THE GREAT CREDIT CONTRACTION

"The system does not collapse but evaporate." Trace Mayer, J.D.

About the author

TRACE MAYER IS AN ENTREPRENEUR, INVESTOR, JOURNALIST, AND MONETARY SCIENTIST. He holds a degree in Accounting from Brigham Young University and a law degree from California Western School of Law. He has also studied Austrian economics, focusing on the work of Murray Rothbard and Ludwig von Mises. He is a member of the Society of Professional Journalists and the San Diego County Bar Association. He operates: **RunToGold.com, CreditContraction.com and HowToVanish.com.**

Dedication

To those luminous, insurgent peacemakers who valiantly sacrificed so much for the Philosophy of Liberty while obeying the Non-Aggression Axiom including Jesus Christ, Thomas Jefferson, and Dr. Ron Paul.

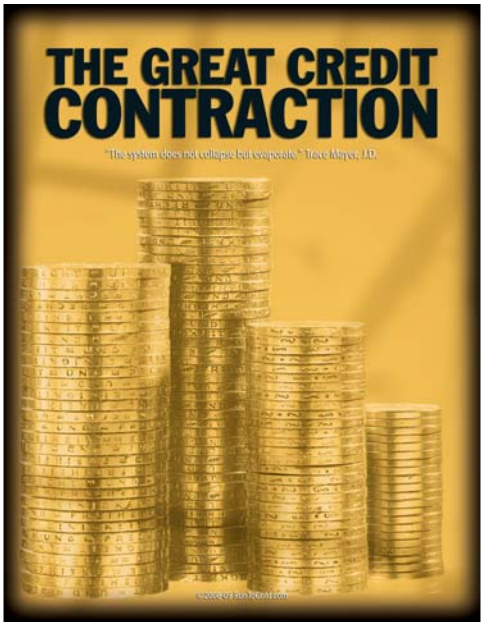
Also, in the words of President Abraham Lincoln, "all that I am, or ever hope to be, I owe to my angel mother."

Preface

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness." A rabid adherence to the Philosophy of Liberty and Non-Aggression Axiom is not only our right, but it is also our duty. Therefore, each generation has both the goal and moral duty to "pledge... our Lives, our Fortunes, and our sacred Honor" to better carry out and realize this supernal declaration.

Although ideas are bulletproof, individuals are not. Sadly, some adherents to inferior ideas lack moral character and tend to make the battle personal by resorting to coercion, force, intimidation, theft, and violence. Often these violations of the Non-Aggression Axiom harm unprotected innocents.

This book's intent is to provide the unprotected innocents, according to their means and desire, easy access to the available legal armor to guard against these attacks.



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Overview

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Overview

THE GLOBAL ECONOMY IS BUILT ON A DERIVATIVE ILLUSION. As the great credit contraction grinds on, the importance of performing accurate mental calculations of value will become more and more important. Every major country, including the United States, uses a fiat currency illusion as its legal tender. Even more troubling is that the world's reserve currency—the United States Federal Reserve Note Dollar (FRN$)—is a currency illusion. This system is evaporating before our very eyes. This book describes the background leading to this evaporation, which I call the Great Credit Contraction, sorts through complicated economic nomenclature, determines the root causes of the credit contraction evaporation, and suggests ways to maintain wealth during this global economic crisis.

This book opens by discussing the development of money in the market. Understanding the historical landscape will provide the reader a perspective of where we currently are and what is likely to happen to the market in the future. To date, the development and rise of fractional reserve banking has perpetuated the inflationary credit expansion. During this process, fiat currency has risen to dominance with the culmination of FRN$ as the world's reserve currency.

This system has been perpetuated by and has helped perpetuate the political structures of the earth. A deep philosophical foundation protected by sound money undergirds personal and financial privacy. Autonomy, personal independence, and the capacity to make and act upon moral decisions is a permanent state of the individual. Sound money protects autonomy.

The next section discusses the inflationary credit expansion and the corresponding deflationary credit contraction. This will lay the foundation for how to profit and generate wealth during the great deflationary credit contraction.

While theory and history may be interesting, without practical implementation, what difference do they make? As Wayne Gretzky is often credited with saying, "I do not skate where the puck is, but where it is going to be." Similarly, a vision of the future financial landscape provides strategic thinking for capital allocation. With this foundation laid, it is possible to develop a strategy for generating and preserving wealth in these changing and challenging times.

This book is intended to be a general roadmap and is not intended to be exhaustive. Gold's monetary role is extensively discussed. This, of course, is a completely different issue from whether one should buy or own gold.

Throughout this book, I will cite other sources where additional information and strategies can be obtained. Consequently, there are extensive endnotes, sources, and citations from some of the most brilliant minds through the corridors of time.

For example, during the 20th century, there were three main economic thinkers: John Maynard Keynes, Irving Fischer, and Ludwig von Mises. Keynesian economics asserts that private sector decisions sometimes lead to inefficient macroeconomic outcomes and that public sector action can correct these inefficiencies. Despite President Nixon's 1971 statement that "we're all Keynesians now," several alternative schools of thought exist. Within the Fischer camp is John Exter, who presented a debt deflation argument. Mises laid the foundation for the Austrian School of economics, which involves analyzing human action from the perspective of individual agents.

I attempt to synthesize some of Exter's assertions with the Austrian School. There may be harmony, or at least common ground, between Exter and the Austrian School because of the fundamental changes in the environment after the Nixon Shock in 1971, when President Nixon unilaterally canceled the Bretton Woods system and stopped the direct convertibility of the United States dollar to gold. For the first time in recorded history, this resulted in the world's reserve currency being an illusion.

Tax issues and privacy laws vary widely throughout the world and are in a state of constant flux. Each tax case is individual based upon the unique facts and may require the help of a competent professional. This book does not address either legal tax avoidance or illegal tax evasion.

In summary, this book is an autopsy of the current worldwide monetary and financial system beginning with a brief overview of financial history, the current great deflationary credit contraction, and projecting the future environment. It concludes with suggestions on how to generate and preserve wealth in this challenging time, and the appendix contains a deeper analysis of important topics.

Disclaimer

This book is intended to function as general information, not as legal or investment advice. It is a cursory overview of the topics of monetary science and economic law, and thus it speaks in generalities and not specific instances. No action discussed in this book should be taken without the sound advice of a trustworthy, competent, and trained legal or investment professional.

This book is sold with the intent of an international readership. The author recommends readers use this book in compliance with local law. If you do not like the local law, work through the appropriate channels to have it changed.

The Great Credit Contraction

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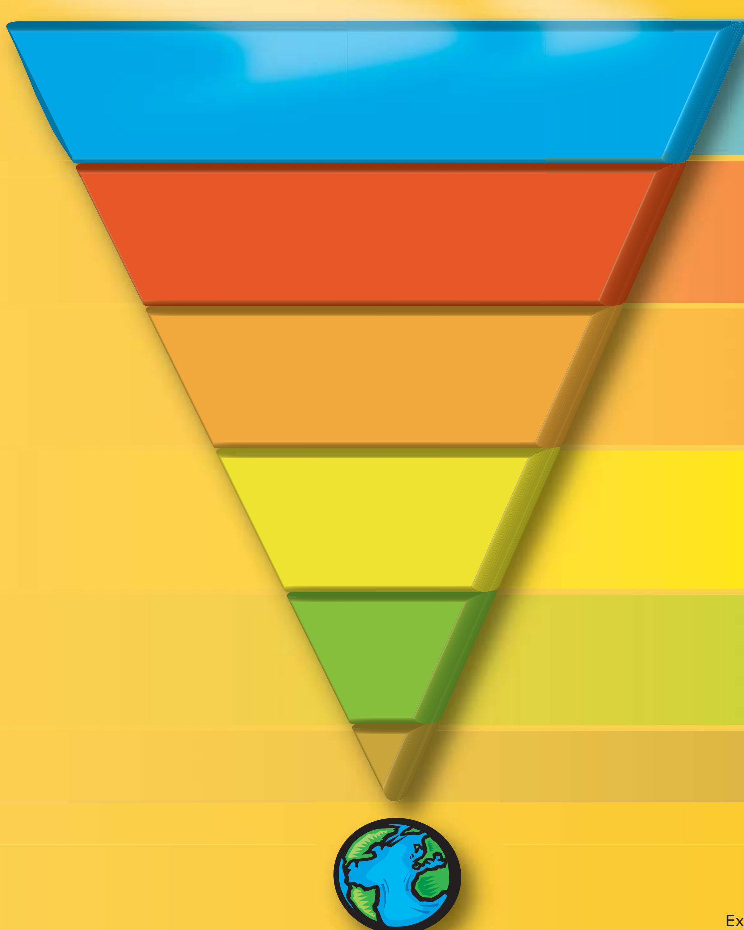

DERIVATIVES:	**$1,600T**
Shadow Derivatives	*$800T*
Reported Derivatives	*$683T*
Unfunded Gov't Liabilities	*$250T*
MISCELLANEOUS ASSETS:	**$125T**
Private Business	*$10T*
Commercial Real Estate	*$30T*
Residential Real Estate	*$80T*
Non-Monetary Commodities	*$4T*
SECURITIZED DEBT/STOCKS:	**$100T**
Corporate & MUNI Bonds	*$25T*
World Listed Stocks	*$51T*
U.S. Listed Stocks	*$15T*
BROAD CURRENCY ILLUSIONS:	**$65T**
World Treasury Bills/Govt Bonds	*$15.5T*
U.S. Debt/Treasury Bills	*$11T*
POWER CURRENCY ILLUSIONS:	**$4T**
Physical Notes (£, €, ¥, C$, A$, etc.)	*$2T*
FRN$ (physical paper notes)	*$800B*
POWER MONEY:	**150,000 tons**
Gold and Silver	*$2-4T*
WORLD GDP:	**$55T**

Exter's pyramid updated and adapted. All amounts estimated approximations.

PART 1

Financial history

Spilling ink

WHEN I GRADUATED FROM ACCOUNTING SCHOOL, THE PROGRAM'S DIRECTOR imparted some sage advice. He joked that when a potential employer asked, "what is 2+2," we should respond, "whatever you want it to be."

One of my favorite law professors shared a similar joke with my class. He asked, "do you know what the difference between medical school and law school is? In medical school, you learn and memorize all twenty-three parts of the hand. In law school, you learn to ask whether the item presented is even a hand."

Just like these examples, monetary science, finance, and economics are mired in convoluted language. Economics experts propagate multiple terms and multiple definitions for those terms. This quagmire hinders the ability of individuals outside the economic elite to come to reasonable conclusions as to the meaning of terms associated with these subjects. Because the current system is inherently unsound, unstable, and unethical, those who perpetuate it must attempt to keep those it abuses in ignorance, ensuring they are confounded and misdirected from the true issues.

Since I am the doctor, I will frame the definitions in this book. As the various schools of economics already clash over the definitions of many important words, I will not be surprised if my definitions stir the pot even more.

There are plenty of ways to spill ink, so if anyone attempts to confront my assertions, it would only be courteous for him or her to use the definitions I propose without deflecting the discussion to a different and possibly tangential or irrelevant issue. In the event of rebuttals to my assertions in this book, I will limit my participation to substantive issues and not semantic arguments.

What is money?

AS THIS IS A BOOK ABOUT MONETARY SCIENCE AND THEORY, it may as well lead off with this fundamental question. People often use the terms **money, money substitutes, illusions, and currency** interchangeably. Since they do not mean the same thing, this misuse can be extremely confusing.

For example, even the venerable Alan Greenspan, Chairman of the Federal Reserve from 1987 to 2006, does not define money. In testimony before Congress, Greenspan testified as follows:

> Let me suggest to you that the monetary aggregates as we measure them are getting increasingly complex and difficult to integrate into a set of forecasts.
>
> The problem we have is not that money is unimportant, but **how we define it**. By definition, **all** prices are indeed the ratio of exchange of a good for money. And what we seek is what that is. Our problem is, we used M1 at one point as the proxy for money, and it turned out to be very difficult as an indicator of any financial state. We then went to M2 and had a similar problem. We have never done it with M3 per se, because it largely reflects the extent of the expansion of the banking industry, and when, in effect, banks expand, in and of itself it **doesn't tell you terribly much about what the real money is.**
>
> So our problem is not that we do not believe in sound money; we do. **We very much believe that if you have a debased currency that you will have a debased economy.** The difficulty is in defining what part of our liquidity structure is truly money. We have had trouble ferreting out proxies for that for a number of years. And the standard we employ is whether it gives us a good forward indicator of the direction of finance and the economy. Regrettably **none** of those that we have been able to develop, including MZM, have done that. That does not mean that we think that money is irrelevant; it means that **we think that our measures of money have been inadequate** and as a consequence of that we, as I have mentioned previously, have downgraded the use of the monetary aggregates for monetary policy purposes until we are able to find a **more stable proxy** for what we believe is the underlying money in the economy.

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Las Vegas, NV 89126-9502

Charts

The Gold to Oil Ratio

Barrels of Crude Oil per Ounce of Gold

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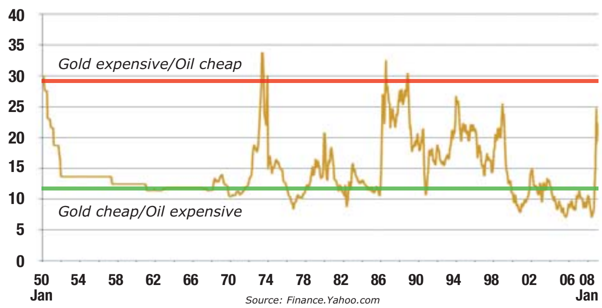

The Silver to Oil Ratio

Ounces of Silver per Crude Oil Barrel

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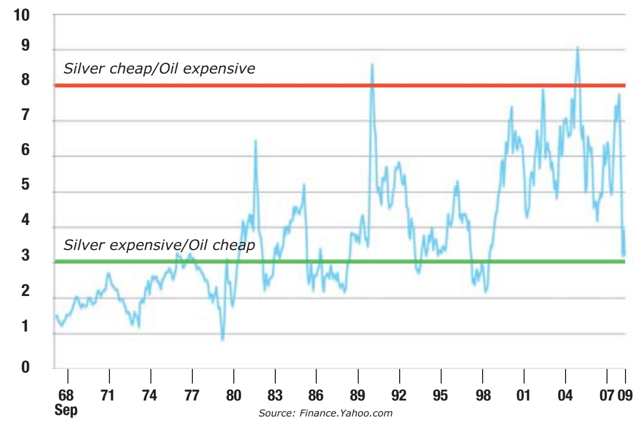

The DJIA Priced in Gold

Gold Ounces per DJIA Unit

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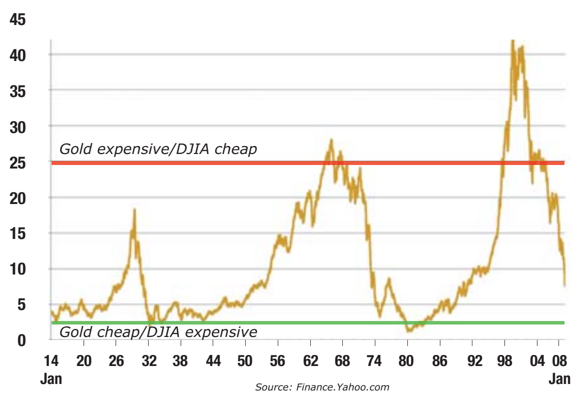

The S&P 500 Priced in Gold

Gold Ounces per S&P 500 Unit

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US Median Home Prices in Gold Ounces

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Silver In Backwardation

3 Month Silver Forward Mid Rates

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