

## **A Pause for Inflation**

*The below was written by Porter Stansberry of the S & A Digest.*

It is as though “Mr. Market” has Alzheimer’s disease ... or a very poor education in history. We see U.S. Treasury bonds moved to new highs. “Mr. Market”, terrified by the risks of private bankruptcy, opted for the relative “safety” of public insolvency. He seems to have forgotten that all the great inflations begin with pyramiding government obligations.

In America, at least, the tradition of papering over a financial crisis began in 1690. The colonial government of Massachusetts couldn’t pay its soldiers in bullion. They’d returned, defeated, from a raiding expedition to Quebec. Angry and hungry soldiers are dangerous – much like subprime homeowners facing foreclosure or union workers facing unemployment. To silence the mob, Massachusetts politicians promised to pay them, despite that the soldiers had lost the battle and the government had no money with which to pay.

The solution? Paper money, of course. Pioneering a tradition in U.S. politics, the leaders of the colony simply printed up 7,000 paper notes. On behalf of these notes, the politicians made two solemn promises: 1) The notes would be redeemed in gold or silver from tax revenue in a few years and 2) Absolutely no more paper notes would be put into circulation. Trust us, the politicians explained. Gold, they said is only a “barbaric relic.” Ha, ha, ha...

Only six months later, the printing press would be turned on again. Yes, papering over debts felt so good and had such a wonderful impact on the economy, these pioneers of inflation issued an additional 40,000 such notes. One of the leading Puritan legislators of the era was famously quoted saying “Deficits don’t matter.” But as this second, much larger wave of paper hit the market, merchants began to have doubts. They began to favor bullion, leaving the paper with only about 60% of its previous purchasing power. So the colony moved to buttress its value by force – a tactic copied later by such illustrious leaders and Richard Nixon and Robert Mugabe.

The government decreed its paper was legal tender – at par – for all debts and granted a 5% premium on the notes for all tax payments. These tactics caused more fear and began the inevitable process of bad money forcing out good money. Spanish silver coins, which had circulated widely in the colonies, began to disappear. (You’ll recall the same thing happened to silver dollars in the 1960s ... and seems to be happening now with gold bullion.)

The disappearance of bullion led to still more printing. In 1716, Massachusetts issued another 100,000 notes – these backed by a “land bank.” Then, in the 1740s, the colony more or less turned on the printing presses for good. Paper money in circulation soared from around 300,000 notes to more than 2.5 million.

All of this money sloshing around the world helped power one of the greatest speculative manias in history – the South Sea Bubble. It also caused the price of precious metals to soar. The free market price of silver, which had once stood at par with the notes, ended up 10 times higher. In about 60 years, Massachusetts had turned its promise to repay in specie (gold and silver coins) into a farce: Its notes were not worth 90% less than face value. Fed up with the constant economic booms and busts of a paper standard (always followed by yet another, still larger issue of paper money), the King of England in 1751 outlawed the issue of any currency not backed by gold or silver.

Three hundred years ago, it took 60 years for our paper money to be destroyed. We seem to be getting better at it. Nixon officially took America off the gold standard in 1971 – 37 years ago. Recently, America’s money printers promised to “lend” more than \$7.4 trillion to rescue the financial system – half the value of everything produced in the U.S. last year. And where will the money come from? The Federal Reserve, whose balance sheet has more than tripled in just two months.

Our prediction? OBAMA! will become the biggest money printer in history. Bailouts all around. Meanwhile, more and more force will be required to maintain the value of the dollar. Bullion – gold and silver – will disappear.

These events will take time to unfold. But they’re guaranteed to happen. History doesn’t lie.

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