Why there will be NO Hyperinflation

Inflation is Not What it Used to Be

By Martin Armstrong
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Armstrong Economics
360 Central Avenue, Suite 800
St Petersburg, Florida 33701
+1 - 727 - 485 - 0111

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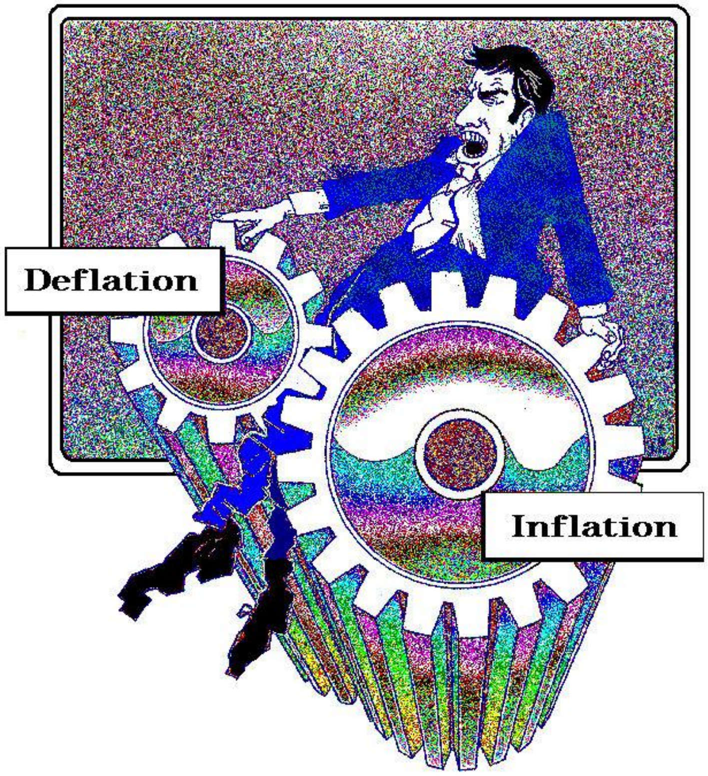
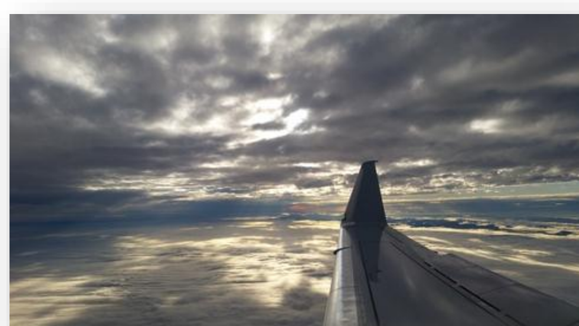


We have embarked on a new economic adventure going where no one has dared to even fantasize about. Inflation today has become a paradox that no longer complies with the old–world view. We have indeed set sail for a whole new adventure and like Christopher Columbus, we have ventured into the unknown but we have been using the wrong map.



It was the 1970s with the OPEC crisis when inflation was last redesigned. They came up with a new term – STAGFLATION to define when inflation soars but not economic growth. Paul Volcker in 1978 delivered his Rediscovery of the Business Cycle conceding that everything they believed about Keynesian Economics failed.


The Bakersfield Californian

OPEC crisis seen in wake of Faisal assassination

VIENNA (UPI) — The Organization of Petroleum Exporting Countries canceled Tuesday's meeting of experts on oil prices because of the death of King Faisal of Saudi Arabia. Some oil sources said his assassination could plunge OPEC into a severe crisis.

Saudi Arabia, a key member of the 13-nation OPEC, is the world's top oil exporter and the third largest producer after the United States and the Soviet Union.

The experts were to discuss how to sever the traditional oil-dollar link to preserve their oil revenues from the decline in the value of U.S. dollar.

Venezuelan oil sources said privately Faisal's assassination could plunge OPEC into its worst crisis. But Venezuelan government sources in Caracas said it could not destroy the cartel. They said Faisal's successor, Crown Prince Khalid, was "100 per cent" behind OPEC policies.

"OPEC has learned with deep regret the news of the death of his majesty King Faisal of Saudi Arabia," an OPEC statement said.

"As a gesture of sympathy with the delegation of Saudi Arabia now attending the meeting of experts it has been decided to adjourn the meeting for one day."

The statement said OPEC's secretariat and staff "share with the people and government of Saudi Arabia, one of our founder members, the pain and sorrow of this sad event."

The two delegates from Saudi Arabia refused comment.

"Our main problem in these talks is the decline of the dollar," an OPEC source said. "We will discuss possibilities of how to cope with this issue."

The meeting, held at OPEC's Vienna headquarters, was to prepare the ground for a meeting of oil producers and consumers set for April 7 in Paris.

Venezuelan oil sources said Faisal's death had come just as OPEC was about to take key decisions on oil prices, supply and other issues and could disrupt the organization's decision-making process.

"As the largest producer in OPEC, almost every decision hinges on Saudi Arabia," they said. "In the best of cases, the decision-making process is very slow in Saudi Arabia. Now, with the death of Faisal, it will be paralyzed."

"With so much hanging on the position that Saudi Arabia takes in the forthcoming consumer-producer meeting, the death of Faisal may have plunged OPEC into its worst crisis," the sources said.

OPEC sources said the two main items to be discussed are inflation and the decline of the U.S. dollar against which oil prices have traditionally been figured.

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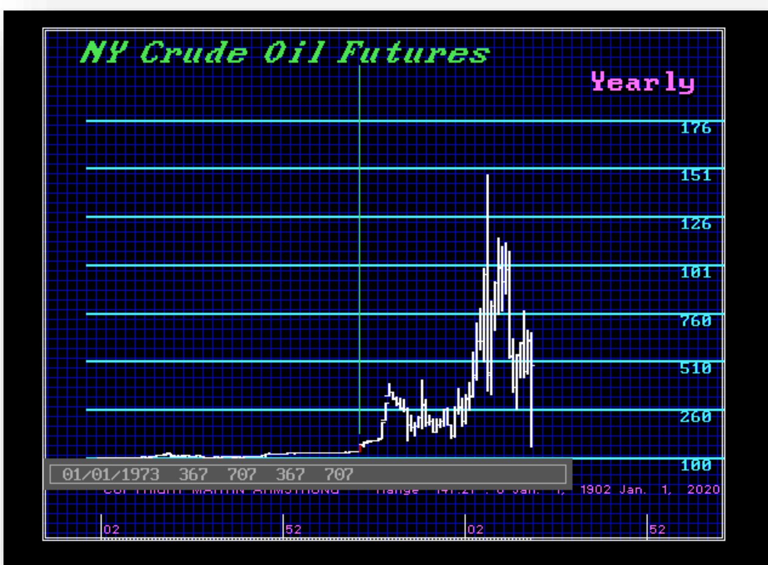
The OPEC oil embargo was a decision to stop exporting oil to the United States. That took place on October 19th, 1973, with the 12 OPEC members agreeing to the unified embargo which was targeted at nations perceived as supporting Israel during the Yom Kippur War. Those nation states that were identified were The United States, Canada, Japan, the Netherlands, the United Kingdom and eventually Portugal, Rhodesia and South Africa. The embargo lasted until March 1974, but the price of oil had risen nearly 300%, from US$3.67 per barrel $8.14 in 1974.



It was the 1979 Oil Shock that dramatically raised oil prices in the wake of a drop in oil production during the Iranian Revolution. It was on January 16, 1979, when the Shah of Iran, Mohammad Reza Pahlavi, fled the country with his wife. Despite the fact that the global oil supply had only decreased by about 4%, the first oil shock was vivid in traders; minds. Oil reached $39.21 with the peak in the Economic Confidence Model in 1981.

Seventies

The problem has been that the 1970s redefined inflation beyond even the simplistic **Quantity of Money Theory** (QTM). Suddenly, cost-push inflation emerged which had nothing to do with QTM or even demand. They had to invent a new term when inflation runs uncontrolled from an external source that is totally unrelated to anything traditionally called the cause of inflation.

The term they coined was **Stagflation** because of the OPEC oil shock. However, back then, the Consumer Price Index (CPI) was much more real. Because the government spending was put on autopilot by the Democrats by the Jimmy Carter Administration under the theory that the agencies would retain their funding if they spent all their money and the increase would be indexed to the CPI.

This autopilot approach resulted in two major problems that we still have to this day. **First**, agencies would squander their money at fiscal year-end just so they would have the same amount next year even if they did not use it productively. There are warehouses at Fort Dix filled with computers from the 1980s and 1990s because agencies bought computers, they did not need just to keep their funding going for years.

Secondly, in order to reduce government expenditure, the CPI kept getting redefined. Everything was indexed to the CPI from spending by agencies to Social Security benefit increases. Back in the 1970s, the price of homes was included in the CPI. That was removed and replaced with rents under the theory that was not part of your cost of living, but real estate was an investment.

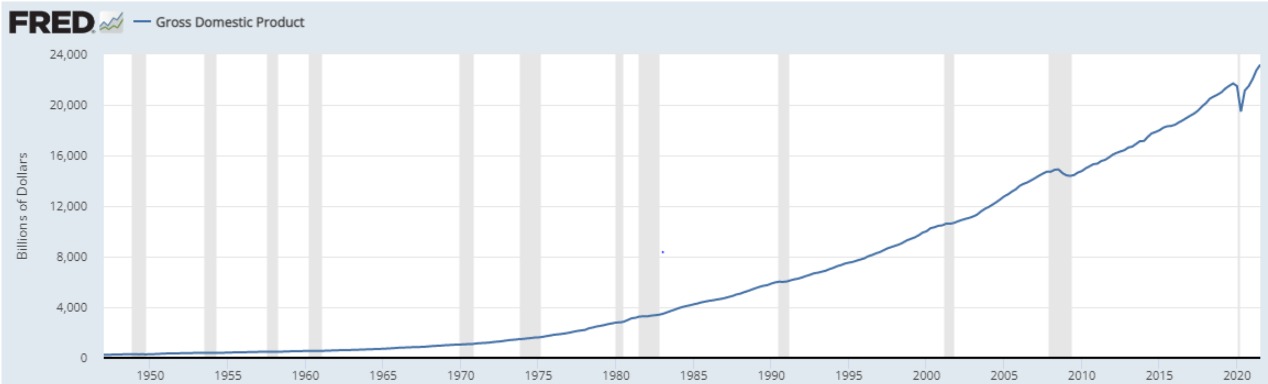
The **third** problem with GDP was that they count total government spending and then they count total personal income. Nobody bothers to back out government workers. So, if government hires someone, in never-never-land quoted by top socialist economists, GDP grows. True, because the statistics count government workers twice.

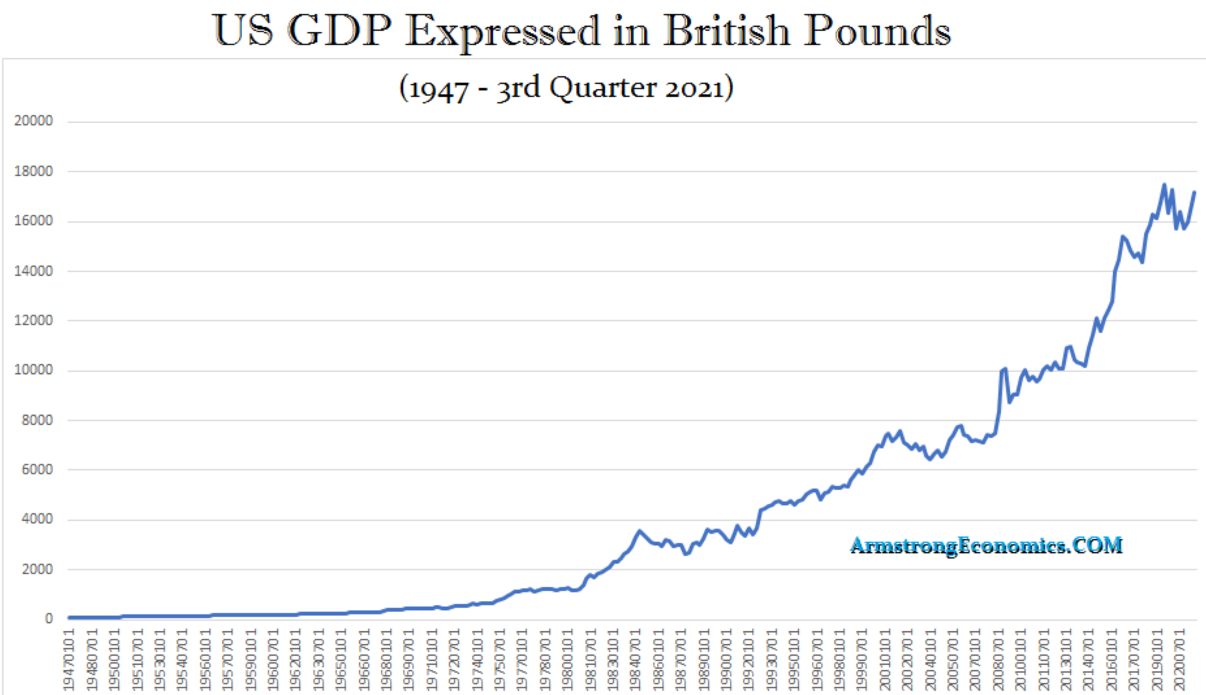
The **fourth** problem is currency. Take trade. Here the system still reflects the fixed exchange rate mechanism of Bretton Woods. There is nobody there counting the number of cars coming in at the port. All they measure is currency. When currency was fixed, then obviously if you spent more, this meant you got more. Once the floating exchange rate system was born, that method of measuring trade has been totally erroneous. Take the Swiss franc that suddenly rose 30% overnight. You did not get 30% more goods, you just paid 30% more for the same goods.

During the 1970s, I always bought German cars. A Porsche cost me $10,000 in 1970 and by 1980 it was $50,000. To this day, the Italian Ferrari is bought and held as an "investment" because people CONFUSE currency with the object. Is it really a Ferrari that is rising in value or is it currency?

When the pound crashed into 1985, a 328 Ferrari, which was a £32,000 car when the pound was US$2.40 fell to about $32,000 when the pound dropped to US$1.03. I bought a Ferrari in London and drove it around for two years there. Because the pound crashed, the Italians raised the price to £60,000, which was on par for what the car cost in the USA. But the pound rallied back to nearly $2 and after driving it for 2 years, I sold it for twice the dollars I had paid. Did I make money on the Ferrari? Or was I just playing foreign exchange? It was currency not the car. The currency during the '70s created an illusion that people did not understand.

As you can see, looking at the numbers to make trading decisions can lead to false readings. Do you know what you are buying and why? This same problem exists when we are looking at GDP.





When we plot GDP in terms of British pounds for example, we can easily witness that sometimes we may think the economy is still rising, but in fact in international terms, it is declining. Therefore, we have to be careful using numbers that are not exactly definitive in reflecting the truth about what they are supposed to be all about.

GDP Growth and Inflation

Aside from the standard QTM, how inflation impacts GDP is rather important since it is imperative to know if we are in STAGFLATION, DEFLATION, or INFLATION. Obviously, this is quite significant from an investment point of view.

Now we have a real problem. True inflation "officially" is grossly understated under the new revisions of the CPI. Obviously, housing outside of the cities has risen 30%=200% since 2015 outside of cities. This plays no role in the CPI – only rents. Reported gross domestic product is supposed to be adjusted for inflation. The theory behind GDP growth on an **unadjusted** basis for inflation means that the economy is performing generally in one of four possible scenarios.

1. **The total production has increased but at the same prices**
2. **The total production has not increased but prices have risen**
3. **The total production has increased but at higher prices**
4. **The total production has increased but at lower prices**

Under Scenario one, production has risen to meet increased demand, and thus unemployment in theory declines. The increase in wages then increases inflation as the demand of consumers increases, assuming taxes remains the same.

Under Scenario two, neither production has increased nor has there been an increase in consumer spending, yet prices have risen generally because of rising costs which can also be tax increases. The price increases can also follow a reduction in commodity production such as food caused by weather, regulation changes, or crop disease.

Then under Scenario three, both productions have increased as well as consumer demand which is often marked by shortages in supply.

However, Scenario four traditionally marks the depression version that will typically last for a maximum period of three years where both the production has declined and consumer spending as unemployment rises caused by the lower production.

Some define STAGFLATION as GDP rising slowly, yet inflation is rising faster and as this persists, unemployment remains high due to low production. This time around, the STAGFLATION is being deliberately created by the Biden Administration under

the twisted notion that rising prices will keep people home and reduce their impact upon the climate – a constructive means of creating lockdowns.

Instead of an external price shock as with OPEC that rippled through the economy drastically increasing the cost of production and living expenses for consumers, this time we have supply chain disruption combined with the **Just-In-Time** inventory management which means there was little backup inventory. Rather than an external shock, this time it was our home-grown politicians who were taking their directions from lobbyists pushing drugs and the 2030 Agenda from the World Economic Forum.

Pandemic Unemployment Assistance

Important Update: As of September 5, 2021, several federal unemployment benefit programs, including PUA, PEUC, EB, and FPUC, have expired, per federal law. For more information, visit dol.ny.gov/fedexp.

Recipients of Pandemic Unemployment Assistance are not eligible for PEUC or EB. However, under federal law, PUA recipients may receive up to 57 weeks** of benefits. The chart below shows the maximum weeks of benefits that may be available to you based on your Original Claim effective date. Note: Your Original Claim effective date is the Monday of the week in which your claim was filed. You can find it on the Monetary Determination mailed to you or on your Online Services account page.

Pandemic Unemployment Assistance Claimants

Original Claim Effective Date*	Maximum Number of Weeks Available
January 20, 2020 - March 2, 2020	Up to 57 weeks of PUA
March 9, 2020 - September 5, 2021	Up to 57 weeks of PUA (Ends 9/5/2021)

*An additional $600 is payable for eligible claims made from the weeks ending April 5, 2020 through July 26, 2020. An additional $300 is payable to eligible claims made from the weeks ending January 3, 2021 through September 5, 2021. These payments are called Federal Pandemic Unemployment Compensation (FPUC).

*Pandemic Unemployment Assistance recipients may be eligible for additional benefits under the Lost Wages Assistance (LWA) Program. See the LWA program FAQs for details.

Simultaneously, the Democrats extended everything they could from prohibiting foreclosures, unemployment benefits out to 57 weeks instead of 16, $300 stimulus bonuses, to rent suppression. This has made the low end of the service industry unable to find staff. Simply put, the Democrats created the sustained unemployment that would usually take place in depression.

However, here the unemployed were earning the same or more by not working so we have rising demand with high unemployment which then manifests in lower production. COVID-19 extended unemployment benefits from the federal government ended September 5th, 2021. But the Biden Administration has informed people that they may still qualify for unemployment benefits from their state. Thus, we have once again been compelled to redefine inflation.

5. The total production has declined, unemployment has risen, but prices rise because of shortages

The Quantity Theory of Money & Its Failure

Without question, there is no other theory in economics that has caused so much confusion, chaos, and misguided analysis as well as investment and central bank directives than the **Quantity Theory of Money** (QTM). Not only have the goldbugs been dead wrong swearing that gold will rise to astronomical price levels and the dollar will crumble to dust, but the central bankers have assumed also that increasing the supply of money will surely create inflation.

The entire problem with the QTM is that it is one-dimensional perspective of a much more complex situation. As always, those who have tried to apply it in a simplistic manner, created the inevitable mistake – they try to reduce complexity to a single cause an effect which fails in all forms of analysis consistent.

John Law (1671 –1729)

While Supply & Demand was an observation of John Law (1671–1729) while trading in the pits in Amsterdam. Because he had been charged with murder for fighting a fair duel that they declared illegal, everybody plagiarized him including Adam Smith. Nevertheless, he made this observation while trading which quite frankly nobody else could have made this discovery without trading.

Nevertheless, this was an observation that was based upon the debasement of the English currency which also resulted in the expansion of the money supply. Hence, others who plagiarized John Law, failed to understand the complexity behind this observation that it was based upon **confidence** and its interaction with other currencies at a time when the currencies traded on a foreign exchange basis predicated upon their metal content – not economic power.

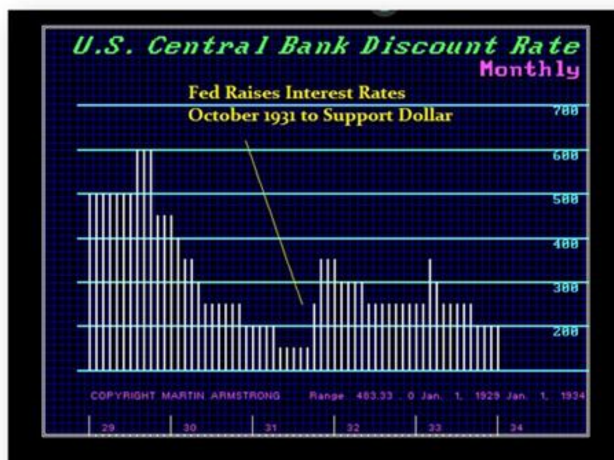
Both Milton Friedman and John Maynard Keynes developed their ideas based upon the interpretation of the German hyperinflation as the result of an increase in the supply of money. Both failed to notice that it was the force loan (confiscation of 10% of your cash) that resulted in the collapse of confidence in December 1922 and the hyperinflation came thereafter in 1923. Nevertheless, their theories were predicated upon a system that was strikingly different from today, for it was the era of gold standards and fixed exchange rates that ended in 1971.

Consequently, the popular view of the cause of the Great Depression was once again making the very same mistake of attempting to reduce it to a single cause and effect. The observation was that people hoarded their money and would not spend and thus DEMAND declined below SUPPLY resulting in deflation. This view dominated everything and the solution was always the same – increase the demand. If the consumer will not buy then the government must be a buyer.


Milton Friedman
(1912–2006)


John Maynard Keynes
(1883-1946)

Based upon this very simplistic theory of supply v demand, the next course of a 100 years was set in motion based upon this simple theory. John Maynard Keynes (1883–1946) suggested that the government could stimulate the "demand" in the economy by lowering taxes and increasing its spending even into deficits. The governments love to keep deficit spending going without end, but they refuse to lower taxes out of power and greed.



Keynes never advocated perpetual deficit spending indefinitely. Few presidents have ever lowered taxes. Some who did were John F. Kennedy, Ronald Reagan, and Donald Trump. In each case, the economy boomed. People then spent the excess money just like a bonus check during the COVID crisis.

Milton Friedman (1912–2006) argued that the Fed was following austerity. The Fed refused to monetize the gold, which reached twice the required backing, and raised rates to support the dollar during 1931. Milton Friedman and Anna Jacobson Schwartz wrote:

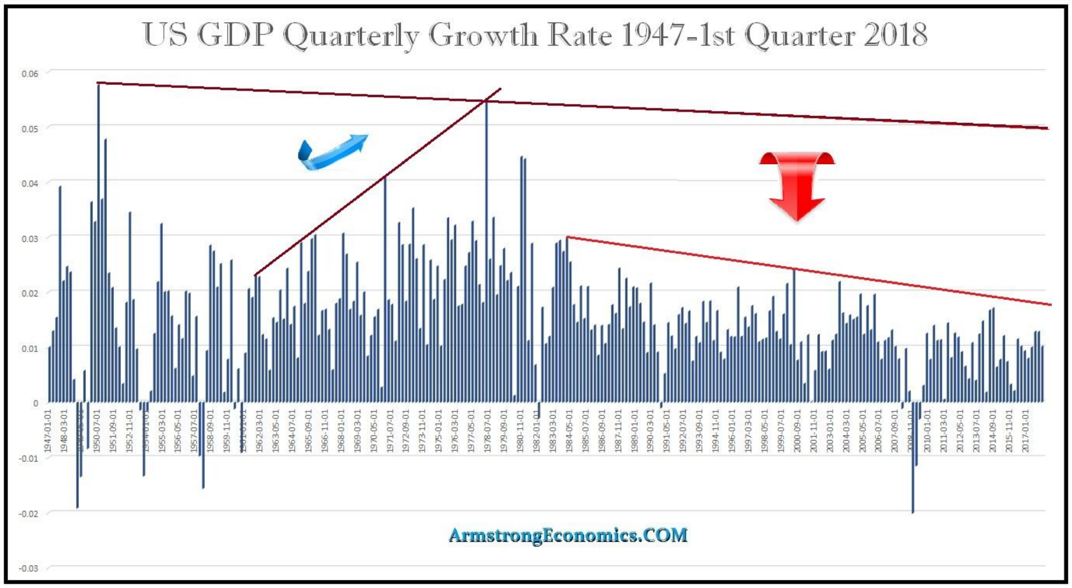
> "The Federal Reserve System reacted vigorously and promptly to the external drain...On October 9 [1931], the Reserve Bank of New York raised its rediscount rate to 2–1/2 per cent, and on October 16, to 3–1/2 per cent–the sharpest rise within so brief a period in the whole history of the System, before or since."

Milton & Anna's premise was that the Fed was doing what Germany was doing recently – imposing austerity. They were trying to support the currency to retain confidence in the bond market rather than stimulating the economy. The gold flows to the USA were excessive and the gold backing of the dollar reached double the requirement. The Fed saw this as refugee gold and declined to increase the money supply. Instead, they believed that austerity was the best policy to maintain confidence in government debt. As mentioned, the Bank of France engaged in the very same policy.

In theory, Milton makes sense in stating that one should expect higher inflation if the money supply expanded instead of contracted. Nevertheless, there are a lot of assumptions in that statement that simply do not hold up with time.

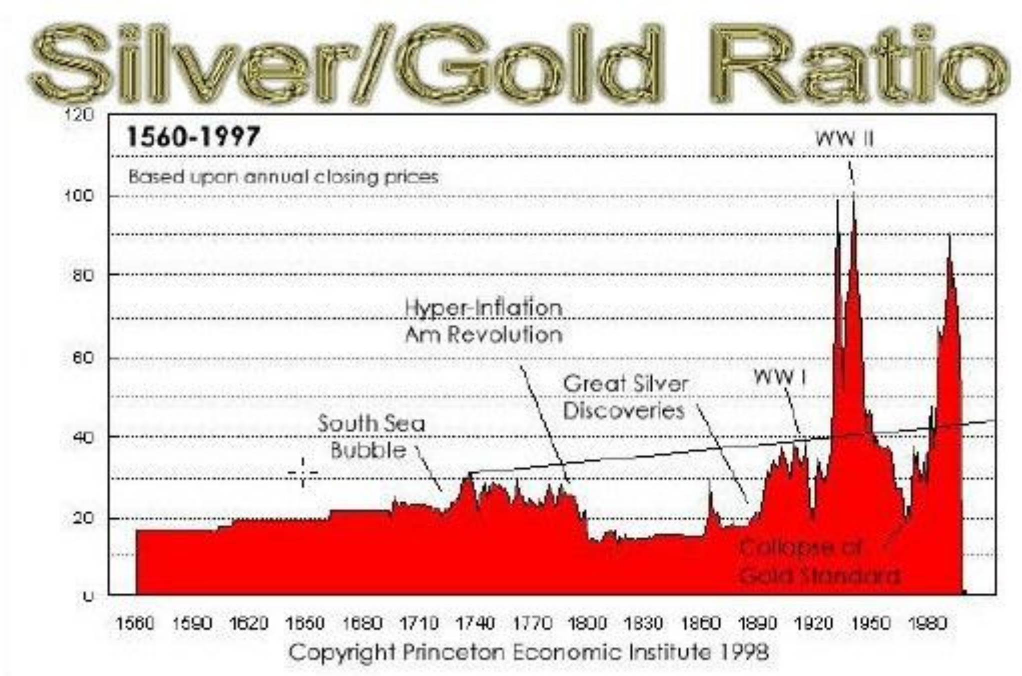
Money is only a medium of exchange. It is not a store of wealth. There is no perfect store of wealth because the business cycle exists, and at times assets rise in value. This means that the purchasing power of money declines (inflation) and when asset values decline, as in a recession or depression, the purchasing power of the currency rises (deflation). The terms in and of themselves are designed to shift the blame away from government in the first place. When assets rise, the blame is often placed on private sector greed. When assets decline, they call it deflation in the value of assets when in fact it is the rise in the purchasing power of money.

Therefore, while interesting, this argument that the Great Depression was caused in part by the Federal Reserve and Bank of France refusing to expand the money supply in fear of creating inflation is one slice of the pie. There is a lot more going on here. This theory has been behind the entire philosophy of Quantitative Easing (QE). Expanding the money supply was supposed to create inflation, yet it too has failed to do so post–2007.

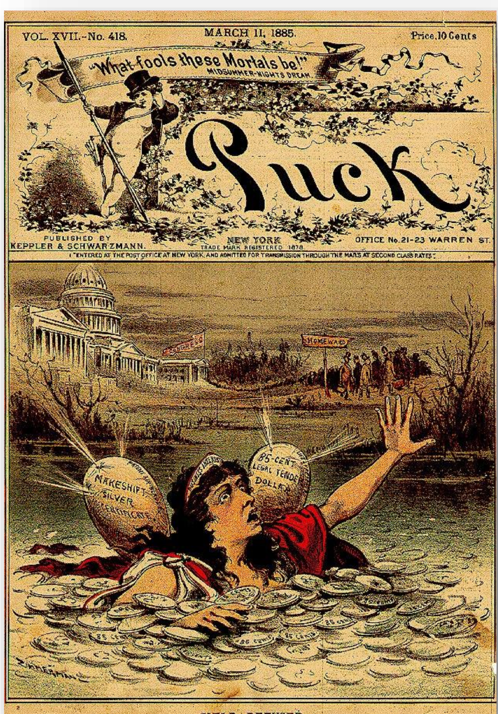


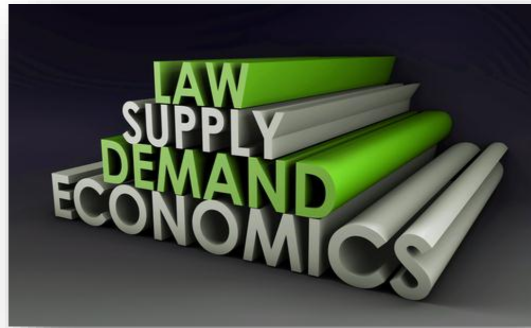
Indeed, taking the **Quantity Theory of Money** (QTM) as the foundation for economics has been disproven. We can see this by looking at more than 10 years of Quantitative Easing (QE) by the European Central Bank, which has failed to create inflation or stimulate the economy. Additionally, the money supply has expanded dramatically since the 1970s, yet economic growth has been steadily contracting. Each high is lower than the previous since the 1950s.

These economic theories have completely failed to grasp the full scope of the economy and how it functions, leaving us with a strange paradox that has confused investors and central bankers alike. If we cannot restore economic growth and stimulate the economy with QE, then where does this leave us? Sure, the Fed may try the 1941–1951 pegging the currency and interest rates, but that cannot prevent the crisis as was proven before.



This is also why I say that the idea of a gold standard is equally absurd for nothing can be fixed. Those who tried to argue that the silver to gold ratio should be 16:1 are simply looking at what the Silver Democrats tried to create in overvaluing silver which led to J.P. Morgan having to arrange a $100 million gold loan to bail out the government which was about to default in 1896. This Puck cover of March 11th, 1885 shows that the United States was drowning in silver dollars that were overvalued. This is what led to a 26–year Long Depression despite pouring silver dollars on average producing about $25 million annually into the economy which in theory should have led to inflation but instead it created deflation. That was the first hint that increasing the money supply does not automatically result in inflation.





Hence, what we assume is the **LAW** of Supply and Demand turns out not to be a **LAW** at all, but only a theory created by people who stole the observation from John Law simply because he fought a dual. They wrongly thought that they had understood what he observed. But there is more to it than that – it was the confidence in the currency itself which reflected that of the king.

Now welcome to the next step in the absurdity. Because there has been no inflation after more than 10 years of Quantitative Easing, then come from the left-wing the new **Modern Monetary Theory** (MMT) once more making an attempt to create a one-dimensional cause and effect. So now, because the Quantity of Money theory failed, this inequitably proves beyond a shadow of doubt that the government creates all the money it needs without inflation.

The Roman Empire neither had a national debt nor a central bank. It created money to pay its own expenses but because the emperor simply held power and did not have to petition the people to be reelected each year, there was no pure corruption to spend money to win votes as we have today in our Republics. Hence, each die used to strike Roman coins was hand-carved. Thus, we are able to conduct die studies to determine the money supply creation annually.

Trajan (98-117AD)
AV Aureus struck at Rome (112-113AD)
Frontal view of the façade of Trajan's Forum

Hadrian (117-138AD)
AV Aureus struck at Rome 118AD)

Studies conducted by Roger Bland, revealed that Emperor Trajan (98–117AD) issued gold coinage with about 35 different dies annually between 103–111AD, and then during the period of 112–117AD, that increased sharply to 61 dies annually. It then fell back to 40 dies annually under his successor Hadrian (117–138AD). Trajan's Dacian Wars were actually two military campaigns between 101–102, 105–106. We can see that clearly inflationary costs rose during the postwar era hence the need to increase the coin production. The rule of thumb is that they could generally produce approximately 15,000 coins from each die.

John Maynard Keynes criticized the QTM in *The General Theory of Employment, Interest and Money.* Keynes had originally been a proponent of the QTM, but he presented an alternative in his *General Theory*. Keynes argued that the price level was not strictly determined by the money supply. Changes in the money supply could have effects on real variables like output. He was correct that changes in the supply of money did not always result in creating a rise in prices.

It was Keynes who viewed the Great Depression as a contraction in demand. His solution was to manipulate interest rates in order to "stimulate" **demand**. Again, this has proven false as well since the European Central Bank (ECB) even took interest rates negative in 2014 and have found themselves trapped by this theory unable to escape.

Supply-Side Economic theory is aimed at increasing the supply of goods and services available to consumers by keeping corporate taxes down. The theory alleges that this will create jobs and entice businesses to spend on research and development, thereby creating new innovations. The socialist paint this and benefiting the rich for they simply want to punish the rich taking their assets to hand to the poor. The left just can't get past the class warfare to look objectively at what is really going on.

Then we have the argument that paper money needs to be eliminated because people were able to withdraw their money from banks to avoid the negative interest rates. Suddenly, it became cash that defeated their theory.

The missing link is **CONFIDENCE**. John Law saw that debasement of the coinage that undermined the confidence of the people in accepting British coinage. The very problem the European Central Bank called the zero-boundary limit in interest rates that negative rates could be defeated by withdrawing cash and hoarding it. The common denominator was always **CONFIDENCE**. If the people do not believe in the future, they will **NOT** spend their money and hoard it for a rainy day unless they BELIEVE that the future is bright. Undermine the CONFIDENCE in the nation of empire and it all caves in.

Hyperinflation

All we ever hear about is how the dollar will collapse and gold will soar because we will enter hyperinflation. These scenarios are all based upon the **Quantity of Money Theory** (QTM) which is what even the central bankers were assuming would create inflation by increasing the supply of money. But they have been pouring money into the system with quantitative easing since 2008 without any impact on inflation for 13 years until we hit 2021. It was the collapse in the supply chain that caused the decline in supply. All this time trying to stimulate demand proved that people will hoard their money until they realize it will be cheaper to buy today than wait for tomorrow.

The Quantity Theory of Money that an increase in supply should result in a decrease in its purchasing power (inflation) is being seriously questioned behind the curtain. The die-hard gold bug analysts have been preaching the same collapse of the dollar and the materialization of a hyperinflation will appear any day now for decades.

This very simplistic idea that increasing the money supply leads to inflation is starting to be exposed as an ancient myth after 13 years of failed QE efforts. It is interesting how many questions came in from all around the world as people asked just what the hell is going on?

Even in Britain, the inflation rate was close to zero, according to official figures going into 2020, which is seriously intensifying the debate on interest rates and putting the economy on track for it's the first spell of deflation in more than 50 years.

In Denmark, take out a loan and the bank will pay you for the privilege. Local media have examples of entrepreneurs calling up their lenders and insisting there is a mistake on their statement for the bank is paying them for borrowing money. Welcome to the world of negative interest rates. This is a world in which what people believed for decades has proven to be just a myth.

The Fed increased the money supply by QE1–3, but inflation has not soared, commodities, including gold, declined and everyone swore the stock market had to crash and burn all the way up. In fact, it became the most hated bull market in financial history.

Central banks have been desperate to revive flagging economies by slashing interest rates to record lows, and pumping out hundreds of billions of currencies into the trillions trying to follow the Quantity Theory of Money on a daring quest with what everyone called quantitative easing. Instead of inflation, what emerged was deflation.

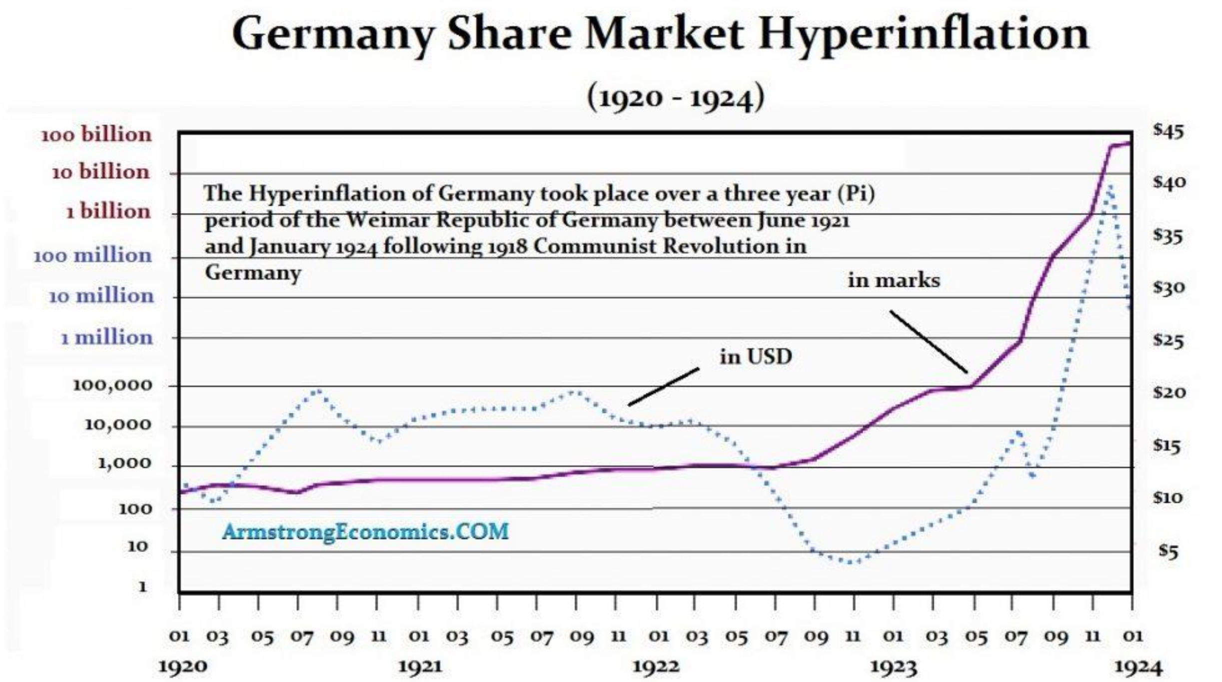
The idea that the Quantity Theory of Money no longer worked was given to the New Monetary Theory where you can increase the money supply endlessly without any inflation whatsoever. All the analysts preaching hyperinflation all hang their hat on the German Hyperinflation. They have simply attributed that to the increase in the quantity of money without any close investigation.

Indeed, in Germany, the obsession with austerity adopted by Chancellor Merkel stems from Germany's experience with hyperinflation based upon her misunderstanding of history. Interestingly, Merkel's obsession with hyperinflation was matched with the USA's obsession with the deflation during the Great Depression. Both political interpretations utterly failed to grasp the real causes of what they experienced. In both cases, we end up with rising authoritarianism that never ends nicely.

In Germany, Merkel's austerity cannot continue when government continues to grow in cost. This shrinks the disposable income of the people and destroys the economy. If this continues, they will welcome a Russian invasion and hand the bill to Putin for their pensions.

The European press bashed Greece as if they are all tax dodgers. The problem with Greece was that they converted their debt from drachma to euro and then the currency rose from 80 cents to $1.60 against the U.S. dollar. This effectively doubled their debt in real terms and is no different from someone who bought one of those Swiss loans who then suddenly owed 30% more when the peg broke.

The European press overall bashes Greece as if nobody pays taxes. But raising taxes to this extent in Europe is highly deflationary. No government anywhere is prepared to deal with the problem of rising pensions for government workers.



Even when we look at Germany before World War I. you must understand that because the world was on a gold standard, the arbitrage volatility was reflected in the bond and share markets when the currency was fixed. This is why the German share market closed in August 1914, along with just about everyone else. Here is a chart that shows the performance of the German share market during the hyperinflation period. We have the DAX which also extended back in time. But don't forget, the DAX is a total return index. If we plot just price, you will see that the German share market looks very much like France.

The primary stock exchange in Germany was in Berlin. However, there were 21 exchanges in total. The origins of the Frankfurt Stock Exchange dates back to medieval trade fairs during the 11th century. By the 16th century, Frankfurt developed into a wealthy and busy city with an economy based on trade and financial services. Annuities in particular were the hot items back then. It was in 1585 when the bourse was established to trade in fixed currency exchange rates. Currencies actually led to exchanges rather than shares.

Mayer Amschel Rothschild
(1744 – 1812)

Eventually, Frankfurt developed into an early share market, competing with London and Paris. Mayer Amschel Rothschild and Max Warburg became very influential in the financial trade of Frankfurt.

The Frankfurt Stock Exchange had been a major international center. It was completely wiped out by World War I and its consequences. Back then, foreign shares and bonds traded on cross exchanges since money was fixed. German investors at the start of World War I dumped foreign bonds and shares, fearing that their capital would be restricted or confiscated. This is also why all the exchanges simply closed in Europe. Any capital they managed to free up from the sale of foreign investments was reinvested mostly in German government bonds. They were patriotic and believed in their government. However, by the end of the war, the Frankfurt Stock Exchange lost all foreign securities listings for bonds or shares. Frankfurt lost its standing as an international stock exchange entirely, and that would only begin to resurface in 1949.

In Europe, the fear of catastrophic declines in stock prices was met with controls at first. Overall, stocks and bonds were not allowed to trade below the price they had been trading at on July 31, 1914. Restrictions were also placed on capital. Money movement was highly restricted to preventing any large outflows of capital, forcing many into black markets. One means was to buy collector stamps and coins. They would then export especially rare stamps and then sell them in America. After two world wars, most of the rare stamps happened to be in America and gradually returned back to Europe during the late 1960s.

With these restrictions in place, markets reopened in Europe. The London Times began printing stock prices for London and Bordeaux on September 19th and for Paris on December 8, 1914. In January 1915, all shares were allowed to trade on the London Stock Exchange, though with price restrictions. The St. Petersburg exchange reopened in 1917, only to close two months later due to the Russian Revolution. The Berlin Stock Exchange did not reopen until December 1917.

The loss of the war meant those who had invested in German bonds suffered the same fate as those Americans who invested in Confederate bonds. Indeed, to fund World War I, Germany relied more on raising money by selling bonds than imposing taxes. This had the net effect of wiping out the savings of the middle class and upper class. During the hyperinflation going into 1923, the losses in bonds were devastating, but in contrast, equities became a prized object among speculative investors. The Frankfurt stock exchange saw unprecedented losses in the bond markets and shares became the speculation objects that rose sharply going into 1923.

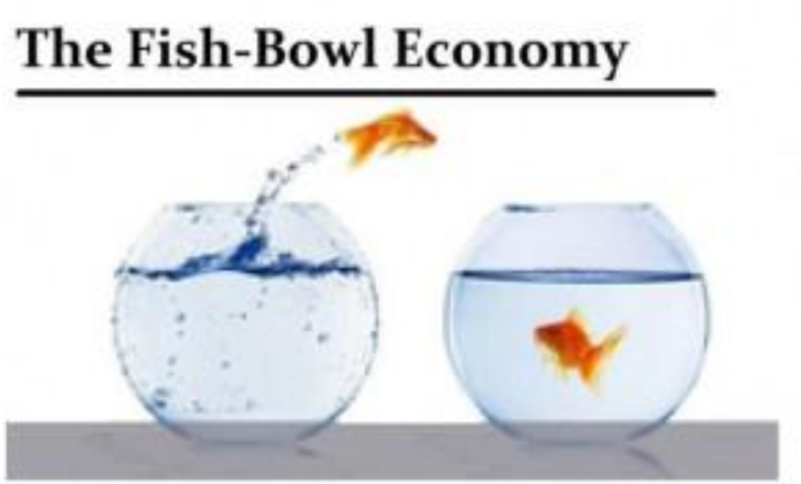
The German war costs covered by taxation, including state and federal combined, was only 13.9% which was lower than 18.2% taxation imposed in Great Britain for the war effort. German debt exploded after 1916. That is when the federal government's short-term floating debt grew relentlessly, and by the end of the war it accounted for nearly one-third of the German national debt.

The seriousness of the German debt crisis, which led to the postwar hyperinflation, was the fact that after 1916 German banks began to purchase more of the government's floating debt. Government debt dominated the market and banks took on more public debt than private. When the public debt was marginalized by hyperinflation, it also wiped out the banking system.

By the end of World War I, the international contacts of the Frankfurt Stock Exchange had been lost. Inflation set in and reached its first peak in 1923. In October 1929, the German stock exchange prices crashed dramatically on the 25th. The world economic crisis ruled the following years. The economy only began to stabilize in 1932.

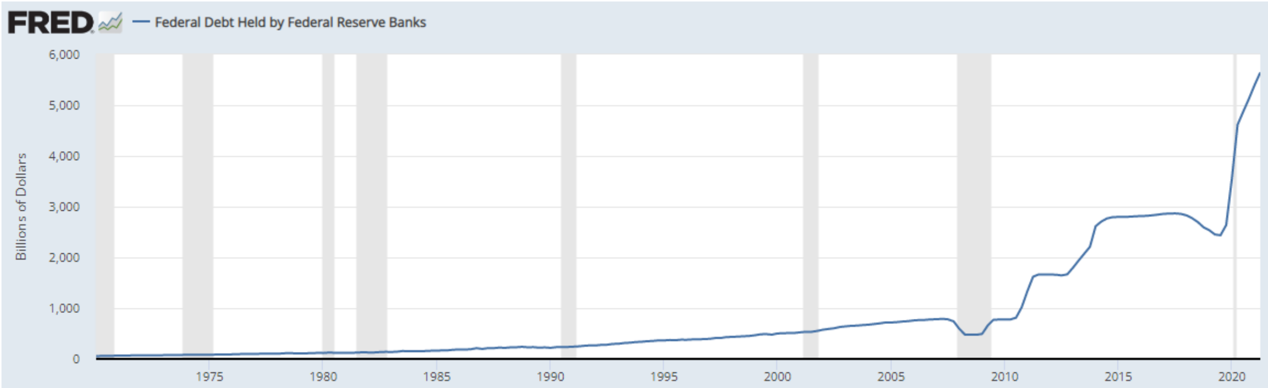
The following year, the Nazis took over and centralized the nation's economic policy. When the US share market crashed on October 29, 1929 beginning the Great Depression, Germany was already enduring 1.5 million Germans who were unemployed. By 1933, that number reached 6 million. This economic crisis was what secured the post of Chancellor for Adolf Hitler.

The Frankfurt Stock Exchange was merged with the Mannheim Stock Exchange and the number of exchanges nationwide was reduced from 21 to 9. Under the stringent Nazi economic regime, free trade was suffocated as Hitler defaulted on external debt. The majority of capital assets was directed to benefit the war economy. Hitler even issued conversion fund certificates that were exchanged one for one with German marks if you sought to leave the country. This was part of the currency controls but these certificates were worthless once you left the country.

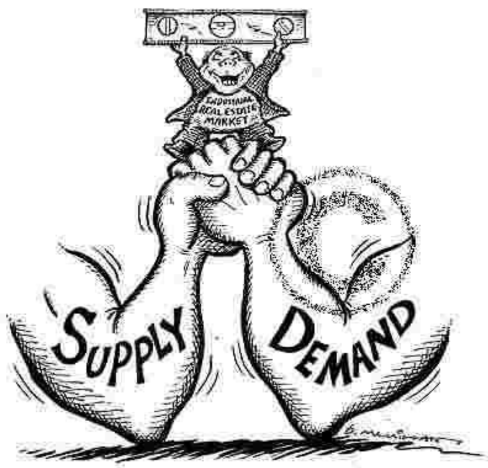


The idea that even selling bond will be less inflationary is all predicated upon what I refer to as a fish-bowl economy. Even central banks in buying in debt to "stimulate" the domestic economy relies upon the assumption that the sell will be domestic. If a nation sells bonds and the buyer is foreign, then the domestic money supply is in fact increased because you are importing capital. Sometimes the fish can jump out and into the nest bowl rendering the economic theories irrelevant.

When the Federal Reserve began its Quantitative Easing, they sought to influence the long-term interest rates and thus were buying back $30 year bonds. China sold most of its 30-year bond holdings and reduced its portfolio to 10 years or less. Thus, the idea that buying in 30-year bonds would stimulate the economy has zero effect because the money was being exported. This adds yet another layer of complexity to the entire idea of inflation in a domestic market.



We can also see that bankers became skeptical of lending with the 2007–2009 Financial Crisis. They began to shift dramatically to buying government debt and rejecting domestic lending. The bailout plan also failed to perform because the bankers bought government debt and did not lend. Once more, here we can see that increasing the money supply through QE failed to produce inflation because the bankers became the those hoarding their deposits and refraining from lending to the private sector failing to stimulate as the theories assumed.



What Keynes missed and is currently overlooked, is this presumption of an exclusively domestic economy ignoring the international capital flows as well as the behavioral position of the people. It is ASSUMED that there is a DIRECT relationship between supply and demand. Yet there is not. There are other factors from international capital flows to the domestic CONFIDENCE of the people in the future to warrant spending and investment. Even if rates go negative, you cannot force DEMAND to rise as evidenced by the failure in Europe for nearly 8 years without CONFIDENCE.

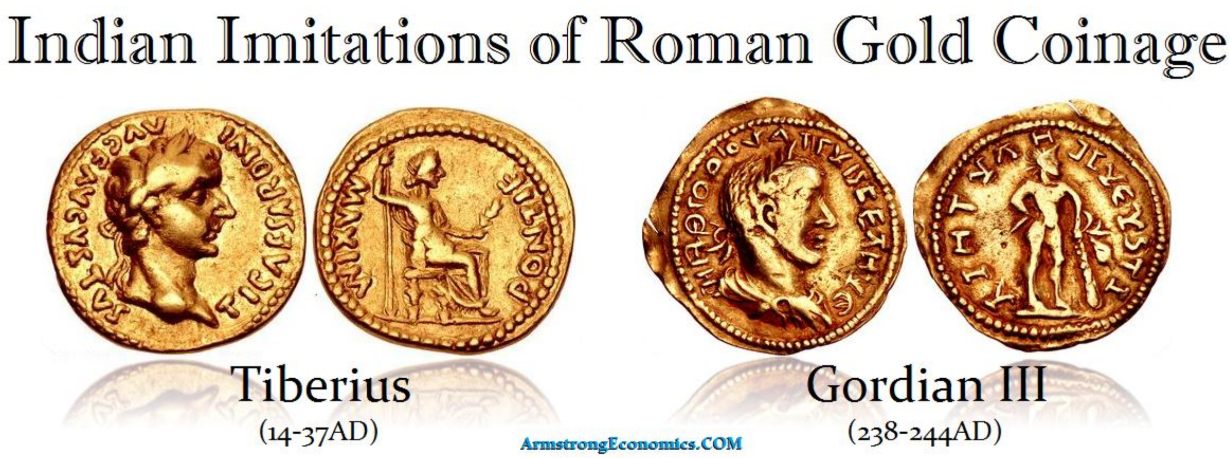
This is also why the stock market has NEVER peaked twice in history with the same empirical level of interest rates. Contagions have been impacting the world economy since ancient times. Even Cicero commented that a disaster in Asia would send panic down the ancient Wall Street in the Forum – Via Sacra. You cannot manage a domestic economy by such simplistic ideas of increasing or decreasing the quantity of money to create inflation or deflation.

The major financial Florentine Crisis of 1343 that lead the people to burn down the palaces of the bankers was set in motion by external forces in France. The French tried to inflate by raising the price of silver relative to gold. The USA made the same stupid mistake during the 19th century and had to get a bailout from J.P. Morgan in 1896 to avoid state bankruptcy. The French had pulled the same stupid move during the 14th century.

The price of silver was driven crazy by debasements in France of their coinage. The French Contagion set in motion was widespread. The silver to gold ratio disrupted everyone in Europe. The ratio stood at 13.62:1 in Florence compared to 12:1 in France during 1316. By driving the price of silver higher, relative to gold forcing the ratio in France down to 5:1 in 1343, this chaos set off riots in Florence as a contagion.

Florence had a two–tier monetary system which meant that wages and local commerce was conducted in silver. Gold was used only for international trade. Driving the price of silver higher raised the cost of production which simultaneously reduced the value of trade and even outstanding loans made to individuals and kings alike. This set off a massive wave of deflation which caused a drop in production and rising unemployment. Hence, the first riot came in 1343 whereby the French Debasement had contributed to the impatience of the population.

The French Debasement set off a Contagion which ignited civil unrest in Florence as wages and the daily cost of living were expressed and tied officially to the price of silver including domestic loans. Since silver rose dramatically in value against gold, revenue on loans and international trade which had been denominated in gold florins depreciated to about one–third of their former value expressed in silver. The cost of production rose by almost 300% as well and that led to sharply rising unemployment. The French debasement was tearing the Florentine economy apart at the seams. Why? Because the supply of money is never exclusively domestic. This is one of the greatest misconceptions and as such the Quantity Theory of Money is way too simplistic and has **NEVER** held up for the economy as has always been reality since ancient times.



It was the Roman Emperor Marcus Aurelius who sent an ambassador to China in 180AD. The export of Roman coinage to pay for imported spices was pervasive to the point that in India, Roman gold coins became the standard and they were often imitated because they were highly valued in excess of their metals content. Indian Imitations of Roman Gold exist from the time of Tiberius to Gordian III spanning more than 200 years. There have always been capital flows among nations from ancient times which is why we developed a global capital flow model.

Hence, the Quantity Theory of Money is dated to the times of tangible money. Rome never even had a national debt. Comparison of our modern would to the times upon which the QTM was developed is ignoring the evolution of money itself. The concept of the QTM is just way too simplistic to actually work today as we have witnessed post–2008. Additionally, it restricts one's perspective to exclusively a domestic economy and as we have seen since QE1–3, it will not translate into inflation on a one–to–one relationship.

British Hoard Discovered 2007
Containing 52,000 Roman Coins

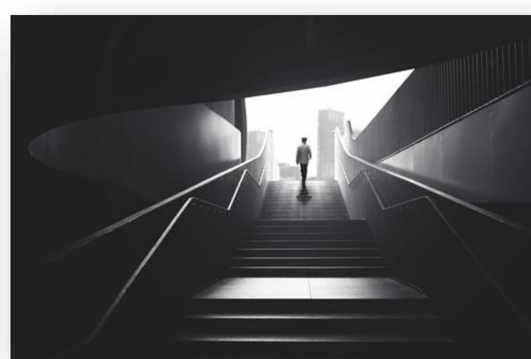
The academics assume we are morons. There is no comprehension of how human nature actually responds. Hoards of debased coins are found from the 3rd century and the fall of Rome. Under the academic view, inflation should rise by simply increasing the money supply presuming we will just be like kids in high school and party spending the cash with no regard for what comes tomorrow. When people do not **TRUST** the future, they will **NOT** spend the money – they hoard it. When the fate of Rome was in question, we find hoards of coins that people buried their fortunes for there was no bank that was even safe.

This is why the European Central Bank moved to eliminate cash for Quantitative Easing since 2008 and negative interest rates since 2014 desperately trying to create inflation. They have acted using the QTM and that policy has failed. When people questioned the future, the saved and would not spend. You MUST have faith in the future to even borrow for investment. All of the QE has absolutely PROVEN beyond a shadow of doubt that the Quantity Theory of Money no longer functions in our modern–day world of complexity.

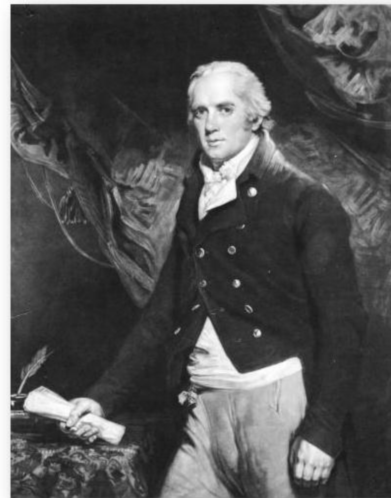
Now, adding to this reality, the destruction of Capital Formation. My definition of this is not including capital goods. I use this term limited to liquid capital – cash, stocks, and bonds. Therefore, the Great Depression was so profound because when the sovereign debt of most countries was permanently defaulted on, this wiped out the Capital Formation in the United States because the conservative people bought the bonds and lost everything whereas the shareholders still have some value even if the company was liquidated.

What has taken place here expanding the debt by the trillions has failed to create the inflation. It took the collapse in the supply chain to create inflation proving that Supply–Side Economics worked rather than Demand–Side Economics. Reduce the supply led to a rise in demand which all the QE could not accomplish by trying to manipulate demand. Demand–side economics which is supposed to help the poor rather than the rich is just absurd. Raising taxes on the rich reduces investment which lowers the economy and reduces employment. The lowering of interest rates to "stimulate" demand fails for part of the demand is spending from the elderly who rely upon the rate of interest for returns – hence they spend less. All that this has accomplished has been the destruction of Capital Formation.

The loss to the economy under these policies has been close to $5–6 trillion in permanent damage. The permanent destruction of capital formation which includes pension funds has led to the push for a Great Reset because the entire model has been pushed to the limit. Our governments can no longer even fund themselves thanks to artificially low interest rates.



What we must understand is that most of the theories concerning the quantity of money such as Henry Thornton, and his "An enquiry into the nature and effects of the paper credit of Great Britain" (1802) concluded these theories during a gold standard where money was tangible and the value of money in foreign exchange was based upon metal content. That was a very simplistic world. Yet he was one of the first to investigate monetary theory. Thornton is often described as the father of the modern central bank for he was a merchant banker in his day rather than just an academic.



Henry Thornton
(1760 – 1815)

Thornton was really an opponent of the ***real bills doctrine***, which is the rationalization that the issue of paper money by a bank against assets on a 1:1 basis is not inflationary. Therefore, under the ***real bills doctrine***, by limiting a bank to issuing money that is adequately backed by equally valued assets does not contribute to inflation. This is contested by what has emerged as the quantity of money theory which argues that any increase in the money supply will create inflation.

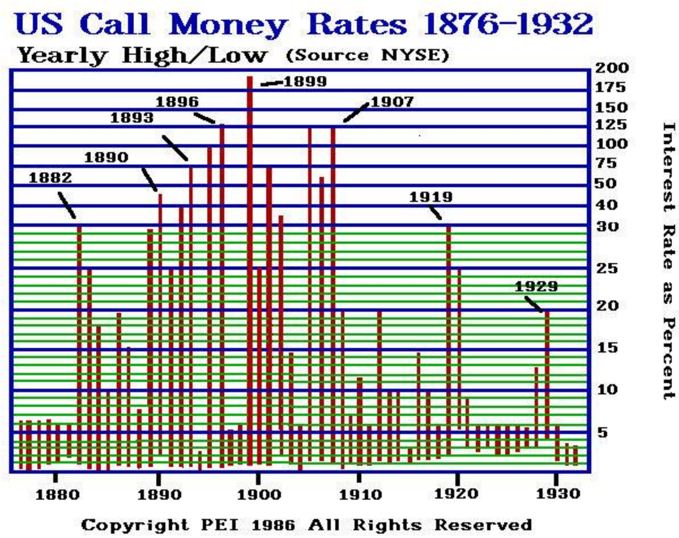
Knut Wicksell
(1851-1926)

Hence, Thornton opposed the ***real bills doctrine*** and later Knut Wicksell's (1851–1926) theory of the **Cumulative Process** also emerged from the idea of the QTM. It would be Wicksell who influenced both the Keynesian and Austrian schools of economic thought. Money is created within the system through leverage. I deposit \$100 and the bank retains say \$6 as a reserve and lends you \$94. So, we both now have \$194 listed in our bank accounts.

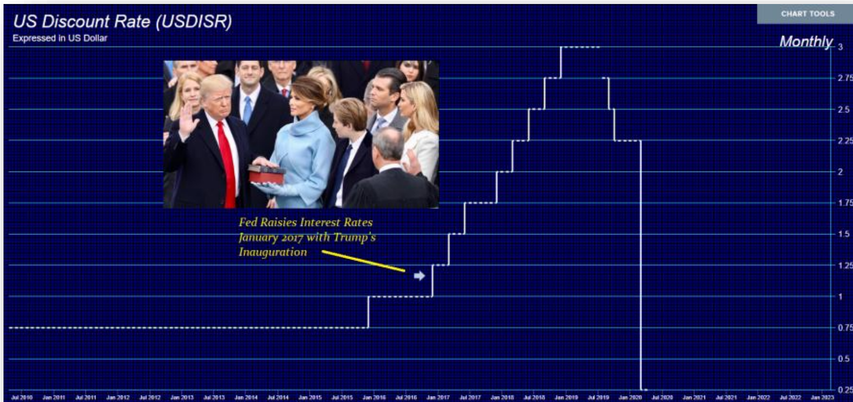
This is what is often called money that is originating internally within the system, endogenous money, where an economy's supply of money is truly determined internally within the system as a result of the interactions of the participants. Consequently, the true definition of the money supply is created within the system and not by a central bank.

Central banks attempt to influence this internally created money supply by controlling short-term interest rates. The theory is that the money supply will then adapt to these changes in demand for reserves and credit caused by the interest rate change. But this has proven to be false for it fails to comprehend that people will respond to what they believe will take place.

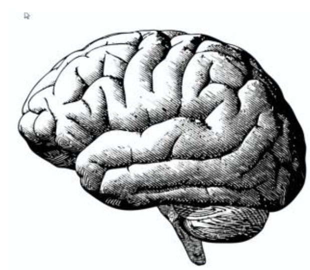
This is why no study of interest rates correlated to the economy reveals that this theory fails to understand human nature. The market-economy has never peaked with the level of interest rates twice because you will pay 25% interest if you think you will double your money but you will not pay 0.5% if you see no opportunity. Hence, the central bank policy is attempting to manipulate demand with interest rates has never worked. The idea that they can influence the supply curve by altering demand is completely erroneous. For the supply is not exclusively influenced by demand. There can be weather storms that create food shortages which force prices higher that are completely external to these theories.



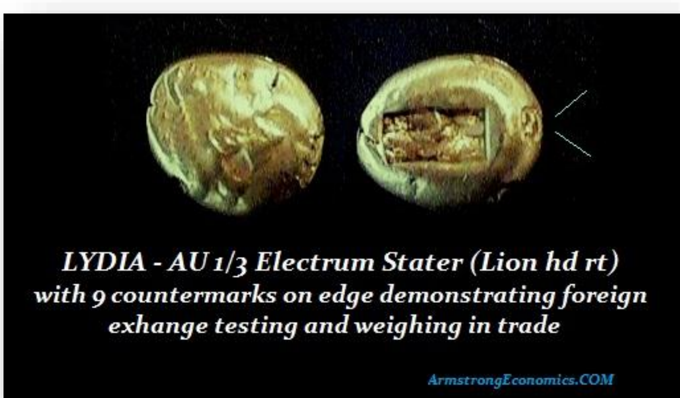
It was Thornton's work on the 19th century monetary theory that won praise from the 20th century economists such as Friedrich Hayek (1899-1992) and John Maynard Keynes (1883-1946). The focus on central bank Quantitative Easing has lacked the appreciation for the evolution of money itself. Where under the ***real bills doctrine,*** back then it was private tangible assets on deposit at banks that was the theory of no inflation. This emerged with the bankers telling governments that they could also borrow which in theory was not creating money so it would be less inflationary.



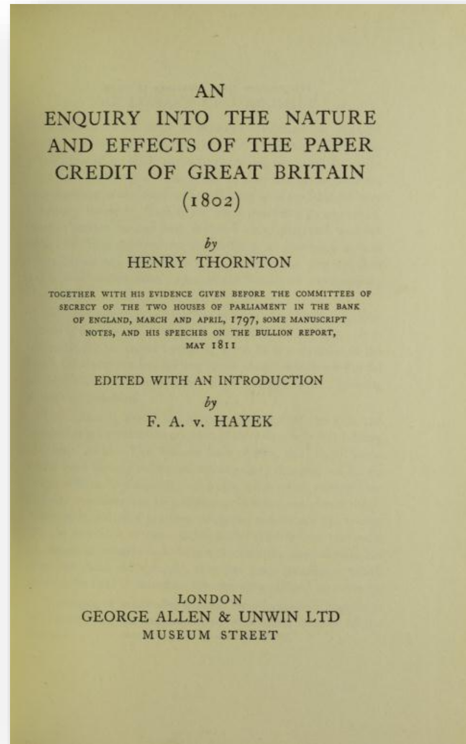
The Federal Reserve constantly began raising interest rates when Trump took office. Obviously, raising interest rates did not prevent the bull market in stocks nor the economic boom. As long as rates were rising, people assumed it would cost them more tomorrow so they borrowed. During the declining of interest rates, people will hold off spending because it may be cheaper tomorrow. The entire theory of how to manage the DEMAND within an economy only works in the deep crevasses in the minds of academics.



Much of the confusion began to emerge as paper certificates began to displace gold as currency in early 19th century Britain. But the rise of bank paper money was also justified by the fact that coins were counterfeited, shaved on their edges, and kings would engage in debasement. The foreign exchange rate was determined by the metal content. There was no premium that would attach to a currency because of their military power until the British Empire began to rise.



Even in ancient Lydia where coins first appeared, what was also created as a byproduct were foreign change dealers. This gold 1/3 stater of Lydia shown nine markers from foreign exchange dealers certifying the coins' validity. This is during the 7th century BC.


AN
ENQUIRY INTO THE NATURE
AND EFFECTS OF THE PAPER
CREDIT OF GREAT BRITAIN
(1802)

by
HENRY THORNTON

TOGETHER WITH HIS EVIDENCE GIVEN BEFORE THE COMMITTEES OF SECRECY OF THE TWO HOUSES OF PARLIAMENT IN THE BANK OF ENGLAND, MARCH AND APRIL, 1797, SOME MANUSCRIPT NOTES, AND HIS SPEECHES ON THE BULLION REPORT, MAY 1811

EDITED WITH AN INTRODUCTION
by
F. A. v. HAYEK

LONDON
GEORGE ALLEN & UNWIN LTD
MUSEUM STREET

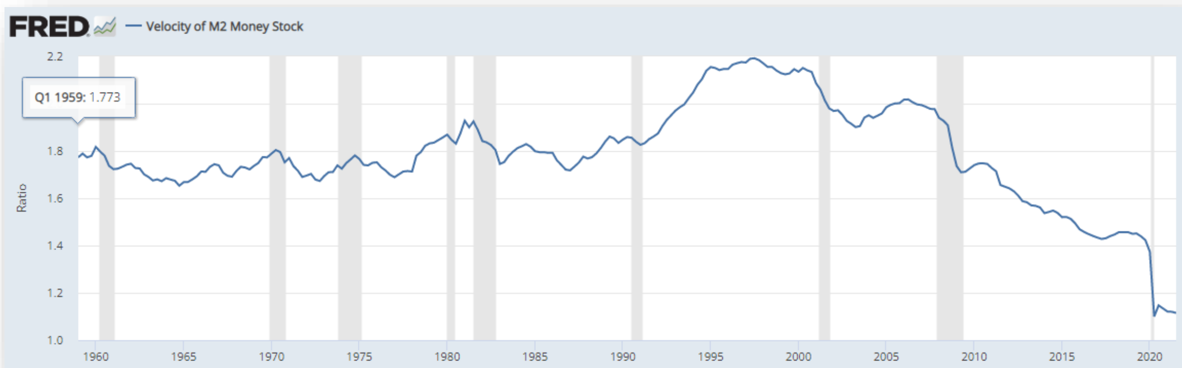
Henry Thornton's book opens by explaining his intentions in publishing it.

"THE first intention of the Writer of the following pages was merely to expose some popular errors which related chiefly to the suspension of the cash payments· of the Bank of England, and to the influence of our paper currency on the price of provisions."

What Thornton was concerned about was known as the Bank Restriction Act of 1797. British banknote issuance expanded dramatically after Britain declared war on revolutionary France in 1793 – i.e. Napoleon. Passing of the Bank Restriction Act released the government from the fear of mass redemption since the banknotes were convertible into gold by the end of the war in 1814. At the time, the banknotes in circulation had a face value of £28.4 million, yet the backing was down to just £2.2 million of gold. The government did not resume "convertibility" until May 1, 1821.

So, once more we find the variable of **war** introduced into this otherwise assumed binary relationship of gold v paper. Historically, it is always war that introduces doubt and that undermines confidence. The missing link in these theories has always been human behavior which they presume they are just cattle and can be herded as they desire.

Thornton explains further that his writing transformed into an economic treatise, whereby the very first Chapter contained a few preliminary observations on commercial credit. He then moves on to describe multiple types of paper credit and the general principles behind it. He was perhaps the first to notice that the velocity of money was also important. How rapid the turnover of money in the circulation varied over time. He then sees that the contraction of money in circulation and credit produced economic decline. He also introduces various factors that he believed could result in people hoarding their assets and thus holding money rather than assets. He called this the "rapidity of circulation", what we call today the velocity of money.



Today, we can see how the velocity of money collapsed thanks to COVID. Thornton's observation of the velocity of money was very important which still holds to this day. The missing element is COFIDENCE of the people. He acknowledged that people may be more likely to hold on to money and liquefiable assets as their confidence in the economy declines, creating a "loss sustained" in economic activity.

All of this anticipated much more advanced monetary theory a century later, proving a basis for classical economics and Austrian school monetary theory well into the 20th century.

Consequently, in Paper Credit, Thornton concludes that the likely impact of inflating the supply of money faster than demand, will alter the value of a nation's purchasing power of its money relative to the conditions of other nations. This was

Sir Thomas Gresham (1518-1579)

clearly an observation of Sir Thomas Gresham (1518–1579) when he represented England in the financial market at Amsterdam. Because the FX value of the currency was dependent upon the metal content rather than in the political confidence in a given nation, his maxim that bad money (debased) drove good money out of circulation became Gresham's Law.

But even this observation does not apply to the modern–day evolution of money. Not only is debt now money that pays interest, but the value of a currency is also tied to a nation's military power. That was the case underlying the coinage of Alexander the Great as well as Athens followed by Rome.

Imitation of Alexander III the Great

Macedonian Kingdom. Alexander III the Great
AR Silver Tetradrachm (17.21 g) struck 325-323/2BC Amphipolis Mint

EASTERN EUROPE, Imitation of Alexander III of Macedon
Late 2nd-1st centuries BC. AR Tetradrachm (31mm, 16.74 grams)

Indeed, we have the three main ancient currencies of Athens, Macedonia, and Rome imitated by peripheral states with the same silver content meaning they are not forgeries. Instead, this practice shows that there was a premium to the metal content based upon the military power and respect of these three great empires. Even ancient Egypt, which never issued coinage prior to its capture by Alexander the Great in 334BC, nonetheless, it too issued coins in the image of Athens for the purpose of trade.

Athens Imitation AR Tetradrachm
(21mm 26.92 grams)circa 450BC
EGYPT, Pharaonic Kingdom. Uncertain pharaoh(s)
Late 5th–mid 4th centuries BC
ArmstrongEconomics.COM

During the 20th century, when silver was demonetized in 1873, the United States then issued silver trade dollars which were of a higher grade and weight of silver. Here too we find that the United States issued specific silver coins in order to facilitate trade with China despite the fact that in the West, silver was no more money in an official capacity. Clearly, the very same reason ancient Egypt issued silver coins in the image of Athenian Owls was not for domestic use, but for international trade.

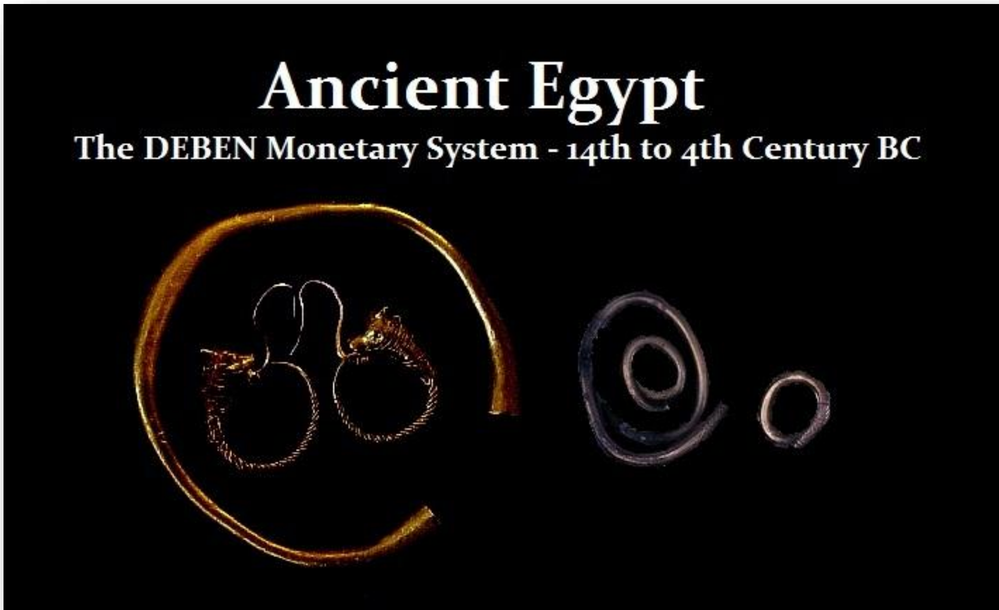
This practice of imitating the coinage of the dominant power also began to reappear during the Middle Ages first with the gold florin of Florence, Italy. We find that the florin simply became the standard because Florence was the dominant economic power within Europe and thus carried a premium.

Interestingly, Thornton does identify the "stimulus" effect of printing excess money, including its harmful side-effect of what the Austrian School would later call "malinvestment", as one industry's exaggerated demand drew money or workers from other sectors. Yet at the same time, he noted that the increase in the supply of paper money as took place during war time, also had the indeed of causing the "drain" of gold out of a country via the foreign exchange markets. However, this Thornton appears to misunderstand for it was not the increase in the paper money supply that drove gold out of Britain, but the flight of capital being gold at that time based upon the "risk" factor that Britain might lose the war. Most of his observations took place during a time of war, and that involves additional variables that are not normally present.

Minoan Bronze Ingot Resembling Sheep Skin
circa 1400 - 1000 BC

Thornton's, Keynes', and Hayek's theories were all relevant for their time, but money has continued to evolve. It has been everything from seashells, cattle, sheepskins, bronze, grain, and bags of rice. St Patrick upon reaching Ireland, mentioned that the standard unit of account was a slave girl. These things became the medium of exchange because there is something very fundamental that all overlooked. Money is simply a medium of exchange and its acceptance is based upon confidence that someone else will accept it in return for another transaction. Even as bronze began to replace sheepskins and cattle, we find the bronze medium of exchange taking a representative form of the previous medium of exchange.

Roman Aes Signatum 5th Century BC



Precious metals began to surface as a medium of exchange based upon CONFIDENCE. Unlike bronze that had a unitarian value for it could be casted as a tool to grow food or a sword to defend your property. In the case of gold, it was restricted for use by the Pharaohs because it was believed to be the tears of the sun god.

Tutankhamun's inner coffin is 74 inches long and 20 inches wide and is made of SOLID GOLD weight of 110 kilos (3536.5 ounces)

From an economic perspective, the Egyptian monetary system is by far the first representative form of money. In other words, they used a derivative of paper money proving that money also need not be tangible as has been the case in modern times. The central element of any monetary system hinges upon whatever the people "believe" has value.

In Egypt, since gold was seen as the tears of the sun god and was reserved exclusively for royalty, it had acquired a symbol of status. Gold did not serve as any sort of medium of exchange until about 700BC. Why? For anything to serve as the medium of exchange it must exist in sufficient quantity. As long as gold was rare, it was exclusively the property of kings and represented a luxury with no practical value whatsoever.

Egypt's monetary system began with barter which was typical coming out of the stone age. The medium of exchange was primarily based on agriculture – grain. This evolved into official *Granaries* and a farmer would then take his crop to the *Granary* and receive a receipt on his account. With time, the monetary system evolved where people would then accept these receipts (paper money) in payment. The *Granary* became an ancient central bank in modern terms.

The huge difference between Egypt and Mesopotamia can be seen through the monetary system. The earliest use of metal appears to be in Mesopotamia cast in the form of silver rings. In ancient Egypt, silver was probably more expensive than gold which was rather common after the exploitation of the Nubian mines. Evidence supporting this idea comes from a New Kingdom Period wall painting depicting a man weighing big gold rings which were discovered in Thebes. This is the Deben Monetary System.

Eventually, gold rings became customary to carry out trade with the outside world. So, we tend to find the beginning of a two-tier monetary system using grain receipts (paper money) for local small transactions and gold rings for international payments of a higher monetary value. We even find the Celts created gold rings.


CELTIC 800BC Ancient Ring Money

We even find bronze rings which became the universal form of money prior to the appearance of coins by the 7th century BC. They are found among the Celts and in North Africa. But from the East in the region of the Black Sea, we find that money took the form of bronze arrow heads to bronze dolphins of the creative ancient city of Olbia.

In Turkey, ancient Anatolia, this is where coinage began. The first step was to standardize weight. The electrum, which was a natural alloy of gold and silver found in the rivers, became the medium of exchange influenced by the fact that gold had been the privilege of kings.

Thus, the standardization of weight eliminated the need to weigh the metal for every transaction. Therefore, the clumps of bronze had to be weighed for every transaction. However, the first issue of these new standardized coinage was smooth and this led to human nature being the same throughout the centuries. They began to shave just a little bit off.


Anatolia - Electrum 7th Century BC

The next stage in the evolution of money was to strike these with striations but this did not stop the shaving. The next stage was to impress a geometric design to defeat shaving the coinage. It is clearly important to also grasp the money also has evolved into a unit of account. Like Irish slave girls being the unit of account, it did not mean you went shopping dragging slaver girls with you to the market.

Saint Patrick in the 5th Century AD upon his arrival in Ireland, found that money was expressed in human slave-girls. He wrote in his Confession, *"I think that I have given away to them no less than the price of fifteen humans."*

The unit of account concept was the idea of selecting something as the standard against which everything else would be related to. It did not mean that you were really exchange a slave girl for the weekly groceries.

Lydia One of the First Coins Created
6th Century BC

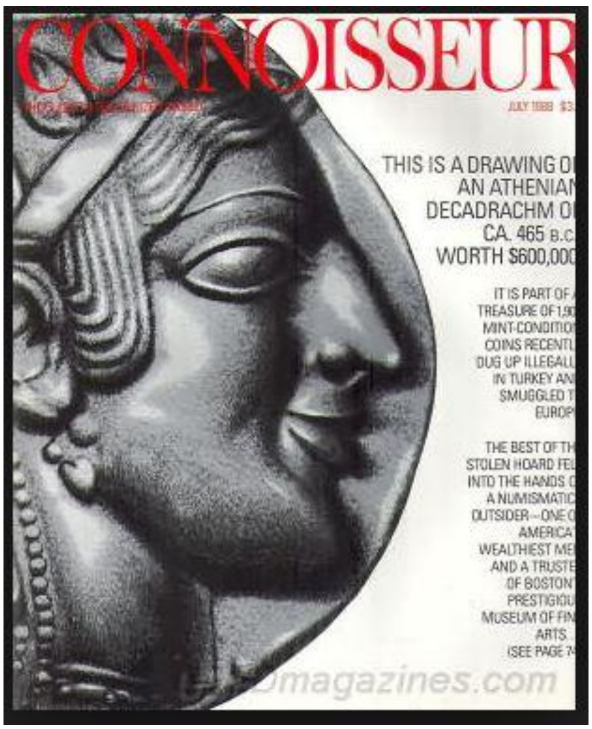
Once they introduction of a geometric pattern to reduce the prospect of shaving the coins, the next step was for the king to advertise his power by impressing his badge upon these new coin inventions. Thus, the first official government produced coins bore the head of a lion – the badge of the king.

King Croesus (Kroisos) (560-546BC)
First Bimetallic Monetary System

People began to attach a greater premium to the electrum coins that were more yellow than others. This led to the development of refining the natural alloy of gold and silver (electrum) into two monetary units – gold v silver. Thus, the bi-metal money system was born. Gold became the primary medium of exchange for international transactions whereas silver emerged as the more common element and this provided the basis for the monetary system.

We see this type of two-tier monetary system throughout the ancient world right into modern times. The Greeks really did not have gold mines, but silver mines were their primary source for creating wealth. Ancient Athenian Decadrachms are traditionally discovered around the Mediterranean seaport rather than in Greece reflecting they were high denominations used in international trade.

Athens Decadrachm (c. 465-460 BC) 41.86 grams



A hoard of 1,661 coins were discovered and excavated in Turkey about 1984. The buyer of the hoard was William I. Koch of the famous Koch Industries, the largest privately owned company in the United States. Koch paid $3.2 million for the hoard. The family business had developed a new cracking method for the refinement of heavy crude oil into gasoline.

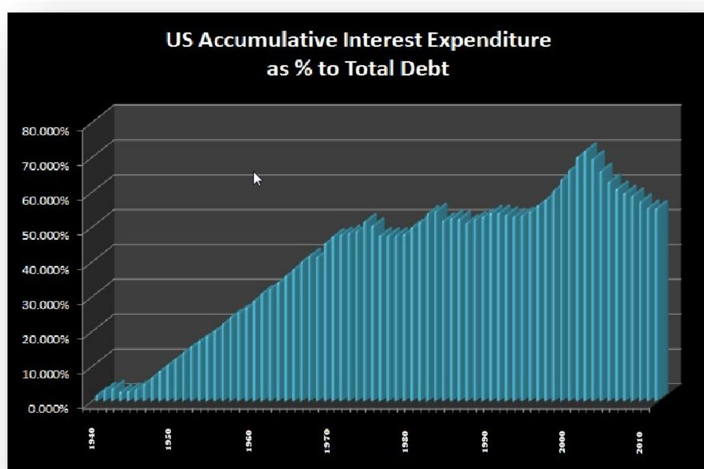
William I. Koch eventually announced that he was returning them to Turkey where they will simply sit in a drawer so the government can claim them won but contribute nothing to society.

The hoard included 14 Athenian decadrachms, which were extremely high denomination coins used in international trade. I had been offered the decadrachms but knowing the details of the find and the possible entanglement legally, I passed. A corroded example discovered back in 1905 which was legally sold for $185,000 in 2021.

To make trade between Phoenicia and Mesopotamia easier they created a system that could have been based on the traditional Egyptian measurement known as deben that was equal to about 86 grams, which would exchange for 12 shekels used by Babylon and Phoenicia of about 7.2 grams per unit. Clearly, the emergence of foreign exchange brokers appeared because the regions had all different weight systems.

Pictured here is a dishekel of the Phoenician city of Tyre, which is believed to be the earliest known coin of this region circa 450–425BC. The date of the first Phoenician coins is uncertain. The earliest date generally accepted by scholars is about 450BC and initially, the coins were all silver with weights based on variations of the Babylonian shekel of 7.2 grams. The most interesting aspect is that Phoenicia possessed no precious metal mines. The source of their silver came from trade with distant mines in Spain and possibly Sardinia. The motif is that of a dolphin riding the waves and the reverse with the wisdom of the owl.

Today, we have debt that is posted as collateral against which money is thereby created as a loan. The definition of money itself has been drastically altered from the pre–world of the Great Depression that was based upon tangible values. The bankers' sales pitch that under the ***real bills doctrine,*** borrowing rather than printing would be less inflationary and thus QE operations of central banks is buying in debt for the creation of cash would be stimulus and inflationary all hinged on the idea that debt was not fungible. Once debt became collateral, then suddenly it was transformed into money that merely paid interest. At times, up to 70% of the national debt has been accumulative interest expenditures – not social spending.

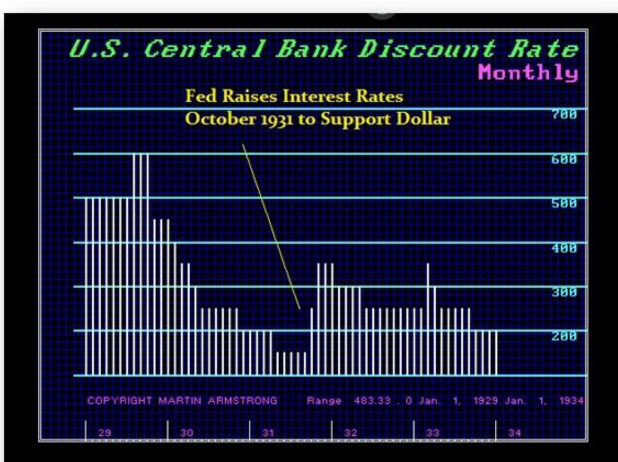


Milton Friedman
(1912–2006)

John Maynard Keynes
(1883-1946)

Both Milton Friedman (1912–2006) and his theory of Monetarism and John Maynard Keynes (1883–1946) based their ideas upon a system that was purely in theory. The government only took part of Keynes' suggestion to increase spending even into a deficit to stimulate demand ignored the supply side and assumed that government could manipulate society. Keynes never advocated perpetual deficit spending indefinitely. We have politicians to thank for that. To be honest, Keynes also advocated lowering taxes to stimulate the demand. Few Presidents have ever done that: JFK, Reagan, and Trump. But the Marxist followers in the Democratic Party can't envisioning ever lowering taxes like a miser who prays that every penny he spends will return to him.

Milton argued that the Fed was following austerity and raised rates to support the dollar during the 1931 Sovereign Debt Crisis. As Friedman and Schwarz wrote, *"The Federal Reserve System reacted vigorously and promptly to the external drain. . . . On October 9 [1931], the Reserve Bank of New York raised its rediscount rate to 2–1/2 per cent, and on October 16, to 3–1/2 per cent–the sharpest rise within so brief a period in the whole history of the System, before or since (p. 317)."*



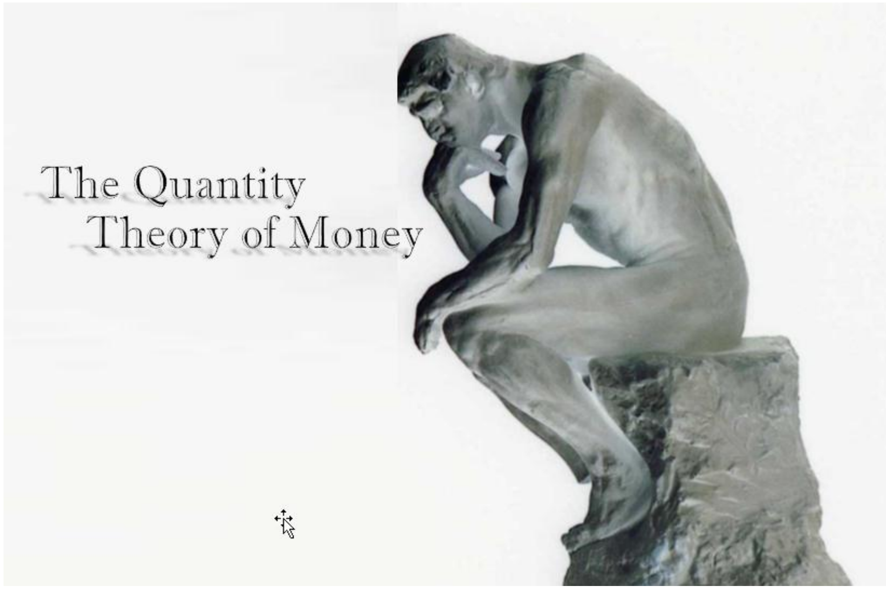
Milton's premise was that the Fed was doing what Germany was doing – imposing austerity contracting the money supply accelerating deflation. The Fed was trying to support the currency to retain confidence in the bond market rather than stimulating the economy. In theory, Milton's logic stretched back to Thornton where one should expect higher inflation if the money supply were expanded instead of contracted. Once more, this is a very myopic view in a world that interconnected using an assumption that a single country can actually manage its own economy contrary to the rest of the world.

It is by no means a one-dimensional economy. This is global and we are all connected. The overlooked aspect here is the size of government has drastically changed from the time Keynes lived and Milton published his book. The size of government has grown to consume nearly 40% of GDP on average. It is no longer the incidental observer.

Most astonishing, is that because of the size of government, raising and lowering interest rates has no impact on the government. The Fed can no longer raise and lower interest rates to control demand when the government is the lion share of that demand and competes against the private sector.

Volcker raised interest rates into 1981 to fight inflation and succeeded in costing the government vast amounts of interest thereafter. Raising rates to curb demand may stop the private sector, but it has no influence upon government. **You can not stop a Ponzi Scheme once you begin**.

In Europe, increasing the money supply has had **ZERO** inflationary impact and has not stimulated the economy in the least. There is no one-to-one relationship. It is far more complex and it becomes a balancing act. They have been sterilizing any impact of increasing the money supply by raising taxes. The monetary increase is only coming from buying government bonds. It is not supporting the private sector but instead, it has subsidized the government sector.



The central banks have been fighting a losing battle against the normal forces of how capital moves during a crisis. Interest rates in the real lending world began to rise because of the perception of a rise in credit risk. Bankers will never lend money because someone is on the ropes without substantial collateral that is liquid.

All of those clinging to the Quantity Theory of Money from politicians, analysts, goldbugs, and central bankers, you have to wonder how many times must they all be wrong in assuming an increase in the supply of money must be inflationary. That theory has proven to be suitable for a bedtime story for children. Academics, who has fostered this theory, lack any trading experience. Sorry – all things DO NOT REMAIN EQUAL!

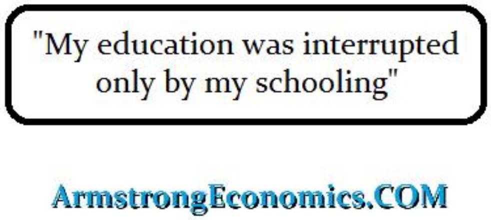
There was even massive liquidation going on among hedge funds who have never understood the Quantity Theory of Money. The statement of Ray Dalio, founder of investment firm Bridgewater Associates, that "***cash is trash***" was made on January 20th, 2020 just before the COVID Crash. Not only did this reflect this same belief stemming from the Quantity Theory of Money, but it also illustrated the arrogance behind this philosophy. The typical flight to quality running to government bonds failed and the COVID rush is cash rather than bonds which was a history first warning the confidence in government has also declined.

Conclusion

This idea that hyperinflation will unfold simply because of Quantitative Easing has proven to be as wrong as expecting politicians to actually represent the people's best interest instead of their own. This expectation has proven dead wrong and it has cost investors a tremendous amount of money. This Quantity Theory of Money has devasted not just investment, but the management of the economy thanks to academic advice to central banks. It has put the cart before the horse because they refuse to accept reality that the root cause of hyperinflation is FIRST the collapse in confidence in the survival of the political state.

This Keynesian Model of lowering interest rates has completely failed and it has acted counter-trend to how the capital functions in a panic – the top priority becomes credit risk. The entire idea of stimulating the economy based upon mere levels of interest rates is equally absurd. The problem we face is that academics, who have zero real world trading experience, come up with these ideas and then pat each other on the back for their brilliance.

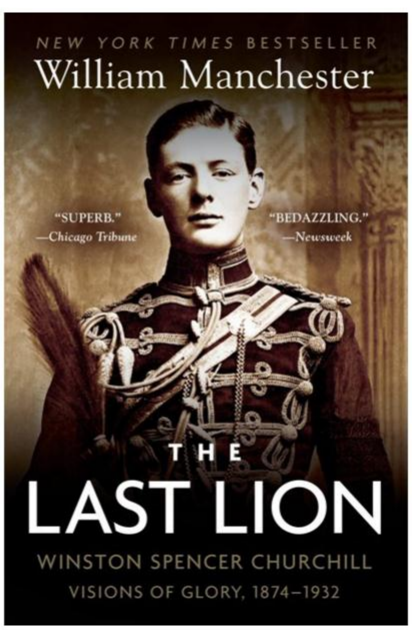
Now the fate of the world has been once again cast into turmoil as the academic, Klaus Schwab, has emerged as the mover and shaker pulling the strings, or perhaps chains, that control our pretend political representatives.



Sir Winston Leonard Spencer-Churchill (1874–1965)

Only the wisest of men come to realize that formal education is far too often the means by which the mistakes of humankind are perpetuated from one generation to the next. Churchill saw the patterns of Hitler and warned that he would take Europe. The rest dismissed his warnings and were proven wrong. The key is not degrees handed down from people with no experience.

In William Manchester's The Last Lion, he dives deep into the background of Churchill and discovered a genius. Winston's teacher, Mr. Davidson, had conceded that he was the ablest boy in his class. He even admitted that, in fact, Winston was remarkable. His grasp of history was outstanding. Yet he was considered a hopeless pupil. It occurred to no one that the fault might lie, not in the boy, but in the school. Manchester notes on pages 158–159:



Samuel Butler (1835–1902) defined genius as "a supreme capacity for getting its possessors into trouble of all kinds," and it is ironic that geniuses are likeliest to be misunderstood in classrooms. Studies at the University of Chicago and the University of Minnesota have found that teachers smile on children with high IQs and frown upon those with creative minds. Intelligent but uncreative students accept conformity, never rebel, and complete their assignments with dispatch and to perfection. The creative child, on the other hand, is manipulative, imaginative, and intuitive. He is likely to harass the teacher. He is regarded as wild, naughty, silly, undependable, lacking in seriousness or even promise. His behavior is

> *distracting; he doesn't seem to be trying; he gives unique answers to banal questions, touching off laughter among the other children. E. Paul Torrance of Minnesota found that 70 percent of pupils rated high in creativity were rejected by teachers picking a special class for the intellectually gifted. The Goertzels concluded that a Stanford study of genius, under which teachers selected bright children, would have excluded Churchill, Edison, Picasso, and Mark Twain.*

We are indeed constantly plagued by academics who pontificate theory with no actual trading experience. It is like a man trying to write a book of how does it feel to give birth to a child. It just takes experience to grasp an issue.


Forbes

EDITORS' PICK | Jan 5, 2020, 04:41pm EST | 44,926 views

Why Stakeholder Capitalism Will Fail

Steve Denning Senior Contributor
Leadership Strategy
I write about Agile management, leadership, innovation & narrative.

Klaus Schwab, Executive Chairman of the World Economic Forum, (Photo by Mikhail Klimentyev\TASS via ... [+]

"We should seize this moment to ensure that stakeholder capitalism remains the new dominant model."

Unfortunately, this QTM has plagued our modern world that always tries to reduce everything to a single cause and effect. The real world never acts that way. The answer lies in complexity and it will be the combination of factors that ultimately lead to the outcome of hyperinflation. Still, these events which come together are typically seen only by comparison to surrounding countries that are not experiencing the collapse in confidence that produces the hyperinflation.

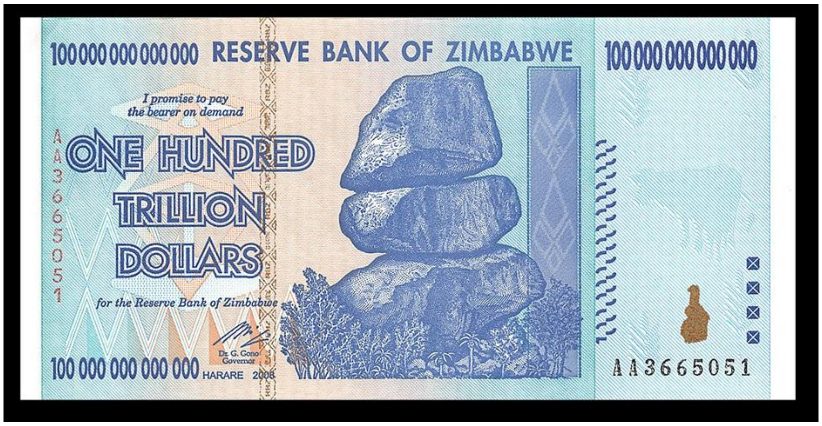
Normally, hyperinflation comes when two primary requirements are met:

(1) there is a complete collapse in the confidence of the government;

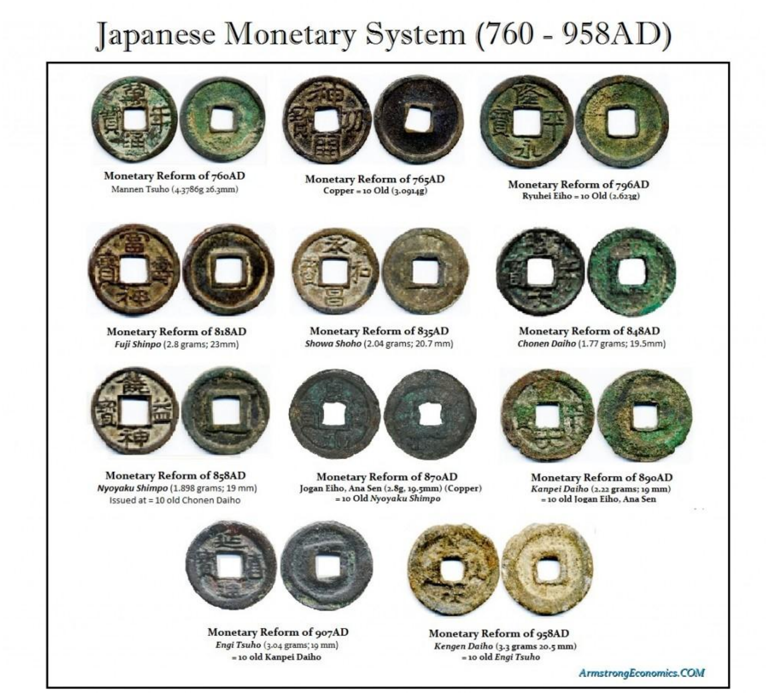
(2) the government can no longer borrow and can only create money to survive

This is what we are approaching, but it has nothing to do with the quantity of money. That is putting the cart before the horse. What we must understand is that this time we are not dealing with one or two countries that have been devasted by war like Germany and Hungary. Today, all governments have abused the same system. The childish ideas that we will see hyperinflation in the United States is really showing the lack of comprehension of the world economy and how it truly functions.

Conclusion



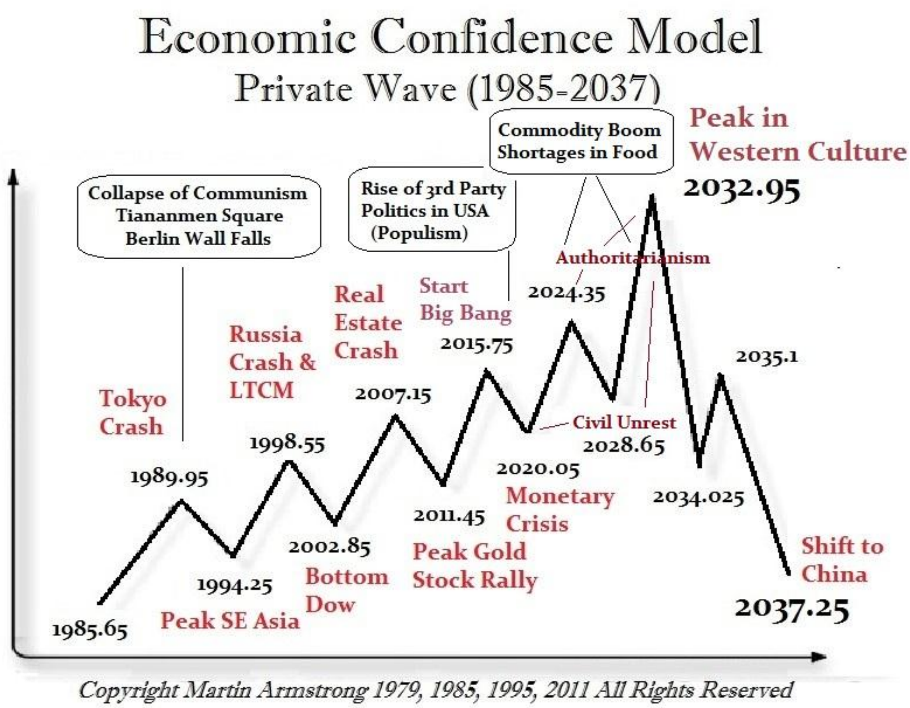
The hyperinflation in Zimbabwe is a classic example. Once country can move into hyperinflation and the people lose confidence to the extent that they use foreign currencies as the hedge against their own. They will typically move bank account to also foreign currencies or withdraw money from banks. The Germans were using the currencies of primarily Switzerland as well as that of Britain and the United States. When Hitler came to power, he made it a crime to have bank accounts outside of Germany and that was why Switzerland created their secrecy act.



For example, in Japan be cause each new emperor devalued all the outstanding money supply to 10% of its former value, the people eventually wised up and simply refused accepting any Japanese coinage. Japan LOST its ability to even issue coins for 600 years because of this abuse of power. Once again, people lost faith in Japanese coins and began to use Chinese and bags of rice. It is always the CONFIDENCE in government that is the primary component of hyperinflation. Once the people NO LONGER TRUST government, that is the moment when it all begins to collapse – not the QTM.

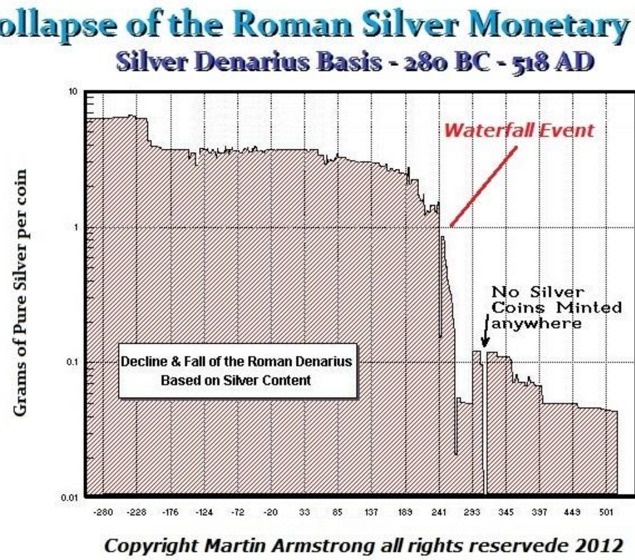
Conclusion

Therefore, hyperinflation is possible in a single country or a small group of countries that lost a war. However, hyperinflation has NEVER taken place is all the currencies of all nations. Nevertheless, the system is collapsing and although we do not see hyperinflation, what we are experiencing is the shift from Public to Private assets which is the early signs of what would traditionally be hyperinflation in a nation such as Germany in 1923 or Zimbabwe.



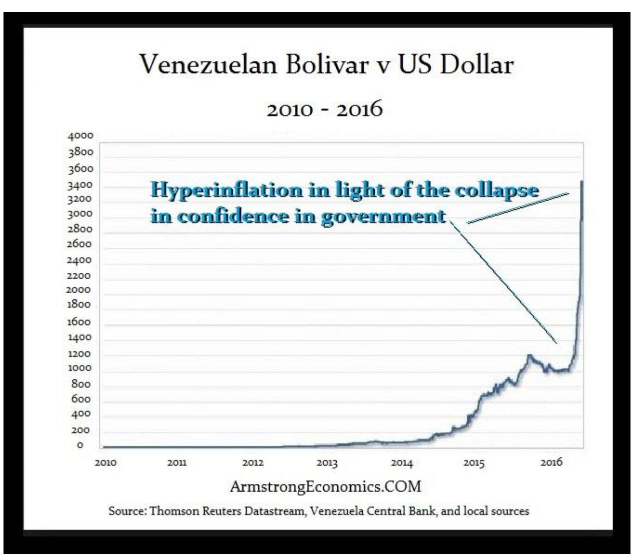
This is why we are witnessing a move toward authoritarianism. They know they are in trouble and to prevent the total collapse, they are desperately attempting to cancel all paper money and move to a new system on a global basis for this time it is different – they are all sinking in the same boat.

Everything is on schedule. The Pi Turing point was 2017.05, the very day Trump was sworn in. Now we face authoritarianism like never before and they have been using COVID to scare people with the fear of death to drive around with a mask on while alone in their car. This is indeed like the Nazis who murdered people and justified their actions as simply responding that they were following orders – i.e. Stanley Milgram's Obedience to Authority.

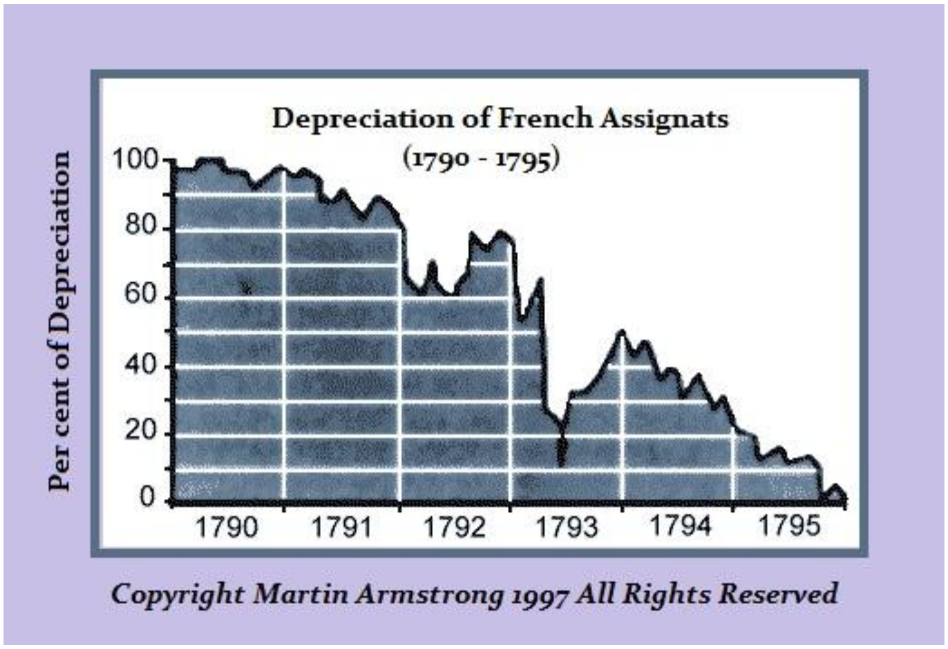


As I have often said, hyperinflation takes place only when faith in the government collapses. That is what took place also in the Roman Empire during the 3rd century followed the capture of Emperor Valerian I (253–260AD) in 260AD by the Persians making him the first Roman Emperor to ever be taken as prisoner by an adversary. He was turned into a royal slave and stuffed as a trophy upon his death. Once that took place, the Germanic barbarians from the North began to invade the Roman Empire. Money was hoarded and governmental employees stole the silver for themselves and debased the coinage.

In Venezuela, once more it is the collapse in the confidence of government that compelled it to produce more and more money to pay its troops. This is the net effect once again when people no longer trust the government and wealth is hoarded using foreign currency – in this case, American dollars. Those who were on pension were paid but what was once enough for a month would no longer buy a cup of coffee. Once again, a nation rich in resources choose Marxism and drove capital out of the country destroying the economy for all.

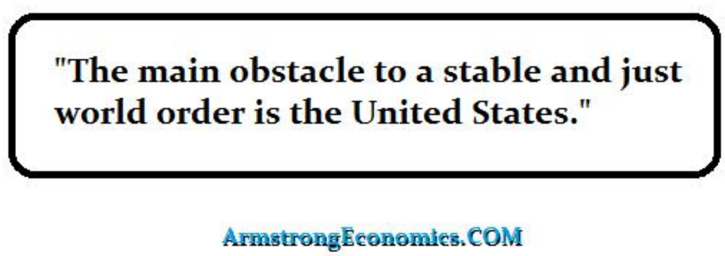


Conclusion



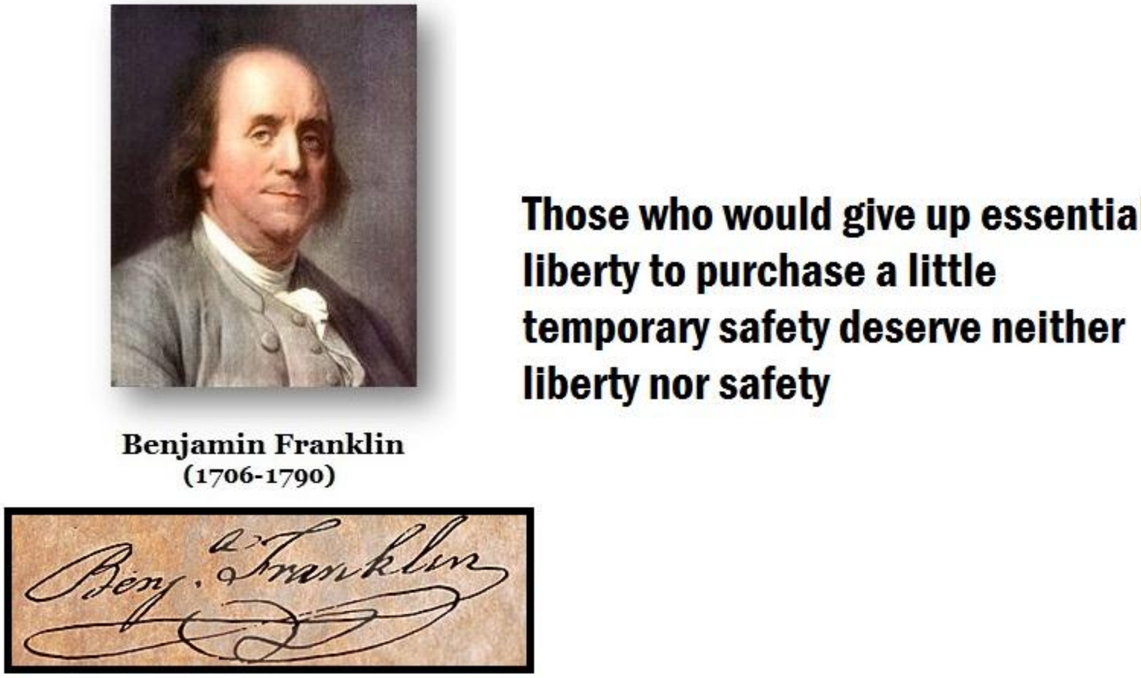
The French hyperinflation took place also attacking the rich. They managed to destroy their economy and beheaded everyone and even confiscated the property of the Catholic Church. This only weakened the state and allowed Napoleon to come to power just as Hitler did following the Germany hyperinflation. The French assignats, paper money of the revolution, collapsed in value unleashing hyperinflation without the rich, investment, or human rights. This is the world that always follows Marxism.

George Soros
(born Schwartz György; August 12, 1930)



Nevertheless, people like Soros have been using their money to try to destabilize the United States. He has been funding the movement to defund the police. Why? Then total chaos will unfold and then the people will surrender all their rights for security.

Conclusion



Franklin understood this way of causing people to surrender their rights. This is precisely what Soros is funding. The United States has a constitution with rights that people believed they had which is different than Europe which was based on cannon law. The people who also migrated to the United States were the independents of their day. Nevertheless, the next generation began the same slippery slide into Marxist philosophy. This is why Soros sees that the United States must be overthrown for their agenda to success.

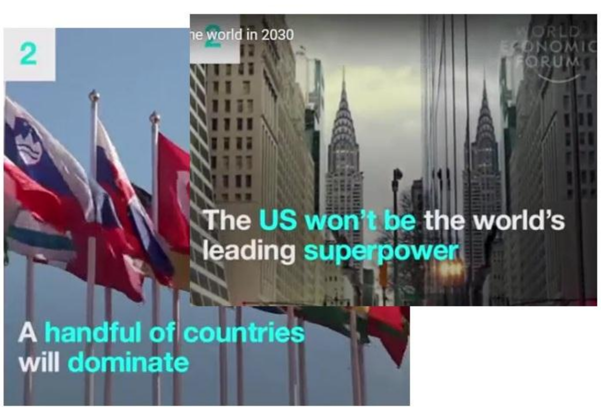
NEWS

Billionaire activist George Soros gives $500,000 to oppose Austin police ballot measure

Ryan Autullo Austin American-Statesman

Published 5:11 p.m. CT Oct. 1, 2021 | Updated 11:41 a.m. CT Oct. 2, 2021

Even the 21st century version of Marx, Klaus Schwab, has the same audacity to call for the downfall of the United States from Geneva so he can usher in his new world order of Marxism. To boldly say that the United States must surrender its military power to the United Nations is just so academically unrealistic it is laughable.



Conclusion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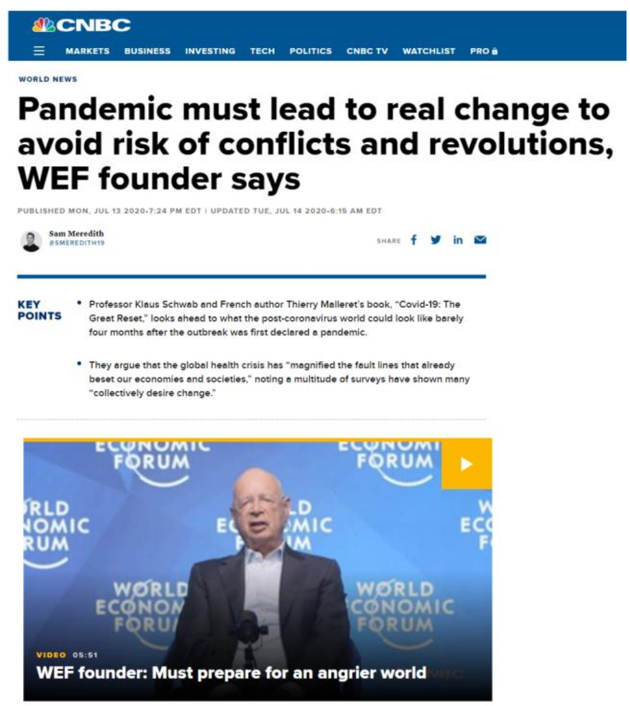
Does capitalism need some Marxism to survive the Fourth Industrial Revolution?

Image: REUTERS/Oswaldo Rivas

Schwab is seeking to seize power and transform the world into a new communist state. They have actively promoted lockdowns to undermine the economy and claim that the civil unrest is because the people want his vision of a new world order. They have promoted the COVID scam to increase their power. They have led nations into spending now without even pretending to borrow. It may be true that they seek to destabilize governments to such a magnitude that they will be forced to accept their Marxist agenda.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WORLD NEWS

Pandemic must lead to real change to avoid risk of conflicts and revolutions, WEF founder says

PUBLISHED MON, JUL 13 2020-7:24 PM EDT | UPDATED TUE, JUL 14 2020-6:15 AM EDT

Sam Meredith
@SMEREDITH19

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KEY POINTS

- Professor Klaus Schwab and French author Thierry Malleret's book, "Covid-19: The Great Reset," looks ahead to what the post-coronavirus world could look like barely four months after the outbreak was first declared a pandemic.
- They argue that the global health crisis has "magnified the fault lines that already beset our economies and societies," noting a multitude of surveys have shown many "collectively desire change."

VIDEO 05:51

WEF founder: Must prepare for an angrier world

But make no mistake about it, this is DEFLATIONARY for they are destroying the very foundation of the economy and the supply chain is merely one example.

Conclusion

What we will first see is this drive for authoritarianism and this is a battle that they will not win. Marx was successful in Russia because they had recently come out of serfdom in 1861 and owned nothing. Today, they will fail because they are expecting everyone to surrender everything and abandon the very cultural tradition of trying to leave your family with something upon your departure.

Bill Gates George Soros Klaus Schwab

They have convinced themselves that they alone know how the world should work and have become drunk with power and the money has simply distorted their ideas. Money has bribed their way to power but the world they seek to create is unrealistic and unsustainable.

Before we will ever reach that point of total economic collapse in the United States, we must first experience the rise of a significant impact of STAGFLATION because they have deliberately undermined the foundation of the economy using COVID to sharply reduce productivity. Also, rising taxes increase the cost of doing business and cause prices to rise while lowering the standard of living. This they count on to assist the rise in civil unrest. The inflation is coming because of the decline in supply not a drastic increase in demand.

Conclusion

To survive hyperinflation requires the holding of tangible assets and never cash or pensions is the end game. But these people have deliberately created a shortage in supply to create the inflation. In addition, we have witnessed this shift from Public to Private which is the critical trend necessary in a hyperinflation scenario.

Nonetheless, the reason we will NOT see hyperinflation is because this time it is different. Here we are dealing with the global system post-World War II and all the countries are sinking together. The debt of the United States that has so many people always bashing the dollar is also supported by the largest economy. Other nations are far worse off and the real risk will be the rising separatist movements that are appearing everywhere.

Thus, hyperinflation is possible in a single country or a small group. When we are dealing with the entire world borrowing endlessly with no intention of paying back the debt, the global monetary system is collapsing. We hat wee will see is the shift of capital from Public to Private assets will continue into 2032.