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Gold and Silver and the Endgame for U.S.A. Inc.

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Commodities

I'm going to take a leap of faith and assume the reader harbours a sufficiently enlightened mind to be aware of several key facts regarding the world as we know it. The fatuous commentary suggesting gold is a bubble, gold has peaked, gold is a bad investment, etc shall from this point forward be consigned to its rightful place in the Horribly Flawed Thinking dumpster and discussion of same restricted to the hopelessly naïve (or sublimely clever and duplicitous) CNBC. Henceforth we proceed under the assumption that ;



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The United States dollar is in a state of terminal deterioration, and its continuing viability as a fiat unit of trade value is for a limited time only.

1. Gold and silver, as the principle monetary metals, as well as platinum and palladium (secondary monetary metals) will be part of the formula that determines the fair value of any future global currency.
2. The new global currency must be accepted by the entire G8 block and a majority of the G20 to be viable.

But first, a brief discussion about how these metals might work. This is not a resurrection of your Bretton Woods gold standard, which from its inception was designed to keep nations from doing exactly what the United States has done; flood the world with a currency far in excess of the economy that backs it. Unfortunately, the excessive influence of the United States that evolved after World War 2 and the unprecedented wealth afforded by its huge hydrocarbon exploitation machine made it subject to manipulation and ultimately was terminated by Nixon when it became an inconvenient and malfunctioning cog in the burgeoning U.S. deficit spending policy.

Consider the United States as a public company. At this point USA Inc. has 14.3 trillion shares outstanding, and the finance department keeps issuing 70 to 90 billion new shares every week. Unfortunately, the principle shareholders, China Inc and Japan Inc, have decided they own enough, as they have been averaging down for almost a decade, and with all that dilution out there, the stock is looking less and less attractive. Domestic shareholders who were formerly major supporters of the stock have dumped it altogether (PIMCO).

And so, inspired by ENRON, and since USA inc. is not compelled by anything approaching Generally Accepted Accounting Practices, its decided to get its off-balance sheet entity, The U.S. Federal Reserve, to write checks to the finance department, so that the cash flows of the corporation continue to permit day-to-day operations.

At this point in any real public company's existence, the S.E.C. would theoretically step in and investigate, unless of course the CEO and management team of U.S.A. inc. had gone to the same university as the management of the S.E.C. In that case, the senior management of both entities would go out and discuss the problems of U.S.A. Inc. over martinis. The S.E.C. would solicit suggestions from U.S.A. Inc. as to how it could help obscure the defective logic inherent in the expanding Ponzi scheme from an inquisitive but anesthetized and bamboozled public.

But lets assume, for the sake of argument, that the S.E.C. was a fair and impartial regulatory agency, and the F.B.I. is a fair and impartial (and effective) criminal investigation outfit, and that U.S.A. Inc. was helmed by persons of integrity who are not trying to fleece anybody. They are simply under-qualified and unimaginative financial engineers, and the only way they've been able to see past this pyramid boondoggle for the last ten years is to continue fabricating electronic sums of capital to support the operating costs of its bloated payroll.

This public company, were it subject to GAAP, and the law, and logic, would at this point begin to acknowledge the unsustainability and indeed, the inviability of its business model, and after a few board meetings with its largest shareholders, would conclude that it had only several choices:

It could:

1. Roll back the shares on a 100 for 1 basis, which would reduce the nominal issued and outstanding to 14.7 billion – a very manageable figure, considering the robust cash flows of its main revenue stream – taxes .
2. It could vend all of its assets into a new tightly held vehicle and issue new shares, leaving the old shareholders to accept a haircut on their positions in exchange for shares of the new company;
3. Declare bankruptcy.

The problem with option number 1 is, that suddenly the purchasing power of its shares, or dollars as they are presently called, would be 100 times less, and nobody would be able to afford to eat. Prices for goods within the country would theoretically increase by 100 times, igniting a corporate mutiny, which in the case of this public company, would amount to civil warfare.

The same problem exists for option number 2. Which leaves option number 3. If this were a corporate entity subject to the laws of the land and Generally Accepted Accounting Practices.

Now thank God that USA Inc. is actually a public company, and that the truly competent and noble souls who run the company are in due course going to present us shareholders with, in all likelihood, option number 3. Cause if they weren't, here's what a nakedly greedy and essentially misanthropic management team might come up with:

First, they'd keep fabricating astounding sums of money each week, and through various off-balance sheet transactions through its off-balance sheet private company, the U.S. Federal Reserve, would divert large portions of these multi-zero sums into accounts it holds with financial institutions such as J.P. Morgan, and HSBC, and Goldman Sachs, etc, and would begin to actively mangle the perception of the general public through its participation in the futures and derivatives markets for strategic commodities like energy and metals. By alternating between large short and long positions, it can drive external investment demand by building huge short positions when it wants outsiders to sell (which they dutifully buy all the way down the price curve to cover its short positions), and massive long contracts (which they never deliver on anyway...any contract underwater is simply rolled over into the next month's strategy in perpetuity). All losses are stored in unreconciled accounts at its various financial subsidiaries, which it bankrupts at will to cleanse the negative accumulations from its front-line balance sheets.

The scheme is sufficiently complicated that, without access to all of the connecting documents, which are privately held in the off-balance sheet privcos, its impossible to obtain evidence by any investigator of the scheme's existence.

Meanwhile, USA Inc.'s CFO, and his counterparts among the other top publicly traded sovereign corporations, would begin to lay the groundwork for the eventual replacement of the current shares, denominated in dollars, with a new currency, which will be denominated in some as-yet unconfirmed unit. (Special Drawing Right has a nice neutral sound to it.) All the existing shares would continue to trade among the top publicly traded sovereign corporations, but the new currency would be globally accepted legal tender.

The CFO's would all sign off on the plan, because they really have no choice, and by throwing in their lot with USA Inc., they will be able to bury the bulk of their acts of mismanagement and criminal self-dealing through the transition phase while USA Inc.'s default announcement has everybody's attention.

The new SDR's would be pegged to, not backed by, the prices of gold and silver, which the new joint venture currency group would be easily able to influence anyways.

Utah's Gold and Silver Standard

Of course, the beautiful thing about USA Inc. is that its got all these independent subsidiaries who are free, by their own mandate, to implement alternative share replacement strategies of their own, should their shareholders democratically choose to.

Such an outcome was just realized last week by the State of Utah, who essentially ratified an already existing law that permits the use of gold and silver as legal tender for commerce within that state.

Several similar attempts by other states like Montana failed. But there's no denying that the general tide is turning in the U.S. and Utah's move is more important for what it signifies: the people of the United States are beginning to take matters into their own hands, and embrace alternatives to the U.S. dollar for trade.

That's a trend that appears likely to continue.

The United States default on its dollar is inevitable, because the United States is, in essence, the largest public company on earth. Its shareholders are angry, and as evidenced by Utah, if the guys steering the ship to make some changes, the American people will.

James West is the publisher of the highly influential and widely respected Midas Letter at midasletter.com. MidasLetter specializes in identifying emerging companies in gold and silver exploration at the beginning of their share price appreciation curves, and regularly delivers 10 baggers (stocks that increase in value by at least a factor of 10) to his premium subscribers. Subscribe at <http://www.midasletter.com/subscribe.php>.

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