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Epilogue

History reveals countless examples of failed monetary systems. After the debasement of the Roman Denarius and the subsequent fall of the Roman Empire, it took five hundred years before a developed civilization re-emerged in Europe.

In the 1980s, the leaders of the Soviet Union were convinced their communist Ruble-regime would last forever and they continued waving from the balcony until the bitter end. After the collapse of the Soviet Union, savers and pensioners reliant on the value of the Ruble remained behind in poverty.

Us Westerners concluded that our dollar-system, based on free markets, was a superior one because all of the communist countries 'switched over' to our side after the fall of the Berlin Wall. Now, with more and more markets controlled by central bankers, it is clear Western capitalism has reached its end. We have now entered an era of state capitalism. China is a perfect example. Just like Russia, the US, the EU, the Arab World, the UK and Japan. The economies of West and East are now intertwined in a way never seen before.

In the same manner as the communists leaders did at the end of the 80s, our governments, (central) bankers, institutional investors and even accountants have all joined forces to pretend all is still fine. But of course most of them know our economic system will fall apart once they stop QE, an euphemism for printing ever more money.

Since the start of the credit crisis, world central banks' balance sheets grew some \$10 trillion (\$10,000 billion), rising to \$22 trillion, almost entirely in the form of government debt. Central bankers have been monetizing all net debt issuance (2015), in an effort to reflate the \$200 trillion in global outstanding debt. Yes, that's \$55 trillion more than 'when the world almost collapsed because of too much debt', in late 2008. Since money can only be created as (new) debt, fund managers, charging yearly fees of 1%, have seen their revenues (and bonuses) exploding again.

Wall Street and City-traders will continue to ‘milk the system’ for as long as possible.

Some decided to ‘jump ship’ and have even started to warn about this financial endgame. Like Bill Gross' did in his December 2014 investment outlook:²

How could they? How could policymakers have allowed so much debt to be created in the first place, and then failed to regulate their own system accordingly? How could they have thought that money printing and debt creation could create wealth instead of just more and more debt? [...] But each of these central bankers is trying to achieve the same basic objective: Solve a debt crisis by creating more debt?

Because of these central bank policies applied since 2009, real free bond markets no longer exist. The roll-out of Zero Interest Rate Policies (ZIRP) around the world, implies that central banks are really the only buyers left in many bond markets. We are therefore trapped in a vicious circle of more deflation, more QE and even lower yields leading to more deflation. Central banks will have to double down once more. Trillions of sovereign bonds on balance sheets no longer represent their book value, since the principal can't ever be repaid. Only a debt restructuring can solve this problem. That's why more and more money has started fleeing towards the general stock markets and other hard assets.

Even Alan Greenspan, the former chairman of the Federal Reserve, has been sounding the alarm bell. Not in public of course, but during private conversations at a New Orleans conference:³

1 According to Fortune magazine Gross is ‘the 188th richest American, and his net worth is around \$2.2 billion’.

2 <http://uk.businessinsider.com/bill-gross-investment-outlook-december-4-2014-12?r=US&IR=T>

3 <http://www.neopresse.com/finanzsystem/alan-greenspan-es-fehlt-nur-noch-der-funke-der-die-inflation-zum-explodieren-bringt/>

The Fed's balance sheet is the tinderbox for the US economy. It is mathematically impossible to cover future government promises, which by default includes debt and derivatives of the major too big to fail banks. [...]

That's why authorities are now turning to precisely those measures which we so despised in the former Russian communist system. Economic figures are increasingly being manipulated and colored to reflect a rosier picture. Good news is often the result of propaganda and the work of spin-doctors. The economy and its financial markets are being increasingly centrally controlled. Interest rates are manipulated, gold wars are fought and authorities, almost openly, prop up stock markets.

As a result, a huge disconnect between the price and the value of almost all assets has emerged. Government bonds, priced as risk free, might lose most of their value, while gold, by many seen as worthless, may rise tenfold in the next decade. The value of gold, going up and down, can be compared to one's view of the land, from a boat floating on the waves. It's not the land that's moving up or down, just the boat. Indeed, black has turned into white, while white has turned into black.

For the very first time in history, a financial and monetary crisis has emerged which is so severe that it has the capacity to end in an all-encompassing distrust of paper assets. This could even lead to an unprecedented wave of hyperinflation in which prices of real goods explode, debts melt away, the economy collapses and banks world-wide will have to close. Bank holidays happen, even in recent times. In Greece (2015), Cyprus (2013), Soviet Union (1991) and Argentina (2001).

In most of these cases savers lost almost all their wealth, while smart investors who had invested their money in precious metals succeeded in preserving their capital. As happened in many of the other crises of the last 1000 years.

It can't happen in the US? We know President Barack Obama organized a conference call, on his very first day as President

in 2009, discussing the possibilities of declaring such a bank holiday.⁴

Central bankers are therefore very much aware that it is essential to come up with a monetary reset plan before this will occur. Authorities will do everything possible to modify the financial system in order to avoid another 2008-style collapse. It's not a matter of if, but only when, they will introduce their reset plans. Should the ongoing negotiations about such a financial reset fail to lead to a satisfactory settlement among the world's main trading partners, things could get spooky.⁵ Wars have been started with much less at stake.

The only force to halt a growing world disorder is a joint US-Chinese effort on many fronts. We know China is fully aware of this shared responsibility and prefers to work on a joint reset, engineered by the US-controlled IMF. The idea to reintroduce the IMF's Special Drawing Rights (SDR), with or without a gold link, could work out quite well. It could give us all enough extra time to work on a global debt restructuring. But the US might feel tempted to take the initiative again. As they have done many times during periods of financial stress in the last 100 years.⁶

When this book was first published in early 2014, the idea of a financial economic reset was completely new. Since then, China has surprised the world with a broad range of economic initiatives (AIIB, NDB, OBOR), even telling the world that the days of a unipolar world centered around the dollar are a product of the past. And now, just one and a half years later, it's evident we are witnessing the very first stages of a global reset, an event

4 <http://www.infiniteunknown.net/2011/12/13/obama-administration-was-prepared-to-call-a-bank-holiday-in-2009-video/>

5 As early as 2006, the US government secured a \$400 billion contract with Halliburton to set up internment camps spread over the US. These could well be used to detain a great number of US citizens in case of a large scale revolt. See <http://www.marketwatch.com/story/kbr-awarded-homeland-security-contract-worth-up-to-385m>

6 Start Fed in 1913, New Deal (dollar devaluation) in 1933, Bretton Woods Conference 1944, closing 'gold-window' in 1971.

which will have enormous repercussions on monetary, economic and geopolitical affairs.

While timing is always a little troubling for me, I dare to say the next ten years (2015-2025) will bring some of the biggest changes to our financial architecture since the Bretton Woods conference in 1944. It will be essential to track new developments on a day-to-day basis. I will report on these on thebigresetblog.com.

I would like to end by thanking you for your time and interest.

Willem Middelkoop,
Bargemon, August 2015