My View of the Nixon Shock – Exclusive Interview with FOFOA

"Severing the link between physical gold and XAU will usher in a new golden age that I like to call Freegold."

FOFOA

Key Takeaways

- The Nixon Shock 50 years ago marked the halfway point in the life of the US dollar-based financial system.
- FOFOA outlines four distinct periods in recent monetary history, and predicts we are now on the cusp of change.
- The gold market is currently run like a fractional reserve currency by the bullion banks, but we could soon move to a new system where gold is freely traded.
- There is a risk to the stablitity of "paper markets" for gold, which pose a systemic threat to the financial system.
- Gold will be freed of the fractional reserve banking practices of today. The monetary reforms this will lead to will result in a repricing of physical gold.
- Bubbles do not perform well at transition points, they very often pop just prior to them. Bitcoin is showing signs of being in a bubble.

Preface

A little more than 20 years ago an anonymous writer who called himself "Another" appeared on the biggest gold discussion board the young internet knew at that time.

A little more than 20 years ago an anonymous writer who called himself "Another" appeared on the biggest gold discussion board the young internet knew at that time. He seemed to be an insider with deep knowledge of history, politics, and economics. He would go on to write for many years and had an heir, called "Friend of Another" (FOA), who took the torch once Another himself "retired". To this day we don't know who Another was, where he got his information, and why he chose to share it with the world. But we do know one thing: Some (not all) of his sometimes outlandish predictions did turn out to be true.

Their body of work stretches from the Bretton Woods deal to the Nixon Shock and the introduction of the euro. It represents one of the most fascinating perspectives on the role of gold in the current and future monetary systems. **It also makes a compelling case for a much, much higher price of gold.**

To this day people study their work to make sense of it and learn about the gold market. The best-known student of Another and FOA is a blogger who calls himself "FOFOA", Friend of Friend of Another. He has been working on the topic known as "Freegold" for more than a decade. FOFOA kindly agreed to do an interview for this year's *In Gold We Trust* report – his second with us, the first being in 2019.[1] We want to thank him for his effort and time, as this project was conducted over several weeks.[1]

The Interview

Q: What happened in August 1971 when Nixon closed the Gold window from your perspective. You once wrote that that was the first time Freegold was tried, I think?

FOFOA: Hello again, and thank you for having me back.[2]

Previously, the US dollar had been defined as a weight of gold, and the price of gold was thereby fixed to the US dollar, you would fix the exchange rate of different currencies to the US dollar. Through Bretton Woods and the IMF Articles of Agreement, they were all tied to gold through the US dollar, and Nixon unilaterally cut that tie in 1971.

Yes, in a sense the Nixon Shock did set gold free from the US dollar. Previously, the US dollar had been defined as a weight of gold, and the price of gold was thereby fixed to the US dollar, the same way you would fix the exchange rate of different currencies to the US dollar. **Through Bretton Woods and the IMF Articles of Agreement, they were all tied to gold through the US dollar, and Nixon unilaterally cut that tie in 1971.**

The Jamaica Accord, which followed 4-1/2 years later as a result, then set gold free from the international monetary system, by abolishing of the fixing of any currency to the price of gold, and by authorizing central banks to carry out gold transactions at free gold market prices.

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[1] A short version of this interview is part of the *In Gold We Trust* report 2021, *see* https://ingoldwetrust.report/download/12773/?lang=en.
[2] In 2019 we interviewed Fofoa for the first time: "20 Years later – a Freegold Project: Interview with FOFOA", *In Gold We Trust* report 2019. The whole interview of more than 40 pages can be downloaded at https://ingoldwetrust.report/igwt/freegold/?lang=en.

It also, however, gave birth to the modern concept of bullion banking. **And that's what the *free* in *Freegold* refers to today – the inevitable end of bullion banking, the fractional reserve gold banking practice, which is simply a carryover from the pre-1971 gold standard.**

Pre-1971, with the US dollar defined as a weight of gold and foreign currencies fixed to the US dollar, gold was an official monetary reserve inside the commercial banking system. So all banks were essentially gold banks, because gold was money, and bullion banking as we know it today simply did not exist.

Once you've seen through this lens, you'll never see anything quite the same way again.

I want to show you a much longer view, though, and how 1971 fits into it, and how it relates to today, and to the future. It ties back to how I began my interview with you in 2019, so let me just quote the first few paragraphs here:

> *"**Q:** First off: What are we going to talk about here? In as few sentences as possible, could you describe what Another's/FOA's work means to you?*
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> ***FOFOA:** Hello, and thank you for giving me the opportunity to do this. I guess the simplest way to explain what their work means to me is that it gave me a lens. What do I mean by that? I mean something like a camera lens, a view of the world that's a little bit different from what we get everywhere else. And it goes far beyond gold and the gold market. That's the hook, because the implication of physical gold inevitably revaluing to something like USD 55,000 per ounce is gravitational, but **once you've seen through this lens, you'll never see anything quite the same way again**.*
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> *I'm talking about everything, from history to politics, from money to war, from religion to economics. **They say the winners write history, but that's not really true.** Looking back, we can usually find at least two diametric views on any topic, big or small. Often there are several. Take economics for example. You have the Marxist view and the Keynesian view, the Austrian School, and many more; and they each have a different perspective on economic (and often political) history. In politics, you have the left and right, and so on.*

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> *What Another and FOA presented, represents a certain perspective that I haven't seen explained anywhere else. There really is a menu of choices out there when it comes to lenses. Take the most recent period, from 1970 to present. There's the mainstream view, and then there's the hard-money view. You could also call it the goldbug view. I think we can all agree that the goldbug view and the mainstream view of the last 50 years are not the same thing, at least not about money, gold and the financial system. But Another's view of the events during this time period is different.*
>
> *You might think it would be closer to the goldbug view than to the mainstream view, but it's arguably the other way around. In fact, I'd say that Freegold is more like the easy money system we've had for the last 50 years than the hard money system most goldbugs pine for, yet its implication for*

> *those holding real, physical gold is a magnitude greater than most goldbugs even imagine. But again, I really can't overstate how sweeping this lens is…"*[3]

The concept of a "singularity" is used in many applications as a point at which either a small change can cause large, sweeping effects, or else so much changes at once that the far side of the singularity is almost impossible to imagine. I like to think of it as passing through a black hole and emerging in a different world on the other side, because that application includes the concept of an event horizon, beyond which you are inevitably sucked into the singularity and there is no turning back.

The concept of a "singularity" is used in many applications as a point at which either a small change can cause large, sweeping effects, or else so much changes at once that the far side of the singularity is almost impossible to imagine.

What I hope to do here is to give you a 30,000-foot view in which 1971 is both the halfway point in the 100-year life of the international US dollar reserve system and also the first of two singularities, the second being Freegold. It's a view that, as I said in my interview, encapsulates so much more than just gold and the monetary system. It's a view that, the more you think about it and dig into it, you might come to the conclusion, like me, that it encapsulates almost everything.

On March 17, 1932, from the depths of the Great Depression, a French economist named Jacques Rueff (someone who I would in all seriousness call the forefather of Freegold thought), began a lecture at the School of Political Sciences in Paris thusly:

> *"The story I am going to relate covers a long period.* ***It is the life story of the gold standard, now afflicted with so grave an ailment that only time will tell if the victim will succumb or be left, at the very least, in a state of virtual paralysis."***[4]

The first established the gold standard by declaring gold the sole monetary reserve of the world, and the second ended the pure gold standard and began the gold exchange standard.

He goes on to tell the story of the 500-year reign of the gold standard in the context of two monetary conferences held in Genoa, Italy. The first was in October of 1445, and the second ran from April through May of 1922. The first established the gold standard by declaring gold the sole monetary reserve of the world, and the second ended the pure gold standard and began the gold exchange standard, a more flexible standard that expanded official reserves to include the British pound sterling and the US dollar. **It gave birth to the US dollar reserve system and the "exorbitant privilege" that continues to this day.**

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[3] "20 Years later – a Freegold Project: Interview with FOFOA", *In Gold We Trust* report 2019
[4] Rueff, Jacques: *The Age of Inflation*, 1967

The 1922 Genoa Conference. The British Prime Minister Lloyd George on front row, left.
Photo credit: Parliamentary Archives, London

I predict it will succumb in the not-too-distant future, but things could get quite absurd in the meantime.

The story I am going to relate covers a long period as well. It's the 100-year life story of the US dollar reserve monetary and financial system (the $IMFS), now afflicted with so grave an ailment that only time will tell if it will succumb or be left, at the very least, in a state of virtual absurdity. **I predict it will succumb in the not-too-distant future, but things could get quite absurd in the meantime.**

The basic arc of my story is the 100-year life of the $IMFS, but concomitant with that is the story of the political progression that accompanied the monetary and financial ones, and that also encompasses religion and war and so much more. None of these things exists in isolation. They are all interrelated, and economics drives everything.

The Genoa Conference was just over 99 years ago, and the Nixon Shock was virtually the halfway point between then and now, almost 50 years ago today. But this is not just a story of the last century cut in half by the Nixon Shock; there are actually four distinct quarters in this story.

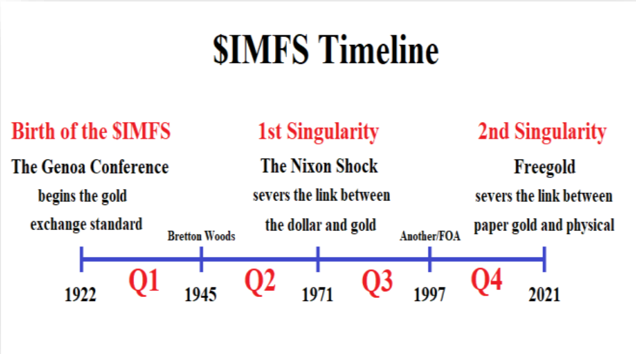
The basic arc of my story is the 100-year life of the US dollar reserve monetary and financial system (the $IMFS), but concomitant with that is the story of the political progression that accompanied the monetary and financial, and that also encompasses religion and war and so much more.

The first quarter runs from 1922 up through World War II, and includes the Roaring 20s, the Great Depression, and the War. The second quarter runs from the end of WWII to the first singularity, the Nixon Shock. It's the Bretton Woods years, a period of recovery and high growth followed by the failure of overly optimistic expectations and broken promises.

The third quarter runs from 1971 until right around the time that Another started posting. The first known post thought to be associated with him was in early December of 1996. It was related to the explosion in volume of paper gold trading that occurred that year and that was publicly revealed by the LBMA less than two months later. It includes the 1970s with the birth of bullion banking and COMEX, the 1980s with the birth of the LBMA and gold mining forward sales, and the early 1990s, with the first Gulf War and the oil-for-gold deal that ended when the Asians crashed the party in 1996.

The fourth quarter runs from 1997 to present, and includes the launch of the euro, the rise of China, the dotcom bubble, the housing bubble, the current everything bubble (everything but gold), and the blow-off top of the absurdity bubble that we're currently riding like a rocket.

The first quarter, broadly, was the interwar period, or the period between the First and Second World Wars. Politically, the era coincided with the rise of communism, starting in Russia. And monetarily, it was the early years – and perhaps we could say the growing pains period – of the biggest easy-money system the world has ever known.



$IMFS Q1

I'm known for writing really long posts,[5] but I cannot do that here; so if it seems like I'm painting with broad strokes and not drilling down for better resolution, that's why.

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On my private blog, the Freegold Speakeasy,[6] **I have written about how the rise of the left parallels the life of the $IMFS, and how the absurdity of the left today mirrors the absurdity of the $IMFS.** It's a product of the $IMFS, and when it dies, they will experience a different kind of "Great Reset" than they were expecting.

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I will not spend much time on politics here, but I want to give you one example to pin the start of both the monetary and political progressions that seem to be coming to a head today, to 1922. Genoa was not the only conference that year. In Petrograd and Moscow, the Communist International (Comintern) held its 4th World Congress, which was attended by 393 delegates from 58 communist parties around the world, including seven Americans. Here's a photo of the cheerful American delegates:

[5] *See* for example, Fofoa: Twelve!, August 23, 2020
[6] Which you can subscribe to here.

Photo credit: www.marxisthistory.org

When we get ready to take the United States, we will not take it under the label of Communism; we will not take it under the label of Socialism.

The purpose of the Comintern was to strategize the spread of communism around the world, and attendees in 1922 heard a keynote report by Vladimir Lenin himself, titled "Five Years of the Russian Revolution and the Prospects of the World Revolution". One of those attendees, the man on the left in the front row of the picture above, was Alexander Trachtenberg, an American citizen and a communist, and here's a quote from him:

> *"**When we get ready to take the United States, we will not take it under the label of Communism; we will not take it under the label of Socialism.** These labels are unpleasant to the American people, and have been smeared too much. **We will take the United States under labels we have made very lovable; we will take it under liberalism, under progressivism, under democracy.** But, take it we will."*[7]

Some might say they succeeded in just under a hundred years. Others might say it's not over yet, and I will just leave it at that.

We will take the United States under labels we have made very lovable; we will take it under liberalism, under progressivism, under democracy.

Moving on, that first quarter really had its economic ups and downs. It began with the prosperity and decadence of the Roaring Twenties; then the stock market crashed in 1929, followed by the Great Depression, the social welfare programs of the New Deal, and finally the devastation of World War II, which set the stage for the second quarter to begin at Bretton Woods. Here is something Another wrote about WWII:

> *"As we know, World War II left Europe and the world economy destroyed. Many thinkers of that period thought that the world was about to enter a decades-long depression as it worked to rebuild real assets lost in the conflict. It was this war that so impacted the idea of looking positively toward the future. **The past ideals of building solid, enduring, long-term wealth were lost in the conception of a whole generation possibly doing***

[7] Trachtenberg, Alexander: Communist Parties National Convention, Madison Square Garden, 1944

> ***without!*** *In these fertile grounds people escaped reality with the New Idea of long-term debt, being held as a money asset. Yes, here was born the American Experience that comes to maturity today."*

$IMFS Q2

In these fertile grounds people escaped reality with the New Idea of long-term debt, being held as a money asset. Yes, here was born the American Experience that comes to maturity today

Bretton Woods, the IMF, the World Bank, and the Marshall Plan were all structured to help Europe rebuild its economy after the war, by overvaluing European currencies and undervaluing the US dollar with fixed exchange rates. This allowed Europe to run a trade deficit with the US while it rebuilt its productive capacity.

That situation reversed around 1958, when Europe was back on its feet enough to start running a surplus while the US slipped into recession. That year also marked the beginning of the decline of US gold holdings, from 20,312 tonnes in 1957 down to 9,070 tonnes in 1971.

It should be noted here that Richard Nixon was the vice president from 1953 to 1961, and he blamed the recession in part for his loss to John F. Kennedy in the 1960 election. **This would play a role in his thinking a decade later, when, faced with the prospect of an economic crisis during his reelection campaign for the 1972 election, he took the drastic actions that will forever be known as the Nixon Shock.**

Nixon was the vice president from 1953 to 1961, and he blamed the recession in part for his loss to John F. Kennedy in the 1960 election.

Since I am painting with a broad brush here, the 1950s was a decade of prosperity, the height of the baby boom, "Happy Days"; and the Bretton Woods gold flow began the decade flowing into the US and ended it gushing out. It was the decade when US gold reserves peaked at their all-time high. **The 1960s, by contrast, was a decade of monetary and cultural decadence, the decade when 44% of US gold flowed out before Nixon capped the gusher.**

One of the pillars of Freegold is the concept of the saver. **The idea is that the vast majority of people are actually savers as opposed to being real investors or traders. But in today's $IMFS, they are forced to swim with the sharks, so to speak.** Today we call savings passive investment, but in Freegold everything will have changed, like passing through a singularity.

The idea is that the vast majority of people are actually savers as opposed to being real investors or traders. But in today's $IMFS, they are forced to swim with the sharks, so to speak.

Something similar happened to the concept of the saver as it passed through the first singularity, the Nixon Shock. One of the outcomes of the prosperity and growth of the 1950s was the concept of the defined-benefit retirement fund. The idea was that **you didn't need to save for retirement, because your employer did it for you.**

The obligations this concept generated were based on an unsustainable, exponential growth model. It was the idea that the rate of growth in the 1950s would continue forever, and it became something like a Ponzi scheme. The collapse of the Studebaker Corporation from 1963 to 1967 is a prime example. From my post, The Studebaker Effect:

There's a website called wtfhappenedin1971.com, and all it contains is about 50 charts that make it look like everything went haywire in 1971. And, in effect, everything did change.

> *"The way people save today is traceable back to the collapse of the Studebaker pension fund and the reform movement that followed. In its 50 years of making automobiles, Studebaker exploded into a large and diversified company that, by 1960, included a missile and space technology division, a home and office appliance division, a tractor division, a generator division, a refrigeration division, a chemical division, and even an airline division. But within a few years it was collapsed, condensed, consolidated, liquidated and closed. And in the process, the employee savings were erased. The savers were sacrificed."*[8]

Q2 began with the promise of recovery, high growth and prosperity, and ended with systemic collapses and broken promises.

The 1st Singularity

There's a website called wtfhappenedin1971.com, and all it contains is about 50 charts that make it look like everything went haywire in 1971. And, in effect, everything did change. The only question for us, really, is how much of that we can directly attribute to the closing of the gold window and the Nixon Shock in general.

As I wrote above, economics drives everything. And **what happened in 1971 was essentially the collapse of the international monetary and financial system.** The London Gold Pool was a last-ditch effort to control the free-market price of gold in support of the Bretton Woods gold convertibility scheme, and that collapsed in 1968.

What happened in 1971 was essentially the collapse of the international monetary and financial system.

In 1969, SDRs were created to be a supplemental alternative to gold in the international gold convertibility scheme. And in 1970, the IMF began allocating them to its members. But that did not work, because (a) like the US dollar, they were just another form of paper gold, and (b) the US allocation of USD 2.3bn did not even to begin to cover the imbalance between US reserves and official liabilities.

So, from a systemic perspective, **the closing of the gold window and the ending of the Bretton Woods international monetary system were simply inevitable.** The 1st Singularity was inevitable. It was not an effect of the Nixon Shock; it was the cause.

The financial system changed as well. We went from the centralized obligation management of defined-benefit retirement funds to the more distributed "defined-contribution" system of individual IRAs and 401Ks, through the passing of the Employee Retirement Income Security Act of 1974, or ERISA.

While this was a step in the right direction – a step away from relying on someone else to take care of you and toward personal responsibility – all it really did was funnel everyone's savings into paper assets, **giving birth to the massive**

[8] "The Studebaker Effect", Fofoa, January 11, 2012

bubble machine we call the financial system today. Perhaps it was a necessary step, but it was not the final step. That is yet to come.

The point here is that what happened in 1971 is bigger than Nixon. What he did was an effect, not the cause. Yes, gold was set free from the US dollar, and Nixon gets credit for that. But systemic transitions of that magnitude simply become inevitable at some point, and **while we like to heap credit on those in power when they happen, the reality is that they were going to happen anyway, no matter who was in the White House at the time.**

$IMFS Q3

So much happened in Q3 following the 1st Singularity, especially with regard to changes in the gold and financial markets, and I'm going to give you a quick rundown of some of the highlights. But first, **an overarching theme of the quarter was that, following the Nixon Shock, Europe no longer trusted the US dollar reserve system.** They had just watched Bretton Woods collapse, and they did not like the global economy being at the mercy of a single national currency that would eventually collapse and drag the world into another global depression.

An overarching theme of the quarter was that, following the Nixon Shock, Europe no longer trusted the US dollar reserve system.

The solution was to create a new international reserve currency that rivaled the US dollar in both size and scope. At least then, if the US dollar collapsed, Europe's economy would not suffer as much. But these things take time. A lot of time, it turns out.

The road to the euro began nine years before the Nixon Shock, according to an ECB timeline, but the 1970s really brought a sense of urgency to it. At first, it was to be a European monetary union with permanently fixed exchange rates. But as Q3 played out, the goal became a single common currency.

There are three points in Q3 when Another and his associates apparently worried that the $IMFS might collapse even before they could launch the euro. The first was in 1979, 8 years after the Nixon Shock, when a group of European central bankers confronted Paul Volcker at the annual IMF meeting, which was held in Belgrade, Yugoslavia that year.

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After meeting with his European counterparts, Volcker unexpectedly left Belgrade three days before the end of the conference, leaving the rest of the US contingent behind. According to a paper published by the Federal Reserve in 2004,

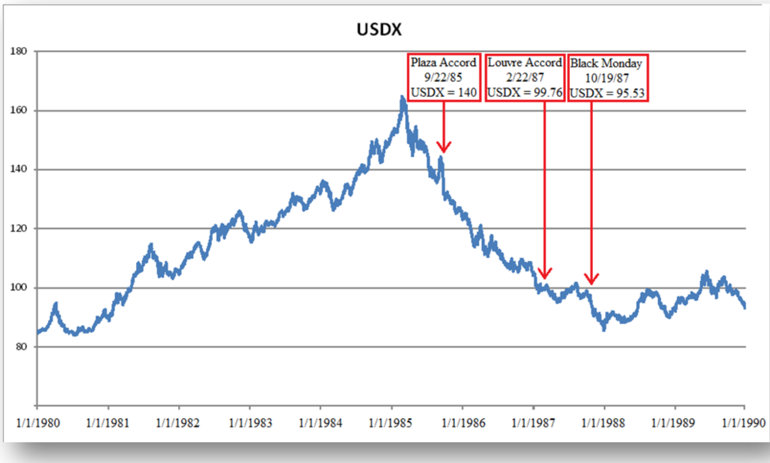
> *"Chairman Volcker arrived in Washington on Tuesday, October 2, with his ears still resonating with strongly stated European recommendations for stern action to stem severe dollar weakness on exchange markets. His*

> *unexpectedly early return fueled market rumors that action dealing with the crisis might be imminent."*[9]

While Volcker's "stern actions" made all the headlines, there was more going on quietly in the background, on the European side, that made no headlines.

The Federal Reserve's actions four days later have been called the most significant change in the Federal Reserve's policy since 1932. But more importantly, the Belgrade confrontation marks the resumption of the dirty float, the European central bank support for the US dollar, which had ended a year earlier in 1978. So while Volcker's "stern actions" made all the headlines, there was more going on quietly in the background, on the European side, that made no headlines.[10]

The second worrying point in Q3 came in 1988. The US Dollar Index (USDX, or just DX), currently at 91, had reached a high of 164 in February 1985. **The Plaza Accord, reached in September of that year, aimed to drive down the US dollar through coordinated exchange rate manipulation.** The stock market soared as the US dollar declined, from a Dow of 1,275 at the US dollar's high to over 2,700 before the crash. Then the Louvre Accord, reached in February 1987, aimed to halt the decline caused by the Plaza Accord.[11] Eight months later was Black Monday, the stock market crash of 1987.



Source: Federal Reserve St. Louis, FOFOA

The Plaza Accord, reached in September of 1985, aimed to drive down the US dollar through coordinated exchange rate manipulation.

In a post titled "Some things I know", FOA wrote:

> *"This work started back in 1988, not long after the 87 crash. Important people were asking some very serious questions about the timeline of the world monetary system. They expected a long-term evolving report… the effort you have seen to date is one of sharing somewhat for the common good of all."*

What he was revealing there was that the view presented by Another beginning in 1997 was at least in part the result of a high-level "long-term evolving report" that had been commissioned shortly after the stock market crash of 1987. He wrote:

> *"… leaders wanted to know how one could retain the most wealth during such an event. It was thought that if the basic extended family blocks of a nation*

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[9] Lindsey, David E., Orphanides, Athanasios and Rasche, Robert H.: "The Reform of October 1979: How It Happened and Why", *Finance and Economics Discussion Series*, December 2004
[10] You can read more about this in my post: From Bretton Woods to Freegold—An Epic Road Traveled.
[11] *See "History Does (Not) Repeat Itself – Plaza Accord 2.0?", In Gold We Trust report 2019*

could survive such a collapse, savings intact, those nations and their children would be a benefit to economic affairs of the future. In effect, negate a possible return to the Dark Ages of European history."

The volume of gold cleared every day in London represented nearly twice the production from South African mines in a year.
Alan Baker

The third troubling Q3 point was in 1996, and was what led Another to start posting on the Kitco forum. An explosive jump in the volume of paper gold trading occurred in 1996, and it was publicly revealed by the LBMA in the *Financial Times* (FT) on January 30, 1997. Here is part of that article:

"Deals involving about 30m troy ounces, or 930 tonnes, of gold valued at more than $10bn are cleared every working day in London, the international settlement centre for gold bullion.

This is the first authoritative indication of the size of the global gold market, and was revealed yesterday by the London Bullion Market Association.

With the blessing of the Bank of England, the association overturned years of tradition and secrecy to provide statistics illustrating the size and depth of the London market.

***The volume of gold cleared every day in London represented nearly twice the production from South African mines in a year**, Mr Alan Baker, chairman of the association, pointed out.*

It was also equivalent to the amount of gold held in the reserves of European Union central banks.

*The size of the gold market will surprise many observers, but traders insisted the association's statistics were **only part of the picture,** because matched orders are cleared without appearing in the statistics. Mr Jeffrey Rhodes, of Standard Bank, London, said **the 30m ounces should be 'multiplied by three, and possibly five, to give the full scope of the global market'**.*

Mr Baker said the association would produce average daily clearance figures every month. 'They will provide a useful benchmark for comparison and analysis of trends in the volume of the global bullion business,' he predicted."[12]

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The clearing volume they began reporting in 1997 goes back to October 1996 and continues to this day. **And while today's clearing volume is only slightly lower than 1997's in weight terms, we learned in the "LBMA Gold Turnover Survey for Q1 2011"**[13] **that the clearing volume should actually be multiplied by nine to give the full scope of LBMA paper gold trading volume.** To understand why this mattered to Another, and why it still matters today, we need to go back to the early 1970s and trace the evolution of the gold market following the Nixon Shock.

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[12] "Extent of global gold market revealed: London clears 930 tonnes of bullion each day", Financial Times, January 30, 1997, emphasis added
[13] Stewart, Murray: „Loco London Liquidity Survey – LBMA Gold Turnover Survey for Q1 2011", Alchemist, Nr. 63, August 2011, p. 9f

Gold's transformation from being a US dollar to becoming a foreign (FX) currency

The euro was not the only new currency to spring up as a result of the Nixon Shock. **Gold went from being the very definition of a US dollar to becoming a foreign currency itself.**

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The first step, after the closing of the gold window, was in 1974, when President Ford repealed FDR's ban on gold ownership in the US. Then, in 1975, COMEX gold futures began trading. London responded to COMEX gold futures taking market share away from London by giving birth to the bullion bank and opening its gold market up to foreign banks that wanted bullion trading rooms in London.

The first of the foreigners in were Morgan Guaranty, Credit Suisse, and Nova Scotia (which quit bullion banking just this year); and by the mid-1980s the London Gold Market's open-door policy had attracted more than 50 new members. Also in the mid-1980s, London opened, and then closed three years later, its own version of the COMEX, the London Gold Futures Market (LGFM).

In 1981, gold (and only gold) received an official ISO 4217 currency code: XAU. (XAG/silver, XPT/platinum and XPD/palladium were added years later.)

In 1984, the pioneer of modern bullion banking, Johnson Matthey Bankers, also one of the London fixers, collapsed. It was a mess that had to be cleaned up by the Bank of England itself, and in the aftermath, the BOE demanded that the bullion banks create a formal body to represent them as a group. **And thus, in 1987, the LBMA was born.**

Around that same time, in the mid-1980s, central bank gold lending and gold mining forward sales began, creating a new form of paper gold. FOA wrote of this market:

> *"… a new gold market was being created when bullion banks were allowed to sell Central Bank gold 'ownership invoices', for cash to the benefit of Barrick… **It wasn't long before gold was lent without any gold at all! No different than fractional reserve banking.**"*

And Another wrote: "*It truly started with Barrick, in Canada in the 80s. It was a thin market, but grew big in oil.*"[14]

It wasn't long before gold was lent without any gold at all! No different than fractional reserve banking.

Bullion banking originally referred to the financing of the gold market, mining in particular. Gold mines like Barrick could "forward sell" unmined gold for cash. **In essence, the banks were lending them US dollars at a very low rate for the time (~1%), but the note was denominated in ounces and collateralized by the gold in the ground.**

[14] "Was Gold Leasing by CB's an accidental mistake or an intentional mistake do you think?", Email from Another, April 19, 1998

They could invest that money in a higher-yielding instrument and call it the higher price they were getting for their gold. **They were, in essence, being paid interest on their gold in the ground until they dug it up, in exchange for the paper claim on that gold.** Also, if the price of gold declined, as it did from 1980 until 2001, **they were paying back the loans in cheaper units (i.e., fewer US dollars) than they borrowed.**

The Saudis were buying paper gold backed by real gold in the ground and guaranteed by central bank gold that never left the central bank vaults.

European central bankers apparently thought that keeping the price of gold under control was a necessary part of supporting the $IMFS until they could launch the Euro, because, according to Another, **they enabled the massive expansion of this forward selling scheme by guaranteeing the paper with their own central bank gold.** The Saudi oil demand for real gold, which was greater than the available supply at the going price, was the big threat to the gold price, and so a deal was made.

The Saudis would buy the paper gold created by the bullion banks' lending central bank gold 'ownership certificates' to the mines in exchange for mine collateral in the form of claims against gold still in the ground, which the bullion banks would then sell on behalf of the mines to the Saudis. **The Saudis were buying paper gold backed by real gold in the ground and guaranteed by central bank gold that never left the central bank vaults.**

This kept the price of gold and oil, both of which were priced in US dollars, low when they otherwise would have exploded, as during the Gulf War in 1990 and 1991. And that's how this new paper gold market helped support the US dollar and the US dollar system through the 1980s and 1990s.

Eventually, **the bullion banks were lending paper gold they created out of thin air to non-mine entities with no gold in the ground**, which they then sold into the gold market for cash to invest at a higher interest rate than they paid. Plus, as long as the price of gold continued to decline, these "non-mine entities" (hedge funds) could pay back their loans in cheaper units, and therefore fewer US dollars, than they borrowed.

The bullion banks were lending paper gold they created out of thin air to non-mine entities with no gold in the ground.

It was all of this new paper gold creation, "no different than fractional reserve banking" as FOA said, and the borrowing and selling (shorting) of it, that exploded the trading volume in 1996, and kept the price declining at the same time. **The danger was that if the price fell below the production cost of the mines, they would not be able to dig up their gold.** This was part of the reason that Another showed up on the Kitco forum when he did.

That explains the supply side of the trading volume explosion in 1996, but what about the demand for all of that new paper gold? Goldbugs and hard-money advocates can only account for a fraction of that demand.

What was happening was that gold was being used as a foreign currency to hedge against the US dollar, which, ever since the Nixon Shock, had evolved away from being a currency used mainly for trade in real goods and had become primarily a financial-asset trading arena – a bubble machine – which needed a hedge in order to continue its expansion. Here is some more on this from FOA:

"What doesn't seem to be obvious is 'why' the paper market grew so large. It grew to dominate because worldwide dollar expansion reached its 'non-hedged' peak. In other words, the dollar's timeline was ending as its ability to produce non-price-inflationary economic gains came into sight.

Within their total mix of derivative hedges were found "paper gold price hedges", modern gold derivatives. The important thing to remember is that these positions are not and never will be used to demand physical gold.

In order to push dollar holdings further, international players needed and purchased 'paper financial hedges' to balance their risk. Within their total mix of derivative hedges were found "paper gold price hedges", modern gold derivatives. ***The important thing to remember is that these positions are not and never will be used to demand physical gold.*** *They are held to buffer financial and currency risk associated with holding any form of dollar-based asset. To work, these items don't need to really perform 'dollar price movements' in the holder's favor as much as they are present in the portfolio to act as insurance stickers. […]*

It's no accident of nature that our world monetary structure embraced derivative expansion as it has over the last ten or twelve years. I think we can say that this modern creation of risk management began around 1988 or so. (It's funny, but I remember living in San Diego and reading a paper about a gold company called Barrick that just started only a few years earlier?)

The record of derivative evolution meshes seamlessly with the recent need for supportive dollar currency measures; a strategy of maintaining a failing system that was ending earlier than expected. Truly, a decade ago, no one was going to carry the dollar any further, waiting on the endless delays of euro creation, without some way to hedge risk. We had hit the end of the dollar's timeline too early; we had missed the mark. […]

While the Nixon Shock sent Europe's currencies on a trajectory to uniting as the Euro, and gold to becoming a foreign currency itself ("no different than fractional reserve banking"), it also set the financial system on a path to becoming the largest bubble machine the world has ever known.

The dollar faction saw its match early in the 90s as the euro was taking shape. To counter this threat, as I have outlined here in several ways, they promoted derivative hedges as a way of insuring dollar dominance. These hedges, including gold derivatives, only served to leverage the entire dollar / IMF system beyond its ability to serve as a real fiat money system, today.

I mean; that our whole dollar landscape has now become just a trading asset arena: it's now evolving away from any meaningful currency use to trade for real goods. It can head in no other direction because our local economic structure, the USA economic base, cannot possibly service even a tiny fraction of the buying power currently held in dollars worldwide."

While the Nixon Shock sent Europe's currencies on a trajectory to uniting as the euro, and gold to becoming a foreign currency itself ("no different than fractional reserve banking"), **it also set the financial system on a path to becoming the largest bubble machine the world has ever known**.

I was in grade school in the 1970s, so I cannot say I was thinking about such things back then. But FOA wrote about some of the thinking he encountered in the 1970s, and I want to include a bit of that here:

"Somewhere in the 1970s era I was exposed to the thinking of several different deflationists. It seemed that all of their conclusions came to the same end: that dollar deflation would rule the day, no matter what… these discussions were directed towards people and investors that had plenty of net worth. And I do mean Plenty! The argument wasn't about how to survive; rather how to balance a truly conservative estate portfolio…

As time has passed we can see several major flaws in their thinking. Flaws that cost them a bunch of credibility, if not personal money. One point, that I have touched on here several times, was in understanding just how much ourselves and our economic structure would and did evolve into accepting fiat money use. Even though it was, 'god forbid', separated from gold.

Twenty years ago, it was expected that just gross increases in money printing alone would be enough to crash the bond markets.

In one area alone, the bond markets, investors reacted far different than deflationists thought they would. Twenty years ago, it was expected that just gross increases in money printing alone would be enough to crash the bond markets. Not talking about price inflation here, but money inflation and that should have started a deflationary fall in our credit markets. It almost happened, several times, but never followed thru. It seemed that the market function had evolved to accept fiat inflation as a prerequisite to modern economic function. In a like comparison to today's thinking; investors assumed that as long as we had an expanding economic stance, sourced by inflating fiat supply, price inflation would not impact long bond credibility. We saw confirmation of this over many years. […]

Back in the mid to late 70s Sir John Templeton always drove his point home for investors watching Luis Rukeyser's show… Sir John kept saying that the Dow of the 70s was very underpriced and would soar. He was the most absolutely correct person stating that then! But more into the mechanics of his perception: he knew that anyone buying the Dow and waiting a decade or more, would gain way beyond mere price inflation. ***Monetary inflation would eventually drive the perceived virtual wealth of US stocks ever higher. So high, in fact, that their percentage gains over price inflationary gains would be incredible. They were!***

Monetary inflation would eventually drive the perceived virtual wealth of US stocks ever higher. So high, in fact, that their percentage gains over price inflationary gains would be incredible. They were!

People that followed his advice accumulated the Dow over a decade or more; buying 'virtual wealth' before the fact! Stock investors made a killing by positioning their assets where this created 'passive monetary inflation' would eventually end up. Even though hard money players laughed at them all thru out the 70s, 80s and early 90s! Look who is laughing now? Stocks tromped hard money plays hands down for over 20+ years! …

When a currency system comes to the end of its reserve use – I'm speaking politically – its domestic market will come to a point where it can no longer export 'real price inflation' in the format of 'shipping its excess currency outside its borders'. *This happens because internal money inflation, that is super currency printing, is increased so much that it overwhelms even its export flow…*

The effect is that local 'passive inflation', built up over decades and fully reflected in 'Sir John's' paper assets, spreads out as 'aggressive inflation' and hyper price rises begin. In this action, the very same wealth effect that was eventually priced into 'John's' Dow stocks and other assets, begins a long march of being priced into real gold.

The 'virtual wealth' in gold, saved over years by patient investors, will also be priced to market in this process.

Anyone that has accumulated physical gold over this past long period was doing the exact same thing Dow buyers of the late 60s and early 70s were doing: saving 'wealth' as unpriced 'virtual wealth' stored up over that 'passive inflation' period. ***The 'virtual wealth' in gold, saved over years by patient investors, will also be priced to market in this process.***

Never mind that during the Dow years paper gold markets could not work in parallel with all the other asset gains; they couldn't. Hard money players, trying to somehow play the Dow's game, never caught on to what was happening. Instead of buying 'virtual wealth' by saving real gold, they bought leveraged bets that gold would be priced correctly during the "paper asset" years.

Obviously, this 'trade' failed hard money players as the waves of value from other paper gains and derivatives leverage were employed to match against their every long bet on gold. Not only that; the 'virtual wealth' in gold was never opened for them with the super price inflation they all thought was coming during that era!

Now that the paper game is about to stop for the Dow, it will also cut off the leverage of gold bets. Just as the real game begins…

Remember; in political inflations, money is printed to save the assets as they are currently priced, not create new losses by liquifying the leverage that's countering your play!

This paper gold market will be cashed out at prices far below real bullion trading so as to inflate further the books of the Bullion Banks, not destroy them…

'Buy what has value at the greatest discount and wait for the politics of money to price your new savings correctly!'

This paper gold market will be cashed out at prices far below real bullion trading so as to inflate further the books of the Bullion Banks, not destroy them…

The politics of wealth today is centered around gold bullion and only gold bullion: that is where the wealth and power will be manifest: this is where the gains will be! To bet on the rest of the hard market is to bet against the coming inflation making your asset whole!

Place as much of your wealth in physical gold as your understanding allows and save this "virtual wealth" of the ages today: waiting for it to become real wealth, priced correctly in the market place, tomorrow.

Make no mistake, the wealth is there 'but only there in bullion!' Because a free bullion market cannot be denied or controlled."

That almost sounds like it could have been written today, does it not? Well, that was one of FOA's final posts in 2001, and while it may have taken 20 years to come to fruition, it was true all along. What he did not yet know was that the fourth quarter of the $IMFS had just begun.

$IMFS Q4

Courtesy of Hedgeye

Q4 runs from 1997 to present and begins with the launch of the euro, Brown's Bottom, the dotcom bubble and China's admission into the World Trade Organization (WTO) in 2001. It continues with the housing bubble and its collapse, which caused the Global Financial Crisis (GFC) and stock market crash in 2008, followed by a decade of monetary stimulus, which brings us to today's everything bubble and the end of the road.

Q4 runs from 1997 to present, and begins with the launch of the euro, Brown's Bottom, the dotcom bubble, and China's admission into the World Trade Organization (WTO) in 2001.

I say "the end of the road" because, from here on out, we're in uncharted territory. There is no road, no trailhead, no tracks; we are completely off the rails and careening out into the great unknown. But I'm getting a little ahead of myself. Let's go back to the late 1990s and look at what changed during the transition from Q3 to Q4.

The first major change was the launch of the euro, on Jan. 1, 1999. What the euro launch did was eliminate the need to support the $IMFS until the euro could be launched. Here's a quick snippet from FOA, written in late 1999, to kind of set the stage for what I'm talking about [brackets are mine] (parentheses are FOA's):

I say "the end of the road" because, from here on out, we're in uncharted territory. There is no road, no trailhead, no tracks; we are completely off the rails and careening out into the great unknown.

> *"Actually, the risk has been building against the BBs [bullion banks] for three or four years as the buildup to euro launch was giving off warning signs. London, LBMA and IMF/US have owned the gold market from the get go. And they ramped up the drive for lower gold to benefit the dollar and dollar/oil settlement deals. Everyone, including Europe was pulling for the same outcome until someone saw the risk that the euro was aligned with the Old World BIS. You see, only the BIS could destroy the present gold game, because they represented the ability to price and move physical gold independently of London. Literally, off market (today's Dutch deal??). It's in their charter.*
>
> *Most of the time, they go with the flow, but today they are aligned with the principals of the WA [aka WAG or Washington Agreement on Gold, aka the CBGA or Central Bank Gold Agreement]. Guess which oil producer is a big member of the BIS? When Big Trader (Chinese Central Bank) wants to be closer to the euro, guess where the BIS opens an office? Get the picture? We are walking a different trail today."*

At that time, all of the central banks in the world, combined, had about 33,000 tonnes of gold, so 14,000 tonnes was about 42% of all central bank gold. Here's more from Another in 1997:

“This was not far from the time that ‘Big Trader’ said that ‘if gold drops below $370 the world would see trading volume like never before seen’. The rest is history. Now the CBs will have to sell 1/3 to 1/2 of their gold just to cover what’s out there. To use the Queens English ‘it ain’t gona happen dude!’”

Brown’s Bottom was when Gordon Brown sold off half of the UK’s gold in a series of auctions, between July 1999 and March 2002. **That period marked the lowest gold prices of the last 42 years.** The purported reason for the sales was the diversification of the UK’s reserves, away from gold and into foreign currencies, including the new euro. **But many believe its true purpose was to bail out the bullion banks, which were running out of physical.**

Brown’s Bottom was when Gordon Brown sold off half of the UK’s gold in a series of auctions, between July 1999 and March 2002. That period marked the lowest gold prices of the last 42 years.

A few months after the first Brown’s Bottom auction, during the annual IMF meeting, which was being held in Washington DC that year, 15 European central banks signed what was called the “Joint Statement on Gold” and came to be known as the Washington Agreement on Gold (WAG), or Central Bank Gold Agreement (CBGA). In short, the European central banks agreed to limit their gold sales, but more importantly, they agreed to stop leasing. The statement read: “*The signatories to this agreement have agreed* ***not to expand their gold leasings*** *and their use of gold futures and options over this period.*”[15]

This was important because it was the central bank leasing that supported the expansion of the paper gold market over the previous 15 years or so. So that line was a warning to the bullion banks to cut it out, and stop the expansion. The central banks would no longer be the gold lender of last resort to the bullion banking system. It apparently worked, because clearing volume dropped substantially for the next seven years. And as I said before, in weight terms it’s still below the level it was from 1996 until the CBGA in late 1999.

It was the central bank leasing that supported the expansion of the paper gold market over the previous 15 years or so.

Also remember that it was the expansion of the paper gold market that caused the price to decline over time, so with the expansion halted, we entered a new phase in this paper gold market that had begun in the 1980s:

Source: “Comex is a Side Show”, FOFOA, May 4, 2018

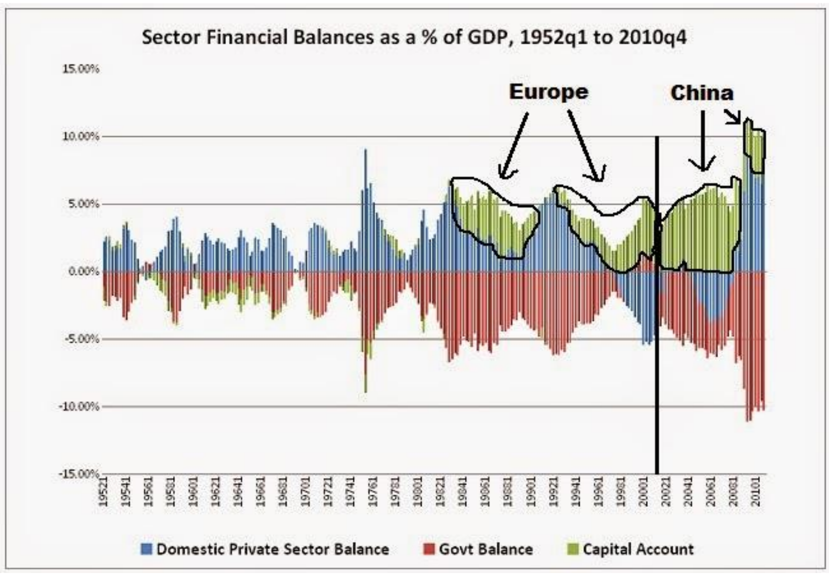
[15] European Central Bank: “Joint statement on gold”, September 26, 1999, emphasis added

From "Comex is a Side Show":

> *"'Phase 1' is all about the birth and growth of this new post-Bretton-Woods paper gold market. And the 20-year price decline can be explained on the LBMA side by the diverting of demand from physical into paper proxies, the expanding of supply through bullion bank 'fractional reserve gold credit banking', and the witting or unwitting cooperation of the mining companies, central banks, bullion banks and 'Oil' (the biggest singular source of demand during that phase)…*
>
> *'Phase 2' is characterized by a now-mature post-Bretton-Woods paper gold market, in which gold can simply go with the flow, behaving like other commodities or currencies, just following the bull and bear market trends of everything else – whatever market narrative Western traders are buying into at any given time… chaining the price of gold to commodity and currency market trends that have nothing to do with real gold."*[16]

On the US dollar front, Europe stopped supporting the US dollar with central bank purchases after the euro launched. But in 2001, with its admission into the WTO, China ramped up its central bank purchases in order to peg its currency to the US dollar.

On the US dollar front, Europe stopped supporting the US dollar with central bank purchases after the euro launched. **But in 2001, with its admission into the WTO, China ramped up its central bank purchases in order to peg its currency to the US dollar.** I like to use this sectoral balances chart to visualize the transition:



Source: From Bretton Woods to Freegold—An Epic Road Traveled

From "From Bretton Woods to Freegold – An Epic Road Traveled":

> *"On December 11, 2001, China was admitted into the World Trade Organization. I don't know if the idea was 'sold' to China in order to extend the dollar's timeline, or whether they did it on their own following the lead of other third world countries, but* ***China's central bank immediately started buying dollars by the tens of billions in order to keep its exchange rate pegged to the dollar while its international trade grew in leaps and bounds.*** *We don't know Another's take on this turn of*

16 "Comex is a Side Show", FOFOA, May 4, 2018

events because, unfortunately and coincidentally, FOA stopped posting five days after China joined the WTO.

China's central bank immediately started buying dollars by the tens of billions in order to keep its exchange rate pegged to the dollar while its international trade grew in leaps and bounds.

A good gauge of China's structural support for the dollar, and one that is easy to watch, is China's Treasury holdings. From 2002 through 2013, ***the Chinese central bank purchased US Treasury debt equal to 19% of the total US trade deficit during those years.*** *For comparison, all of the OPEC countries combined, including both public and private sector Treasury purchases, covered only 3% of the US trade deficit during the same timeframe. There's only one reason for the PBoC to purchase that many dollars, more than any other country, and that's to manipulate its currency exchange rate, i.e., to peg it to the dollar.*

From 2002 through 2013, the Chinese central bank purchased US Treasury debt equal to 19% of the total US trade deficit during those years.

Yet over those 12 years, China took determined and concerted steps, year after year, toward having an internationally convertible currency, steps which gradually reduced its need to manipulate its exchange rate with the dollar in particular. ***When China joined the WTO, the yuan was not allowed outside of China. But by 2014, the yuan was trading in 12 hubs[17] outside of China, including several in Europe and Asia, with many more on the way.***

China had also set up bilateral currency swap agreements with 25 different central banks covering 42 different countries.[18] The big one, the Eurosystem, 18 countries in one deal, was established on October 10, 2013."[19]

A month later, China stopped. In fact, **if we compare China's current Treasury holdings with their peak in November, 2013, we see a reduction of USD 221bn, or 17% over the last seven years**. And as far as I can tell, that's when the dirty float ended.

As for the financial system, Q4 compressed into a single image basically looks like this. **It's one bubble after another, ending in a superbubble**:

Source: Yahoo!Finance

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[17] Wikipedia: "Internationalization of the renminbi#Renminbi_hubs_outside_China"
[18] Wikipedia: "Internationalization of the renminbi#List_of_RMB_Bilateral_Swap_Agreements"
[19] European Central Bank: "ECB and the People's Bank of China establish a bilateral currency swap agreement", October 10, 2013

The first one on the left was the dotcom bubble, then the housing bubble which brought down the entire financial system, and finally the current everything bubble (everything except gold).

If we compare China's current Treasury holdings with their peak in November, 2013, we see a reduction of USD 221bn, or 17% over the last seven years.

The Nixon Shock, i.e., the 1st Singularity, changed the financial system into a bubble machine, it changed gold from being a US dollar into a foreign currency ("no different than fractional reserve banking"), and it changed the US dollar from a unit used mainly for real trade, into one used primarily for trading financial assets. In the process, it changed the US economy from the world's greatest producer into the world's biggest consumer, financial derivative production notwithstanding.

The 2nd Singularity

> *"**The whole world is a giant Ponzi scheme right now (thanks to the $IMFS), which is why we have global economic stagnation, deflation and mass frustration**, and the real punchline is that it has already reversed from expansion into contraction, and the attempted unwinding is already underway, which means the Bernie Madoff moment could happen at any time…*
>
> ***What the world needs now is a grand liquidation** of overinvested, overvalued, unprofitable economic assets… But that's not going to happen through the nominal deflation the deflationists hope for. That would be like unwinding a Ponzi scheme. Sure, markets will collapse… but the Fed will respond… Eventually, they will be printing and buying everything in sight, because, in the real world, in extremis, that is their only mandate."*

The whole world is a giant Ponzi scheme right now (thanks to the $IMFS), which is why we have global economic stagnation, deflation and mass frustration.

I wrote that back in 2015, in a post called "What the World Needs Now", and I think we're about to get it. We are, today, in uncharted territory. It's the end of the road. As I said, there is no more road, no trailhead, no tracks, we are completely off the rails and careening out into the great unknown as we approach the 50th anniversary of the 1st Singularity, 2nd one dead ahead.

At the time of this writing, Bitcoin is right around USD 55,000 per coin, which is a number that I have long used for Freegold.

Now, remember what I said about passing through a singularity – it's like passing through a black hole and emerging in a different world on the other side – so much changes at once that the far side of the singularity is almost impossible to imagine. *Almost* impossible, not impossible. So this section is about what I see, what I imagine is on the other side of the 2nd Singularity, which I think is just as inevitable as the 1st Singularity. It was going to happen regardless of who was in the White House at the time, but I must admit, it seems even more inevitable given the current administration.

I need to explain a simple concept about gold, however, before I tell you what I see. At the time of this writing, **Bitcoin is right around USD 55,000 per coin, which is a number that I have long used for Freegold. Meanwhile, gold is down more than 15% from its high last August.** So something I'm hearing a lot is that Bitcoin has done what gold was supposed to do, therefore Bitcoin is the new gold, or something along those lines.

I see this flawed premise everywhere, even amongst goldbugs. Everyone's saying right now, "*Look at gold, it's down, it's not doing what it's supposed to do, which is rise against all this printing and monetary inflation like commodities and other inflation hedges*." But if we look back at history, that's not how gold works. And it's not what Freegold predicts.

Historically, gold does its job best at transition points, not necessarily in day-to-day price movements.

Historically, gold does its job best at transition points, not necessarily in day-to-day price movements. For example, when it was being used as coins in the money supply, it did not track price inflation or deflation. But every 40–50 years or so, it would have to be either repriced or it would jump in price due to some sort of transition or crisis (e.g., 1934, the 1970s…). It has never really worked well as an inflation hedge. Everyone assumes it should, but I think that is a flawed premise, at least in the current system. It's more of a transition hedge, or a singularity hedge!

As Another liked to say, it will be repriced once, and that will be more than enough:

'Gold will only have to be repriced once, that will be more than enough!'

> *"Date: Sat Nov 01 1997 22:54*
> *fjklaj (jfdkla;) ID#338126:*
> *Another, I always like reading your posts BUT they have always been followed by a sharp drop in gold*
>
> *fiklaj,*
> *There is no end to the amount of paper contracts that can be written and sold to drop the price of gold. The large players that I know have no problem with this. They are not traders.*
>
> ***'Gold will only have to be repriced once, that will be more than enough!'***
>
> *ANOTHER(Sun Nov 30 1997 20:03 - ID#60253)*
> *THOUGHTS!*
> *We read and hear only one side of the story. It comes from those who can write and talk the loudest!*
>
> *'They have sold massive amounts of gold for several years now.' 'It can only go lower and lower.'*
>
> *I offer another side from another place. I ask not that you believe but only that you consider, and follow this voice for a later time. […]*
>
> ***Now you know why I do not predict a price. For ones of simple thought, such as I 'gold will be repriced once in life, and that will be much more than enough'.***"

Bitcoin, on the other hand, is performing just like the many bubbles throughout history. **And while bubbles do not perform well at transition points, they very often pop just prior to them.** I'm not trying to make a prediction about Bitcoin here, just explaining a concept.

And while bubbles do not perform well at transition points, they very often pop just prior to them.

We are in a pretty unique situation at the moment. We have this sort of traditional bubble dynamic in almost everything, where investors are starting to believe that asset prices can only go up, and are buying some of the strangest things with little regard for traditional valuation metrics. And at the same time, we have unprecedented levels of monetary inflation and stimulus, which are also pumping the bubbles in a more nontraditional dynamic.

So I think what we'll get in the end has to be a kind of hyperinflationary price collapse, where the price of everything that's in a bubble right now, which is just about everything except gold, collapses in real terms but not necessarily in nominal terms. That's "in the end". We could definitely see a nominal collapse of asset prices initially, but in the end, I think it'll be in real terms, which can be a lot worse than nominal.

We are in a pretty unique situation at the moment. We have this sort of traditional bubble dynamic in almost everything, where investors are starting to believe that asset prices can only go up, and are buying some of the strangest things with little regard for traditional valuation metrics.

There always seems to be a floor somewhere when stock markets crash nominally, because valuation calculation is still possible, and someone steps in to "buy when there's blood in the streets". But if the currency collapses simultaneously, then such calculation will not be possible, and the floor may be quite a bit lower in real terms than your normal crash. Plus, no one will have enough money to BTFD if it's in the quadrillions. **Hyperinflation is ironically fraught with a shortage of money, because credit disappears, and prices rise faster than higher denominations get distributed through circulation.**

This is what I mean by a grand liquidation. The current generations, the millennials and the zoomers, as they're called, have been priced out of virtually everything. They cannot afford anything at current prices, so they will welcome the grand liquidation. Prices of everything need to collapse in real terms, so these new generations can start participating in a real way, not just playing games with GameStop and cryptocurrencies from their mothers' basements.

The collapse of the $IMFS will wake those new generations up, and then they'll know what woke really means. The rebuilding of what the $IMFS destroyed will take years, decades even, but such rebuilding periods are a time of high growth and "Happy Days", like the 1950s, and the zoomers and millennials will enjoy that period second-most (I think those of you with physical gold right now will enjoy it the most ;)). The old guard and current masters of the woke-iverse will enjoy it the least. For them it will be Mad Max-ish. Not in a literal sense, but it will feel like it.

So, in terms of the US dollar and the financial system, I see them more or less collapsing simultaneously, in real terms. It probably will not seem that simple and clear-cut while you're living through it, but in hindsight I think it will be obvious what happened.

So, in terms of the US dollar and the financial system, I see them more or less collapsing simultaneously, in real terms.

As for the gold market, it is currently run like a fractional reserve currency by the bullion banks of the LBMA. And with a daily turnover in the range of 173,713,000 ounces, or 5,400 tonnes of imaginary gold, it's basically 90% of the price discovery market for gold. I'm talking about the market where gold trades as XAU. It dwarfs other markets like futures and ETFs by an order of magnitude, and is therefore the primary driver of the price.

You need merely to think of it as a fractional reserve paper currency with its own banking system to see what's going to happen. It is not so different from what happened in 1934 and 1971.

In 1933, there were paper US dollars and credit US dollars, and they were all backed by fractionally reserved gold US dollars. Then there were bank runs, essentially redemptions and withdrawals, that drained the gold from the banks, followed by a national bank holiday, which halted the redemptions and withdrawals. One month later, gold coins were called in and removed from the banking system, which was effectively a forced cash settlement of all US dollar balances at the old price of USD 20.67 per ounce. The link between the currency and the reserve was severed domestically. **Then, once that was done, about nine months later, in January of 1934, gold was repriced to USD 35 per ounce, almost a 70% increase**.

Treasury officially repriced its gold in 1972, and again in 1973, but by then the definition of a US dollar as a weight of gold was meaningless.

In 1971, international US dollars were backed by fractionally reserved gold in the US Treasury, which was some of the same gold that had been removed from the domestic banking system in 1933. About half of the Treasury's reserves had been drained during the previous decade, and the rest could be gone in a flash given the amount of US dollars held overseas. **Then, with a flood of fresh redemption requests coming in from Europe beginning in May of 1971, Nixon closed the gold window, ending redemptions altogether.** The link between the currency and the reserve was severed internationally. The US Treasury officially repriced its gold in 1972 and again in 1973, but by then the definition of a US dollar as a weight of gold was meaningless.

Likewise, the gold market today is dominated by a fractionally reserved paper gold currency trade, run by the same banks that also finance and manage the much smaller flow of the global physical gold market. The slack in that flow constitutes the fractional reserves of the system. Redemption and withdrawal of physical from this paper gold currency system is only possible at the margins, not en masse. So when the financial system collapses, physical redemptions will cease and paper gold balances will be settled in cash at the paper price. The link between the currency (paper gold) and the reserve (physical gold) will be severed.

This reminds me, I wanted to mention that I recently watched your interview with Russell Napier at the IGWT YouTube channel.[20] Someone posted it at the Speakeasy and it garnered a bit of attention. I thought it was quite good, and I wanted to address a couple of the points he made, because I think they apply here, and because one of my readers asked me my thoughts on them.

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[20] You can watch the video at https://youtu.be/PmlORdi-8bU. The whole interview can be read at https://ingoldwetrust.report/igwt/exclusive-interview-with-russell-napier/?lang=en, while a short version of the interview is part of the *In Gold We Trust* report 2021, *see* https://ingoldwetrust.report/download/12773/?lang=en.

Napier is a deflationist who recently changed his mind on deflation due to changes in the monetary system. He now believes that governments will inflate away their debts, and in order to do so, they will block avenues to escape the inflation, and he specifically mentions Bitcoin and gold.

Napier is a deflationist who recently changed his mind on deflation due to changes in the monetary system. He now believes that governments will inflate away their debts, and in order to do so, they will block avenues to escape the inflation, and he specifically mentions Bitcoin and gold. He says that nearly everybody who's buying Bitcoin and crypto right now thinks it's an avenue of escape. But he says that governments cannot inflate away their debts if they allow people to avoid the inflation. He likens it to shooting fish in a barrel. If you want to shoot fish in a barrel, he says, first you've got to put them in the barrel, not offer them an escape route.

He's talking mainly about financial institutions, big institutional money, because that's where most people keep their savings in the current system. And he's basically saying that it's very easy for the government to block that big money from escaping the inflation, and that institutionalized savings may be sufficient in terms of a sufficient number of fish in the barrel. But the question I got from one of my readers was, **if the governments will not allow institutional money to escape into gold, because they will not be able to inflate their debt away if they do, then how do we get to Freegold?**

My answer was that Freegold, as far as I'm concerned, is what will remain when the $IMFS collapses. It's not something that governments can prevent. The $IMFS simply has not collapsed yet. I do not know when it will, but the things they are having to do to keep it going are getting more and more extreme at an accelerating pace. And they are not making it more structurally sound.

Freegold, as far as I'm concerned, is what will remain when the $IMFS collapses.

As for institutional money going into gold, that does not usually happen. And I do not expect it to happen. But when it does, it's almost always some form of paper gold. Institutional funds are not part of Freegold. **And the government may very well crush Bitcoin if it gets too big, for the reasons Napier says. But gold is different, because today's gold market will not do what Bitcoin is doing right now.** The premise is flawed because it requires paper gold to rise against inflation.

Some people argue that Freegold cannot happen unless and until everyone understands it and rushes into physical gold. To that I say, **uber-wealthy old-money families do not think about things like Freegold like we do. They simply understand wealth. They have it in everything that surrounds them, from real estate to furniture to cars to art.**

That constant inflow of US dollars is what the government can block to crush Bitcoin. But physical gold is different, and the world does not need to understand Freegold ahead of time in order for it to happen.

So when the illusionary paper wealth of the $IMFS collapses, and the paper gold market halts redemptions and settles in cash, they will not need me to explain Freegold to them. The physical gold is still there after the illusion is gone. It's suddenly very valuable. Every last ounce is already owned, and it does not need a constant inflow of US dollars to maintain its price like Bitcoin does. **That constant inflow of US dollars is what the government can block to crush Bitcoin.** But physical gold is different, and the world does not need to understand Freegold ahead of time in order for it to happen.

Something else Russell Napier said that I found interesting was that we take it for granted that most wealth is held in financial institutions today, which of course is true.[21] But if you go back to the end of WWII, he said, most wealth was held in the name of individuals. Another also pinpointed the end of WWII as a turning point in the way wealth was thought of, and in this one paragraph I already quoted above, he basically laid out what to expect on the other side of the 2nd Singularity:

> *"I would say, 'Old World Order' to return. To understand/explain better: A very easy way to view this 'order', would be to simply say that the American Experience is reaching the end! As we know, World War II left Europe and the world economy destroyed. Many thinkers of that period thought that the world was about to enter a decades-long depression as it worked to rebuild real assets lost in the conflict. It was this war that so impacted the idea of looking positively toward the future. The past ideals of building solid, enduring, long-term wealth were lost in the conception of a whole generation possibly doing without! In these fertile grounds people escaped reality with the New Idea of long-term debt being held as a money asset. Yes, here was born the American Experience that comes to maturity today."*

The new idea of long-term debt being held as a money asset is ending, and the past ideals of building solid, enduring, long-term wealth will return.

Let me break that down for you really quickly. He said the "*Old World Order*" is going to return. So what did he mean by "*Old World Order*"? He explained it thusly: "*The past ideals of building solid, enduring, long-term wealth.*"

He also said "*the American Experience is reaching the end!*" So what did he mean by "*American Experience*"? He explained it thusly: "*… the New Idea of long-term debt being held as a money asset.*"

So, when he says the Old World Order is returning, he means "*the new idea of long-term debt being held as a money asset*" is ending, and "*the past ideals of building solid, enduring, long-term wealth*" will return.

In other words, today's "Wall Street" (the $IMFS, in which we take it for granted that most wealth is held in massive "too big to fail" financial institutions) is "the American Experience" that is coming to an end. And "the old ideas of building solid, enduring, long-term wealth" (held in the name of individuals once again) is what lies ahead.

That does not, however, mean we are going back to the Dark Ages. Another added an important qualifier: "*as viewed through modern eyes.*"

The collapse is going to include the collapse of such oversized, centralized thinking as the WEF, and the reset is going to usher in a more localized, resilient way of thinking.

Remember what FOA wrote, from above:

> *"You see,* ***only the BIS could destroy the present gold game because they represented the ability to price and move physical gold independently of London.*** *Literally, off market. It's in their charter.*

[21] *See* "Yield curve control, the biggest mistake of the ECB so far! – Exclusive interview with Russell Napier" at 35:22

> *Most of the time, they go with the flow, but today, they are aligned with the principals of the WA [the Eurosystem central banks]. Guess which oil producer is a big member of the BIS? [Saudi Arabia] When Big Trader (Chinese Central Bank) wants to be closer to the euro, guess where the BIS opens an office? [In Hong Kong SAR in 1998] Get the picture? We are walking a different trail today."*

When asked, who does the BIS really represent? Another answered:

"*'old world, gold economy, as viewed thru modern eyes' or 'way to move from US$ [the $IMFS] without war'.*"

The collapse will be a collapse of the US dollar system, the financial system, and the paper gold market, and the reset will include the repricing of physical gold.

This is what I see coming on the other side of the 2nd Singularity. I think we are going to have a collapse, a reset, and a grand liquidation that will lead to a period of rebuilding, which will last perhaps decades. But it will not be the "Great Reset" agenda of the World Economic Forum (WEF). **The collapse is going to include the collapse of such oversized, centralized thinking as the WEF, and the reset is going to usher in a more localized, resilient way of thinking.** As Another put it, the old ideas of building solid, enduring, long-term wealth will return.

The collapse will be a collapse of the US dollar system, the financial system, and the paper gold market, and the reset will include the repricing of physical gold. I do not see the repricing as something that someone like the BIS needs to enact, but more of a natural and obvious outcome of the collapse. **The "grand liquidation" will effectively pass economic assets from the old guard to the new generation, at fire-sale prices that will make them profitable once again, and the rebuilding of a more real and more robust economy will commence.** You might even call it a renaissance, or my preference, a new golden age.

So, to wrap this up, my view of the Nixon Shock is that it marked the halfway point in the life of the $IMFS. And while it set gold free from the US dollar, it also gave birth to the modern concept of bullion banking, which entangled gold in a new kind of fractional reserve currency scheme. And as I wrote more than a decade ago, in a 2011 post titled "Freegold Foundations"[22], that's what the *free* in *Freegold* refers to today – that gold will be freed from the fractional reserve banking practice, which is simply a carryover from the pre-Nixon gold standard. And that newfound freedom, that severing of the link between physical gold and XAU, will usher in a new golden age that I like to call Freegold. :D

Sincerely,
FOFOA

[22] *See* "Freegold Foundations", Fofoa, January 19, 2011