The US has Modeled the "Golden Rule" Since World War II

Retrieved Friday 13th of October 2017 05:30:38 PM

Earlier this year, I visited New York to attend a relative's wedding. While I was there, I thought I'd take a look at the physical **gold** and silver scene there (among other things), and sought out a bullion dealer near the diamond district.

I was curious, as the retail market for silver in the US is much larger than in the UK (something I attribute to the lack of a 20% VAT charge). Dozens of niche mints and refineries produce incredibly ornate work (like this) that you can't find this side of the Atlantic, and I wanted to see what we're missing out on.

Although gold and silver *coins* can only be issued by the US Mint (as they have a face value in dollars and are legal tender), silver bullion "rounds" with the same dimensions are issued by private mints, and are very popular. There's even a market for silver *bullets* in the states – the largest I've seen was a replica of a cannon shell and weighed over three kilos.

After I was buzzed through the first security door (several inches of metal thick, with numerous steel bars running through it), and waiting for the proprietor to unlock the second (even larger) one a few feet before me, I noticed a poster hanging on the wall.

"Never forget the golden rule: He who has the gold, makes the rules" it declared.

A little cliché perhaps, but it stuck with me

I was reminded of it as I wrote this month's issue of *London Investment Alert* – Tim is taking a well-earned holiday at the moment, and in his absence I've been exploring the future of gold and the dollar.

After the Second World War, the US had the gold, and it certainly made the rules.

What happened? Well, quite a few things – like the Marshall Plan and the subsequent rise of the eurodollar banking system… but ultimately the US came out on top. Gold is no longer required to make the rules, but for how long?

Here's a snippet from this month's issue:

> **The golden throne**
>
> The Second World War had ravaged the world. Few remained economically strong in its wake.
>
> The US emerged economically unscathed from the war – Western Europe had paid the US huge portions of its gold reserves to liquidate its debts and to pay for war materials.
>
> US manufacturing had also thrived during the war and was in prime condition to keep ploughing a.
>
> Europe was weak; the US was strong. The opportunity for an economic crusade beckoned. And it was taken.
>
> The Bretton Woods system of 1944 was led by Americans, and placed all major currencies (which weren't backed by anything after the money printing necessitated by the war) on fixed exchange rates to the dollar, which was backed by US gold reserves.
>
> The world was now effectively on a dollar standard, with the promise of gold backing the system. Placing the dollar at the core of this new monetary system gave the US great power – other countries now had a need for dollars, which the US could control through interest rates.
>
> And while the US could swap dollars for the paper currencies of other nations, other nations wanting dollars could only attain them in exchange for their gold reserves.
>
> The immediate problem upon implementing the system was the global dollar shortage. Other countries had few US dollars as

they spent them importing goods from the US.

One of the remedies to this was the Marshall Plan: a $13 billion dollar welfare package addressed to Europe, for the continent to spend on reconstruction.

This was also intended to crush the threat of a communist uprising in Europe due to poor and depressed economic conditions.

The co-operative trade agreements dictated by the plan laid the groundwork for what would eventually become the European Union.

The plan succeeded in its goals in hooking Europe into dollar dependence; however, this strategy had side-effects.

Knights of the eurodollar

As billions of dollars flooded into Europe, US banks followed.

They set up branches on the continent, facilitating dollar deposits and corporate loans, and discovering that they really quite liked it there. Outside the US, they did not need to conform to any of the regulations they were used to at home, including the reserve requirements made by the Federal Reserve.

Effectively, they could now issue as many loans as they liked to the US corporations who were expanding rapidly in Europe. The dollars created under this offshore American banking system became known as eurodollars.

The “euro” prefix, implying an offshore version of an asset, still exists today. Alongside eurodollars there is now euroyen – yen banked outside of Japan. Bonds issued in a foreign currency (eg, British government bonds denominated in dollars) are known as “eurobonds”.

The lack of regulation also meant that American companies could compete strongly against their native European rivals, as they could attain unregulated dollar financing easily, while the Europeans had to tackle the banking regulations of their own countries.

American multinationals boomed. But the eurodollar system was flawed.

Although dollars could be exchanged for gold in the US, dollars themselves were created when US banks made loans. The eurodollar banking system was an unrestrained loan factory, and subsequently the global supply of dollars multiplied, while US gold reserves remained static.

Ultimately, there ended up being more dollars in circulation than there was gold to back the currency as a whole.

And for the crusade to continue, a new form of eurodollar would need to be created. A form of eurodollar so powerful that wars claiming millions of lives have been blamed upon it…

Have a great weekend!

All the best,

Boaz Shoshan
Capital %26 Conflict

Related Articles:

- **How to buy gold bullion**
- **The German gold bomb**
- **The hidden gold quadrant profits recipe**

Category: Investing in Gold