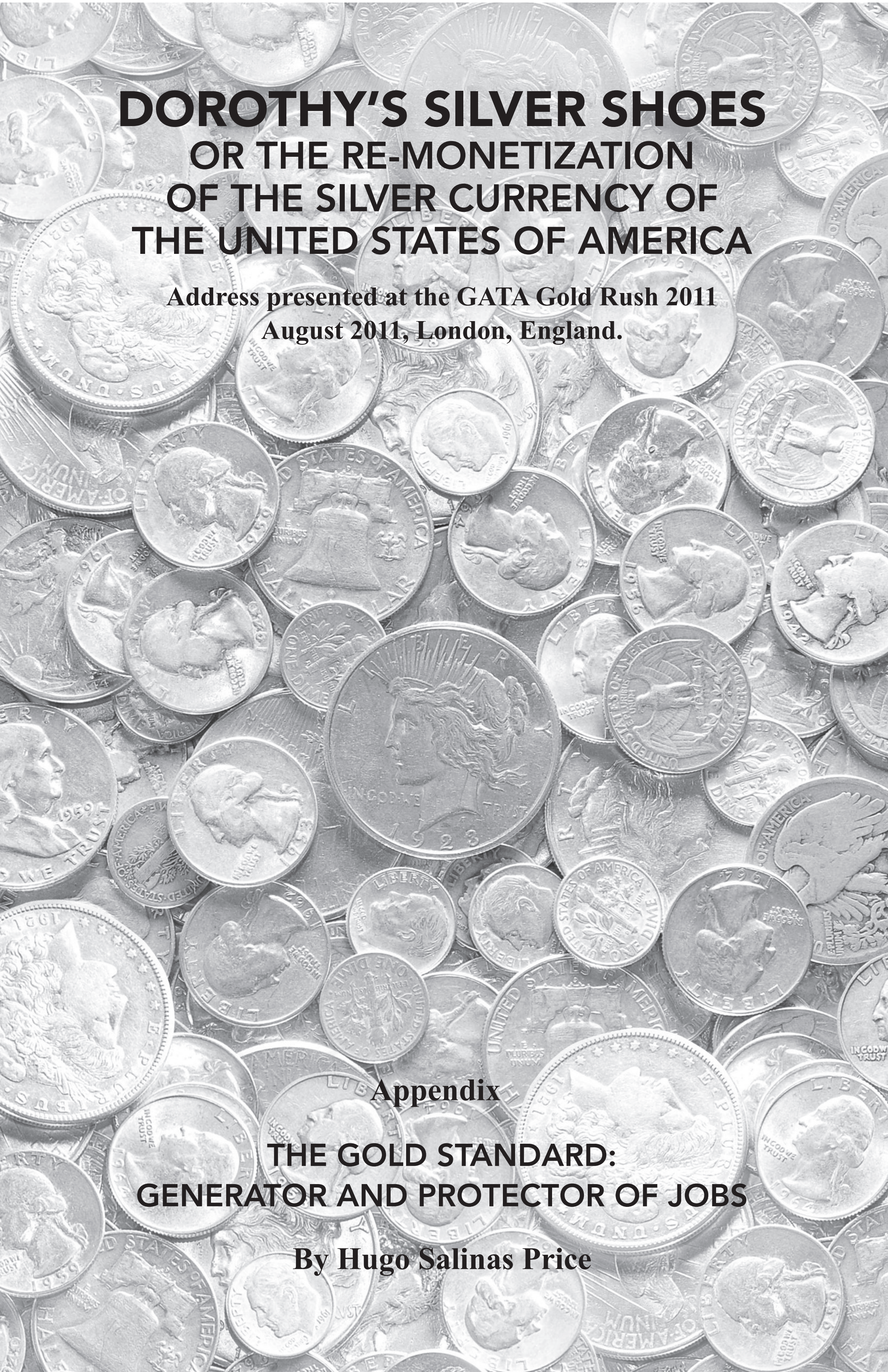

DOROTHY'S SILVER SHOES
OR THE RE-MONETIZATION OF THE SILVER CURRENCY OF THE UNITED STATES OF AMERICA

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Appendix

THE GOLD STANDARD: GENERATOR AND PROTECTOR OF JOBS

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DOROTHY'S SILVER SHOES, OR THE RE-MONETIZATION OF THE SILVER CURRENCY OF THE UNITED STATES OF AMERICA

Hugo Salinas Price

Why not re-monetize the silver dollar? Re-monetization could put the silver dollar and its subsidiary silver coinage into circulation *in parallel* with FRNs – "Federal Reserve Notes".

There are several reasons that make this action possible, and only one that might be considered as an unimportant material obstacle.

In favor:

The silver dollar is the money that is still the Constitutional "coin of the realm", defined by Act of Congress as 371.25 grains of pure silver. (The Troy ounce contains 480 grains.)

The silver dollar is familiar or at least known to almost all Americans.

A considerable quantity of these silver dollars is owned by Americans.

The silver dollar is a cherished symbol of a great past.

The monetized silver dollar would ignite a desire to save such as America has perhaps never seen before. The very first thing that must be done, to encourage people to save, is to *give them something worth saving*. As the US government gallops toward the abyss of bankruptcy by unlimited spending, the American people desperately require a refuge for their savings!

In this writer's opinion, a large majority of the American people can see themselves as owners of silver money and, if a poll were taken, one can imagine that most Americans would express themselves in favor of silver money. Not so with gold, towards which the American people have little emotional attachment: gold is seen as the money of the élite. William Jennings Bryan exploited this fundamental attitude of the American people with his "Cross of Gold" speech. (Note: this should not be taken as disparaging gold; it is simply the statement of an opinion about the attitude of Americans regarding gold.)

Against:

The silver dollar bears a value stamped upon it: "One Dollar".

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The branch of government which the Constitution has designated as the agency "to coin money [and] regulate the value thereof" is the *Treasury*.

If the Treasury were to monetize the silver dollar coin by attributing to it a monetary value in terms of FRNs - "Federal Reserve Notes" - the public would very probably ignore the inscription of "One Dollar" upon the coin and accept it as *legal tender money* for the amount of the Treasury quote given to it. It would not be necessary to explain that twice, to anyone owning a silver dollar coin! In a short time, people would regard the term "One Dollar" as the *name of a coin*, rather than as a numeric indicator of legal tender value.

Determining the value of the silver dollar falls quite nicely into the Constitutional mandate to the Treasury: "To coin money [and] *regulate the value thereof...*"

How would the Treasury go about determining a quote to *regulate the value of the silver dollar*? Let bureaucrats and lawyers write books about how it should be done; here it is in a few words:

Suppose the price of silver bullion is $35 per ounce.

The silver dollar contains 77.34166% of a Troy ounce.

$35 X .7734166 = $27.07, the value of the silver in the silver dollar.

The Treasury will quote the silver dollar's value in FRNs, with a margin of 15%, and round the figure to the next highest multiple of four:

$27.07 X 1.15 = $31.13, rounded up to $32.

The silver dollar as a legal tender coin worth $32 FRNs. The American public would eagerly purchase these silver dollars, worth $32 FRN dollars, and which could be used for all transactions without any haggling. The silver dollar worth $32 FRNs could even be deposited for that value in banks, if anyone had a mind to do such a thing.

If the price of silver rose to $37.61, the margin of profit of the Treasury, or seigniorage as it is formally known, would be reduced to 10%; at that point, a new and higher quote would be issued, to restore the 15% profit of the Treasury:

$37.61 X .7734166 = $29.09 value of silver in the silver dollar X 1.15 = $33.45, rounded up to $36 FRNs - 36 being the next highest multiple of four.

Why "the next highest multiple of four"? Because by doing so, the result would be *the re-monetization of the entire silver currency system of the United States as it existed up until the Sixties of the last century.*

In the last example, the silver half-dollars would automatically be worth $18 FRNs, the quarter-dollars would be worth $9 FRNs, and the dimes would be worth one-tenth of the silver dollar: $3.60 FRNs.

As pointed out in many articles at www.plata.com.mx, in the section in English, the last quote of the Treasury would remain firm and not subject to reduction, just as if the value in FRNs had been re-stamped upon the coin. The Treasury quote would simply take the place of a stamped quote, which cannot be reduced. The Treasury quote would only be raised, to follow the rising price of silver. In this way, the silver dollar would be a coin that would remain in use permanently.

This program would return the silver dollar and its subsidiary silver coinage of half-dollars, quarters and dimes to the American people in such a way as never to disappear again: all rises in the price of silver would be matched with rises in the quoted monetary value of the silver dollar and by derivation, of its subsidiary coinage: the silver half-dollar, the quarter and the dime.

This program would not cost the Federal Government – or the taxpayers that support it – one single cent! And yet, it would constitute the greatest gift to the American people that any US Congress could possibly invent, next only in importance to the return of the Gold Standard. The restoration of the silver currency of the United States to circulation, in parallel with the fiat FRN, can be considered the prelude to the revived Gold Standard.

By paying the Treasury a premium of 15% over the bullion price of silver, the American people would actually be subsidizing the Treasury's work of monetization. This cost would be a one-time cost of obtaining real money of permanent value and utility, independent of the Fed and the banking system.

The re-monetization of the silver currency of the United States would create a new, vast market for physical silver and drive the price of silver very much higher. Those who might not be able to afford the purchase of monetized silver dollars could purchase half-dollars, quarters or dimes, which would provide the same security: they too, would rise with the rise in the price of silver. The rise in the price of silver would affect gold, which would also rise in price.

In order to facilitate larger transactions in silver, the Treasury could once again issue "Silver Certificates" attesting to the existence of silver held in its vaults.

With regard to the present faux-silver coinage in circulation, the American people are too intelligent to be deceived by it; this coinage may remain in circulation until the Treasury issues new coins for the purpose of making change in small transactions.

Though the restored silver currency may legally circulate, in practice it will be saved in its entirety and only be used in cases of emergency. Its "velocity of circulation" will be effectively close to zero.

* * *

Dorothy wore *silver shoes*, in L. Frank Baum's classic book. Silver shoes on the yellow brick road! Dorothy symbolized then and still does today, the American people. Dorothy was unaware of the magic power of her silver shoes – and the American people are still equally unaware of the magic power of the re-monetized silver dollar: the power to recover America as the land of Hope and Opportunity!

What are the obstacles to regaining the silver dollar as money which can circulate in parallel with Federal Reserve Notes? The main obstacle will be the weapon of *fear* wielded by the entrenched interests of banking and the Federal Reserve, the intellectual center of the banking cartel. These fiat money-mongers will rely on generating fear of the consequences of silver money so that they can maintain their huge fraud of fiat money FRNs; the Fed and the "Too Big to Fail" Banks are deathly afraid of the competition of silver. They know that the slightest crack in their monopoly of issuing fiat money will expose their scheme.

The Fed and the banking system will without doubt claim that "silver money is very costly", but they will certainly not mention that the American people will fall over themselves to acquire it and even pay a premium of 15% to the Treasury, for the blessing of owning real money. Nor will the Fed and the banking system ever mention the gigantic costs that the depreciating FRNs have inflicted upon American savers; nor will they wish to recognize that the fiat FRN and the Fed are directly responsible for the present financial and economic destruction of the once great United States of America.

Another objection which will be put forward forcefully is that what the American economy requires is *more spending on the part of the public.* They will argue that more savings on the part of the American people spells doom for the economy: “More drink for the drunkard” is essential, according to the prevailing Keynesian thinking.

However, the humbug wizard has already been exposed and the Fed has lost its prestige forever. Toto has drawn the curtain! The State of Utah has already voiced its dissatisfaction with the present monetary system, by legislating in favor of gold and silver as legal tender money. If this project - monetizing the silver dollar by the Treasury’s giving it a *numeric* monetary value in FRNs, which immediately places it alongside the Federal Reserve Note as money – if this project comes to the notice of the several States of the Union, they together may force the issue.

The present policy is to “kick the can down the road” and postpone the final reckoning. But, the end of the road is already in sight! The condition is one of utter helplessness. The re-monetization of the silver dollar is the first step toward regaining health for the economy of America. Paper, fiat money will probably remain in use for some time, but the presence of the monetized silver dollar will force the Federal Reserve, the banking system and the US Government itself, to a more prudent financial course. It will be possible to regain financial health, because an alternative is available. Savings, the foundation of prosperity, will bloom as Americans opt for massive *voluntary austerity* by saving monetized silver dollars, half-dollars, quarters and dimes.

The banking system in the United States will be anxious to receive the massive savings in silver of the American people as deposits, but this will only be possible when the price of silver bullion has stabilized. Thus, the American people will have the upper hand; they will bend the banking system to their will *by refusing to deposit their silver in the banks* and thus force the banking system to reform itself to prudent monetary practice and desist from inflating by expanding credit out of nothing. After a stabilization of the banking system, the way would be open to a resumption of the Gold Standard.

Americans are today caught in a financial calamity with no parallel in history. They are being told this every day by every medium of communication. But they watch their crumbling economy in utter paralysis, because there is *no alternative* to which they may turn. The whole world is a mirror of their plight.

The restoration of the silver currency of the United States of America by the very simple procedure outlined here can provide the life-saving alternative. There is, at present, no other practical proposal for a viable action in the field of money. *Perhaps there can be no other practical proposal? Perhaps a return to silver money is the only path out of the present crisis of civilization?*

Let us hope that a political leader in the United States understands this message. The popular appeal of silver is universal; “silver shoes” will take that leader far – and the American people will follow him on that road!

16 June 2010

THE GOLD STANDARD: GENERATOR AND PROTECTOR OF JOBS

Hugo Salinas Price

The abandonment of the gold standard in 1971 is closely tied to the massive unemployment the industrialized world has suffered in recent years; Mexico, even with a lower level of industrialization than the developed countries, has also lost jobs due to the closing of industries; in recent years, the creation of new jobs in productive activities has been anemic at best.

The world's financial press, in which leading economists and analysts publish their work, never examines the relationship between the abandonment of the gold standard and unemployment, de-industrialization, and the huge chronic export deficits of the Western world powers. Might it be due to ignorance? We are reluctant to think so, given that the articles appearing in the world's leading financial publications are written by quite intelligent analysts. Rather, in our opinion, it is an act of self-censorship to avoid incurring the displeasure of the important financial and geopolitical interests that are behind the financial press.

In this article we discuss the relationship between loss of the gold standard and the present financial chaos, which is accompanied by severe "structural imbalances" between the historically dominant industrial powers and their new rivals in Asia.

World trade before 1971

From the end of World War II through the 1960s, all well-governed nations in the world sought to maintain a constant balance between their exports and imports. They all wanted to maintain a situation where they exported more than they imported, so that they could accumulate growing Treasury reserves of gold, or in its defect dollars, which, under the terms of the United States (US) promise in the Bretton Woods Agreements of 1944, could be redeemed by any Central Bank that requested gold in exchange for its dollars.

To be precise, we cannot fail to mention one exception. The exception to the rule was none other than the US. All well-governed countries sought to export more than they imported, except the US.

The US was not overly concerned with maintaining a balance between exports and imports, because – according to Bretton Woods – the US could pay its export deficits by the simple expedient of sending more dollars to pay its creditors. As the sole source of dollars, the US had a clear advantage over the rest of the world; they could pay their debts in (redeemable) dollars that they themselves printed.

Economists of the day warned of the danger of this practice, which resulted in a constant loss of American gold. From over 20,000 tons at the end of World War II, US gold reserves dropped year by year as certain countries, notably France, insisted on redeeming their dollars for gold at a rate of 35 dollars per ounce of gold. France incurred intense displeasure in Washington and New York due to its demands for gold in exchange for dollars; some analysts attribute the unrest in France in the spring of 1968 to covert operations by the US intelligence services, in a show of America's disapproval of the behavior of France, led at the time by General Charles de Gaulle.

The US did nothing to slow the loss of gold. In the early months of 1971, Henry Hazlitt, a solid classical economist, predicted that the dollar would have to be devalued; he said it would be necessary to increase the number of dollars that would be needed to obtain an ounce of gold from the United States Treasury. Only months after his warning, the dam burst, and in August 1971 the US was forced to devalue its currency, because the amount of gold in its reserves had fallen to a dangerous level. (Today, many doubt that the US has the 8,000 tons of gold it claims to have in its vaults at Fort Knox and the US Military Academy at West Point, N.Y.)

What Henry Hazlitt never imagined was that instead of devaluing the currency – the recommendation of Paul Samuelson, Nobel Prize Winner in Economics, published the week before August 15, 1971 – President Nixon took the advice of Milton Friedman and declared that from that time forward the US would no longer redeem dollars held by the world's central banks at any price. The US unilaterally violated the terms of Bretton Woods. In effect, it was actually financial bankruptcy.

Since then, all world trade – or most of it, as the euro, the pound sterling, and to a lesser extent the yen all compete with the dollar – is conducted using dollars that are nothing more than fiat money, fake money. Because all the world's other currencies were bound to gold through the dollar, the immediate consequence was that simultaneously they also became fiat money, fake money with no backing.

Consequences of abandoning the gold standard

The consequences of that fateful day have overthrown all order and harmony in economic relations among the nations of the world, while facilitating and expediting the global expansion of credit because part of the dollars exported by the US ended up in the reserves of Central Banks around the world.

Countries began to accumulate dollars as the expansion of credit in the US advanced inexorably, now free of the restraint formerly imposed by Bretton Woods. The rest of the world was forced to accumulate dollars in reserves, because having insufficient dollar reserves, or having reserves that did not grow, or worse, having falling reserves, was a clear sign for monetary speculators to attack a country's currency and destroy it with devaluation.

As the loss of gold ceased to be a limiting factor, the last restrictions on the expansion of credit were stripped away. A heavy flow of dollars to all parts of the world spurred the expansion of global credit, which did not stop until 2007. The international banking elite always strive to obtain greater profits and to that end always seek to expand credit. Starting in 1971, freed of the restraint of being required to pay international accounts in gold, or with dollars redeemable for gold, the constant unfettered creation of credit and still more credit ensued. It was boom time in the US.

The US, which paid the rest of the world with its own irredeemable dollars of no intrinsic value, lauded the adoption of "free trade" and "globalization". The US could buy whatever it wanted, anywhere in the world, in any quantity, and at any price. Starting in the 1990s, its export deficits became alarming, but nothing was done to reduce them; on the contrary, they grew year by year.

Mexico, following the US example, joined NAFTA – the North American Free Trade Association. Down with import tariffs! Free trade with the world! The new vision offered the enthralling, seductive picture of a globalized world without borders, where everyone could buy and sell where they liked, with no limits. The 90's were years of unbridled optimism for globalization!

Free Trade is unquestionably beneficial for humanity at large. It is good to be able to buy goods where they are cheapest; some countries enjoy conditions that favor them in production of certain things; each country should produce those things in which it has an advantage over other countries. Thus, the whole world can benefit from the good things each country has to offer. It is an appealing and sound doctrine, **but**… there is a crucial catch: the doctrine of Free Trade was conceived for a world where the sole means of payment was gold. *When the doctrines of "Free Trade" and the "Comparative Advantages of Nations" were developed, the economists of the day could not imagine a world that did not use gold, but instead relied on a fiat money that could be created at will by a single country.*

The "globalization" of the 1980s and 1990s and to date is based on the ideas of "Free Trade". However, in the absence of the gold standard that existed when the doctrine was conceived, "globalization" had completely destructive results, which have caused the de-industrialization of the West and the rise to power of Asia.

In the decades prior to 2007 a massive fleet of cargo ships was created, which sailed for the US and Europe – the West in general, Mexico included – bearing all kinds of inexpensive, quality products made in Asia. The flood was so great that local factories in the Western World were forced to move to Asia, to employ cheaper labor and continue to sell their products in the West.

My readers will know how many industries, large and small, have ceased to exist in the US and the West in general, because Chinese competition killed them. They will know as well how hard it is to find a product that can be produced at a profit in the developed countries. It is very difficult to find a niche for any product to be manufactured locally. The flight of factories to Asia to take advantage of lower wages caused unemployment where local factories were closed. For the same reason job creation is slow or non-existent.

A taxi driver in Barcelona told us: “Spain is a service economy. Industry is no longer our foundation. If tourists stop coming, we’ll die.” By the same token, it has been said of Greece: “It produces olive oil and tourism, and nothing more.” The US, industrial colossus of the post-war world, has been de-industrialized. Now, what are developed countries to do to create jobs?

Diagnosis of the evils of de-industrialization and unemployment

These evils appeared because gold was eliminated as a) a constraint on the expansion of credit and the creation of money, and b) the only form of payment of international debt.

Under the gold standard all players in international trade knew that it was only possible to sell to a country that sold something else in turn. It was not possible to buy from a country that did not buy in turn. Trade was naturally balanced by this restriction. The "structural imbalances" so commonplace today were unheard of.

For example, in 1900, Mexico could export coffee to Germany because Germany, in turn, exported machinery to Mexico. Germany could buy coffee from Mexico because Mexico, in turn, bought machinery from Germany. Each transaction was denominated in gold, and as a result there was a balance based on an economic reality. Because there was balance in world commercial relationships, a relatively small amount of gold sufficed to adjust the international balance. The world financial center which acted as a "Global Clearing House" was London. A few hundred tons of gold were sufficient to meet the needs of that Clearing House. For further reading on the function of London as a clearing centre for world commerce, see "Real Bills" and associated articles by Antal E. Fekete at www.professorfekete.com

Another example: In 1930, the US could sell very little to China, because the Chinese were poor and lacked purchasing power. Because the US sold very little to China, at the same time it could buy very little from China. Although prices of Chinese products were very low, the US could not buy much from China, because China did not buy from the US – China was poor and could not afford American products. Thus, trade between China and the US was balanced by the need to pay the balance of their transactions in gold. Balance was imperative. There was no chance of “structural imbalance”.

Under Free Trade with the gold standard, the great majority of transactions did not require movement of gold to complete the exchange. The goods exchanged paid for each other. Only small remainders had to be paid in gold. Consequently, international trade was limited by the volume of mutual purchases between parties; for example, Chinese silk paid for imports of American machinery, and vice-versa.

The gold standard imposed order and harmony. If President Nixon had not “closed the gold window” in 1971, the world would be radically different today. China would have taken a century or more to reach its present level. China could not buy much from the US, because it was poor; therefore, China could not sell much to the US.

All this changed radically with the abolition of the gold standard.

Everything changed because the United States, having removed gold from the world monetary system, could “pay” everything in dollars, and without the gold standard as a limiting institution, it could print dollars *ad libitum* - without limit. Thus, in the 1970s the United States started to buy huge amounts of high quality products from Japan, while the Japanese boasted: “Japan sells; Japan does not buy.” A situation that was impossible under the gold standard became perfectly possible under the fiat dollar standard. The Japanese became gigantic producers, their country an island transformed into a factory. Japan accumulated vast reserves of dollars sent from the US in exchange for Japanese products. This in turn triggered the de-industrialization of the US.

Take for example the US manufacturers of T.V. Some of the famous US factories that built TV receivers by the millions were “Philco”, “Admiral”, “Zenith”, and “Motorola”. The Japanese had better and cheaper products, and since *the abandonment of the gold standard allowed Japan to sell without buying in turn, and allowed the US to buy without selling in turn*, the result was that all the huge factories producing these TV’s in the US were closed down. That’s how “going off gold” closed down US industry.

Unlimited purchases from Japan flowed to the US and the world, because they were paid in dollars, which could be created in unlimited quantities. The balance the gold standard had imposed disappeared and imbalance took its place.

After 1971, the US embarked on a protracted, large-scale expansion of credit. As the nation was de-industrialized and high-paying jobs in industry disappeared, a lack of disposable income for the population was replaced with easy and cheap credit, to conceal the stagnation in per capita income. Consumer credit drove imports from Asia and furthered de-industrialization even more. The great expansion of American credit was made possible because the gold standard, which restrained the expansion of credit by the banking system, had been abandoned. It is no coincidence that some analysts have observed that in real terms, American workers have had no real increase in their income since 1970.

All mainstream economists consider the elimination of the gold standard perfectly acceptable. They still do not see, or do not want to see, that the “Law of Unforeseen Consequences” is at work: the enormous advantage the US gained by being able to pay unlimited amounts in irredeemable dollars has become the fatal cause of the industrial destruction of the US – and of the West in general. A Mexican saying applies: *en el pecado llevas la penitencia* – “sin brings with it its own punishment”.

The current malaise: financial crisis, industrial crisis, crisis of unemployment

Today the situation is far worse. China, with a population of 1.3 billion, has become a formidable power. No one can compete with China in price. China sells vast quantities of goods to the rest of the world, without the rest of the world having any chance of selling similar quantities to China, and China can do so, because today trade deficits are “paid” not in gold, but in dollars or euros or pounds sterling or yen, which will never be scarce: they are created at will by the USA, the European Central Bank, the Bank of England, or the Bank of Japan.

A fearful monster has been created as a consequence of the elimination of the gold standard, which imposed a limit: "You can only sell to those who sell to you; you can only buy from those who buy from you." This limit no longer applies; everything is disarray, inequality, imbalance; "structural imbalance" prevails because we no longer have the gold standard.

The credit expansion boom has ended, and in its place we have a global financial crisis. Today the problem of "structural imbalance" and the de-industrialization and unemployment it has produced in formerly industrialized countries acquires greater relevance with every passing day. What is to be done with the masses of jobless men and women? No one knows the answer, because the answer is not acceptable to the thinkers of today: the correction of "structural imbalances" and re-industrialization, in other words the creation of new jobs, lies in restoring the gold standard worldwide.

The "globalization" so highly praised by the financial press in recent years, has become the worst imaginable nightmare. It is no longer possible to support the unemployed with government handouts. The Sovereign State is close to bankruptcy. Thus, nature takes its revenge on those who dared violate its laws by seeking to impose false money on the world.

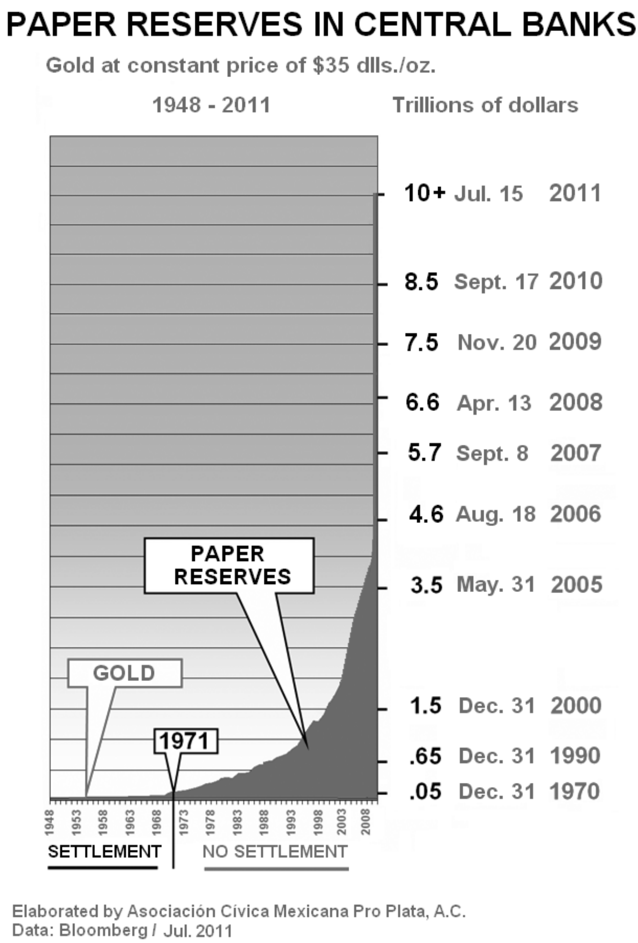
Richard Nixon's elimination of the gold standard has proven to be the US's best possible strategic gift to China and the rest of Asia. Today, China has a colossal *industrial base that might have taken centuries to build, while the US is to a great extent devoid of factories and incapable of reclaiming its former glory. How tragic a fate for the US!*

International and National Commerce

The word "commerce" is defined in the Concise Oxford English Dictionary as "Exchange of merchandise or services, esp. on a large scale [French or from Latin COM(*mercium* from *merx mercis* merchandise)]

Note that the "exchange of merchandise or services" cannot include as a complement to that exchange a fictitious payment with fiat money, which is neither merchandise nor a service, but rather a paper note or digital entry denoting a debt payable in nothing. In the case of the dollar, the debt is a debt of the Federal Reserve and registered accordingly on its balance sheet. A debt cannot be settled by tendering a debt instrument (which is payable in nothing in any case) and in effect, Balance of Payments debts have not, by any means, been settled in international commerce since 1971.

The non-settlement of international balance of payments debts has produced the accumulation of huge fictitious dollar reserves on the part of exporting countries, since 1971. The same holds for fictitious payments of export deficit debts with euros, pounds, yen or any other present-day currency. See the following graph:



Gold, up until the Bretton Woods Agreements of 1944, figured as the complement to the international exchange of merchandise or services and did settle outstanding balance of payments deficits, because it was a merchandise or commodity used as money.

According to the Bretton Woods Agreements, the fiduciary dollar was accepted as being as good as gold, with trust on the part of Central Banks upon the ability to redeem the dollar into gold. From 1944 up until 1971 then, these fiduciary dollars were held in Central Bank reserves as a *credit call* upon US gold; the final payment had not been effected and was delayed as a credit granted to the US until the dollars held in reserves were to be cashed in for gold at some future date.

As it turned out, the "fiducia" or "trust" was misplaced, for in 1971 the US reneged on the Bretton Woods Agreements of 1944, "closed the gold window" and stiffed the creditor countries. *No final settlement of international commerce debts took place in 1971, nor has any taken place since then*; **the truth of this statement is obscured by the mistaken idea that tendering a fiat currency in payment of an international debt constitutes settlement of that debt.**

Once that false idea – that fiat money can settle a debt - is accepted as valid, then the problem of the enormous "imbalances" in world trade becomes an insoluble enigma. The best and brightest of today's accredited economists attempt in vain to find a solution to a problem that cannot be solved except by the renewed use of gold as the international medium of commerce.

Regarding national commerce, the same reasoning applies. In reality, no one engaging in commerce in any country in the world today is actually paying for purchases, that is to say, there is no any actual settlement of any debt. All individuals, corporations and government entities are merely shuffling debts (payable in nothing) between themselves, in the form of either paper bills or digital banking money, whether in dollars or any other currency in the world.

For internal national commerce the smaller value of the silver coin was convenient for day-to-day transactions at the popular level and did constitute settlement of debt when tendered in payment, for silver is a merchandise or commodity which, like gold, can participate in commercial exchange.

Today, China and the other great Asian exporters have belatedly realized that the dollars they received as "payment" for their mass exports are nothing more than digits in American computers. If the Chinese do not cooperate, the bankers in New York can erase those digits in half an hour, and leave China with no reserves. **For this reason, the Chinese and Asians in general are buying gold, and will continue to buy it indefinitely: computers cannot erase gold reserves.**

The awful truth about China is that the Chinese acquired their formidable industrial power in the short span of thirty years at a tremendous cost: **for thirty years they worked for nothing**. China has $2.5 Trillion of reserves; China does not have any use for these reserves, they have no intrinsic value and China does not know how to get rid of them in exchange for something tangible of value; these reserves are nothing more than digits in computers in the Western world. Net, net, net: China worked for thirty years to provide the world with a vast quantity of merchandise, in return for: **nothing! Thirty years of slavery, to build an industrial empire!**

Mexico: forced to use the protectionist "Band-Aid"

Mexico has its oil, perhaps more than we are told. Let's hope so! Our economy is less complex, less sophisticated, than the US's. According to a Mexican Treasury study carried out in 2007, 85% of Mexicans have no bank accounts – a good sign that they can get by on paper money and are not getting into trouble with credit card debt. The Mexican economy, as we see it, is like a broad, low pyramid. It is more stable than the American "skyscraper" economy, a highly complex economy. Mexico is better equipped to survive the present crisis than the USA.

In today's great world financial crisis of false money, we are likely to see countries around the world resort to protectionism: the leaders will be the same countries that so recently sang the praises of "globalization". In this probable case, Mexico will have to do the same. It is a far from ideal scenario, but it is imperative for lack of the gold standard. Protectionism limits productive efficiency in any country because it limits the market for its protected products to its own national market. A limited market hampers efficiency. The supply of goods available to the population will be more limited and probably of lower quality at higher prices.

(Protectionism will have similar effects in the US.)

Mexico will have to restrict imports in the near future. Otherwise, we will suffer serial currency devaluations. Protectionism is not the best policy, but Mexico will probably be forced to resort to it, for lack of the gold standard, which would be the best means of creating jobs in the US, in the rest of the "developed" world and here.

The effective cure

If Mexico aspires to anything more, we shall have to wait for the restoration of the gold standard worldwide. In the meantime,neither demagogy nor Socialism will solve our problems. Only the gold standard can do that.

For our industrial capacity to gain access to international markets – and for Mexicans to gain access to products from international markets – it will be necessary to restore the gold standard. Bilateral trade agreements are not optimum. The optimum is to have the world as a market, where payment for exports is balanced by imports and residual balances are paid in gold. Payment in gold of export deficits and collection in gold of export surpluses is *sine qua non*. Under the gold standard, Mexico would achieve sustainable prosperity and full employment for our admirable workforce.

Products from China and Asia in general, which today undermine our industrial capacity and create unemployment because we cannot compete with the extremely low wages of the Asian countries, would cease to be a problem under the gold standard; if the Asian countries, which today invade our markets, do not buy similar quantities of Mexican products – which today they do not – they would not be able to export their products to Mexico. The gold standard would fairly balance exports with imports; it would prevent the strategic destruction of our industry and protect us naturally, without the need for protectionist barriers.

The same therapy Mexico needs – the restoration of the gold standard – is what the world requires to regain economic health and sustainable prosperity.

Under a restored gold standard, Americans will not be able to purchase goods from China, unless China purchases American goods with a similar value. If the Chinese find nothing of value to purchase in the US, then Americans will be unable to purchase Chinese goods. It's as simple as that! To continue selling to the West, China will have to open wide its doors to imports!

If Americans find they simply cannot purchase Chinese goods, Americans will manufacture those goods themselves. Industries and new jobs will spring up like mushrooms immediately, to satisfy American demand. International balance will be restored, unemployment will disappear.

Protectionism is not a cure, it is a Band-Aid. Mexico will not achieve the prosperity of which it is capable through protectionism nor by resorting to Socialist measures that crush the creative spirit of the individual. Nor can we succumb to renouncing our nationality and accepting absorption by the US, imitating all the (very costly) measures the current US administration imposes on its citizens. The ideal combination for Mexico includes a moderate dose of nationalism, a government that does not incur deficits, the institution of a monetized one-ounce silver coin, the "Libertad", to stimulate and protect savings, and eventual participation in a new global gold standard, in which our nation can find the opportunity to fulfill its destiny.

"The gold standard is the generator and protector of jobs."

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