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Gold versus Fiat Money: The Global Economy is a Banana Republic

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Theme: Global Economy

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In case you had not noticed, we live in a crazy upside down sort of world. We could go into the social aspect of this but it would only make our collective blood pressures go up. The same thing goes for politics, religion and let's not forget an entire industry that used to pride itself on digging for the truth, the media. Nothing, and I do mean NOTHING "is" really as it seems today. Everything is spun, everything is either glossed over or not even discussed (reported on) and nothing is real anymore. Somehow, I think Goebbels is blushing in his grave and Orwell kicking himself for not being outrageous enough when he wrote 1984.

Now would be a good time to revisit something we've looked at many times before, namely which is the better deal? Is one ounce of gold better than 1,200 one dollar bills? Or euros, yen, pounds or what have you? The reason this has come to my mind in this fashion is because our world of fiat money now has negative interest rates for about 15% of all sovereign debt (and growing quickly). Zerohedge just released an article talking about 20 central banks already in this new year cutting their interest rates.

The obvious takeaway from this is investors are being forced to scramble for yield, any yield no matter how dangerous. Savers have been and now even more so, are being forced to do things (invest) they would never in their wildest dreams have done 10 years ago. As mentioned a few weeks back, there are now even negative interest rates on mortgages in Denmark. This means your mortgage will get paid down by your institution over time as long as you can make the monthly amortization payment. Who in their right mind would not borrow as much as they could to buy as big a property as possible? Think about it, you get to borrow in a paper currency where the central bank WANTS inflation (a debasing currency) and the issuing bank will help you pay down the principle. This is a no brainer!

On the other side of the ledger however are "savers". Who in their right mind would "lend" currency at negative interest rates? Your prospects in the real world and in black and white are ridiculous. You are lending money where your "balance" decreases each year and then, what will you receive upon maturity? You will receive "currency" the central banks are telling you ahead of time …they wish to, plan to and will do everything they can …to devalue! Does this make any sense? Locking in a shrinking balance in a currency the issuer wishes to "shrink"? Which then is better? An ounce of gold which is unshrinkable or 1,200 one dollar bills which shrink every time you do your laundry.

So the world's central banks are continuing to lower interest rates and "zero percent" is no longer a lower bound, why? Why are central banks pushing so hard for lower interest rates? Yes I know, they say "lower rates will help the economy" … blah blah blah. Really? Has it worked? Would you like to know the REAL reason interest rates have been pushed down? Because if they were not, sovereigns from A-Z would already be seen to be insolvent. A large and growing percentage of the world's sovereign nations now have a debt to GDP ratio of 100% or more. Big deal right? Well, yes it really is but for "now" it isn't "seen" as one. Historically, whenever a nation went beyond 100% debt to GDP ratio …they soon became a banana republic where their issued currency collapsed and sovereign bonds offloaded in panic fashion. This of course meant that interest rates exploded higher and more currency was needed to be issued to support the debt market …setting off a cycle of hyperinflation. Not an isolated problem, the globe is on the verge of becoming one big unhappy banana republic!

Globally, banana republic status is the crossroads the world now stands at. Yes, we currently live in a world with deflationary tendencies because the giant sized debt loads are crushing everything …including the sovereigns themselves. With little to no warning at all, this will turn on a dime because of human nature. Human's are a funny animal. Greed is a powerful emotion, fear is even greater. In the monetary world, once "fear" becomes the predominant notion then another factor will kick in. Just as a dog with a bowl full of food wants the other dogs food, man always craves what he cannot have. When, not if, gold and silver go into hiding, "man" will want them even more. It is this emotion which will collide with a mine supply which has already peaked while Western vaults are substantially empty.

I decided to write this because I believe hyperinflation is broadly misunderstood by most. Most believe hyperinflation can only happen when a central bank creates too much "money". The over creation of money is certainly one necessary condition but alone will not spark hyperinflation. It is a break in confidence which ignites the fire. We stand today in a world where all of the conditions exist for a massive fire which will destroy much of the accumulated paper wealth of the last 100 years or more. The only thing lacking to get this bonfire raging is a break in confidence.

Looking back to the very dark fourth quarter of 2008, you can see nearly ALL official actions aimed squarely at keeping confidence high. Bogus economic reports, the cancellation of mark to market, central banks propping up brain dead banks and financial institutions …and on down the line to rigging all markets from supporting stocks and bonds to suppressing gold and silver. Everything is and has been about perception, once this perception shifts, hyperinflation can literally begin overnight. In case you have not noticed or followed, the rest of the world has already "moved" or is "moving" away from the dollar as they have already figured this out. Hyperinflation of the dollar will not be "cost push" or the inflation we WERE used to. It will be a currency event caused by a break in confidence where dollars are massively sold and refused for acceptance,… as the "printing part" is already in place. THIS is what "policy", ALL policy has been about since 2008 …retaining confidence in the dollar! Understand this and you understand 90%+ of the entire game.

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About the author:

Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.