more winnable than is a war on money or markets... it is winnable so long as it can be prolonged. If it appears that central banks have won, it is only because they are still in the game.

Hence, central banks are winning this un-winnable war by virtue of the fact that they live solely to fight it.

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Gold is money! For over 2,000 years, gold has served a purpose as a medium of exchange. In the history of the United States, the U.S. Dollar was *directly redeemable* from the U.S. Treasury for gold. During the 1930s depression, gold was outlawed by Presidential Executive Order 6102 (April 5, 1933) which made it illegal for U.S. citizens to own gold bullion coins, bullion or certificates. Months later, the dollar was devalued from the official \$20.67 per troy ounce to \$35 (i).

In 1944, the Bretton Woods Agreement set the U.S. Dollar as the world's Reserve Currency and officially adopted the \$35/ounce to one dollar ratio. Decades later, with growing international gold demand for their debt-note obligations, President Nixon was forced to close the "Gold Window." In early 1973, the global reserve currency lost its official link to gold and the price began to rise, soon reaching the \$200 mark.

Then in 1975, Presidential Executive Order 6102 was reversed allowing the private ownership of gold once again by U.S. citizens. Demand grew and to satisfy this golden appetite, the Treasury Department, along with other Central Banks sold off large amounts of their holdings plunging the value of gold vs. the dollar by nearly 50%. Yet, the inflationary **era of the late 1970's** destroyed the dollar's value by ¼ against other global currencies sending a surge of demand for even more of the yellow metal. In just a few years time, gold soared to a high of \$850 an ounce in early 1980 (in 2003 dollars, inflation adjusted high of gold translates into about \$2,000 an ounce).

With the global financial system teetering in total financial disarray, Federal Reserve Chairman Volcker led a charge to save the falling value of the U.S. Dollar against global currencies, including gold. A series of rate increases were instituted to combat rampant inflation. Eventually, the prime rate reached **20%**! This resulted in the soaring demand for U.S. Dollars and the gold rally was crushed.

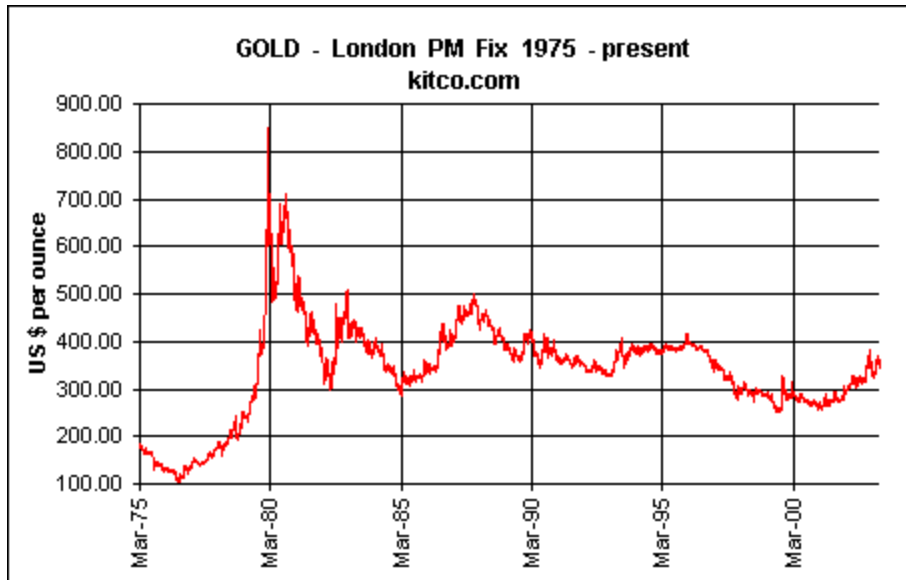


Chart courtesy of Kitco.com

Over 20 years have passed with gold in a bear market decline. Central Bank selling, forward selling by producers, gold leasing by Central Banks and a return to the U.S. Dollar as the gold standard of the financial system sent gold to a low of \$250 an ounce in 2000. In 1999, the Washington Agreement, which is up for renewal in September of 2004, capped the amount of gold the participating Central Banks could sell into the market at 400 tones per year.



"This is the shabby secret of the welfare statist's tirades against Gold. Deficit spending is simply a scheme for the hidden 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 statist's antagonism towards the Gold Standard."
 Alan Greenspan - *Gold and Economic Freedom* (1966)

Central Banks have been a major force in the history of gold. In a monetary system where gold acts as a checks and balance tool revealing the value of the paper currency no longer backed by it, gold is revered as a barometer of the health of a paper currency, thus its economy it represents. It should be of no surprise central banks would be inclined to keep gold's value in check to avoid any hints of financial tribulation.

[GATA](#) has discovered evidence which supports the suspicions central banks were involved in a policy to suppress the price of gold. One piece of evidence GATA uses is a paper by former Treasury Secretary Lawrence Summers from 1988. Mr. Summers' report refers to Gibson's Paradox and discusses the effects of declining real interest rates and the positive impact on the price of gold. During his reign as Treasury Secretary under the Clinton administration, such an event occurred as the Federal Reserve was creating trillions of dollars. So why did the price of gold not reflect this event in financial history?

We already know of the documented gold sales by global central banks during this period. If indeed the allegations brought about by GATA can be proven correct, the central banks were victorious in their attempt to control, manipulate and depress the gold price. In a market where

there is a supply deficit, central bank selling of their gold reserves has been a major attribute to artificially maintain the global price of the metal subdued.

The question posed whether central banks have been successful in controlling the gold price is yes in this author's view. In the brief history introduced above, one can see the intervention central bankers have had on the gold price. Yet, it is a question of a short-term success. As central bank supply of gold is limited and their ability to print paper currency is not applicable to gold, eventually *free-market* forces will prevail. The true value of gold related to the price of paper currencies will ultimately be revealed, yet patience may be required.

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Central bankers are paid hands hired by governments to speculate on their behalf in volatile markets, including the gold market. There they are facing, not other straw men, but flesh-and-blood speculators who risk their own money and are in no position to pass on their losses to the taxpayer. The incompetent speculator is eliminated in short order and only the most astute ones survive. In contrast, central bankers have job security and their losses are not personal losses as they are underwritten by the government. Thus the confrontation between them and real speculators is one-sided, and becomes ever more so as time goes by.

There is no wonder that central bankers are virtually always on the losing side. They are like dull-witted and clumsy bears competing with clever and nimble foxes. Long is the list of battles lost by central bankers. Every currency devaluation is a landmark of one, and they number in the hundreds. Preceding each devaluation the central banker is obligated to shout from the rooftop that his currency is *never* going to be devalued. The louder he shouts, the more convinced do the speculators become that the central banker will soon have to eat his word. Accumulated profits made by speculators at the expense of the central bankers defies counting, so huge are the numbers.

Take the celebrated case of the Bank of France that ended up with an enormous hole in its balance sheet in 1931 in the wake of the devaluation of the British pound. Employees were scurrying like mice to find assets to plug the hole. They added the value of the building, the desks in the building, and the paper clips on the desks to the asset column — in vain. Eventually the French government had to print up non-marketable bonds to make the Bank of France solvent once more. Central bankers learned their lesson from this episode, and they never again allowed their accounting practices become the focus of publicity. The Deutsche Bundesbank never disclosed how it plugged the hole in its balance sheet after the devaluation of the dollar in 1971.

The central bankers' battle with the speculators over gold is not substantially different. Speculators have been playing cat and mouse with the central bankers, the role of the mouse being assigned to the latter. After each highly publicized gold auction (whether by the U.S. Treasury, the IMF or, more recently, by the Bag Lady of Threadneedle Street otherwise known as Me-Too Bank of England) the central bankers have become the laughing stock of the world. The speculators have allowed the gold price to come down nicely to accommodate the central banker wanting to unload. But no sooner had the last bar been sold than speculators bid up the gold price to ever higher levels in order to allow their newly acquired wealth to shine.

It is true that central bankers have tried to enlist the loyalty of the speculators by using bribe and blackmail for the first time. They did not mind squandering the nation's patrimony, the gold under their control, in defense of an indefensible position. As a result speculators have abandoned their traditional perch on the long side of the gold market and switched to the short. Central bankers had a hearty laugh, congratulating themselves that they have succeeded in finishing off gold for good. They have forgotten that the loyalty of the speculators is ephemeral. At a point — no one knows where it is — speculators will decide that the central banks no longer have sufficient gold under their control to call the shots, and will switch sides once more. *He laughs best who laughs last.*

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