He Who DESTROYED our Currency? Dr. Alan "Bubbles" Greenspan
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Destruction of a currency can be slow and moderately visible through a "measured" inflation increase of say 1-3% per year. Most economists today endorse this approach. For the record I do not. However, the most violent destruction of a currency can happen via the creation of massive asset bubbles, where the holders of these bubble assets believe they have "X" purchasing power, then come to discover the real purchasing power is "Y", which is far less than "X". These asset holders become extremely upset upon this discovery and will quickly dump assets along with the associated currency that they believe are not legitimate valuations.

Please note: "Destroyed" is **past tense**… The destruction has already happened. The DISCOVERY is yet to surface! How can this happen?

INFLATION

Imagine working all of your life and accumulating a "pile" of real wealth to gradually enjoy throughout your retirement years without having to be a tax burden upon those working. Let's say it is stored in a "pile" of 100 large gold coins sitting right in front of you. Now, let's say your federal government insists upon keeping your gold for you in a "safe place".

After the first year you request one coin to spend on needed consumables. To your surprise the first coin has been melted down and recast into a coin 98% the weight of the original coin you submitted to your government to keep in a "safe place". When asked where the missing 2% went, you were told it helped to support needed programs. Begrudgingly, you accepted the belated explanation, and then you quickly become very savvy and insist the government "invest" your remaining "pile" of wealth into extremely low-risk Treasury securities to prevent more of this unsettling wealth meltdown.

Next year you request another coin and receive a 97% replica of the original coin weight you submitted to the "safe place". After challenging this further shrinking of your "pile" of wealth, you learn that you are unwittingly part of a greater purpose to "keep the economy strong", and instructed not to worry; your wealth is still "safe". You are told that the 97% coin could buy as much or more now than the original coin because of productivity improvements. When you question why medical costs, property and sales taxes, milk, orange juice, gasoline, heating oil, lawn fertilizer, and dog food have actually increased in cost more than 3%, you are told that some people who only rented houses and bought computers that were 10% less don't need the things you buy, and it all balances out. Further, you are asked to have "faith" in their deeds and resist challenging the facts and their inflation calculation methods in the future.

By this time you've learned what inflation is and you "get it". To combat this pesky menace you simply ensure your wealth is invested into assets that increase or even outpace the rate of inflation. You are well aware that those who do not manage their wealth in this manner are effectively transferring some of their real wealth to you each year as their investments or wages decline in purchasing power. You conclude inflation is a sad fact of your community's life but you know "life isn't fair" anyway, especially to those less savvy than you, and everyone seems to muttle through it. You decide inflation is tolerable and probably an insidious wealth-robber for some others, but you may even learn to like it.

BUBBLES

After ten years you have requested a total of ten coins to date from the "safe place" and due to your savvy investing prowess they all maintained the buying power of about 97% or better of each original coin. You notice your less-investment-savvy neighbor, who worked and produced just as much as you in his lifetime is still driving his old car. You smugly believe that's "his problem". You are now ready to sell your old 2-story house with stairs and move into a golfing retirement community. The new home on your acquisition agenda is much more expensive than your current house and you know golf is not free. However, due to your savvy investing prowess, you calculate that it is affordable by spending most of your remaining wealth residing in the "safe place".

With ten years and ten coins passed, you request the ninety remaining coins from the "safe place" to purchase your new retirement home. You are suddenly shocked to learn that they are no longer in the "safe place" and your government has actually spent your coins on "worthy programs and projects". You are told the "safe place" has many other forms of wealth like the Lincoln monument and National forests, and they exist as collateral "just in case". In the mean time you will either have to wait until a new higher tax is passed on those still working, or you can accept ninety 30% size coins today. You are told that not only did the government spend your coins to "fund the fight against terrorism"; they also learned how to simply issue more promises to pay (Treasury Bonds) without even having any more coins to spend. So, since all of the outstanding Treasuries were not backed by real wealth (e.g. gold coins), you could only receive 30% of your original "pile" of wealth that they **might** be able to scrape up, if you insisted upon redemption today.

By this time you are steaming with anger and demand an explanation. You were very skeptical about the inflation conundrum, but because you were a savvy investor and were not concerned about those who may have produced just as much in their lives and received less than you, you were fine with that arrangement. But when you learned that your government issued bonds that were only as good as a future "promise to pay" from those still working and were really worth nothing today because all of the real wealth left in the "safe place" is not redeemable (e.g. The national forests) you wanted revenge!

Just to test the logic in a different venue… You live in a "barter only" community and want to fund your government. Rather than "taxing" anyone, you can insist all in the community "loan" the government 30% of their production each year in exchange for a bond that was redeemable for exactly the production that was loaned, plus a bit of interest. What a novel and prosperous idea! You could live happily under this condition continually building up an extraordinary "pile" of wealth (the bonds), UNTIL someone wanted to cash in his or her mini "pile" of wealth. You would soon realize the ONLY way the wealth could be redeemed to the bondholder is by INCREASING the existing 30% "bond investment" rate on all those working and gradually TRANSFER that wealth to the redeeming bondholder. You quickly learn there is no collateral "pile" of wealth associated with the government bonds at all. There is **no incremental value to these bonds** that all in the community are holding. You conclude that you have been defrauded, and learn all of the government bonds are an ILLUSION of wealth to the community.

THE CONSEQUENCE:

The story has a very painful ending. Citizens in the community start shooting at each other trying desperately to secure their little wealth "piles" that were kept in the "safe place" promised by their government. They finally elect a former military general, and empower him to make logical decisions assigning everyone a fitting job and to ensure the produce from everyone's work efforts is distributed in an "equitable" manner.

CONCLUSION:

Our fiat currency is being destroyed via two means: Inflation and extraordinary credit expansion (overvalued real estate, credit securities, and stock, government debt, and etc.). Inflation is a despicable, insidious, grinding, gradual, fraudulent means to create distorted market signals and inconspicuously redistribute earned wealth from the un-savvy to the savvy. **HOWEVER, Bubbles** (in bonds, stock, or real estate) when blown and exacerbated by further credit expansion can only end in a painful way. They are an **ORDER OF MAGNITUDE** more dangerous than simple monetary inflation. They **always** represent an **illusion**. The larger they are, the more severe the ultimate adjustment is when discovered. By my calculations the size of the US aggregate bubble today (approx. 35-40% overvaluation) is greater than any in the history of the Republic. When the discovery becomes broadly known, the collapse may be so painful that the integrity of a Republic itself may be at risk… Capitalism, free market, and democracy may be associated with massive failure. We have Dr. Alan "Bubbles" Greenspan and those in government who have empowered him over the years to thank.

By Russell Randall 1-19-2006