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The Greatest Trade of the Century

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Preface

This report is an effort to bring to the forefront the underlying crisis that is brewing in World Economy. This report deals with the fall of the Roman Republic which was a Sovereign Debt Crisis and the Imperial Era Decline & Fall of Rome which was a hyperinflationary period where there was no government debt nor even a central bank. It is vital to comprehend the difference so you can distinguish what we face.

Then we have the stark difference between the speculator and the investor. Traditional economic theories are clueless and fail to understand there is a significant difference between the two. When you based all your economic theories on one ignoring the other, then any hope of government managing the economy is a fool's game.

Then there is the daunting question that nobody seems to ask is the classic relationship of stocks down and people run to bonds. We call this the **Flight to Quality**. Yet every so often, the tables flip. It is not the private sector that is caught up in the oscillations between chaos and instability, but at times it is also government.

The question becomes what happens when it is the government collapsing? How is the traditional **Flight to Quality** impacted then? If government bonds are crashing, where is the **Flight to Quality** to preserve capital? How can we recognize that this reversal of fortune for government is even unfolding?

In order to trade such an event, we have to understand what it is all about. We need that **CONFIDENCE** in knowing what to look for as our **CONFIRMATION** which is so necessary to actually trade. No matter what the trade, we always need to answer that daunting question – **WHY?**

We are talking about the **Greatest Trade of the Century** because what makes it so great is the simple fact that this is not a common occurrence. It can be seen only through the eyes of history for it is not something that even every generation experience. Unmistakably, the **MAJORITY** just has to be wrong in order to send the juices flowing in the right direction.

In all reality, we are looking at a **PANIC** in the real classic sense of market movements. However, this time we are looking at a **PANIC** to the upside in one aspect which is completely different from the traditional expectation of a **PANIC** to the downside.

So, buckle up! We are about to embark of an explanation of something that rarely shows its head in the course of economic history for it is contained only in the record of the rise and fall of empire, nations, and city–states.

Trading affairs like this are not even offered as an opportunity every generation. They tend to skip a few here and there just to make them rarer and more unnoticed. However, they are a death trap to those who do not understand the trend and go down with the entire civilization.

Introduction

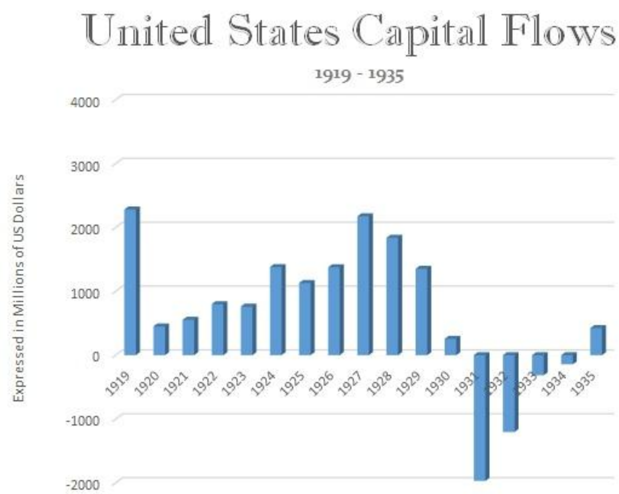
One of the most important things we must understand is that absolutely EVERYTHING and EVERYONE is connected. We are strangely like a rain forest where there are numerous varieties of plant life, insect, reptiles, mammals, and birds. Everything is dependent upon something else for a food supply. Eliminate even on species and there is a ripple effect that runs through the entire system.

Australia made many mistakes. There are herds of wild camels running around Australis because the gold miners imported them because they could work in the desert. When they were finished, they just let them loose.

Then there is the horror story that began in the sugar cane plantations of Puerto Rico. The farmer imported giant toads from South America to eat the grubs that were devouring their crops. Word spread how this was a tremendous success of these bug-catching amphibians. By the 1930s, the cane toads were being sold around the world as a solution. Then in 1935, 101 toads arrived in Far North Queensland in areas including Cairns and Innisfail. After breeding them in captivity, they released some 3,000 on missions to hunt and kill cane-destroying beetles on Australia's north-east coast. Now the population is into the many millions.

Their effects on Australia's ecology is devastating because they have no natural predators. They have depleted native species that die eating cane toads. They are poisoning pets and humans besides destroying native fauna. Cane toads have a poison which affects the functioning of the heart. It is present throughout their bodies and is secreted as a milky liquid. Some people have died from trying to eat cane toads or even their eggs.

The point is that introducing even a foreign animal to a different environment can be devasting because everything is connected. The world economy function in the very same manner.



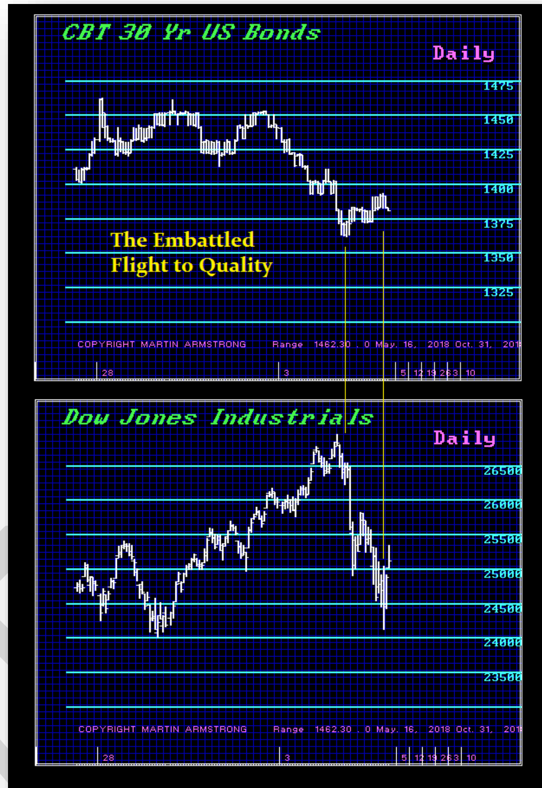
I have written before how J.P. Morgan came to the rescue and organized a $100 gold loan to bailout the United States in 1896. In just 18 years, World War I began. By 1919, the USA had replace Britain as the Financial Capital of the World. The capital inflows to the USA are driven obviously by war as capital fled to America for safe-keeping. It was not a matter of a return on investment. Capital was seeking a place to park. The capital at first began to return to Europe but gradually it returned peaking again in 1927. Then it fled again during the Great Depression by with World War II, it returned. By 1945, the United States end up with 76% of the entire world's gold reserves. That is why the dollar became the cornerstone of the Bretton Woods system at that point in time.

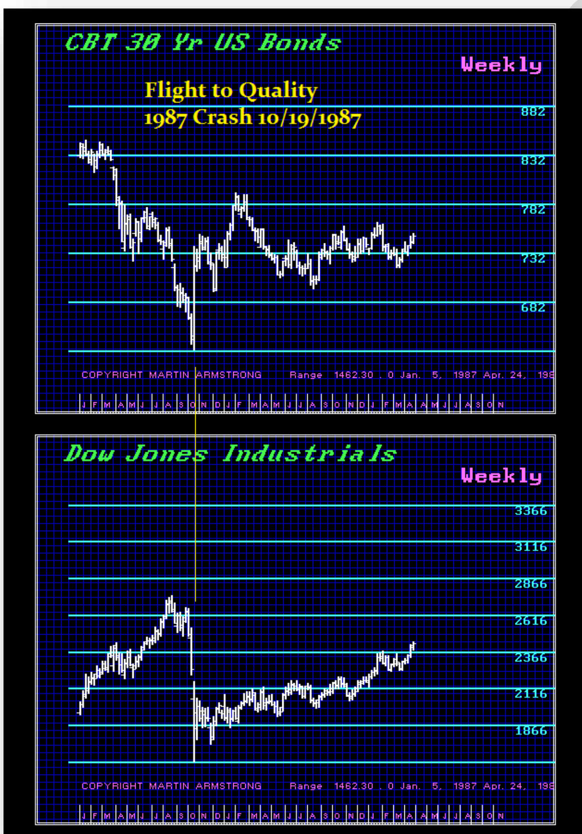
In other words, the external forces within Europe is what made America the Financial Capital of the World. The introduction of Socialism, thanks to Karl Marx, is akin to the poisonous Cain toads of Australia which have now spread across the entire northern territory. Socialism has justified the expansion of government, the creation of endless borrowing, and an endless supply of class-warfare that threatens the entire economy on the horizon and we await reality to come crashing down. This has even altered the relationship between markets setting in motion the shift of capital formation from Public to Private assets.


CBT 30 Yr US Bonds
Weekly
07/11/2016
9/04/2017
12/12/2016
3/13/2017
5/14/2018
10/08/2018
1750
1700
1650
1600
1550
1500
1450
1400
1350
COPYRIGHT MARTIN ARMSTRONG
Range 1462.30 . 0 Oct. 27, 2014 Oct. 22,
2014 2015
2016
2017
2018
2019


Dow Jones Industrials
Weekly
10/01/2018
1/22/2018
1/18/2016
2/05/2018
32870
30370
27870
25370
22870
20370
17870
COPYRIGHT MARTIN ARMSTRONG
Range 1462.30 . 0 Oct. 27, 2014 Oct. 22,
2014 2015
2016
2017
2018
2019

When we compare the 30-year bonds to the performance of the Dow Jones Industrial Index, we are confronted by this shift of capital from Public to Private. The last Public Wave ended 1981.35. That was the wave where bonds were the number one "conservative" investment and it has colored our reasoning ever since. Pension funds are often under regulation to maintain a majority of assets in government bonds. Even the US Social Security fund is 100% invested in government bonds.





Here is a daily chart of the October Crash of 2018. Normally, when stocks crash, bonds rally. True, the bonds rallied ever so slightly. Now look at the rally bonds made during the 1987 October Crash. We clearly see the rush to bonds known as the Flight to Quality.

What we are witnessing is the shift from **Public to Private** assets. The diminished **Flight to Quality** is reflecting the decline in confidence in government. This is the reality of what is taking place if we simply open our eyes to dare to look at what is lurking behind the curtain.

Indeed, there has **NEVER** been a President like Donald Trump who is so hated and you have people making a public spectacle stating like Michael Avenatti that Trump is not his President. We actually have a lawyer defending a porn star against Trump all to become famous so he himself can run for office in 2020 for the Presidency. This is just an example of the inherent ethical corruption that dominates a Private Wave.

Many others are making the same statement Trump is also NOT their President, which in truth is the **Crisis in Democracy**. They refuse to accept a President that they did not vote for. That is how nation states move dangerously closer to **Revolution** because **Reform** is not possible.

This is the tone of what lies behind the **Greatest Trade of the Century**. For it may even be the last opportunity to comprehend before the curtain falls. Will we be able to achieve **Reform**, or are we incapable of such action and the rising hatred of class warfare set in motion by Karl Marx limits our solution to only **Revolution**?

Investor v Speculator

Interest Rates & their Failure as a Monetary Tool

Most people have understood the **Economic Confidence Model** swings itself back and forth between who the general public trusts – government or the private sector. While in doing this research, I read all the newspaper accounts about the interpretation of market movements prior to 1929 and those that followed in the aftermath. One important aspect of this shift in confidence we are going through is the issue which originates from the clash between the views of an **Investor v Speculator**.

RE-DISCOUNT RATE

Time Magazine, **New York, NY, February 13, 1928**

Without official explanation, the Federal Reserve Banks at New York, San Francisco and Minneapolis last week raised their re-discount rates from 3½% to 4%. The Chicago and Richmond banks had done the same the previous week. One effect of the rate changes forecast by financial commentators was that stock market quotations would fall sharply because market operators would find money too expensive to borrow. That did not happen appreciably last week. Another prognostication was that banks would make greater efforts than in the past few months to loan money to commercial and industrial organizations. Nor did that develop noticeably last week.[1]

[1] "Business & Finance: Re-Discount Rate," Time (New York, NY), Feb. 13, 1928.

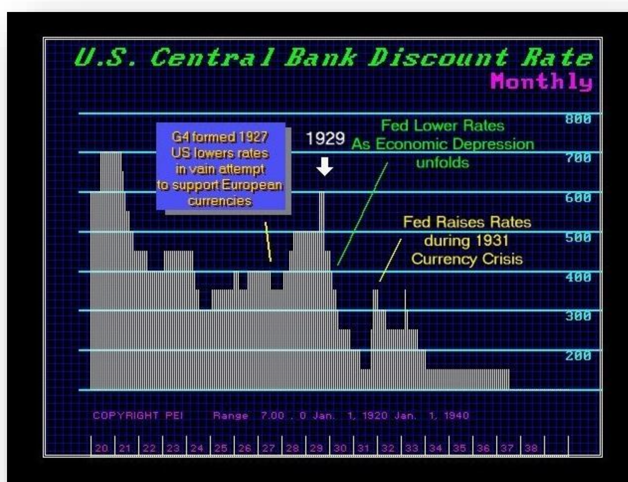
There was a clash between the view of the **Investor v Speculator**. Solid investors would see a rise in future earnings expectations as a positive reason to be attracted to the market opposed to the purely leverage speculators who were more interest rate sensitive. It was clear that the fundamentalists were totally confused by the market movements going into 1929, which was accurately pointed out by Time magazine on February 13th, 1928. Today, the analysis is always just focused on the **speculator** rather than the investor and as such they totally ignore capital flows which also drive foreign investors' movements that are not concerned with interest rates for speculation.


John Maynard Keynes
(1883-1946)

This myopic view of market behavior perceived exclusively through the eyes of a **speculator** has seriously disrupted the manner in which we even manage the economy from the central bank perspective, which was set in motion by the theory of John Maynard Keynes (1883–1946). Unfortunately, academics have far too often failed completely in their theories because they have never actually had any experience in the markets. It is like a man trying to write a book on how it feels to be pregnant and to give birth. No one but a woman could write such a work and hence no one but a trader can decipher the true movements of a market. It simply requires experience.

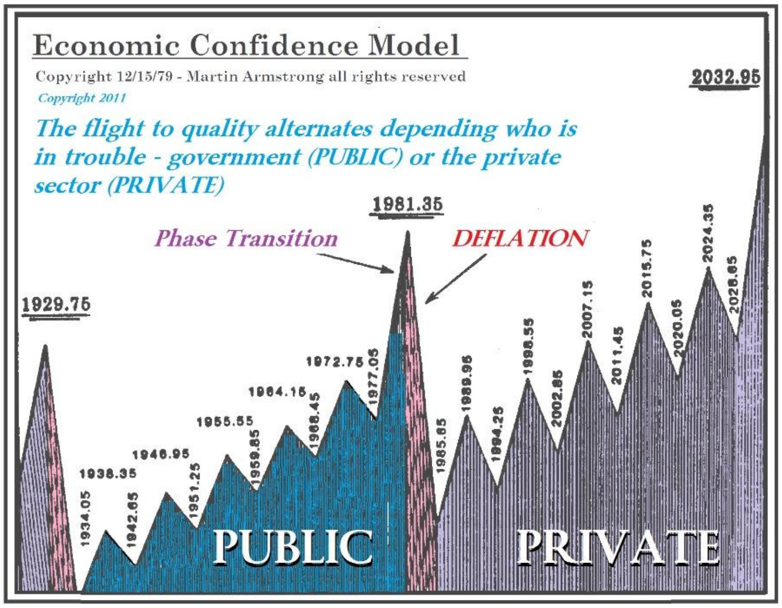
These theories that attempt to create relationships carved in stone always fail because they lack the complete understanding of the complexity behind the trends. If interest rates were 20% and your expectations were to double your money in one year, you would gladly pay the 20%. However, if you have **NO CONFIDENCE** in the future of even making 1%, you will certainly not pay 1%. Interest rates are the price of money in the face of expectations that are normally defined as inflation. In the world of investment, it is not inflation, but the expectation of a return on capital – profit. This profit will be view relative to inflation when it really exceeds 5%. So, in a high inflation environment of say 20%, then the expectation must be in excess of the rate of inflation.

Nonetheless, this difference in the perspective of an **Investor v Speculator** has also dominated the actions of the central banks thanks to Keynes. This has led the central banks to adopt **Demand Economics**, which in effect is the manipulation of the people's demand by raising or lowering interest rates. Yet we have witnessed more than 10 years of Quantitative Easing (QE) by Mario Draghi as head of the European Central Bank (ECB) to no avail. Inflation has not risen despite constant buying of government debt assuming he was injecting money into the system. Expansion never took place **BECAUSE** there was no confidence in the future. People would not borrow to invest and banks would not lend because they remained saturated with previous bad loans. Hence, no degree of QE would stimulate the economy when there was no faith in the future.



We can see that the idea of raising interest rates completely failed to stop the rise in the share market going into 1929. The interpretation flipped to that of the Investor. Rising interest rates means that there was still a demand to borrow money because they saw that the future was bright. When rates collapsed, there was always a recession or depression because there was no confidence remaining in the future.

The Public v Private Wave



Another vital aspect that **MUST** be understood in addition to the **Investor v Speculator** dimension, is the fact that a **Private Wave** is one that is also inherently dominated by government corruption. The 1929.75 wave was a **Private Wave** and that was immortalized in image of flapper girls and Prohibition during what became known as the Roaring 1920's which was an age of dramatic social and political change.

In 1900, 40% of the civil work force was employed on farms. For the first time, more Americans lived in cities than on farms as society entered into the 1920s. The nation's total wealth more than doubled between 1920 and 1929 as foreign investment poured into the United States because this was the center of the Industrial Revolution. The age of the auto was the DOT.COM bubble of the times.

TURIN, ITALY - Vintage 1769 Cugnot Steam Automobile

The idea of creating an automobile emerged with the invention of a steam engine. The first prototypes dated back to even 1769, before the American Revolution. It took about 100 years for the idea to really begin to take hold. By the early 20th century, automobiles were making their presence and they were beginning to be seen as competition to the horse & buggy industry. Because this was a Private Wave which began in 1882.45, the trend would be toward one of government corruption. The horse and buggy industry in Britain turned to government for protection from this new technological competition.

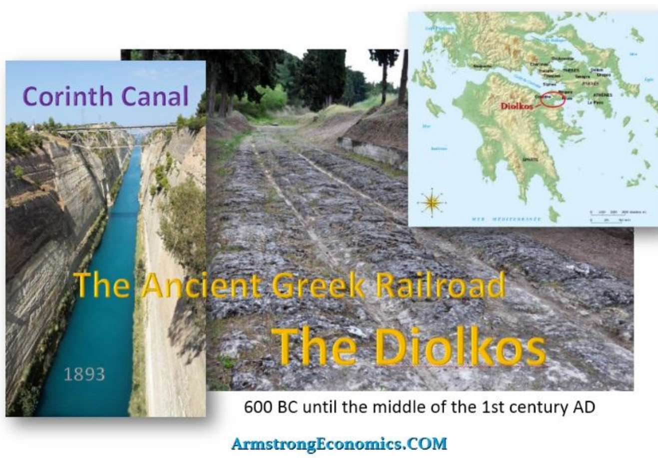
Even in the United States, there were lobbyists who sought legislation against these new automobiles. On May 21st, 1901, the State of Connecticut passed **An Act Regulating the Speed of Motor Vehicles**. Connecticut was the first state in the USA to have legislated against automobiles to protect the horse and buggy industry. The law stated that:

> *No motor vehicle shall be run on any highway or public place outside the limits of a city at a speed to exceed fifteen miles an hour, and no such vehicle shall, on any highway or public place within the limits of any city, be run at a speed to exceed twelve miles an hour.*

The legislation also directed that the person in charge of the vehicle was to reduce its speed at crossings and intersections or upon meeting a horse. In the last case, the act further specified that if the horse "appears to be frightened" the motor vehicle must to come to a stop. The penalty for violating the act was defined as a fine of **"not more than two hundred dollars for each offense"** which was about 20% of the value of the automobile which was selling for in the mid–$900 range.

Britain lost the advantage of the Industrial Revolution when the politicians were bribed to introduce laws against automobiles that were all about killing any competition to the horse and buggy. It was this deep-seated corruption in Britain that destroyed its edge in the Industrial Revolution set the stage for the shift in the financial capital of the world to the United States.

The corruption in Great Britain was pervasive. Nicolas-Joseph Cugnot (1725–1804) demonstrated his *fardier à vapeur* ("steam dray"), an experimental steam-driven artillery tractor, in 1770 but it proved to be impractical. By 1784, William Murdoch (1754–1839) had built a working model of a steam carriage, which was probably the first steam locomotive in Britain following other trends developing in Italy. Murdock demonstrated his steam carriage powered by a high-pressure engine to his neighbor Richard Trevithick (1771–1833) who would go on to build locomotives. This was the dawn of the Railroad Era. In 1801 Richard Trevithick built a full-sized functioning road locomotive known as the *"Puffing Devil"*. These early vehicles came at the dawn of the Industrial Revolution marked by the birth of steam power and the Railroad Era.



As always, given the same set of incentives and problems, the same ideas reemerge throughout history. The idea of a railroad actually began in ancient Greece. They constructed a railroad carved into rock where ships could be carried over land at the Isthmus of Corinth. The canal was actually not created until 1893. This ancient railroad was known as the Diolkos (dia "across" and holkos "portage machine"). This was a paved trackway where boats could be moved overland across the Isthmus of Corinth. The shortcut allowed ancient vessels to avoid the long and dangerous circumnavigation of the Peloponnese peninsula.

The phrase "as fast as a Corinthian", penned by the comic playwright Aristophanes (c. 446 – c. 386BC), indicates that the ancient trackway was common knowledge and had acquired a reputation for swiftness. It was used to save time in shipping and operated from c. 600 BC until the middle of the 1st century AD. The Corinth Canal was initially proposed in classical times and a failed effort was made to build it in the 1st century AD. Construction actually began in 1881 and was finally completed in 1893.

Nerva (96-98AD)

Æ Sestertius (33.7mm, 30.37 grams)

Reformation of the Imperial Postal System

Nerva attempted to relieve some of the burdens that had been imposed on the people of Italy by his predecessor, Domitian. One of his acts was the assumption of the costs of the imperial post by the Roman government, a burden which had formerly fallen on the municipalities. Though this event is celebrated on this coin, no contemporary writers mention the act.

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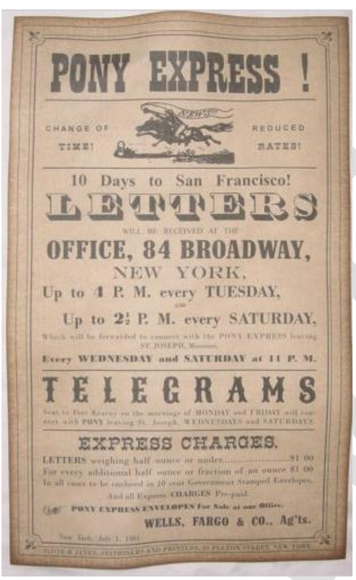
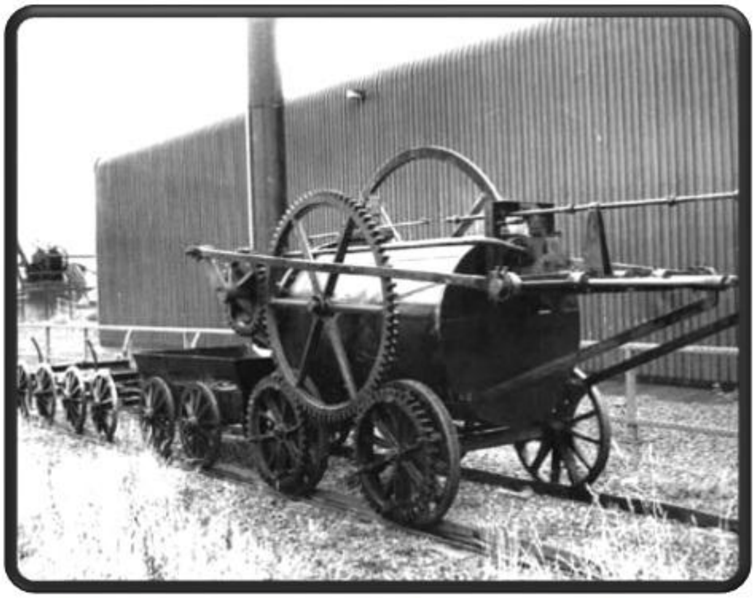
Naturally, these early attempts began to show potential for mass transit were certainly nothing historically new. Society has always looked at improving communication and commerce. The Romans used relays of mail carriers who would use horses between two points. This system allowed them to get a letter from Rome to Britain in a matter of a few days. The same type of relay mail system was in service in the United States during the mid-1800s known as the Poney Express. It depends upon the innovation. The expediting of communications never encountered resistance whereas changing an established system of transportation encountered a entire industry to be displaced.



Because transportation had created an entire economic industry, the backlash unfolded by bribing government to protect them against this change. In Britain, that corruption led to the enactment of the **Locomotive Act (1865)**, which required any self-propelled vehicles on public roads in the United Kingdom to be preceded by a man on foot waving a red flag and blowing a horn. Clearly, these early attempts that would have put England on the map economically were effectively killed by this legislation enacted by bribes and orchestrated by the status quo of an industry that would slowly begin a death spiral.



Penydarren Locomotive 1804 by Richard Trevithick
reconstruction

Britain would not regain that status as the Industrial Revolution shifted to America and continental Europe. Inventors and engineers abandoned the idea of creating automobiles and turned to improving railway locomotives instead which did not threaten the entire horse and buggy industry which stopped the innovation of private automobiles square in its tracks. The steam locomotives that were first developed in Great Britain during the early 1800s by Richard Trevithick, first operated on February 21st, 1804. Where Murdock sought to create a steam powered automobile that would replace the horse and buggy, Trevithick focused on creating a train for hauling mining produce that did not threaten the entire horse and buggy industry.

Eventually, the British parliament was forced to remove the need for the red flag to precede an automobile in 1878 as everyone else was adopting this new invention. Yet, the corruption stood in the way of innovation and finally they abolished the law entirely but only in 1896. The corruption blocked Britain from the head start it had in giving birth to the Industrial Revolution.

We can also see how corruption in London banned photography. Since the flash for photography was initially made with gun powder, the pop noise made by a flash resulted in a ban on taking pictures in a Royal Park on a Sunday which has transformed into regulations that still apply to photography to this day. There remains very contentious Royal Parks guidelines which state that amateur and student photographers who take pictures for their private portfolios must still complete a form confirming to park officials that their images are for private use only. If you are getting married and want to take a picture in a Royal Park in London, you must apply for a permit 10 days before. Far too often a law that begins for one reason simply continues with no logical explanation.

Nevertheless, it was this corruption of attempting to outlaw competition from a new technology with legislative restraint that has often been the hallmark of a Private Wave and it was surfacing in the United States as well. The railroads in America allowed for the expansion throughout the land. It was this economic growth that swept many Americans into an affluent but unfamiliar "consumer society." People from coast to coast bought the same goods thanks to nationwide advertising and the delivery system of the railroad. They were now listening to the same music, did the same dances and even used the same slang! The 1920s was rapidly drawing in the young people into the urban life of the big cities, and this sparked the partying that became known as the Roaring 1920s.

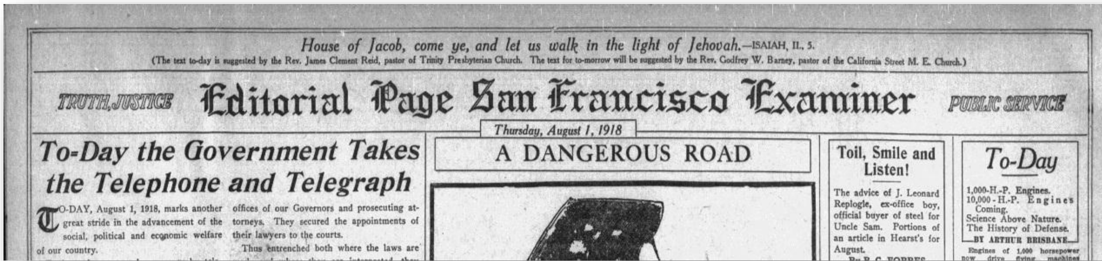
We should also take into account the rapid expansion of the telephone. This also contributed to the Roaring '20s. It was on November 13th, 1878, when the first telephones were introduced in the New York Stock Exchange. In 1877–78, the first telephone line was constructed, the first switchboard was created and the first telephone exchange was in operation. Within just three years, there were almost 49,000 telephones were in use. By 1880, Bell merged his company with others to form the American Bell Telephone Company and in

1885 American Telegraph and Telephone Company (AT&T) was then established. Starting from New York, its long–distance telephone network reached Chicago, Illinois, finally by 1892. The famous candlestick telephone made its debut during the 1890s and was the common telephone until around 1940.

It was on April 30th, 1907, when Theodore Newton Vail became President of AT&T who took the position that the superiority of one phone system was best for the nation and business adopting the slogan "One Policy, One System, universal Service." The 1907 stock market crash came in October 1907. Vail used the opportunity to begin buying up many of the smaller telephone companies including Western Union telegraph. Some claimed it manipulated its shares lower to drive down competitors to enable them top acquire competitors. These actions brought unwanted attention from antitrust regulators, but there was no substance to the manipulation when the entire market had collapsed.

AT&T was obviously anxious to avoid antitrust action from government. AT&T and the federal government entered into an agreement known as the Kingsbury Commitment which allowed AT&T to continue operating as a monopoly until prosecutors, trying to make a name for themselves, broke it up in 1984 as a monopoly.

However, manipulation and corruption were the name of the game as the Private Wave began in 1882.45. The government understood nothing about the economic evolution that was underway. The railroad, telephone, and automobile all combined to create a major wave of economic innovation. It is also during Private Waves that government sees it really lacks the control over society when they are more passive during a Public Wave. This was reflected in the introduction of not just the Sherman Antitrust Act of July 2nd, 1890, but also the Income Tax on February 3rd, 1913, along with the creation of the Federal Reserve which was then created on December 23rd, 1913.



House of Jacob, come ye, and let us walk in the light of Jehovah.—ISAIAH, II., 5.
(The text to-day is suggested by the Rev. James Clement Reid, pastor of Trinity Presbyterian Church. The text for to-morrow will be suggested by the Rev. Godfrey W. Barney, pastor of the California Street M. E. Church.)

TRUTH, JUSTICE **Editorial Page San Francisco Examiner** PUBLIC SERVICE

Thursday, August 1, 1918

To-Day the Government Takes the Telephone and Telegraph

TO-DAY, August 1, 1918, marks another great stride in the advancement of the social, political and economic welfare of our country.

offices of our Governors and prosecuting attorneys. They secured the appointments of their lawyers to the courts.

Thus entrenched both where the laws are

A DANGEROUS ROAD

Toil, Smile and Listen!

The advice of J. Leonard Replogle, ex-office boy, official buyer of steel for Uncle Sam. Portions of an article in Hearst's for August.

To-Day

1,000-H.-P. Engines.
10,000-H.-P. Engines Coming.
Science Above Nature.
The History of Defense.
—BY ARTHUR BRISBANE—

Engines of 1,000 horsepower

Therefore, it is during a Private Wave that government becomes authoritative and much more aggressive. During World War I, the government altered the Federal Reserve and instructed them to support the government bond market. Then the government also nationalized telephone and telegraph lines in the United States from June 1918 to July 1919. Congress passed a joint resolution and President Wilson issued an order putting them under the direction of the U.S. Post Office. After July 1919, the systems were returned to private ownership and AT&T resumed its monopolistic hold on telephone. When Roosevelt came to power, in 1934 FDR agreed to allow AT&T to operate as a "regulated monopoly" under the jurisdiction of the FCC.

Keeping in line with the authoritarian dominated Private Wave, government also introduced prohibition to alter the behavior of people. Prohibition, which began January 1920, created the opportunity for corruption which eventually consumed the entire remaining period of the Private Wave into 1934. Whenever governments attempt to alter the human behavior, they then create the very incentive to act in that manner. It is often like dealing with a defiant 2-year old who you say no and they do it anyway to see what they can get away with.

Whenever something is declared illegal, then you have just created a tax-free environment which encourages a black market. Marijuana was also outright prohibited along with alcohol. Only after this wave was completed, then we find that Marijuana was regulated as a drug in every state, including 35 states that adopted the Uniform State Narcotic Drug Act. The first national regulation was the Marihuana began with the Tax Act of 1937.

Of course, the Prohibition period was famous for Al Capone (1899–1947) in Chicago. Making the booze illegal also made it tax–free. Hence, it was Prohibition that actually funded the Mafia. This is why they called it the Roaring '20s. People were doing well as capital fled to the United States making the economy boom and in the process the status symbol became the night club or "speakeasy" where police were bribed for protection and they evebn bought judges.

Alphonse Gabriel Capone
(1899 – 1947)

This was the hallmark of a Private Wave. The disregard for government and the pervasive corruption of government. From the acceptance of bribes for tax evasion, claims of corruption and scandal have featured heavily during Private Waves compared to Public Wave of Confidence when government is in control. Like the Clintons who have become the posterchild for political corruption during this current Private Wave, the previous Private Wave was no different. This is part of the atmosphere and the sentiment during a Private Wave where corrupt systems and the unscrupulous individuals help to exploit them and this sets the tone for the period. Such major scandals of corruption in the 17th, 18th and 19th centuries stand as examples of this trend.

Lincoln Joseph Steffens
(1866 – 1936)

During 1931 as this Private Wave was collapsing into its major low come 1934.05, the biggest investigations of municipal corruption in the nation rocked the foundations of New York. They affected every department and corner of the city and resulted in some reforms, but only temporarily. They were known as the "Seabury Investigations" which underscored the central point that the renowned muckraker Lincoln Steffens (1866 – 1936), who was a New York reporter, that wrote a series of articles in in St. Louis. His articles were eventually combined and were later published as a book in 1904 titled: ***The Shame of the Cities***. Steffens was investigating corruption in municipal government in American cities.

Ironically, Steffens supported the revolution in Russia and the creation of the Soviet Union believing this would end the corruption. He also watched the Mexican Revolution which took place against corruption beginning on November 20th, 1910. Indeed. There was a rising contagion against corruption that was spreading during this Private Wave. The common denominator was indeed corruption as we see once again during this immediate Private Wave.

Steffens saw political reform as hopeless and Revolution was the only answer. Politicians always promised change but nothing every took place. Nevertheless, his most famous line on politics read:

> "Politics is business – that's what's the matter with it. The corruption that shocks us in public affairs we practice ourselves in our private concerns."

Rebellions (1882-1934)	
Indonesia	1888
Nicaragua	1893
China Boxer Rebellion	1899
Tibet	1905
Romania	1907
Albania	1910
Micronesia	1910
South Africa	1914
Algeria	1916
Ireland	1916
Montenegro	1919
India	1920
Jordan	1923
Syria	1925
Saudi Arabia	1927
Vietnam	1930
Peru	1932
El Salvador	1932
Catalonia	1934

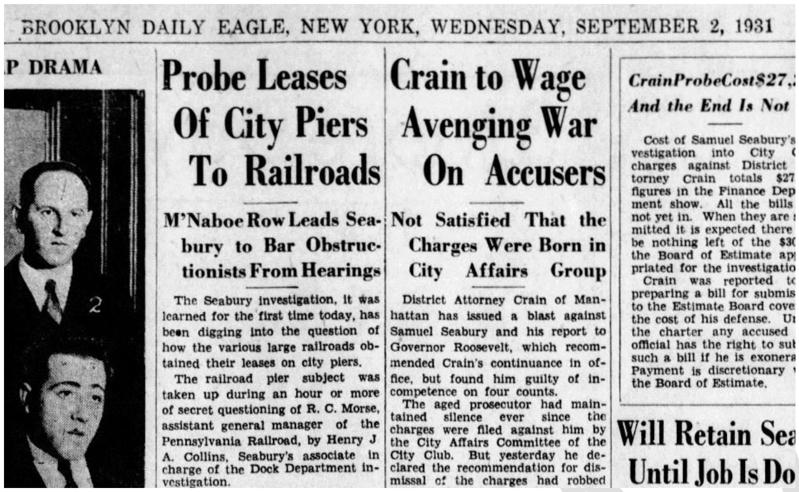
There were at least 19 serious rebellions during this Private Wave. However, there were 27 major revolutions all against corruption. What was interest from the perspective of the United States was the fact the Franklin D. Roosevelt actually paved his way to the White House on the back of fighting corruption in the very heart of New York City government.

Revolutions (1882-1934)

Argentina	1890	1893	1905		
Thailand	1932				
Philippines	1896				
Portugal	1910	1926			
Germany	1918				
Brazil	1930				
Mexico	1910	1926			
Paraguay	1904				
Ecuador	1925				
Mongolia	1921				
Republic of China	1911				
Russia	1905	1911	1913	1917	1918
Iran	1905				
Poland	1905				
Cuba	1933				
Ukraine	1917				
Egypt	1919				
Finland	1918				
Turkey	1908				

It would be the famous **Seabury Investigations** into the political corruption in New York City that made national headlines. It was this series of investigations that captivated the nation and ultimately were vindicated by forced the resignation of Mayor James J. Walker who was replaced by the anti–corruption Mayor Fiorello H. La Guardia. The governor at that time also became famous and rose to the very top – Governor Franklin D. Roosevelt who would become known as FDR. Indeed, FDR played a direct role in the investigative process which landed him the Democratic nomination in the summer of 1932 to go on to the White House. Samuel Seabury (1873–1958), was a former judge appointed to investigate corruption in the magistrates' courts, by FDR.

There were actually three separate Seabury Investigations between late 1930 into 1933. The very first pierced into the corruption in the magistrates' courts. Judges were simply being bribed. The second dived into the District Attorney's office looking for bribes to avoid prosecution. Then the third targeted all the departments and affairs of New York City. It was this third inquiry which led to the Mayor's office and the resignation of the Mayor himself.



BROOKLYN DAILY EAGLE, NEW YORK, WEDNESDAY, SEPTEMBER 2, 1931

P DRAMA

Probe Leases Of City Piers To Railroads

M'Naboe Row Leads Seabury to Bar Obstructionists From Hearings

The Seabury investigation, it was learned for the first time today, has been digging into the question of how the various large railroads obtained their leases on city piers.

The railroad pier subject was taken up during an hour or more of secret questioning of R. C. Morse, assistant general manager of the Pennsylvania Railroad, by Henry J A. Collins, Seabury's associate in charge of the Dock Department investigation.

Crain to Wage Avenging War On Accusers

Not Satisfied That the Charges Were Born in City Affairs Group

District Attorney Crain of Manhattan has issued a blast against Samuel Seabury and his report to Governor Roosevelt, which recommended Crain's continuance in office, but found him guilty of incompetence on four counts.

The aged prosecutor had maintained silence ever since the charges were filed against him by the City Affairs Committee of the City Club. But yesterday he declared the recommendation for dismissal of the charges had robbed

CrainProbeCost$27,
And the End Is Not

Cost of Samuel Seabury's vestigation into City charges against District torney Crain totals $27 figures in the Finance Dep ment show. All the bills not yet in. When they are mitted it is expected there be nothing left of the $30 the Board of Estimate ap priated for the investigatio

Crain was reported t preparing a bill for submis to the Estimate Board cove the cost of his defense. U the charter any accused official has the right to su such a bill if he is exonera Payment is discretionary the Board of Estimate.

Will Retain Sea Until Job Is Do

It was Governor Roosevelt himself who named Judge Seabury as commissioner to study the conduct of the Manhattan District Attorney. Finally, a joint state legislative committee was created to look into citywide corruption, with Judge Seabury as its counsel. The corruption was pervasive where every public service had a price – $50 for approval to alter the sidewalk for a gasoline station, $10,000 for a seat on the judiciary, $50,000 to lease a pier to berth a liner on the Hudson River. Bribes were just commonplace. He investigated how much companies were paying to get contracts with the city.

The judges took payoffs to quash indictments. You either paid the judge or you were falsely prisoned. Judge Seabury found that the judges were simply mayoral appointees who "delivered" whatever was required. Judge Seabury then turned to the Manhattan District Attorney, Thomas C. T. Crain at that time. He ends up being punished for fixed investigation of the magistrates. He also did nothing about the police officers on the take during the Prohibition and gangster era.

Samuel Seabury
(1873 – 1958)

The corruption in New York has infected every department. Boards were given discretionary power to permit building variances which were simply encouraging bribes. Judge Seabury went through department–by–department with his investigation an found municipal corruption at every level. He uncovered 85 district leaders who received annual salaries of about $7,000 for no–show jobs. Traffic tickets were merely invitations for bribes. You paid and they were torn up – no problem.

WHO'S WHO in the Gordon Murder

By RUTH REYNOLDS.

ONE hundred and twenty-two persons have been mentioned by name in the Vivian Gordon murder case. Some are directly concerned with the slaying, others remotely connected. Perhaps the name of the murderer is among them. Perhaps what now appears the least important name in the group will become paramount before the investigation is completed. This story tells who is who.


The late Benita Bischoff.


Samuel Cohen


Andrew G. McLaughlin


John H. Radeloff


Vannie Higgins


John A. C. Bischoff, Vivian's former husband.


Jean Stoneham


Mrs. Eunice Bischoff


The late Vivian Gordon, Broadway butterfly, whose murder has stirred the nation.


Vernon Rapez


Lenore Halsey


Annette C. Franco, Vivian's rival.


Pierre M. Franklin


Louis Zeno


Jack Legs Diamond


Al Marks


Cassie Clayton, who befriended Vivian.

The relatives of Vivian Gordon, and those who came directly into contact with her family life.

JOHN FRANKLIN—The dead father of Benida Franklin, later known as Benita Bischoff, and still later as Vivian Gordon. He was once a warden at the Illinois state prison at Joliet.

MRS. MARGUERITE SANDERS—The supposed mother of Vivian Gordon. Mrs. Sanders is now living in Philadelphia.

PIERRE MOORHEAD FRANKLIN—A middle-aged and respectable business man of Montreal, brother of the slain girl. The only member of the family who attended her funeral, and who showed visible grief.

ARNOLDA FRANKLIN—A sister of Vivian who lives in Cincinnati.

C. H. FRANKLIN—An uncle who lives in Detroit.

JOHN E. C. BISCHOFF—The man who took Vivian for his common law wife in Charleston, S. C., in 1915. He married her in 1922 and divorced her in 1923.

MAJ. LEMUEL B. SCHOFIELD—Now director of public safety in Philadelphia, who served as the referee in the Bischoff divorce case.

BENITA BISCHOFF—The child of Vivian's and John's love, who lived first with her adored red-haired mother and then, after the divorce, with her remarried father. After the murder she chose to take her life by gas rather than endure the shame that enveloped her.

MRS. EUNICE WALTON WALKER BISCHOFF—Bischoff's second wife, who also has a daughter. They now live at Audubon, N. J.

Those connected with Vivian's first recorded love affair.

AL MARKS—The lover, a "kept man" for whom Vivian Gordon threw away everything decent in her life.

ANDREW J. McLAUGHLIN—A plainclothesman, who picked Vivian up on the street. She took him to Marks' apartment. There he arrested her for prostitution. For eight years thereafter Vivian swore this was a plot concocted by McLaughlin and Bischoff to frame her, so that Bischoff might get his divorce and take their child from her. That was in March, 1923. McLaughlin recently has been suspended on charges made in the Seabury investigation and must stand police trial for framing other women.

LIEUT. McDONOUGH—The police officer before whom Vivian was booked after her arrest by McLaughlin. She was then 24 years old.

J. P. WIER—The man Vivian said was her lawyer in 1923. No record of him ever was discovered.

PROBATION OFFICER MYRA HUGHES—The officer to whom Vivian first told her story of her "framing" in 1923.

SERGT. HAKE. — Who says he has no recollection of the woman or her 1923 conviction.

MAGISTRATE STANLEY RENAUD — Who sentenced her to Bedford reformatory on charges made by McLaughlin.

DR. J. PALMER—Superintendent of the Bedford reformatory, who said Vivian Gordon was in his institution three times between March 18, 1923, and Nov. 1, 1926.

The girls and women Vivian knew after she left Bedford.

CASSIE CLAYTON — A girl who befriended Vivian, and with whom she lived after she first left the reformatory.

POLLY ADLER — Notorious dealer in girls, for whom Vivian worked before she branched forth in the same business.

JEAN STONEHAM — Once a pupil of Vivian, but now reformed and living in Detroit.

HELEN DORF—Said to have been one of Vivian's "49ers."

VERNON REPEZ—A friendly enemy of Vivian, who refused to enter Miss Gordon's schemes.

The gangsters, racketeers, and men of shady reputation with whom she had dealings.

JACK (LEGS) DIAMOND—The notorious gangster with whom Vivian conducted a monstrous shakedown racket.

VANNIE HIGGINS — Another gangster, sweetie of Jean Stoneham, who was on Vivian's list of acquaintances.

LOUIS ZENO—A Porto Rican sweetie of Vernon Repez, mentioned in Vivian's diary in an escapade two years ago.

HAROLD DOMAN — Supposed purveyor of women, with whom Vivian had business dealings, and whose Ford, for a time, was the suspected murder car.

JOHN H. RADELOFF—Vivian's lawyer and sometime-lover, who was with her on many sub-rosa deals. Held in bail of $20,000 after police discovered in Vivian's diary that she expressed fear of "J. A. R."

SAMUEL RADELOFF—A brother who expresses endless confidence that John will be cleared. Samuel faces a criminal assault charge. Trial will be March 20.

SAMUEL COHEN—Alias Charles (Chowder Head) Harris, intimate friend of Radeloff, who Vivian also feared, according to her diary. Cohen is held in $30,000 bail as a material witness.

JOSEPH RADLOW—An ex-convict, ex-swindler, and ex-lover of Vivian who once had her arrested on persecution charges after she attempted to sue him. He is a first cousin of Radeloff.

LEON KATZ—An ex-officer of the U. S. navy and ex-partner of Radlow, who knew Vivian.

JIMMY FRITZ—A man whose name was listed in Vivian's diary. At one time she asked Radeloff to buy her some carbolic acid to throw in the face of "a man named Jimmy."

OTHER GANGSTERS, gamblers and racketeers with whom she was familiar—The late ARNOLD ROTHSTEIN, GEORGE McMANUS, the gambler tried for Rothstein's murder; NIGGER NATE RAYMOND, notorious gambler connected with the Rothstein case; LARRY FAY, a Broadway racketeer; OWNEY MADDEN, associate of the former; LOUIS AND ARKIE SCHWARTZ, owners of the Club Abbey, where Vivian plotted some of her shakedowns and took her cuts from Legs Diamond.

Wealthy gentlemen whom Vivian knew—some too well—and their attorneys and friends.

IN ONE group were—HARRY K. THAW, JOHN A. HOAGLAND, baking powder magnate whose parties she attended frequently; the late DRAPER DAUGHERTY, and the late JEFF LIVINGSTON, racing magnate.

HENRY McDONALD JORALMON — Fabulously wealthy 69-year-old sweetie of Vivian, who died of diabetes the night she was murdered.

ANNETTE M. CAYCE—Joralmon's spinster nurse, who is $10,000,000 richer through his will.

ANNETTE C. FRANCO—Whom Vivian and Miss Cayce succeeded in Joralmon's affections.

NICHOLAS PECORA—A lawyer who filed suit against Joralmon for Miss Franco, alleging breach of promise.

THEODORE SCHWEINLER—Wealthy printing house owner, whom Vivian sued, charging assault. The case was dropped.

ARTHUR BRANDWEIN — Schweinler's attorney, who assures everybody that no money was paid to the slain woman to induce her to drop the suit.

LEWIS COREY—An importer, who borrowed $10,000 from Vivian, payable April 8, 1931.

Members of the Seabury investigation group interested in Vivian's charges.

ISIDOR KRESEL—Well-known attorney, to whom Vivian wrote while he was connected with the Seabury investigation, declaring she wished to tell of her "framing" by Bischoff and McLaughlin.

IRVING BEN COOPER—Assistant of the Seabury investigation group, who interviewed Vivian on her charges.

REFEREE SAMUEL SEABURY—Chief of the New York Magistrates' courts investigation, who demanded action when he discovered one of his witnesses had been slain.

HARLAND B. TIBBETTS and JACOB GOULD SCHURMAN Jr.—Members of the Seabury investigation group, who, with Cooper, got threatening letters.

Those caught immediately in the Vivian Gordon murder net after the strangling

TAXI DRIVER FRANK RYAN—who saw a taxi pass and heard a woman scream "They're killing me" gave chase with two other taxi drivers, JOSEPH BUELL and MARTIN KATZ.

PATROLMAN EDWARD NYE—An officer who joined the chase with the taxi drivers.

(Continued on next page)

Meanwhile, Vivian Gordan became what the police would describe as ***"a woman of many acquaintances"*** or what we would call today just a high-class prostitute. Her real name was Benita Franklin Bischoff (1891–1931). The New York Times described her as in ***"the blackmail business"*** and lent money to gangsters. By 1931, Gordon had reason to be afraid of many people but here blackmail business was emboldened by reading about Seabury's investigations. On February 7th, 1932, she wrote to the Seabury Commission to say she wanted to testify. She was dead by the end of the month. Vivian was suspected of being murdered by Gangland Racketeer Harry Stein for threatening to testify against the NYC Vice squad in a corruption hearing. On March 3rd, her 16-year old daughter, Benita Bischoff, was found dead from gas poisoning in New Jersey.

Benita Franklin Bischoff
(1891-1931)
Alias: Vivian Gordan

Vivian Gordon kept interesting records. Searching her apartment, the police found diaries mentioning over 300 names which included nearly every major gangland figure in New York, quite prominent businessmen, and even a prominent philanthropist. There was even the name of the notorious madam Polly Adler (1900–1962) who was politely referred to as "just another woman out to feather her nest quickly." Polly had opened her first bordello in 1920 under the protection of the mobster Dutch Schultz. When La Guardia became mayor during the subsequent Public Wave that became in 1934.05 And ended 1985.65, Polly Adler and three of her girls were brought to court. She pleaded guilty and was subsequently sentenced to 30 days in jail May to June 1935.

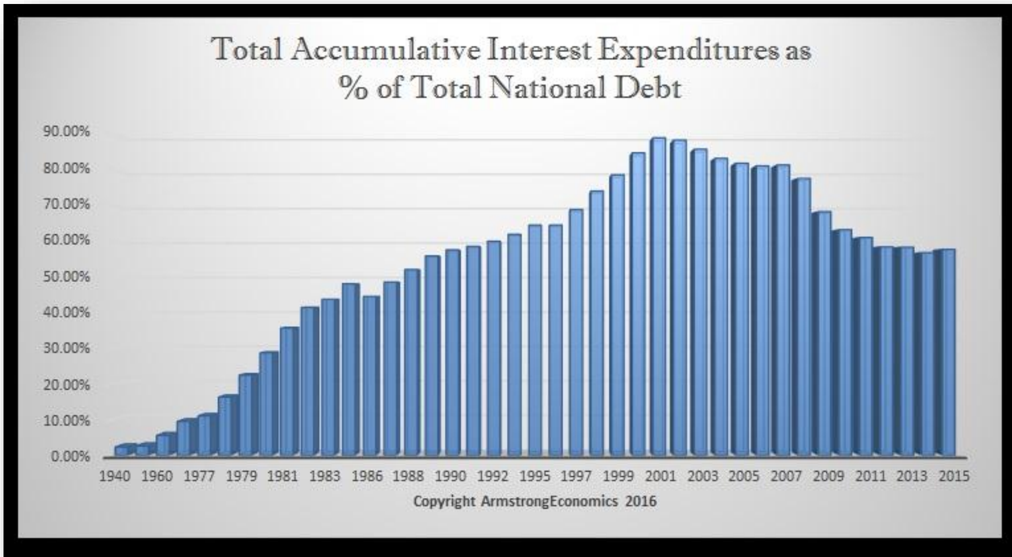
Polly Adler
(1900 -1962)

This entire affair was precisely the ticket to fame. In 1932, Governor Franklin D. Roosevelt presided as judge himself at the removal proceedings against Mayor Walker in Albany. Records unearthed by Judge Seabury's investigators exposed that a slush fund was maintained for the Mayor by a group of politicians and businessmen. There was even a $10,000 letter of credit in his name for a European trip that was discovered. They also uncovered a brokerage account funded by third parties. It was FDR's moment for glory that would propel him to the White House.

Private Waves are period of rising political corruption that typically result in rebellions or can even move into revolution. How do we define political corruption can lead to prolonged debates. Still, the simple definition should be the only one that truly defines the crisis. At its fundamental basic level, political corruption takes place whenever public roles are exercised dealing in any capacity that results in a private benefit for those in a political role. The corruption can materialize at first by those in private circumstances seeking a favor. However, as political corruption escalates, the process changes and those in power will demand favors under threat of law or to even obtain a license or contract. The long-term consequences will always lead to a loss of human rights and in the end, the corruption acts like a cancer eating away at the foundation of society. The Seabury Investigations demonstrated that the corruption infected absolutely every department of government. It becomes an expected right to demand money by those in power.

Once upon a time, we sought leaders that were successful capitalists who had proven their abilities not to manage, but to create. But we have moved well past the point in history when being a capitalist was the credentials required to be a politician who brought experience to the table. Today, we are caught in a dangerous political game where now becoming a politician is the easiest way of become a wealthy capitalist – i.e. Clintons.

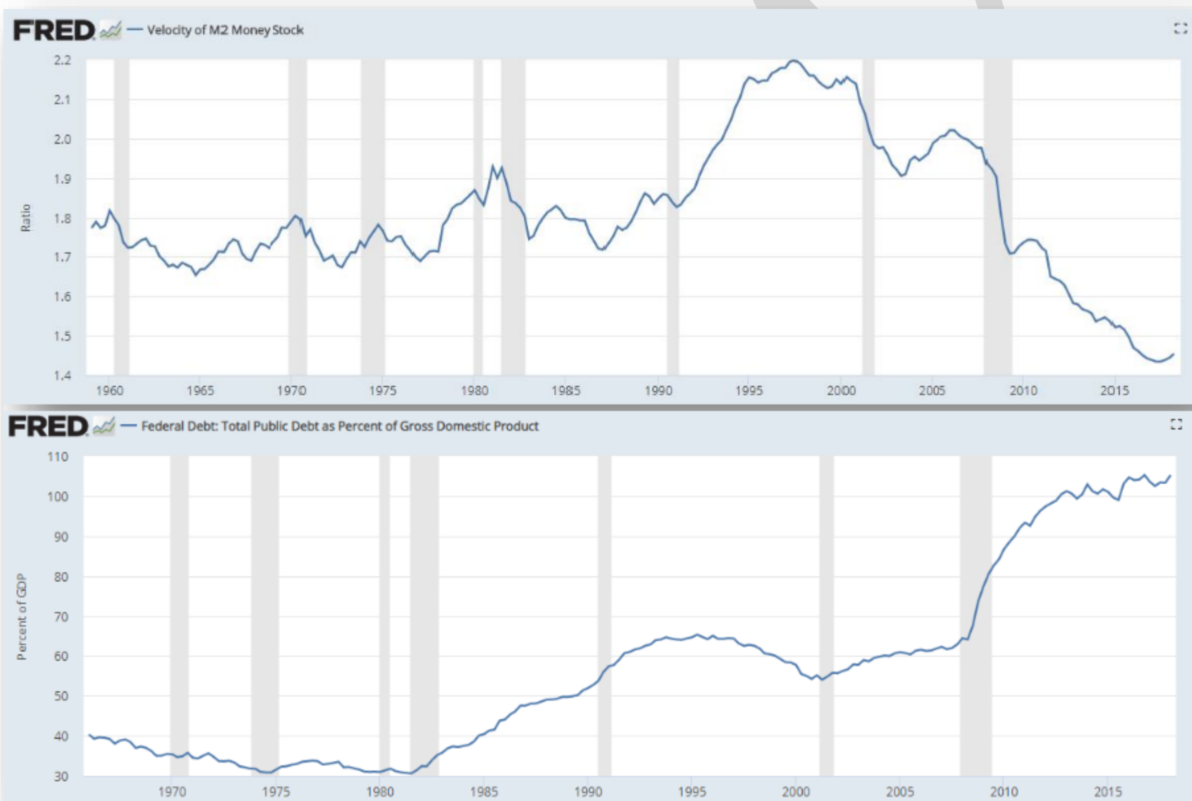
Printing v Borrowing That is the Question



We are trapped by the theories that somehow it is inflationary to create money but not is we borrow from the current outstanding supply of money. On the surface, this sounds perfectly logical based upon the Quantity Theory of Money (QTM). However, QTM was originally challenged by Keynesian economics, but it was then altered by the Monetarist Chicago School of Economics and Milton Friedman. Then because government never pays off the debt, it expands dramatically as interest expenditures accumulate. In 2019, interest expenditure should exceed military. We have reach points where well over 70% of the total debt is made of accumulated interest expenditures.

Today, mainstream economists agree that the QTM holds true in the long run, yet there is a lot of slack in such observations for the seek a predetermined conclusion and search only for data that will prove QTM correct if they extend the time frame for their analysis. This has led to disagreement about its applicability in the short run and therefore its true viability as a tool to be used by central banks to manipulate the economy.

Can we really reduce the entire economy to simply the Quantity Theory of Money? If it is that easy, then why did Larry Summers answer Bloomberg in an interview as to why economists cannot forecast a recession and he said the economy is extremely complex and is similar to weather. So, what is going on here? We have Germany locked into their belief that the QTM was responsible for creating its hyperinflation. They demanded that all 28-member states of the EU adhere to their understanding of inflation and impose austerity. That has resulted in high unemployment and they call the youth the Lost Generation. Obviously, getting the QTM wrong can have dramatic social consequences.



When we simply introduce the Velocity of Money to test the Quantity Theory of Money we reveal another whole problem. The Velocity of Money is defined as the how many times the outstanding supply of money changes hands. Suddenly we see that you can increase the supply of money, yet the velocity declines meaning people are not spending the increase in money supply.

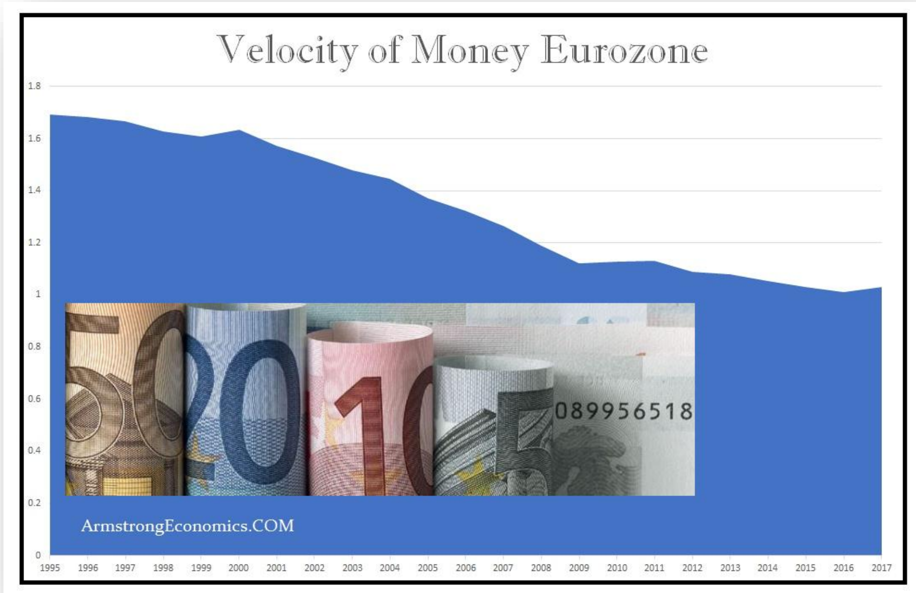
This interaction between the Velocity of Money and the Quantity Theory of Money has produced the reality that after 10 years of Quantitative Easing in Europe by the European Central Bank, inflation failed to materialize. In the United States, the velocity of money peaked during the 3^{rd} Quarter 1997. The debt to GDP ratio stood at 62.48:1 back in 1997 and it is now 105.23:1 at the end of August 2018.

Even after the Fed created $4 trillion of quantitative easing and Obama ran trillion-dollar deficits every year, the velocity of money declined yet the debt rose dramatically. This led to so many analysts screaming gold would take off and we were headed into hyperinflation. Against, nothing happened. Why?

There have been arguments that the QTM fails to work because the velocity of money is not stable and, in the short-run, prices are “sticky” meaning they do not decline easily nor do wages paid to employees who seem to be fired rather than negotiating a reduction in wages most of the time.

Therefore, if prices and wages are “sticky” and tend not to decline in proportion the money supply and economic declines, then can an economy even be managed? The argument remains that there is no direct relationship between money supply and price level does not hold. Wages are far more “sticky” than prices. Stores will offer sales to reduce inventory but employees do not easily accept a decline in wages during a recession.

We have witnessed virtually 10 years of Quantitative Easing by the European Central Bank (ECB) with no appreciable increase in inflation. In theory, they should have been impossible under the QTM. Beyond a shadow of doubt, the ECB merely proved that this cherish theory is completely wrong. The increase in money supply was simply not “stimulating” the economy because it was not being spent. The velocity of money declined rather than increased meaning people were saving for a rainy day or the rise in taxation was reducing disposable income to neutralize and stimulation.



Despite 10 years of Quantitative Easing, the velocity of money has declined steadily. It is actually about 40% less than that of the dollar. Obviously, increasing the money supply is by no means actually inflationary. If the people do not trust the future, then they will still hoard the money and that results in the velocity of money declining. Even hoards of Roman coins from the 3rd century which are debased are still found in huge hoards. Clearly, just increasing the money supply is by no means a factor that by itself defines inflation. The velocity of money is critical to understand for it reveals the expectations of the future.


British Hoard Discovered 2007
Containing 52,000 Roman Coins

The hyperinflation takes place when the confidence in the government collapses. In the case of Germany, there was a communist revolution in 1918. People feared what would happen to assets and they hoarded assets and dumped the currency. Neither banks nor government were trusted which produces the hyperinflation.

1864 $10 Compound Interest Note with Interest Rate Schedule on Reverse

The theory that would be less inflationary to borrow rather than print only made sense when debt was not acceptable as collateral upon which to borrow. Once debt became acceptable collateral, then debt simply became money that paid interest. When paper money began in the United States after the Revolution, it was introduced in 1861 which was in effect circulating bonds. The note carried an interest schedule on the reverse as to what it was worth the longer it remained in circulation. Eventually, the government issued just demand notes that were neither backed by gold not paid interest. You turned the note over and there was just green ink. Hence the name **"Greenback"** was born.

Therefore, we have a clear distinction between even a Debt Crisis compared to a Hyperinflation. In the case of Rome, it went through a debt crisis during the 1st century BC and suffered a default. Thereafter, Rome neither had a central bank nor a national debt. The 3rd century AD was a hyperinflation that developed once the Roman Emperor Valerian I (253–260AD) was captured by the Persians. On the one hand we have a government default and on the other we have no debt crisis but the fear of a collapse of government. Two completely different types of events and produce two completely different outcomes. This is what we must explore to truly understand what comes next.

Greek Sovereign Debt Crisis

Alexander III the Great
(356–323BC)

One of the backdrops to how and why Macedonia was able to conquer all of Greece at the Battle of Chaeronea which was fought in 338BC, near the city of Chaeronea in Boeotia, between the Macedonians led by Philip II and an alliance of some of the Greek city-states led by Athens and Thebes. The battle was the culmination of Philip's campaign in Greece (339–338BC) which resulted in the decisive victory for the Macedonians forever altering the history of Greece and ushering in ultimately the Hellenistic Age. Indeed, this period covers the span of Mediterranean history between the death of Alexander the Great in 323BC and the emergence of the Roman Empire as signified by the Battle of Actium in 31BC. The fall of Greece to the Macedonians also marked the culmination of Greek Sovereign Debt.

There was actually no public debt in Roman Empire of antiquity nor was there any official central bank that was in charge of minting the coinage. The creation was money was prerogative of the government. The absence of public debt and a central bank may sound strange. But it was banned because of the massive Sovereign Debt defaults of the Greeks prior to the rise of Rome. Public debt on a persistent basis begins to remerge during the late middle ages among Italian cities and has carried on into modern times.

In antiquity, some Greek cities certainly did borrow publicly, particularly during the pre-Hellenistic period going into the 4th century BC. However, such loans were often more related to emergencies during war and they did not constitute a public debt that continued, with the exception of Athens.

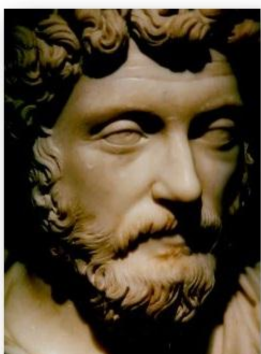
With the introduction of coinage in the 7th century BC, this really transformed the ancient economy from a barter-based system into a capitalistic-system greatly simplifying commerce. Coinage thus encouraged the creation of everything from futures contracts to an unprecedented scale of lending. Private indebtedness, when it results in a default meant that the price was enslavement. You were the collateral for the loan as was your wife and children.

Larsa was a Sumerian city of ancient Sumer. The powerful Sumerian King Rim-Sin (1822–1763BC) provides the first real account of a Debt Crisis which sealed his own fate. During the year 1788BC, he issued an edict declaring all loans to be null and void. This massive **Debt Cancellation** contributed to the fall of Ur and Larsa not understanding the economic consequences that would take place. This **Debt Cancellation** weakened economic state and contributed to the fall of Larsa to the king Babylon, Hammurabi (1790–1750BC) in 1763BC. It was this debt crisis that brought Hammurabi to power and world fame. It was probably this Debt Crisis that led to the legal code of Hammurabi restrict interest, imposing the requirement of a written contract, with additional wage and price controls.

The Code of Hammurabi Black Basalt Stele - Louvre

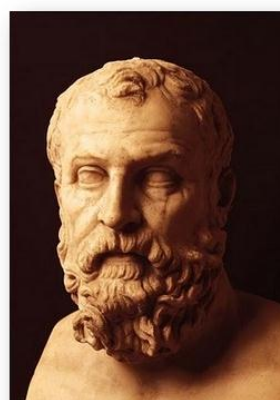
Babylonian law required all deals be in written contract form. Collateral for debt could be land, your person, or your children. Personal slavery for debt was limited to 3 years. Recent discoveries indicate that Hammurabi's Code may have been a copy of even an earlier legal code going back to about 2500BC. The mere fact that there is a legal code of this nature demonstrates not just the existence of credit and debt crisis. The Babylonian legal code requiring contracts set in motion that practices which we still use today.

About 200 years before the fall of the Persians and the migration of the financial capital of the ancient world to Athens, there was also a major private debt crisis in Greece. The same crisis involved credit and debt in the private sector emerge. Under Draco of Athens (675–610BC), for whom we still use the term Draconian, Greek law also allowed personal slavery for debt. The Athenian Oligarchy deliberately used laws to confiscate land and turn the farmers into slaves even selling their families. A private debt crisis was obviously socially quite destructive as we will discover thanks to the Clintons and their denial of a right to go bankrupt for student loans. This effectively still transforms people into economic slave of the bankers.



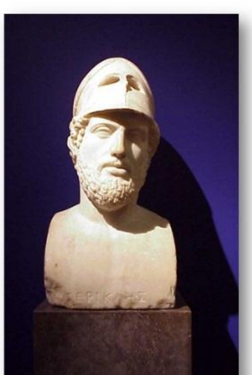
Draco of Athens
(675-610BC)

It was Solon (630–560BC) who came to power in the midst of a major private debt crisis that was devasting the social structure of Athens. The oligarchy confiscated lands and turned people into slaves. Solon had to deal with a major private debt crisis that threatened the extinction of Athens. Solon dealt with the problem of personal slavery as the price of a default which he now outlawed. He decreed that whatever interest had been previously paid was to be applied to principal. This was a solution adopted by Julius Caesar (100–44BC) in a Roman Private Debt Crisis of the Civil War.



Solon
630-560BC

With the rise of Athens after their crushing defeat of the Persian Invasion of 480BC, the Athenian city-state significantly increased spending on state employees, public works, and assistance for the poor. As spending increased, so too did Athens' public borrowing. The first Delian League (478–404 BC) was one readily available source of credit for Athens. The amount borrowed accounted for nearly 40 percent of public spending. In 454BC, the League's treasury was transferred to Athens and they then borrowed excessively to fund monuments of imperial splendor such as the Parthenon. This began known as the Golden Age of Athens built upon debt. Athens had exploited the Delian League to prepare for another Persian invasion that never came. It became the ancient version of NATO that was formed to defend against a Russian Communist Invasion, which also never came. The due extorted from the member Greek city-states was used to create the Athenian Golden Age which inspired resentment that would ultimately lead to war.



Pericles
(c. 495–429BC)

What weakened Athens was its debt. They squandered their wealth much as a lottery winning creating public debt. Then came the plague of Athens, 430–426BC came at the outbreak of the Peloponnesian War (431–404 BC), but it caused the death of the great statesman, Pericles (495–429BC), and also decimated the population and contributed significantly to the decline and fall of classical Greece.

The cost of the Peloponnesian War (431–404 BC) was massive and by 423 BC, the city of Athens owed the Treasury of Athena approximately 7,000 talents, which was 26 kg of silver or the value of 9 years of a skilled worker – over $3 billion dollars in wages of $50k annually. The Athenian state publicly defaulted on its debt to the sacred treasury. Borrowing by various Greek city-states throughout the classical period more often than not ended in default, which sometimes resulted in renegotiation or repudiation.

Athens eventually defaulted during the economically devastating Peloponnesian War (431–404 BC). This is what resulted in the complete debasement of the Athenian Owls reduced to a bronze coin silver plated in 404BC. They had exhausted both their ability to tax and their silver mining revenues. The sacred Treasury of Athena was the main creditor to the city-state during the war. Temples had vast sums of money from people donating money to the gods for favors or forgiveness.

The defaults on debt deeply hurt Athens' reputation. Then in 405BC, the Spartan general Lysander defeated the Athenian fleet in battle. With the fleet defeated, the people in the city of Athens began to starve. They did not have the army to take on the Spartans on land. In 404BC the city of Athens surrendered to the Spartans ending the Peloponnesian War.

The city-states of Corinth and Thebes wanted the city of Athens destroyed and the people enslaved for their extravagance. However, Sparta disagreed. They made the city tear down its walls, but refused to destroy Athens or enslave its people.

The real victor of Persia. Sparta defeated Athens only with financial help from Persia. The Peloponnesian War in Greece merely substituted a Spartan empire for an Athenian one. Sparta took over the Athenian empire and kept all of its tribute revenues for itself. Sparta's allies, who had made even much greater sacrifices for the war effort, got nothing in return. This would ultimately create resentment against Sparta that would lead to yet another war.


Ancient City-State of Sparta

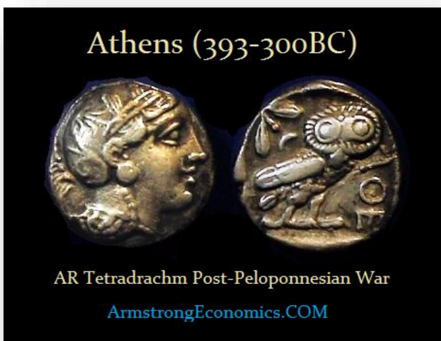
Interestingly, following the Peloponnesian War, Athens' interim government borrowed 100 talents from the victorious Spartans. It was now about gathering wealth so Sparta spared Athens for future profits. Sparta installed a new government known as the Thirty Tyrants. Yet after only about one year, Athens' democratic government returned to power overthrowing the Thirty Tyrants. Nonetheless, the new Democratic government assumed the debt incurred by the interim government and repaid the Spartans in full. It really had no choice. This story is noteworthy as it marks one of the first discernable instances of **Sovereign Debt** that was actually repaid.

The Athenians' timely repayment, however, is anomalous in the long history of public borrowing. Default and renegotiation of public debt is a practice nearly as old and constant as public debt itself. It is ironic that sovereign debt defaults began in Greece who many regards as the pioneers of public debt. We never learn from history for if we look at this Greek practice, it is important to recognize that throughout history governments have rarely been careful stewards of borrowed money. They are exempt from laws and as such have always squandered the resources of the people ending in catastrophic politic unrest.

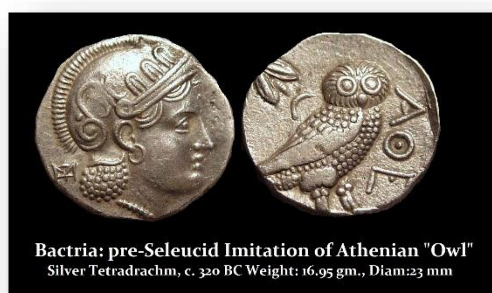
While Sparta won the Peloponnesian War, they did not enjoy their victory for very long. Sparta had also borrowed and owed much to prince Cyrus the Younger (b? – 401BC) of Persia. Now Cyrus needed help when his father Darius II died in April 404BC to defend his right to the throne. The Spartan officer Clearchus, probably acting with tacit approval of his government, supported Cyrus when he revolted. Many Greek mercenaries, professional soldiers who had fought in the Peloponnesian War, joined the expedition, which culminated in 401BC in the battle of Cunaxa, in which Cyrus was killed.

The resentment had swung from Athens and now attached itself to Sparta who was seen as greedy. Sparta was really no match economically for Athens. They had never issued coins and remains as an ancient communistic type of government where loyalty was to the state.

The earliest record of a communistic state was actually Sparta who despised the arts of Athens and material wealth creating a world of where the state dominates over personal freedom. Sparta was founded in the 9th Century BC and its political system was that of a rigid oligarchic constitution. This system was maintained for centuries where two kings would be co-rulers and arbitrated in time of war. During peace, there was a Senate composed of 30 members. Especially from the 5th Century onward, Sparta was devoted to war, diplomacy, and power. It deliberately rejected philosophy, arts, and literature. Its military mentality and devotion to the state produced the most formidable army in ancient Greece. Boys began training for the army at age 7.


Athens (393-300BC)
AR Tetradrachm Post-Peloponnesian War
ArmstrongEconomics.COM

Its communistic life-style precluded any real incorporation with classical Greece. Following the Peloponnesian War, Sparta then over-extended itself and was unaccustomed to managing a free economy. Although the power of Athens has been broken, it made something of a recovery as Athens was a capitalistic economy compared to Sparta. We begin to see the Athens Owl reappear and we then see other neighboring states imitating the Athenian Owls once again. This stands as hard evidence that the rise of Athens in the shadow of Sparta was all about a free economy.


Bactria: pre-Seleucid Imitation of Athenian "Owl"
Silver Tetradrachm, c. 320 BC Weight: 16.95 gm., Diam:23 mm

The rise of Athens on the back of a free economy allowed it to join what would be called the Corinthian War (395–387BC) against Sparta in a coalition of four allied states, Athens, Corinth, Thebes, and Argos, who were initially backed by Persia. Sparta was brought to its knees by Thebes at the Battle of Leuctra in 371BC. Ironically, it would be just 51.6 years from this event that we begin to see the invasion of the Macedonians that conquer all of Greece by Philip II of Macedon conquered all of Greece except Sparta, which was later subjugated by Philip's son Alexander the Great in 331BC.

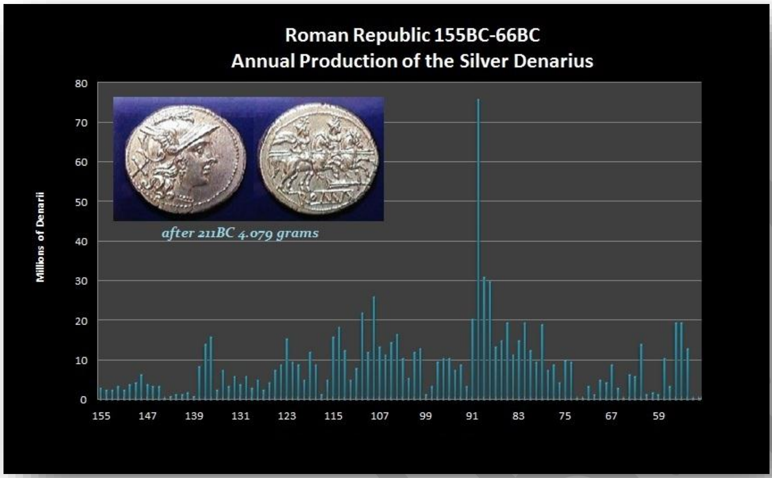
Perhaps the real winner of the Peloponnesian Wars was actually, Persia who had backed each side at different times dividing and conquering the Greeks that it could not do directly itself.

The Temple of Apollo on the Greek Island of Delos
(First Central Bank)

It was effectively this Greek practice of public borrowing that undermined their economy and power which left them vulnerable to the invasion from the North – Philip II or Macedonia. Some 13 Greek city–states borrowed from the Temple of Delos during the fourth century BC. The Temple of Delos was sort of a central bank for the private sector. People would often store their wealth there and then write a check to transfer some amount of money from one account to another. Nevertheless, most of the city–state borrowers, however, never repaid their sovereign loans and the Temple of Delos, the richest in all Greece, took an 80% loss on its principal. It's days of great financial power also came to an end.

Roman Sovereign Debt Crisis

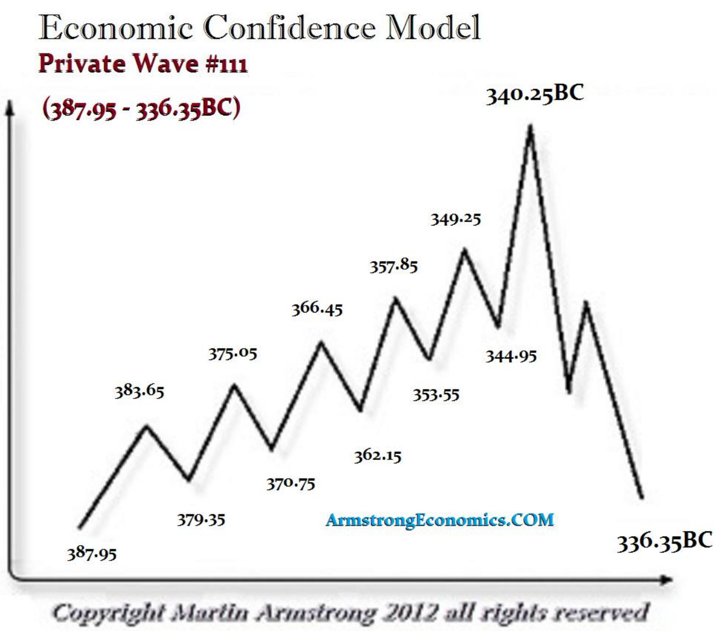
of the 1st Century BC that Ended the Republic



While even I have written more about the 3rd **Century AD Monetary Crisis** of Rome, there has been rarely any coverage of the **Sovereign Debt Crisis** of the 1st century BC that terminated the Roman Republic more or less as the series of Greek Debt Crisis ended the Golden Age of Athens. The **3rd Century AD Monetary Crisis** involved debasement of the currency and corruption but it did not involve a **Sovereign Debt Crisis** where government debt was defaulted on and paid out at pennies on the dollar.

As for Rome, its position on public borrowing was extremely quite stark for it was to be avoided at all costs learning from the history of the Greeks. Consequently, the Romans were also too familiar with the private debt crisis issue. They regulated credit in the famous **Twelve Tables** dating to about 443BC. This legal code followed that of Hammurabi.

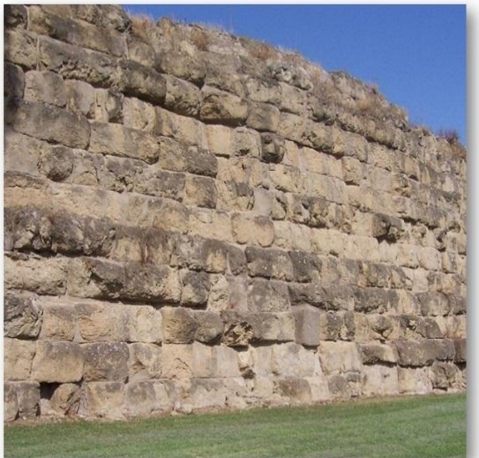
Interest rates were limited to 8 ½% per annum beginning with the **Twelve Tables** circa 443BC. Personal slavery for debt was permitted, but the physical care of the slave was protected by law. Notice, or due process, had to be provided and the debtor would be taken to court and had 30 days to make the payment. If they could not, then the person was seized to work but the creditor then had to feed them.



In 387BC, there was the Gallic Invasion which resulted in the major destruction of property. The **Battle of the Allia** was fought between the Gallic tribe of the Senones and the Roman Republic, which resulted in the sack of Rome, which interestingly was the bottom of the previous Public Wave on the **Economic Confidence Model** (ECM) #110. The Romans had to pay a ransom and thus incurred a public debt. The property destruction also led to a surge in private debt. You might assume this was similar to the Reparation Payments imposed upon Germany after World War I that led to political reform and the rise of Hitler.

Unquestionably, we see major political reform also followed the sack of Rome. During this decade, Gaius Licinius (Calvus) Stolo was the tribune in Rome (376–367BC) who stepped into the middle of the class struggle between the patricians and plebs. Stolo proposed reforms to a number of laws putting forth the ***Lex Licinia Sextia***, which would limit the amount of public land that one person can hold, and he regulated debts and wanted the consulship to go to the plebs.

The proposal to make one consul a plebian was fiercely opposed by the patricians, who held vast political power by monopolizing the consulship and the seats of the Senate. They believed that this was a privilege of the aristocratic class. For five years there was a stalemate for the election of consuls. Finally, in 370BC reaching the bottom of that 8.6–year wave, Rome was once again being attacked by they were being attacked once again. The political stalemate was broken out of necessity.


Rome - Severian Wall

The Romans built the Servian Wall around Rome to prevent the city from being captured or sacked again. Portions of this defensive wall still remain to this day. This was the first fortification that the Romans built around their city. This was costly and was funded with public expenditure. This also added the economic decline in the aftermath of the Sack of Rome in 387BC.

The economic decline in the aftermath of the Sack of Rome created political tension between the classes. The proposal of the political reforms of the ***Lex Licinia Sextia*** came as a debt crisis appeared concerning real estate during the subsequent decade.

The midpoint of the Private Wave of the ECM was approaching in 366BC. On the 2.15–year turning point doing into that turning point the political crisis resumed. In 368 BC after the Roman troops returned, the political controversy between the plebs and the patricians escalated once again. This time, the Roman Senate appointed Marcus Furius Camillus (447–365BC) as dictator politically. This was a political maneuver since Camillus strongly opposed the plebian bills and threatened the use of violence. He was forced to resign under a cloud of reasons. The plebeian tribunes then put the bills to the vote of the Plebeian Council. The bills on land and debt of the ***Lex Licinia Sextia*** were passed, but the proposal for plebeian consuls was rejected.

The Senate then appointed yet another dictator, Publius Manlius Capitolinus. However, he appointed a plebeian as his lieutenant as a step of conciliation. This did not sit well with the patricians. When it was time for the election of the plebeian tribunes, Gaius Licinius and Lucius Sextius announced that they would not stand for reelection unless the plebeians "wanted the proposed measures carried as a whole." Now for the 10th time, the two plebeian tribunes were re–elected which in fact meant that they won. Then they carried the law on the sacred Sibylline Books. This, according to Livy, "was regarded as a further step towards opening the path to the consulship." Livy tells us that "[t]he plebs, satisfied with their victory, made the concession to the patricians that for the present all mention of consuls should be dropped."

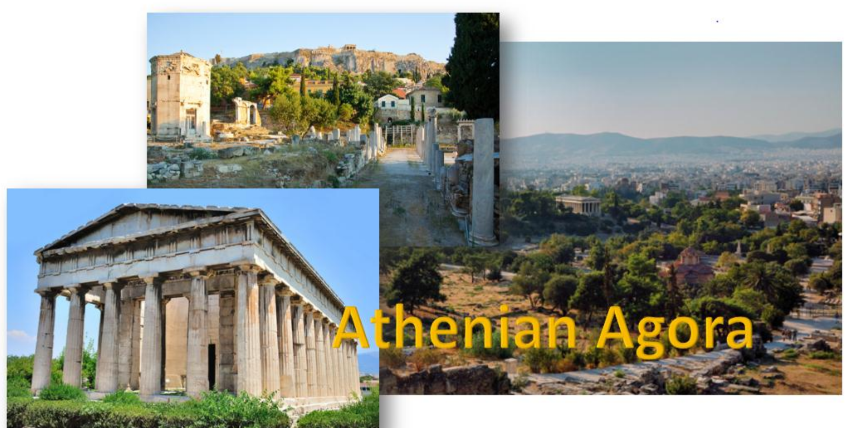
The Triumph of Marcus Furius Camillus (447-365 BC)
by Francesco Salviati - Fesco Sala dell'Udienza, Palazzo Vecchio, Florence

In 367 BC, the Gauls invaded Roman territory a second time. Marcus Furius Camillus was appointed dictator to now fight Gauls. His success earned many to call him the Second Founder of Rome. He would die two years later. The Roman Senate, voted and allowed the proposal of the plebeian tribunes and the two consuls were elected. In 366BC Lucius Sextius Lateranus became the first plebeian consul and the patricians refused to confirm his position. This nearly created a civil war based upon class. Marcus Furius, "however, quieted the disturbances by arranging a compromise; the nobility made a concession in the matter of a plebeian consul, the plebs gave way to the nobility on the appointment of a praetor to administer justice in the City who was to be a patrician. Thus, after their long estrangement the two orders of the State were at length brought into harmony"

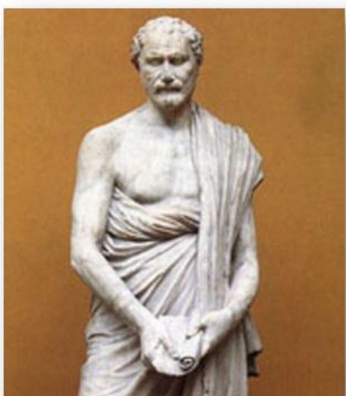
In the aftermath of this political crisis of 367/366BC, the debt reorganization required that all previous interest paid on loans had to be converted to principle payments. Any remainder had to be paid in three annual tranches or installments. The legal rate was once again reconfirmed at 8 ½% implying that during the debt crisis, it must have risen about the previous legal rate of 8 ½%. Insofar as the land reform was concerned, the ***Lex Licinia Sextia*** restricted individual ownership of public land in excess of 500 iugeras (300 acres) and forbade the grazing of more than 100 cattle on public land.

What is most interesting is that there appears to be a Financial Panic which is really a **contagion** involving perhaps the first real estate crash in recorded history that hits both Rome and Athens in similar times. Here in Rome we have a real estate crisis begins about 8.6–years following the sack of Rome in 387BC in the 379/378BC time period which really drags on for about 8.6 years. In the case of Greece, the real estate crisis also beings in the 379/378BC time period and erupts into a banking crisis by 377–376BC.

What sets it off both events appear to involve a tax hike. Athens, in preparing for participation in the Spartan–Theban struggle, reorganized its finances and its taxation. They inaugurated a system whereby the richer citizens are responsible and the tax was place on property setting in motion the real estate crisis much like the S&L Crisis in the United States. Much of the land values were escalating because of the available source of money. Because taxes were imposed on the mere possession of property, this set the peak in real estate prices creating really a one–way market of all sellers.



The Athenian bankers set up shop in the Agora located at the base of the Parthenon Hill. They were first called in Ancient Greece by the name of their tables that they used to conduct business in the open Agora – **trapezion**. The shape of the table was a trapezoid. No two sides were parallel. Moneychangers would be found in the forum or agora as well as temples. The Greek term for bankers became – ***"trapezitai"*** and these were the real money changers or foreign exchange brokers. The word ″***trapeze***″ was most likely a slang derivative extending back to bankers insofar as they spun around changing their position while never touching the ground. While there were moneychangers, the first real credit developed with the merchant trade. It was natural to create credit to expand one's sales. A merchant would provide the product and give the person time to pay. Smaller merchants lacking capital became in reality commission sales agents. This is where banking has always begun. The moneychanger in Greek was known as a ″***kermatistes***″ that is rooted in the word for coin being ″***kerma.***″ Moneychangers did also provide a service of safekeeping and would make payroll payments for some businessmen upon being presented with a draft.



Demosthenes (384-322BC)

The Temple of Athena in Athens kept its donations in the ***Opisthodomos***. The Temple was not earning interest on its hoard of money. The treasurer agreed to lend the money to personal banking friends who would then pay the treasurer interest that he could then personally put in his pocket. The real estate market reached a bubble fever which burst creating a banking crisis manifesting into a liquidity crisis. The bankers could not repay the loans to the Temple and the first real estate crash erupts into a major financial crisis.

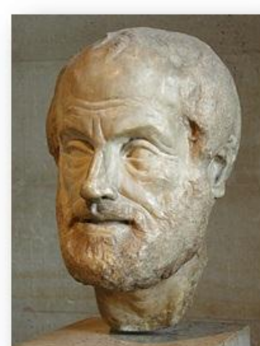
Demosthenes (384–322BC) tells us that banking transactions were completely confidential in Athens. He tells us that the rich could "conceal [their] wealth or in order that [t]he[y] might obtain secret returns through the bank." **Dem 45.66**. The banker Aristolochos was said to have taken substantial deposits and owed many a significant amount of funds (**Dem 46.50**). The bankers Sosinomos and Timodemos failed with many others and were unable to meet demands for withdrawals (**Dem 36.50**).

When the bankers were unable to repay their secret loans from the Temple, a banking crisis in full bloom. To try to cover–up the conspiracy between the Temple treasurer and the bankers, they set fire to the ***Opisthodomos***. Still, the conspiracy was exposed and the Treasurers of Athena were seized and imprisoned circa 377–376BC.

Aristolochos' bank failed as the real estate prices collapsed, (**Dem 36.50**). Then the bankers failed, all of their funds and property were seized. What is interesting is that Demosthenes warns his fellow Athenians of the dire consequences for all of Attica should the banker Phormion be forced into bankruptcy. "Don't throw [him] away! Don't allow this piece of filth to bankrupt him!" (**Dem 57–58**).

What Demosthenes sees in the midst of one of the earliest banking crises in all recorded history, is that the lending of money was clearly a leverage that indeed had supported the entire economy. Real estate is typically the bulk of private assets. If that is undermined, as was the case in 2007, then you end up with a major economic decline. Today, the two main areas of capital formation are government bonds and real estate. According to a report from Zillow, the real estate firm, the total value of U.S. housing stock reached a total of $29.6 trillion in 2016. With a US Federal National debt of $20 trillion, and total debt among the 50 states is $1.2 trillion, then we have a total ration of 1.7x 1 when it comes to equities. If you undermine the real estate market alone, that is equal to that of the share market but it remains highly illiquid depending on banks. Even here during this event in Ancient Athens, the collapse in real estate was devasting. The deep corruption on the part of the Treasurer conspiring with the bankers further undermined the confidence in the state.

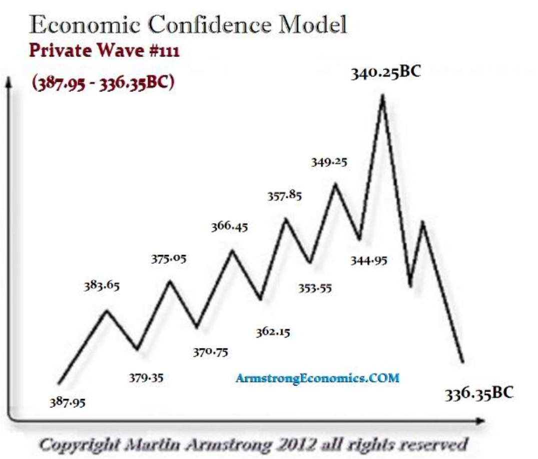
Demosthenes does make it clear that the people should be angry at the bankers who failed (**Dem 49.68**). Reading between the lines implies he was trying to counsel the people that they should not panic and then withdraw their funds from all bankers. They should be justly concerned and outraged by the bankers who have failed, but do not by any means attribute the conspiracy to that of all bankers.


Aristotle
(384–322BC)

Aristotle in his "Politics" argued against the idea of supply and demand insofar as he saw the problem from the demand side disconnected from supply. Aristotle thus saw the problem that demand would rise and fall and sometimes exceed the supply without just cause. He saw these bankers were furthering what he called the **"monied mode of acquisition"** whereby the economy was concerned purely with profit that he described as **"making money from one**

another." Hence, Aristotle's Politics (1256a–1257b) was describing the changing economy as Athens experienced a speculation bubble in real estate.

There appears to have been a second period of a bank failure later on about 336BC going into the bottom of the **ECM wave #111**. This failure in Athens involved a banker by the name of Herakleides, which seems to be caused at least in part by the loss of Athens to the invasion of Philip II (b 382BC; 360–336BC) of Macedon.



However, the bottom of this 51.6–year **ECM wave #111** at 336.35BC also marks the assassination of Philip II and the rise of Alexander III the Great (b 356BC; 336–323BC) as king of Macedonia and Greece. The price of the loss of war resulted in also a conscription was introduced in Athens to now serve Alexander the Great. Young men were required to perform duties which were part military and part civic.

Alexander III of Macedon "*The Great*"
(356 – 323 BC)

Obviously, the **Economic Confidence Model Wave #111** was profound for it culminates in the loss of Greece to Macedonia and this is set in motion by internal corruption and an economic collapse as a result of a real estate bubble. These are words of Demosthenes and Aristotle have been repeated countless times in the midst of every financial panic throughout every century ever since. Even Karl Marx was enthralled with Aristotle and saw this as the bourgeoise rich that had to be eliminated. What everyone missed was the fact this this financial panic undermined the economy of Athens and allow the conquest of Greece by Philip II.

Back in Rome, despite these reforms of the ***Lex Licinia Sextia*** in 367BC, as the ECM moved into the final two waves headed into the major peak in 340.25BC, everything began to get more intense. The course of interest rates during the Roman Empire show that the debt crisis continued and they established a commission in 352BC which was an official attempt to create a bailout system. The state now would lend funds to reduce the outstanding balance on real estate loans. Effectively, this was a real estate crisis where loans were reduced to reflect the current depressed value. For the first time, Rome considered allowing bankruptcies for the entire economy was devasted by the economic collapse in real estate values.

As the economic decline continued, interest rates declined by about 50% in 347BC to 4 1/6% which was even accompanied by a moratorium on lending on real estate. This action merely prevented the crash from resolving itself and prolonged the decline much as Japan sought to intervene following its bubble in 1989.95.

The closure of a free market only caused the economic decline to continue. Following the **Battle of Mount Gaurus** in 343BC, which was the first Samnite War, the troops began to rebel. According to contemporary accounts, the garrisons were filled with men who were poor and homeless debt-ridden. They began to resent that others enjoyed a lavish life. Gaius Marcius Rutilus was one of the consuls elected in 342BC discovered a conspiracy among the troops who thought their power could be used to confiscate wealth. Marcius was actually the first plebeian dictator and censor of ancient Rome. He was elected consul four times. Hence, Marcius began quietly to sift-out the trouble-makers from the mutinous elements in the army. He discharged some from service for having served their time or for disabilities. He also granted furloughs and transferred others to serve somewhere else. However, he was really sending them to Rome to be detained.

The soldiers began to get suspicious and when they realized they were not to rejoin the army and that the leading agitators were being singled out, they realized that they conspiracy to seize wealth had been discovered. They began to ban together to intercept men who were being sent home. According to the contemporary historians, Dionysius and Appian, these mutineers also began to then recruit prisoners to their cause. The mutineers by now gathered a force of 20,000 men according to Appian. Titus Quinctius was offered the leadership for he was a prominent patrician. They believed he would not come voluntarily so they abducted him. This rebel army then set out to march on Rome itself.

The Triumph of Marcus Valerius Corvinus - Krasiński Palace in Warsaw

Livy tells us that when the army was sent to confront these rebels led by Marcus Valerius Corvus, who had been appointed Dictator. They came within 8 miles of Rome when they began negotiations. In a speech to the rebels Marcus Valerius recalled their past services together while Titus Quinctius urged them to entrust themselves to Valerius and his reputation for integrity and sympathy for the common soldiers. Titus Quinctius urged Marcus Valerius to intervene on behalf of the rebel army and secure them from punishment.

Appian's account merely stated that the armies were unwilling to start a civil war and Corvus convinced the Senate to decree a **cancellation of debts** to all Romans, and immunity to the rebels in return they laid down their arms and returned to Rome. Hence, we have a complete debt forgiveness in 342BC going into the high of this **ECM Wave #111**. Interestingly enough, Valerius' triumph over preventing a civil war was even the subject of the pediment on the Krasiński Palace of Warsaw.

The debt cancellation of 342BC did not alter the legal maximum rate of interest fixed at 8 1/3% level going into 340BC. At this time the economy function on just clumps of bronze known as Aes Rude. Coinage does not appear until about 280BC.

Roman *Aes Rude* ("*rough bronze*")
Lumps of Bronze used as MONEY from about 8th Century BC

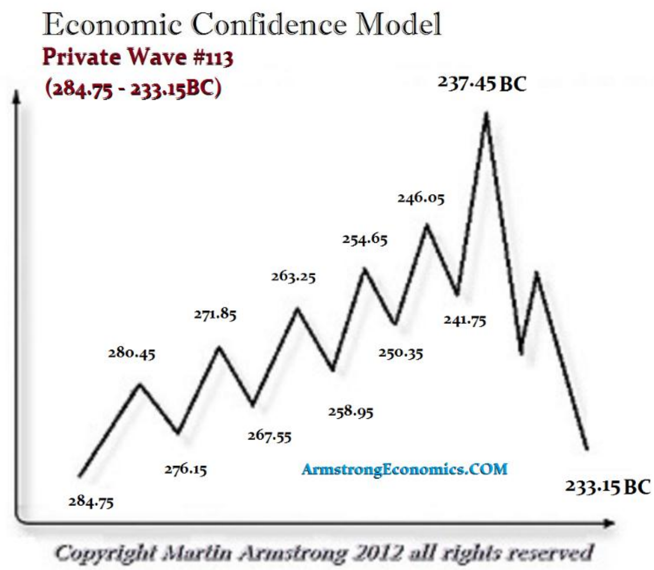
The increasing power of Rome gradually led to its domination of the what became known as the Latin League, which was an ancient confederation of about 30 villages and tribes in the region of Latium region where the city of Rome was located. They originally banded together to mount a mutual defense. The renewal of the original treaty in 358BC formally established Roman leadership over the League but this domination eventually triggered the outbreak of the Latin War (343 – 338BC). Following the Roman victory, the league was dissolved in 338BC in line with the turning point in the **ECM Wave #111**.

After 338BC, the end of the Latin league, Rome renamed the cities municipia (municipalities). In effect, this meant that the towns were now ruled by the Roman Republic and that the people living there were considered Roman colonists. Therefore, the bottom of this wave which took place in 336BC and saw the rise of Alexander the Great in Greece, in Rome we see the beginning of the expansion of the Roman Republic now dominating Latium.

As we then enter a new 51.6–year ECM **Public Wave #112** which will eventually peak in 289.05BC, the first 8.6–year wave resulted in the denial of any right of a creditor to imprison a citizen for debt in 326BC. Given this was a Public Wave, we naturally see a power struggle once again at the peak. The plebs effectively declare a major strike known as the Secessio Plebis (Secession of the Plebs). During a Secessio Plebis, the plebs simply abandon the city en masse. Suddenly, the Patrician could not run the state without the common people.

The Secessio Plebis force the Patricians to accept the ***Lex Hortensia***, which was a law passed in Ancient Rome in 287BC which made all resolutions passed by the Plebeian Council binding on all citizens. It was passed by the dictator Quintus

Hortensius (114 – 50BC) in a compromise to bring the Plebeians back from their strike.



The next 51.6–year Wave of the **Economic Confidence Model** was a **Private Wave #113**. This is when we begin to see the economic expansion of the private sector. At the Battle of Lake Vadimo in 283BC, the Roman army defeated a combined force of Etruscans, Boii and Senones near Lake Vadimo. This was placing Rome in the position of dominating most of Italy. This also begins to see the economic expansion with trade developing.

The Etruscans were rather slow to adopt the invention of coinage as were the Romans. The brief period of Etruscan coinage, with the predominance of marks of value, seems to be an amalgam that reconciles two very different monetary systems: the 'primitive' bronze–weighing and aes grave economy of

central Italy with that of struck silver and gold issues of southern Italian Greek type not familiar in Etruria. Likewise, they tended to issue their gold coinage during The Second Punic War.

Roman Coinage in Greek Denominations (280-211BC)

To accommodate the expansion of trade, this is the Wave where Rome finally begins to mint coins in the denominations of the Greek World using the drachm standard of Athens. However, this appears to be forced upon Rome only by the invasion of Phyrrus in 280BC.

Aes Signatum (5 As Ingot) (Elephant/Sow) (275-270BC)

The Pyrrhic War was a war fought by Pyrrhus, the king of Epirus in Greece who was asked by the people of the Greek city of Tarentum in Calabria, Southern Italy to help them in their war with the Roman Republic after the Etruscans were defeated in the North. During 280BC, the famous Pyrrhic War (280–275 BC) begins with the invasion of some 25,000 men.

Pyrrhic War. We have often heard the Shakespeare line of unleashing the dogs of war. In truth, the ancients used dogs, cats, horses, elephants, monkeys and even Rhinos on the battlefields. However, the Romans were able to defeat Pyrrhus because they used pigs which naturally scared elephants. The Romans commemorated their strategic use of pigs on their earliest coinage known as the Aes Signatum which was an ingot of 5 As of bronze.

CALABRIA, Tarentum (Circa 280-272BC)
AR Nomos (20mm, 6.05 grams)
Nude youth crowning horse/Phalanthos riding dolphin

After Pyrrhus' retreat back to Greece, his former ally in Italy, Taranto, surrendered to Rome. During the years following the Pyrrhic War, Rome completed the conquest of Italy by subduing the Umbrians and Picentes in the north and the Sallentini and Messapii in the south–east. In 264 BC the consul Marcus Fulvius Flaccus put down a social uprising in the Etruscan city of Volsinii and reinstalled the old ruling families in power. That same year his colleague Appius Claudius Caudex led a Roman army across to Sicily, starting the First Punic War and a new phase in the history of the Roman Republic.

Sicily: Siculo-Punic (320BC)
AR Tetradrachm (16.92 grams)
Hd rt Artemis-Arethusa & four dolphins
Horse head rt Palm Tree behind (Jenkins, SNR 56, 176
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As Rome continued to expand during this Private Wave as Roman commerce on the seas was being challenged by Carthage, it was only about one Pi Cycle 31.4 years before the next great war. It arrived in 241BC, and was with Carthage on the coast of Northern Africa known as the First Punic War over the territory of Sicily. Carthage enjoyed a brief, unchallenged period of control of Sicily, which ended with the Pyrrhic War.

Meanwhile, there were more political ramifications that led to more demands of the plebes and as a result in 240BC, they gained finally equal rights with the patricians. This appeared to end the class struggle even into the Second Punic War (218–201BC). Carthage surrendered its claims on Sardinia and Corsica to Rome in 238BC. Carthage had held the dominant sea trade and the Punic people had inherited their ability from their predecessors – the Phoenicians.

During the decline of this Private Wave into 233BC, the Roman bronze As had fallen in weight from 352 grams to about 255 grams. The bronze monetary system was beginning its decline due to inflation and the cost of war. The weight decline was about 25% amounting to a debasement at this point in history.

CARTHAGE: Time of Hannibal (221-218BC) Barcids in Spain
Punic AR 1/4 Shekel (1.7 grams)
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The next **Economic Confidence Model Wave #114** (233.15 – 181.55BC) was a Public Wave which peaked in 185.45BC and as such the Roman Republic now embarked on a major conquest beyond Italy. Rome thus waged war against Spain, Macedonia, and Syria. In 218 BC, the **Second Punic War** was launched as a Carthaginian army departed Cartagena with 38,000 infantry, 8,000 cavalry, and 38 elephants to confront the new rising power in the Mediterranean Basin –the Roman Republic.

CARTHAGE (Circa 310-290 BC) EL Stater (19mm, 7.35 grams)
Wreathed head of Tanit left/ Horse standing right

The Punic goddess Tanit and the horse became the standard types of Carthaginian coinage for the balance of its existence. Tanit was a celestial divinity with the horse on the reverse is usually considered part of the foundation myth of Carthage. According to Virgil's Aeneid, the Phoenician colonists who founded Carthage were told by Tanit to establish the new colony at the place where they discovered a horse's head in the ground.

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In the wake of her defeat in the First Punic War, the coinage of Carthage had been greatly debased, with its extensive gold and electrum series mostly replaced by debased silver and bronze. In contrast, the Carthaginians in Iberia (Spain) enjoyed access to the rich gold and silver mines on the peninsula, which allowed the Barcids to develop a coinage that served their military and political needs. The design was typical Carthaginian in character, often featuring a horse or a horse with a palm tree on the reverse. After 237BC we begin to see the design of an elephant.

This was Hannibal (247–181BC) which we were all taught in school how it sought to invade Italy by land with elephants. This was his most famous achievement marching against Rome with elephants from Iberia (Spain) over the Pyrenees and the Alps into Italy. In his first few years in Italy, he won dramatic victories at the Trebia (218BC), Battle of Ticinus (218BC), Lake Trasimene (217BC), and Cannae (216BC) where he decisively defeated a numerically superior Roman army. He distinguished himself for his ability to determine his and his opponent's respective strengths and weaknesses, and to plan battles accordingly. Hannibal's well-planned strategies allowed him to conquer many allies of Rome.

Philip V of Macedon
(b 238; 221–179 BC)

Rome feared that Macedonia would aid the Carthaginians so they allied with the Aetolian League and Attalus I of Pergamon, against Philip V (221–179BC) of Macedon. This was the First Macedonian War (214–205 BC). There were no major decisive engagements, and the war ended in a stalemate. The objective was to prevent Philip V from joining with Hannibal.

Likewise, in Sicily, there was a change in allegiance from Rome to Carthage. In 215BC, Hieronymus, came to the throne on his grandfather's death and Syracuse fell under the influence of an anti-Roman faction, including two of his uncles, amongst the Syracusan elite. Despite the assassination of Hieronymus in 214BC, and the removal of the pro-Carthaginian leaders, Rome's threatening reaction to the danger of a Syracusian alliance with Carthage forced the new republican leaders of Syracuse to prepare for war. In 212BC, the Romans laid the Siege of Syracuse (214–212 BC) in Sicily breaching

Hieronymos
(215-214BC)
AR 24 Litrai
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the inner citadel and they slaughtered its inhabitants to prevent any alliance with Carthage.

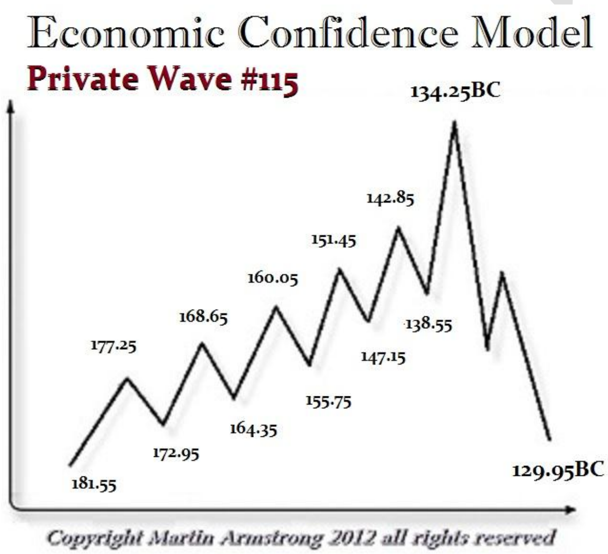

Scipio Africanus
(236-183BC)

Meanwhile, Hannibal had occupied much of Italy for 15 years but was unable to march on Rome. Rome waged a counter–invasion of North Africa which then forced him to return to Carthage. Hannibal was then engaged , where he was decisively defeated by Scipio Africanus (236–183BC) at the **Battle of Zama** in 202BC. Scipio had studied Hannibal's tactics and brilliantly devised some of his own, and he finally defeated Rome's nemesis at Zama, having previously driven Hannibal's brother Hasdrubal out of the Iberian Peninsula. Carthage accepted Roman conditions for peace, including disarmament, a war indemnity of ten thousand talents, and the cession of Iberia, ending the war.

As this **Public Wave #114** moved into its high in 185.45BC, Rome turned toward Greece in 196BC with the Second Macedonian War whereby they surrendered and agreed to pay a war indemnity, ending the war. In 192 BC, there was the Roman–Seleucid War where from Syria the Seleucid Empire invaded Greece. Then in 188BC, Roman–Seleucid War came to an end with the Treaty of Apamea, under which the Seleucid Empire surrendered all territory west of the Taurus Mountains to the Roman clients Rhodes and Pergamon and agreed to disarm its navy and pay a war indemnity of fifteen thousand talents of silver to Rome.

With all the indemnities pouring into Rome, corruption exploded going into the peak 185.45BC. As this **Public Wave** then turned down, we against see political demands and reform. After much political fighting, the ***Lex Villia Annalis*** was enacted finally in 180BC establishing a minimum age for the candidacy of a high political office. It also imposed a requirement of a minimum of two years in private life between offices, was passed. In other words – term limits. There was extensive bribery involving politicians in a Public Wave as often is the case. There was intense competition from a rise in new families attempting to gain success and social change within Roman society. To achieve these goals, we see a significant rise in political corruption. Previous laws had failed to be passed dealing with political corruption.

The ***Lex Villia Annalis*** formed an important part of several legislative changes that sought to deal with the corruption that included outright bribery and corruption resulting from the growing number of candidates for political positions of power. There was a high degree of irregularity in the appointment of senior magisterial positions which would lead to corruption in the rule of law. As always, such reforms come only when the wave crashes at the end.

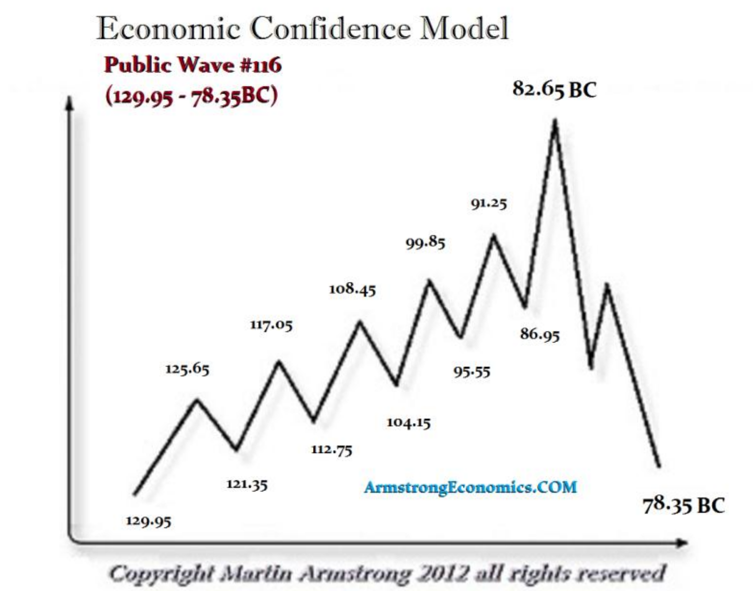


This Private Wave #115 saw major political upheaval as the corruption of the establishment was attacked. The Gracchi brothers, Tiberius (169–133BC) and his younger brother Gaius (164–121BC), were Romans who both served as tribunes. They attempted to pass land reform legislation that would redistribute the major aristocratic landholdings among the urban poor and veterans, in addition to other reform measures.

Tiberius was elected to the office of Tribune of the Plebs in 133BC. He immediately pushed for land reform, partly by invoking the 240–year–old Sextian–Licinian law that limited the amount of land that could be owned by a single individual. Using the powers of ***Lex Hortensia***, Tiberius established a commission to oversee the redistribution of land holdings from the rich to the unlanded urban poor. The commission consisted of himself, his father–in–law and his brother Gaius.


Gracchi brothers, Tiberius and Gaius
(169 – 133 BC) (154–121 BC)

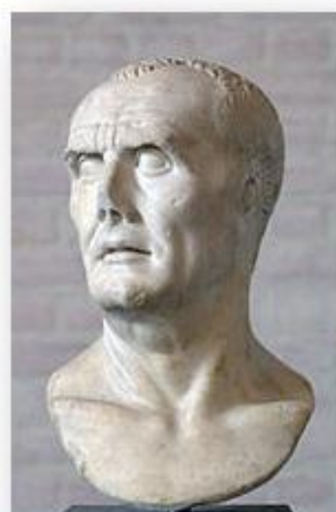
The Senators, including even the most liberal among their ranks, fear that the proposed changes meant their lands would be confiscated. Senators countered and bribed other tribunes to oppose the reforms. Tiberius then appealed to the people, and argued that a tribune who opposes the will of the people in favor of the rich is not a true tribune. The Senators then threaten prosecution after Tiberius's term as a tribune ended since a tribune could not be arrested during his term. Tiberius realized he then had to stand for a second term. The Senators in turn obstructed his re–election bid. They simply had no legal means of defeating Tiberius so they resorted to violence. They gathered in mass and marched to the Forum where they killed Tiberius and some 300 of his supporters beating them to death. We are seriously approaching a similar dangerous position where the great divide between the left and the right will only lead to violence.



As we begin the **Public Wave #116**, Tiberius Gracchus attempted once again to attack the corruption of the establishment in Rome but that lasted for a brief period of two years. Gaius Gracchus was elected to the same office as his older brother in 123BC ten years later. As tribune of the plebeians, Gaius was more practical minded than Tiberius and thus the Senators considered him far more dangerous because he was clever and understood the political game. He gained support from the agrarian poor by reviving the land reform program and from the urban poor with various popular measures. He also sought support from the second estate, those equestrians who had not ascended to become Senators. It was the equestrian class that would get to control a court where any Senator could be put on trial for misconduct in provincial administration. In effect, the equestrians replaced Senators already serving at the court. Gaius strategically was creating a foundation to counteract Senatorial influence. Gaius also imposed price controls fixing the price on grain.

Gaius was popular and as such he held his office for two years which was really illegal in the sense that the office was intended for one term only. Gaius also sought to extend rights to non-Roman Italians which would set the stage for the coming Social War. This effort was vetoed by another Tribune. Many of the Roman poor saw their own privileged Roman citizenship would be diminished and turned against Gaius. This undermined Gaius's support and once again a mob was raised to assassinate Gaius. He realized that his fight against the Aristocrats failed and he committed suicide in 121BC.

Virtually all his reforms were repealed with the single exception of the grain laws. The Senate then hunted all his remaining supporters arresting some 3,000 and put them all to death. Nevertheless, Gaius' efforts to extend the right of citizenship to Italians would end up defining the Social War that devasted Rome and resulted in a Public Default on debt.


Gaius Marius
(157 – 86 BC)

Gaius Marius (157–86BC), an Italian by birth rather than a pure Roman, was a relative newcomer to the Roman elite, and he was considered an outsider by the Senate. It was not until he was in his very late forties and almost past the age of command that he took sole charge of a major war, in this case subduing the renegade king of Numidia, Jugurtha in 112BC. Even this relatively undistinguished placement was only attained in the face of the sternest opposition of senators representing the old patrician families of Rome.

Lucius Cornelius Sulla
(138 – 78 BC)

Lucius Cornelius Sulla (138–78BC), then aged about 30, was brought into Marius's inner circle becoming his brother-in-law by his marriage to the younger daughter of Gaius Julius Caesar, Sr (140–85BC), the Roman senator who was the father of the more famous Julius Caesar. Gaius Caesar was a supporter Marius. Gaius Caesar was married to Aurelia Cotta, a member of the Aurelii and Rutilii families. They had two daughters, known as Julia Major and Julia Minor, and a son, who became the famous Julius Caesar born in 100BC. Marius had married Caesar's elder daughter, making him and Sulla brothers in Roman law. These marriages had served them well; Marius gained an entrance into the highest noble circles and Sulla gained a return to patrician status following the squandering of his inheritance by his alcoholic father. Both men clearly had a lot to prove in the coming wars.

Faustus Cornelius Sulla (56 BC)
AR Denarius Rome Mint Diademed bust of Diana rt/
Sulla seated Bocchus offering olive branch; to right,
Jugurtha kneeling hand bound behind his back

The campaign against Jugurtha proved difficult, as the Numidian had served Rome as an auxiliary in his younger years and was familiar with their tactics, but it was ultimately successful. Sulla personally captured the desert chieftain in a daring raid and brought him back to Marius's camp in chains. He even issued a coin depicting Jugurtha kneeling before Sulla.

Marius, with Sulla again as his military tribune, then turned north to confront the German tribes who had already devastated Roman armies sent against them. The casualties from the **Battle of Arausio** were said to eclipsed even the losses inflicted by Hannibal at Cannae reaching 100,000 Romans and Italians. Marius and Sulla captured and enslaved over 80,000 people in their confrontations with the Germans.

During his consulship in 106 BC, he passed a controversial law, with the help of the famous orator Lucius Licinius Crassus (140–91BC), by which the jurymen were again to be chosen from the senators instead of the equites (Cicero, de oratore 1.255; pro Cluentio 140; Tacitus, Ann. xii. 60). However, it appears this law was overturned by a law of Gaius Servilius Glaucia in either 104 or 101 BC.

It was Marius who had introduced many military changes to the Roman legions. There is some evidence that suggests by 135BC there had been a law passed that prohibited second consulships – a term limit. However, with news that the Cimbri tribe was marching against Rome, a state of emergency led they to ignore the law and Marius was again chosen consul. Marius was elected to an unprecedented five successive consulships (104BC –100BC). He returned to Rome by January 1, 104BC, when he celebrated his triumph over Jugurtha, who was first led in the procession.

Lucius Appuleius Saturninus (104 BC)
AR Denarius (19mm, 3.90 grams) Rome mint
Helmeted head of Roma left / Saturn driving quadriga right
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Lucius Appuleius Saturninus (died late 100 BC) was a Roman populist and tribune. He was a quaestor (104 BC) he was in charge of the treasury and thus was a moneyer who attached his name to the coin production that year. He also superintended the imports of grain at Ostia. For some unknown reason, he was removed from office by the Roman Senate and replaced by Marcus Aemilius Scaurus, who was one of the chief members of the Optimates. There were no criminal charges against him or allegations of mismanagement, and it appears to have been political corruption. This injustice apparently made him a member of the opposition known as the Populares.

The following year, in 103 BC, Saturninus was elected tribune of the people. He entered into an agreement with Gaius Marius, and in order to gain the favor of his soldiers proposed that each of his veterans should receive an allotment of 100 iugera of land in the Roman province of Africa. He was also chiefly instrumental in securing the election of Marius to his fourth consulship the following year in 102 BC.

An opportunity to retaliate against the Optimates was also presented in 101BC by the arrival of ambassadors from Mithridates VI of Pontus. Large sums of money were provided for bribing the Senate. Saturninus apparently exposed these machinations which insulted the ambassadors. The Senate brought Saturninus to trial for violating the law of nations and he escaped conviction by appealing to the people.

Saturninus introduced his law on majestas which was most likely intended to strengthen the power of the tribunes and the Populares. They would be able to bring charges for any act that tended to impair the integrity of the Commonwealth, which we would call treason.

Marius, despite his victories, was still looked down upon by the Senate for being an Italian rather than a Roman. He found himself very much treated as an outsider so he entered into an alliance with Saturninus and his ally Gaius Servilius Glaucia. They then had the support of the veterans of Marius and many of the common people. By the aid of bribery and assassination Marius was elected (100 BC) consul for the sixth time, Glaucia praetor, and Saturninus tribune for the second time.

Saturninus now brought forward an agrarian law, the ***Lex Appuleia Agraria***, which proposed that all the land north of the Po that had been in possession of the Cimbri, should be distributed among the veterans of Marius.

Colonies were to be founded in Sicilia, Achaea, Transalpine Gaul, and Macedonia, were supposed to be purchased with the **Gold of Tolosa**, ancient Toulouse. As the story goes, the temple treasures of Tolosa were embezzled by Consul of 106BC Quintus Servilius Caepio. Caepio was actually the uncle of Marcus Junius Brutus was the son of Julius Caesar's former mistress, Servilia. Caepio plundered the temples of the town of Tolosa finding over 50,000 fifteen–pound bars of gold and 10,000 fifteen–pound bars of silver. This was supposed to be the semi–legendary treasure looted during the sack of Delphi during the Gallic invasion of the Balkans in 279BC. The riches of Tolosa were shipped back to Rome, but as the account records, only the silver made it. The gold was stolen by a band of marauders, who were believed to have been hired by Caepio himself. Consequently, the **Gold of Tolosa** was never found, and was said to have been passed all the way down to the last heir of the Servilii Caepiones, Marcus Junius Brutus (85–42BC), the assassin of Julius Caesar (100–44BC).

Brutus (85-42BC)
"Eid - Mar" *Denarius Professing He Killed Julius Caesar on the Ides of March*

Since the **Gold of Tolosa** vanished, the land of the colonies could not be funded. Therefore, the tension rose when Italians were to be admitted to these colonies which were not Roman. The Senate did not truly recognize that Italians were to be treated equally with Romans. As a result, a Roman mob strongly opposed the bill and Saturninus was obliged to call up rural voters from outside the city to pass the bill. Circumventing the Romans, the bill also required within 5 days every Senator should take an oath to observe it, under penalty of being expelled from the Senate and heavily fined. You can imagine that Saturninus was fighting against the establishment. All the Senators did take the oath except Metellus Numidicus (c 160– 91BC), who chose to go into exile given he was the leader of the extreme–right faction of the Optimates.

Saturninus also put forth another bill that was to gain the support of the people by supplying grain at a nominal price being subsidized by the government – an early version of welfare. The most likely was to reduce the already cheap price fixed by the grain–law of Caius Gracchus.

L. Calpurnius Piso Caesoninus & Q. Servilius Caepio (100BC)
AR Denarius (19mm, 3.80 grams) Saturn head right
The two quaestors seated left between two Grain Ears
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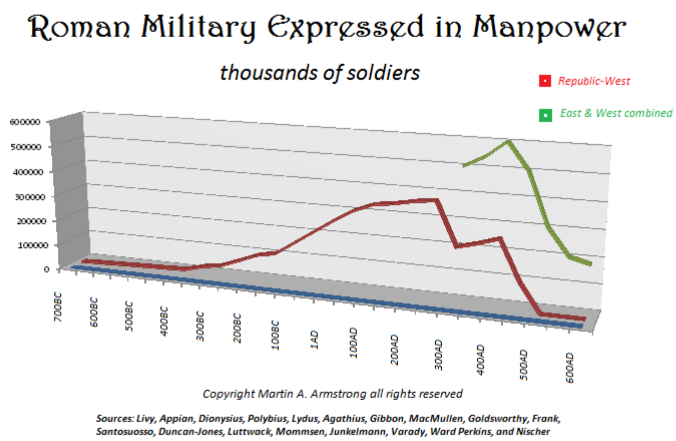
The quaestor Quintus Servilius Caepio the Younger declared that the treasury could not stand the strain, and Saturninus' own colleagues interposed their veto. Saturninus demanded the voting to continue and the Senate proceedings were declared void. Saturninus' ***Leges Appuleiae*** were finally passed by the aid of the Marian veterans. Senatorial opposition to the laws introduced by Saturninus led to an internal political crisis. Nevertheless, Carpio being the quaestor (treasurer) issued a coin confirming the crisis converging the issue of grain laws.

While Marius had aligned with Saturninus during his sixth consulship 100BC who even succeeded in achieving the exile of Marius' personal enemy, Numidicus, Saturninus went too far. Saturninus and Glaucia had their opponent, C. Memmius, assassinated during the elections for 99BC, which ended in political unrest. The Senate issued its ***Senatus Consultum Ultimum***, and ordered Marius, as consul, to put down the revolt. Marius politically had no choice and complied. Marius attempted to keep Saturninus and his followers alive by locking them safely inside the Senate House. However, an angry mob breached the facility and killed both inside. Marius hoped that the Senate would finally accept him instead of always regarding him as an outsider Italian.

Meanwhile, the reality was the simple fact that the Republic was so starved of men from its endless wars and battles. To serve in the army you actually had to be a citizen and land-owner. This was a reform that took place after the rebel army of 342BC that was confronted by Marcus Valerius Corvus. It was believed that you would defend against the loss of personal property rather than placing power in the hands of the poor. However, land-owning citizens of the correct age were greatly depleted. Many legionary men found that their enlistments were being arbitrarily extended. This only resulted in an economic decline as there was a shortage of labor Italy.

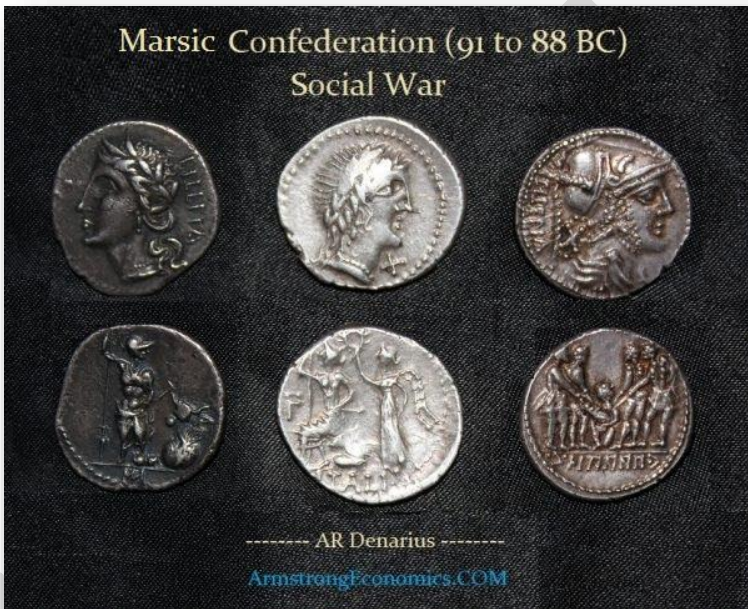
Marius understood the crisis and begun enlisting common men without property or the means to equip themselves with weapons. The Roman Senate profoundly resisted this change. However, the economic conditions compelled them to eventually accept Marius' reforms. This would profoundly change the Roman legions for soon it was not a means to become a property owner as land became a promise of pensions. The legions thus were now paid rather than made up on volunteers and the professional Roman Army was born.



The soldiers signed up at first for a period of 16 years, which was later extended to 20 years which has been adopted even in modern times for government employees. They would now serve with the promise of a bonus and a plot of land to work in retirement. Their generals, whom they now served for long periods of time could also reward them with bonuses as spoils of war on particular engagements. This would eventually lead to the loyalty of the legionaries was transferred to their General rather than to a homeland or even to the Roman Senate. Of course, over the course of the next two centuries, this would lead to the breakdown of the Roman economy as legions would sack Roman cities that were rivals to their particular General.

Marius' victory over the German tribes led many to call him ***"the third founder of Rome."*** Nevertheless, the Senate passed a decree in 95BC expelling from the city all residents who were not Roman citizens known as the ***Lex Licinia Mucia***. In 91BC Marcus Livius Drusus (130–91BC) was elected tribune of the plebs and proposed a greater division of state lands, the enlargement of the Senate, and a conferral of Roman citizenship upon all freemen of Italy.

The Senatorial elites, Optimates, had really become an oligarchy within Rome itself and did not wish to accept anyone other than Romans as citizens denying that to all other Italians. Perhaps they feared the power of Marius and remembered he was an Italian as distinguished from a Roman. Nevertheless, the oligarchy murdered Drusus for making such a proposal, and this resulted in many of the Italian states then revolting against Rome in the **Social War of 91–88 BC**.



The **Social War** was really a separatist movement. While the Latins as a whole remained largely loyal to Rome, the exception was Venusia. The rebellious allies sought not just the separation from Rome, but also the creation of their own independent confederation, called Italia. The capital was to be located at Corfinium (modern Abruzzo) that was renamed Italica. To pay for the troops, they created their own coinage which was used as propaganda against Rome with the legend Italia.

The Italian soldiers were battle–hardened, most of them having served in the Roman armies so they were aware of Roman tactics and strategies. The 12 allies of Italia had an army of 120,000 men. The coinage of the Italians depicted an Oath–taking scene to the new confederation.

The revolution of Italia which began toward the close of the year 91BC, was really the long–standing accumulation of grievances of being treated as subservient to Romans. The Marsi were the leaders of this uprising. They were located about midway between Rome and the East Coast almost dead East near modern Avessano. The Marsi were an ancient people of Italy who made an alliance with Rome that lasted until the **Social War of 91–89BC** which ended when the allies were finally given Roman citizenship.

They managed to defeat both consuls for 90BC. Rome appeared to be in serious danger. Marius took command in 90BC following the deaths of the consul, Publius Rutilius Lupus, and the praetor Quintus Servilius Caepio who lost some 8,000 men in a trap. Marius actually fought along with Sulla against the rebel cities during the **Social War**. However, Marius retired during the **Social War** because of health. He may have had a minor stroke. Nevertheless, Rome yielded providing the political concession of granting Roman citizenship. Thereafter, all of Italy south of the Po was united by this common bond.

Following the **Social War**, Sulla, on the other hand, remained deeply involved in national and military affairs. When now a new enemy sprung up in Asia, Mithridates of Pontus (134–63BC) who sought to conquer Greece and take it away from Rome. In 88BC, Sulla was elected consul. Marius seems to have made a recovery. Hence, the choice before the Senate was to put either Marius or Sulla in command of an army which would aid Rome's Greek allies and defeat Mithridates. The Senate chose Sulla, but soon the Assembly appointed Marius most likely thanks to the corruption of Publius Sulpicius Rufus (121–88BC) who was a famous Tribune of the Plebs. Marius offered a bribe promising to erase all his debts. However, Sulla refused to acknowledge the validity of the Assembly's action.

Mithradates VI the Great
(134 BC – 63 BC)

Sulla left Rome and traveled to take command of the army at Nola given to him by the Senate. Sulla urged his legions to defy the Assembly's orders to follow Marius and accept him instead as their rightful leader.

Sulla was successful and the legions stoned the representatives from the Assembly to inform them that Marius was their leader. Sulla then commanded six legions to march with him to Rome and institute a civil war. Ironically, it was Marius' reforms that resulted in the legions remaining loyal to Sulla over the Senate. This was a momentous event, and was unforeseen by Marius, as no Roman army had ever marched upon Rome — it was forbidden by law and ancient tradition.

Lucus Cornelius Sulla (138-78BC)
AR Denarius (17mm, 3.86 grams) struck (84-83 BC)
by a Military mint moving with Sulla
Diademed head of Venus right; to right, Cupid standing left, holding palm frond; L SVLLA below / Capis and lituus between two trophies; IMPER above, ITERVM below

The significance of this issue is that there is no reference to Senatorial Authorization for striking this coinage confirming a Civil War

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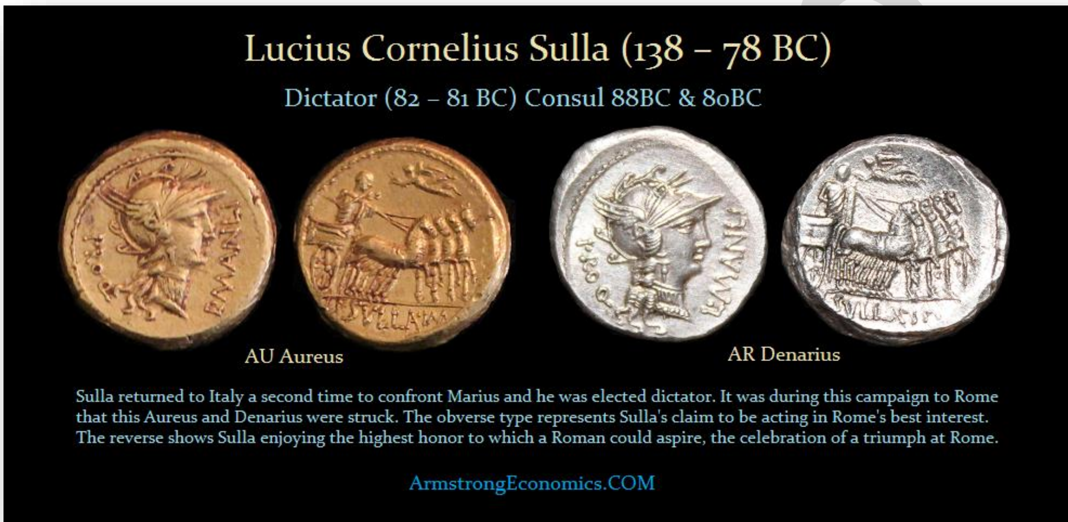
Sulla began to issue his own coinage claiming Imperator striking them in a military mint that traveled with him. The coins made no mention of Senatorial Authorization. This along sent the signal that civil war was at hand. Obviously, Sulla was going to defy the Senate and seize Rome by force. Marius attempted to organize a defense of the city using gladiators. Unsurprisingly Marius' ad–hoc force was no match for Sulla's legions. Marius was defeated and fled Rome.

Marius narrowly escaped capture and death on several occasions and eventually found safety in Africa in exile in Carthage. Sulla and his supporters in the Senate passed a death sentence on Marius, Sulpicius and a few other allies of Marius. A few men were executed but (according to Plutarch), many Romans disapproved of Sulla's actions. Nevertheless, Sulla's command was confirmed again with respect to the campaign against Mithridates. Sulla departed Rome taking his legions to march east to war against Mithridates.

Marius managed to emerge from Africa, where he raised a token force and then sailed for Rome. Marius was able to overpower the forces that Sulla had left in place in Rome. Along with his ally, Lucius Cornelius Cinna (b? – 84BC), Marius now attacked and killed Sulla's supporters without any trial. Marius declared himself consul with Cinna as his counterpart, thus holding the office for a record seventh time. Marius then engaged in proscriptions confiscating the property of anyone who supported Sulla nearly bankrupting Marcus Licinius Crassus (112–53BC) who would later become the richest man of Rome. Marius also retaliated and then declared Sulla an outlaw in turn before he died.



Upon learning of the events back in Rome, Sulla struck a peace with Mithridates and once more marched on Rome a second time. However, Sulla arrived too late to deal personally with the man who had been his brother-in-law and ally. Marius had died but, in his stead, would emerge his son.

This time, Sulla responded and executed all Marian supporters and Cinna. Sulla issued coinage in 83 BC when he returned to Italy. It was during this campaign to Rome that these aureus and denarius were struck. The obverse type represents Sulla's claim to be acting in Rome's best interest. The reverse of these coins shows Sulla enjoying the highest honor to which a Roman could aspire, the celebration of a triumph at Rome.

The in 82BC, Sulla's **Second Civil War** was now fought against Gaius Marius Minor (110–82 BC) the younger. Gaius Marius Minor's mother was Julia, an aunt of Julius Caesar. The Young Marius was elected to the consulship for 82 BC which was a political move to raise popular support and enthusiasm for the war against Sulla. Legally, Marius was much too young to be an elected consul. Many old veterans from his father's troops came out of retirement and flocked to the younger Marius's side. At the subsequent **Battle of Sacriportus**, his army numbered 85 cohorts or about 51,000 men.

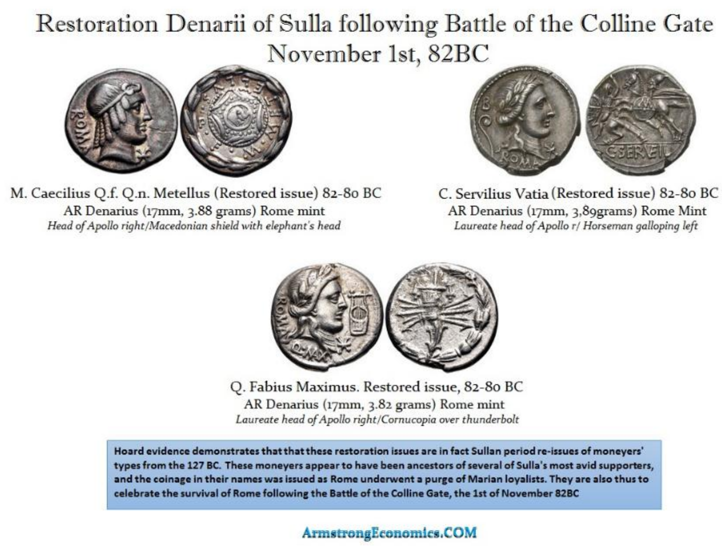
Sulla defeated the Young Marius army and he retreated with only about 7000 men surviving. Young Marius ordered Damasippus, the Urban Praetor, to kill all those who were likely to support Sulla's return, including his father–in–law. Young Marius committed suicide so as not to fall into enemy hands.

The Marian leaders decided to risk everything and launch an attack upon Rome. The city was undefended, and dangerously vulnerable to attack. The Samnites and their allies clearly caught Sulla by surprise. They believed Samnites that the could take advantage of the civil war to conquer Rome. By the end of the first day, the Samnites reached the Alban Hills, and camped only 11 miles from Rome.

Sulla sent his cavalry to try and delay the enemy advance, and then led the rest of his army back towards Rome. On the second day was the famous **Battle of the Colline Gate**, the 1st of November 82BC, when the Samnites reached Rome, and took up a position around the walls. The young nobles of Rome came out of the city to attack the Samnites. However, they were grossly outnumbered and quickly overwhelmed. The left Rome in the most dangerous position since Hannibal had camped outside the city. Velleius Paterculus recorded the words of Telesinus – ***"The last day is at hand for the Romans. These wolves that have made such ravages on Italian liberty will never vanish until we have cut down and destroyed the forest that harbors them".***

The first of Sulla's men to arrive was a force of 700 cavalry under Balbus. They paused for a few moments to let their horses recover, and then plunged into the battle. Sulla arrived at the northern end of the city at about noon, and encamped by the **Colline Gate**, near the temple of Venus. At that point in time, the temple was outside the walls of Rome. He ordered his men to eat, and then form into order of battle, ready to attack. His lieutenants, Dolabella and Torquatus, urged him to give his men to time to recover from the march, as their opponents were Samnites and Lucanians and thus more dangerous than Carbo or Marius.

Sulla refused to accept their advice, and attacked at around four in the afternoon. Sulla's left wing was hard pressed and Sulla himself was on his white horse which made him an obvious target. Sulla's left was defeated. Some of his troops fled into the city. The walls were defended by some of the old soldiers who lived in Rome, and when they saw some of the Samnites coming through the gates along with the refugees, they dropped the portcullis, killing a number of their own men.

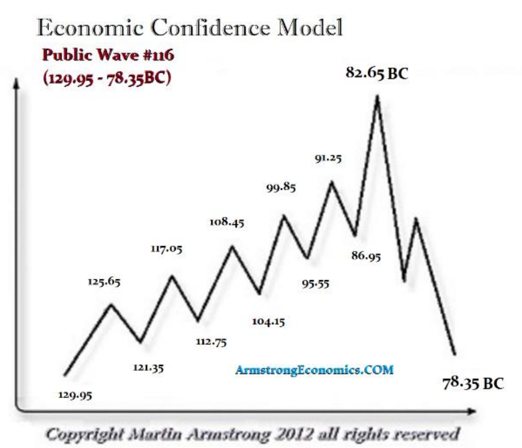


Sulla and some of his men managed to get back to his camp near the **Colline Gate**. His right wing, which was commanded by Crassus, was victorious. Sulla didn't discover this until late in the night, when a message arrived from Crassus asking for food for his men. He had defeated the Samnite left and pursued them for two miles north of the city.

The battle continued into the night. The following day, Sulla joined Crassus. Some of the inhabitants of the town sent messengers to Sulla to sue for mercy. He agreed to spare them if they would first attack their fellow defenders. This triggered a battle within the city of Antemnae, after which Sulla took 6,000 prisoners from both sides.

In the aftermath of the battle Sulla massacred a number of the prisoners, making sure that the killing began at the same time as he was addressing the Senate. Among these prisoners were the 3,000 men who had surrendered on terms Sulla refused to honor. Contemporary accounts place the casualty figures at 50,000 on each side. Sulla had 8,000 Samnite prisoners killed with darts. The leaders were beheaded. This convinced the defenders to surrender. Marius the Younger attempted to escape, but his route was blocked and he committed suicide.

This ended the military phase of the Civil War, but it was now followed by Sulla's prescriptions. Official lists of the 'guilty' were published in Rome, and anyone could then kill them and claim reward. Appian says that 40 senators and 1,600 knights were proscribed. Plutarch in his life of Sulla has the proscriptions begin with a list of 80, followed by two lists of 220, for a total of 520 proscriptions in three days. It was also illegal to help anyone who had been proscribed, and again the punishment was death. The same happened across Italy, where any sign of support for the defeated faction could lead to a death sentence, as could the possession of riches.

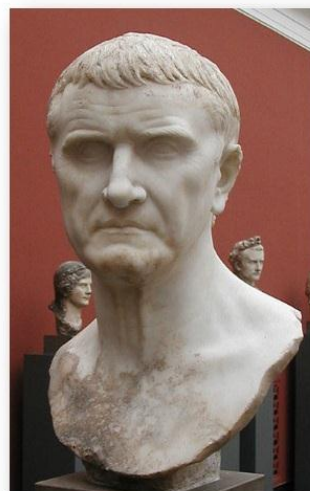


At the very peak of this **Public Wave #116**, the Senate appointed Sulla dictator ***legibus faciendis et reipublicae constituendae causa*** ("dictator for the making of laws and for the settling of the constitution") with no expiration. Sulla was handed total control of the city and republic of Rome, except for Hispania where Marius's general Quintus Sertorius had established as an independent state. Sulla established the precedent for Julius Caesar's dictatorship, and for the eventual end of the Republic under Augustus (27–14AD). Ironically, this wave bottoms in 78BC which is when Sulla dies.

Sulla began his great purge instituting a series of proscriptions which confiscated the property of individuals without trial and their summary execution. Plutarch states: "Sulla now began to make blood flow, and he filled the city with deaths without number or limit", further alleging that many of the murdered victims had nothing to do with Sulla, though Sulla killed them to "please his adherents" (Life of Sulla XXXI).

> *"Sulla immediately proscribed eighty persons without communicating with any magistrate. As this caused a general murmur, he let one day pass, and then proscribed two hundred and twenty more, and again on the third day as many. In an harangue to the people, he said, with reference to these measures, that he had proscribed all he could think of, and as to those who now escaped his memory, he would proscribe them at some future time."*

Plutarch, Life of Sulla (XXXI)



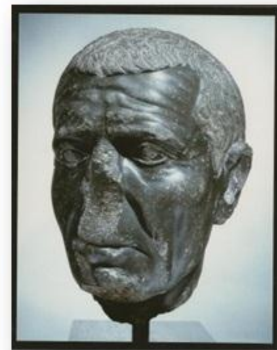
Marcus Licinius Crassus
(c. 112 – May 6th, 53 BC)

Marcus Licinius Crassus (112–53BC) was concerned about rebuilding the fortunes of his family which had been confiscated during the Marian proscriptions. Crassus became a military commander under Sulla. It was thus under Sulla's proscriptions where Crassus gained the property of Sulla's victims buying them cheaply at when auctioned off. Sulla supported these confiscations and allowing his supporters to buy those assets cheaply to strengthen his supporters.

The proscriptions of Sulla confiscated the assets of his political enemies who also lost their lives as well as fortunes. Interestingly enough, their female widows and daughters, were forbidden to ever remarry to prevent them from regaining wealth and seek revenge.

Contemporary accounts tell us that Crassus made part of his money from proscriptions. It was said that he would target people for a proscription who was not on the list just to confiscate their property and wealth. Crassus became the richest man in Rome and Pliny estimated his wealth to be 200 million sestertii. Plutarch, in his "Life of Crassus," states that his wealth reached 7,100 talents or 7.4 million troy ounces.

Crassus also made money from the slave trade. He also owned silver mines. But he was a proficient real estate speculator. Crassus had over 500 slaves. He also specialized in buying property which had been destroyed by fire as well as those that collapsed structurally. He was said to have purchased 'the largest part of Rome' and would rebuilt destroyed properties them with slave labour.



Julius Caesar
(100-44BC)

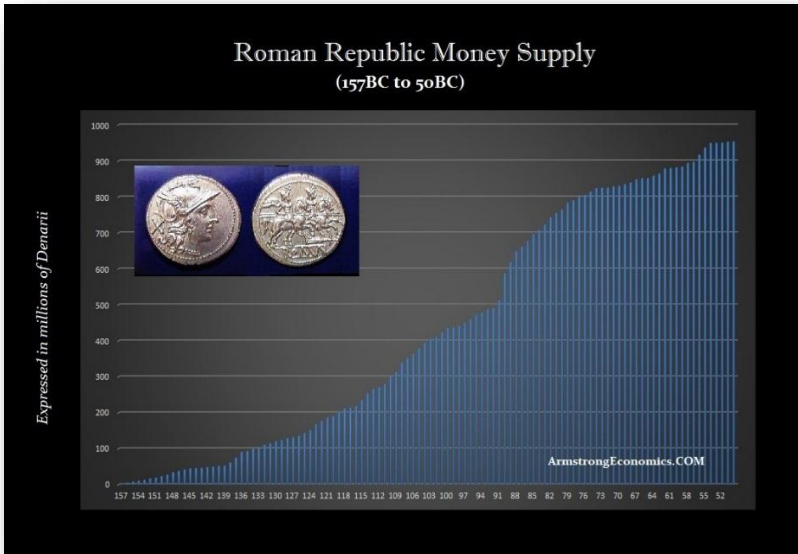
In 85BC, Julius Caesar's father Gaius died suddenly leaving Julius Caesar as the head of the family at the age of 16. This coincided with the Civil War between his uncle Gaius Marius and his rival Lucius Cornelius Sulla. Julius Caesar was nominated as the new *Flamen Dialis* (high priest of Jupiter), and he was then married to Cinna's daughter Cornelia.

Following Sulla's final victory, Caesar's connections to the Marius rendered him a target of Sulla. He was stripped of his inheritance, his wife's dowry, and his priesthood, but he refused to divorce Cornelia and was forced to go into hiding. The threat against him was lifted by the intervention of his mother's family, which included supporters of Sulla, and the Vestal Virgins. Sulla gave in reluctantly and is said to have declared that he saw many a Marius in Caesar. Ironically, the loss of his priesthood had allowed him to pursue a military career.

Caesar fled Rome fearing Sulla could just as easily change his mind. Caesar joined the army, serving under Marcus Minucius Thermus in Asia and Servilius Isauricus in Cilicia. He served with distinction, winning the Civic Crown for his part in the Siege of Mytilene. He went on a mission to Bithynia to secure the assistance of King Nicomedes's fleet.

Only after Sulla died in 78 BC, did Caesar return to Rome. He lacked means since his inheritance was confiscated. He turned to legal advocacy and became known for his exceptional oratory accompanied by impassioned gestures and a high–pitched voice, and ruthless prosecution of former governors notorious for extortion and corruption. Caesar had been forged into a Populares. Indeed, Sulla had created another Marius, but one with intelligence and understanding of the political system. So, the bottom of this **ECM Wave #116** in 78BC marked the beginning of the career of Julius Caesar as the **ECM Wave #111** marked the beginning of Alexander the Great.

The Sovereign Debt Crisis



With the proscription of Sulla and the high cost of so many conflicts, there was a **Sovereign Debt Crisis** which emerged with the collapse of the **ECM Wave #116**. The Roman Republic period which resulted in a dictatorship and a debt default. The Roman Debt Crisis of the 1st century BC has left behind a vivid account of what took place. The volume of gold and silver in Italy had increased dramatically during the late 2nd century BC following the Punic Wars. Roman citizens were even exempted from taxes. We have the first real gold coins issued by the Roman Republic during the Punic War period.

Nonetheless, this **Concentration of Wealth** that Rome experienced was like the capital concentration experience by the United States after World War I and II. We can see that the accumulative money supply produced an economic and inflationary boom. Where the US expended much of its wealth expanding military bases around the world and rebuilding the economies of Europe, in the case of Rome, its excess capital was rapidly absorbed by commercial expansion and investment in lands it had conquered as up and coming emerging markets.

This period of excessive concentration of capital and large profits came to an end for Rome with the rise of the **Social War of 91–88BC** followed by the Civil War in 82–81BC. The **Social War** waged between the Roman Republic and several of the other cities in Italy (no taxation without representation) led to the complete bankruptcy of the Roman State which is why they yielded granting citizenship. We can see the dramatic rise in the money supply created during this time of war. This turmoil was then followed by the dictatorship of Sulla and his proscriptions which undermined the entire economy and caused capital to be withdrawn and hidden. Sulla attempted to control the debt crisis capping interest rates at 12%. The previous legal rate was capped at 8.5%, but obviously, the market had exceeded that limit and Sulla had to confront that reality in 88BC. The debt crisis continued and then in 86BC, the government was compelled into default. This is when the **Valerian Law** came into play and this remitted 75% of all debts. The State debts were deflated and reduced to 25%.

Yes. In all honesty, it was the **Sovereign Debt Crisis** contributed to the collapse of the Roman Republic. It would culminate in yet another Civil War where the majority of people supported Julius Caesar and his political philosophy of being a Populares. The Plebes cheered Caesar and expected him to cancel all debts owed to the Oligarchy who called the Senate – the Optimates.

Roman Banking

The historian Tacitus, (circa 58 –120AD), alluded to the Law of the Twelve Tables of circa 450BC and it appears that what emerged as a private debt crisis resulted in the prohibition of usury probably enacted in or about 342 BC. Ironically, once coinage began to appear in Rome in 280BC, debt could then lead to a form of serfdom, which the Latins named nexum – 'debt slavery'. The insolvent debtor was convicted and awarded to his creditor, to work on his land. He could not be sold, he was not slave merchandise, he remained within the territory of the city (unlike the slave merchandise, who was almost never a slave in his own region) and was still considered a citizen, but he had permanently lost his freedom. This debt bondage, which caused much social unrest, especially in the fourth century BC. was finally abolished by law, in 326BC, for Roman citizens. This contributed to the rights demanded for citizenship during the **Social Wars**.

The end of the fourth century BC. was marked by a strong social reaction against indebtedness, but if the debt bondage was never subsequently reinstated for Roman citizens, the abolition of interest lending did not last for very long, and was never again abolished. Harsh private debt crises occurred during the following centuries, in Italy and in the whole of Roman domination. Thanks to the works of Cicero. These Italian crises were of particular importance because of the standing of Rome itself, its elites and the trade which guaranteed its supplies. However, this did not necessarily happen all around the Mediterranean, nor at the same time. There was a debt crisis in Rome and central Italy in 193–192 BC. Cato had a similar debt crisis to manage in Sardinia when he was governor in 198BC. There was yet another debt crisis that unfolded in Etolie and Thessaly during 173BC.

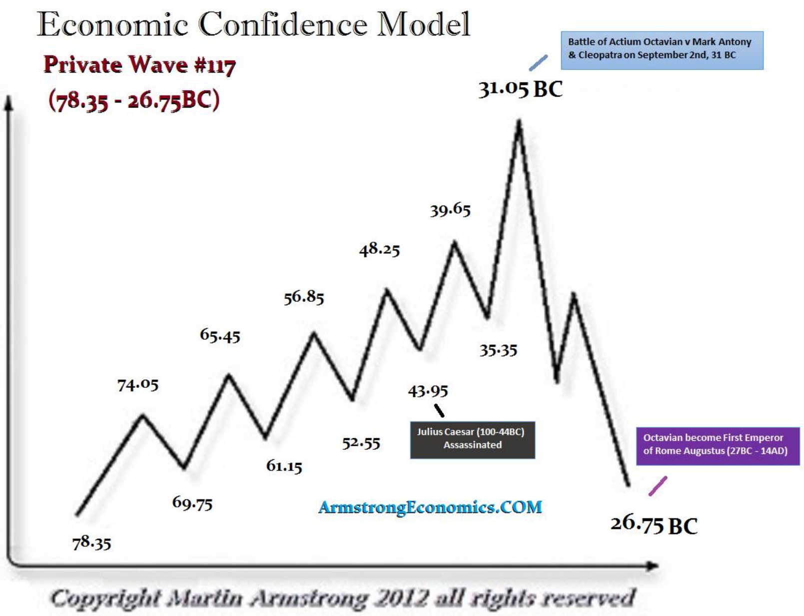
Personal debts could have two causes. Unpaid sums or outstanding loans. In the first case the debtor had not borrowed, but had not paid a sum that was due, such as taxes, which was often the case. Fiscal crises and protesting against taxes were not uncommon, especially outside of Italy. In fact, as from 167BC Rome was virtually exempted from what we would call 'direct taxation'. Tax troubles arrived at the beginning of the reign of Tiberius, first in Achaia and Macedonia, then in Judea and Syria. In reply to these difficulties emperors occasionally wrote–off tax arrears. This was done in 119AD by Hadrian, then by Marcus Aurelius. The Roman government became very hostile to the erasing of debts between persons, but would sometimes erase tax debts.

Tax Revolt of 119AD
Roman Emperor Hadrian

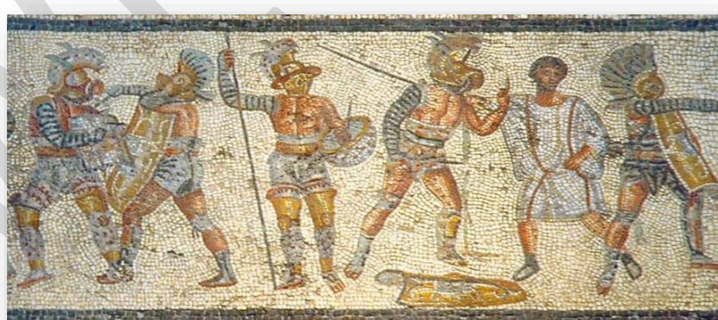
Roman Sestertius issued to announce the burning of all tax records in the Trajan Forum wiping out nearly 900 million sestertii owed in back taxes - early amnesty!

"He remitted to private debtors in Rome and in Italy immense sums of money owed to the privy-purse, and in the provinces he remitted large amounts of arrears; and he ordered the promissory notes to be burned in the Forum of the Deified Trajan, in order that the general sense of security might thereby be increased." Historia Augusta

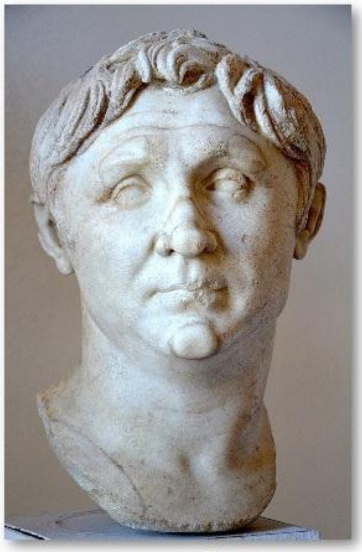
From the beginning of the first century BC to the end of the first century AD, there were four major debt and repayment crises in Rome. The first between 91 and 81 BC, then another around 60 BC, a third from 49 to 46 BC during the Civil War between Caesar and Pompeii. Then there was the 33AD financial crisis during the reign of Tiberius.



The crisis is debt, both public and private, really came to a head in the subsequent Economic Confidence Model Private Wave #117. It began with the death of Sulla in 78BC and the **Sovereign Debt Crisis** created to a large extent by his proscriptions. As the first 8.6-year wave peaked in 74.05BC, the next economic decline resulted in the famous slave uprising of Spartacus otherwise known as the Third Servile War, which was the last in a series of slave rebellions against the Roman Republic, known collectively as the Servile Wars. The war was the only one directly to threaten the Roman heartland of Italia.



The revolt began in 73BC, with the escape of around 70 slave-gladiators from a gladiator school in Capua; they easily defeated the small Roman force sent to recapture them. Within two years, they had been joined by some 120,000 men,



Gnaeus Pompeius Magnus
(106 – 48BC)

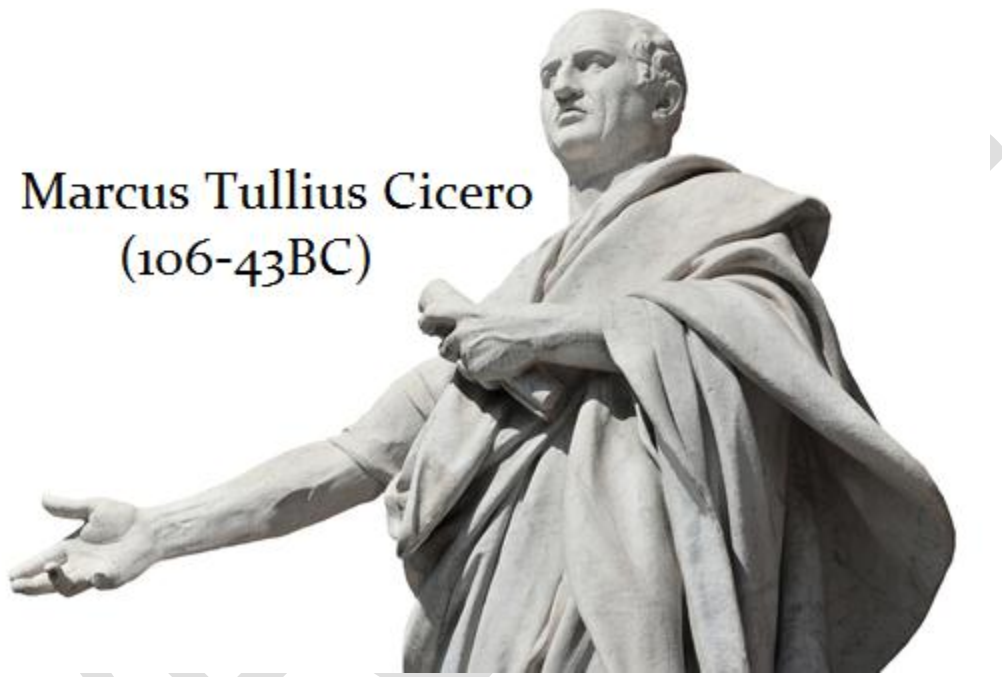
women and children; the able-bodied adults of this band were a surprisingly effective armed force that repeatedly showed they could withstand or defeat the Roman military.

It was Marcus Licinius Crassus (112–53BC) who rose to political prominence following his victory over the slave revolt led by Spartacus. Crassus had asked for help and another army came to Italy headed by Pompey the Great (106–48BC). The two would compete for the honor of victory. Crassus gained a decisive victory, and captured 6,000 alive. Spartacus attempted to kill Crassus personally, slaughtering his way toward the general's position. Spartacus was believed to have been killed in the battle. The 6,000 slaved were crucified along the ***Via Appia***, the road that led to Rome from the south. This was intended as a warning to anyone who might think of rebelling against Rome. Crassus ended up sharing the consulship with his rival Pompey the Great.

The next 8.6-year wave peaked 65.45BC and as it turned down, once again there was a cry for debt reform and cancellation. Lucius Sergius Catiline (108–62 BC) was a Populares opposing the oligarchy – Optimates. Rumors were planted that he intended to kill the consuls and seize power in 65BC. However, there was never any evidence of this so-called **First Catilinarian Conspiracy**. It is significant, however, that there is not even an allegation that predates the conflict. In 64BC BC, Catiline stood for election against Marcus Tullius Cicero's (106–43BC) who was an Optimate after all charges were dismissed. Nevertheless, Catalan lost. He stood for the elections again the following year, yet lost again.

Cicero was his major political opponent. Catiline was a popular man of the people and advocated for the cancellation of all debt. He attracted the old victims of Sulla's proscriptions who were dispossessed of their property. So, we must understand that there was a brewing debt crisis in Rome and the oligarchy was determined to keep power at any cost – they were the very people who had benefited from Sulla's proscriptions.

Therefore, Cicero was consul in 63BC and he employed spies and informers making it a very intent and personal attack on Catiline. Cicero does not appear to have acted in an ethical manner. This was a political contest that had been carved in stone which continued from Marius v Sulla. Then Cicero on October 21st, 63BC stood before the Senate and denounced Catiline charging him with treason and was granted what the Romans called the "ultimate decree" that was essentially a declaration of martial law – Dictatorship.

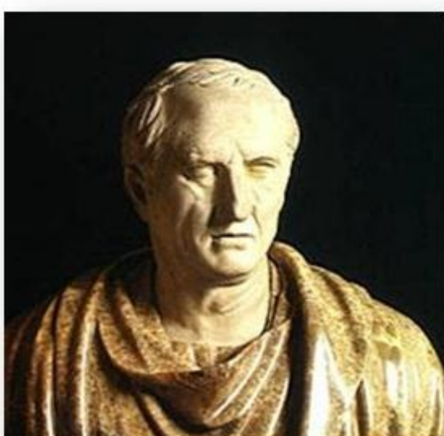


Catiline was quite popular. He had the support of Gaius Antonius and some of the tribunes were already following his line working for the cancellation of debts, as noted by historian Cassius Dio (Historia Romana 37,25,4). He was clearly sharing this idea with Crassus and Julius Caesar and their view of the corruption within the oligarchy cannot be ignored.

Cicero was also the leader of a party known as the **"Concord of the Orders"** claiming to be the party of law and order in addition to be an Optimate. This was a life–long source of pride of Cicero but was clearly a cover for corruption. We must also understand that Catiline tried the constitutional approach and stood for elections against Cicero twice and lost. He clearly knew that the opposition included Pompey the Great. The center piece of Cataline's political advocacy was the thrust for the cancellation of debts. The constitutional course of elections was always subject to bribery. In fact, the corruption was so widespread, that interest rates doubled from 4% to 8% during the elections of 54BC because there was so much bribery going on to gain votes. This was the system Cicero was supporting.

Catiline tried the constitutional approach. When Cicero accused him of being a threat to the Republic and guilty of treason, Catiline fled Rome on November 8th and joined a gathering of destitute veterans whom the oligarchy had never lived up to their promises of pensions. Despite the fact that the Senate handed the "ultimate decree" to Cicero, it does not appear from the contemporary accounts that the Senate fully believed in this Catiline Conspiracy.

In January 62BC, Catiline was attacked by Gaius Antonius Hybrida who was the partner consul with Cicero in 63BC. Catiline put up his final resistance in Pistoria, Etruria, with an army of 3000 men. Hybrida's legate, Petreius and his soldiers massacred the entire army of Catline and beheaded Catiline sending his head to Cicero and the Senate. Hybrida, having adhered to the agreement that he had with Cicero and the Senate for going after Cataline, he was granted the governorship of Macedonia at the end of his consulship, which brought him tremendous wealth. Cicero then portrayed those senators who sided with Catiline as the men who were facing bankruptcy. Cicero essentially eliminated any idea of revolution against corruption, and recast it as a bunch of losers who were bankrupts.



Marcus Tullius Cicero
(106-43 BC)

Yet Cicero was not finished. He was looking to pull off his own proscriptions against anyone who supported Cataline. Catiline had been part of a growing popular movement against the corruption of the Republican Oligarchy under the Optimates. No doubt, Julius Caesar was also a major and profound political advocate of the Populares. During December 4th, 61BC session at the Senate, a witness appeared who then alleged that he had been entrusted with a message from

Crassus to Catiline. Cicero knew the popular movement was indeed widespread, and no doubt he also knew that Crassus and Caesar were involved.

Cicero feared that exposing the true extent of the so–called conspiracy, would expose too many legitimate politicians, not the least would be Crassus and Caesar. This is why there was the quick execution within two days to hide the truth, not to vindicate the law. Cicero even made a motion to now reject this new information. Quintius Catulus and Gaius Piso made great efforts to throw suspicion now upon the heavily indebted Caesar and even reproached Cicero for protecting him. They tried to argue that the indebtedness of Caesar explained his supported Catiline in order to escape his debts. Cicero then did his best to contain the new allegations to limit them to only Catiline. He knew going this far would risk perhaps Civil War.

Gaius Julius Caesar
(100 - 44BC)

The next day, on December 5th, 61BC, the Senate deliberated over the sentencing of the conspirators. Crassus did not attend – he feared being implicated. Caesar attended and was one praetor (judge) designate. But there was a constitutional conflict. Cicero had been given the **"ultimate decree"** meaning he was operating under a dictatorial power to defend the Roman state. The two consuls were the first to speak and asked the Senate for the **"ultimate penalty"** meaning death. Caesar was the next to speak. His speech one must read carefully for it was perhaps the most brilliant devised resolutions resting firmly upon the Rule of Law rather than dictatorial powers. Caesar argued that the conspirators should be imprisoned for life and that imposing death was no punishment at all for it would come to everyone by natural necessity as a rest from toil and misery.

Perhaps he was familiar with the incredible speech of Socrates when he told the Athenian Senate that their penalty of death he did not fear for it was either a migration of the soul to be rejoined with old friends departed, or it was like a mid–summer night's sleep where it would be so peaceful, one is not even disturbed by a dream. Either way, he told the Senate, he feared not.

Whatever the case, Julius Caesar argued that to allow the consuls under dictatorship decree to impose the death penalty was contrary to law. The law of Gaius Gracchus of 123BC was that any magistrate who had put Roman citizens to death without trial should be brought before the popular court and outlawed, and that never should a decision be made concerning the life of a citizen except by the people at trial.


Roman Senate Building

Cicero argued that once they were arrested as criminals on treason, they forfeited their citizenship even for a trial. Caesar stood his ground and admirably argued that this result was inconsistent with the Rule of Law and was a totally new kind of punishment and thus there was no good reason why to abandon the framework of the Rule of Law.

Caesar argued why they should not also propose flogging the guilty before executing, showing that also the ***Lex Porcia*** forbade the flogging of citizens. Also, under Roman law, the guilty could opt for the voluntary exile as criminal penalty that the death penalty would negate. He also argued that to execute such men of high rank would produce the image that the Senate was being ruled by its passions, rather than law, and that never had such thing ever taken place in Roman history. Caesar proved that day he was not a ruthless dictator. Caesar defended the conspirators, which nobody else would dare attempt.

Caesar's speech was amazing and he even won over another praetor designate, Quintus Cicero, the consul. However, then Tiberius Claudius Nero suggested that a decision should be postponed and conducted under military protection. To this Cicero objected fearing any postponement would be dangerous.

Cicero then spoke again, a speech he later published as his ***Fourth Catilinarian***. He turned to Decimus Junius Silenus who was consul, who immediately claimed that when he asked for the **"ultimate penalty"** he had only intended that meant imprisonment, not death. Only Catulus, a natural enemy of Caesar, still argued

Marcus Porcius Cato
(or Cato the Younger)
(95-46 BC)

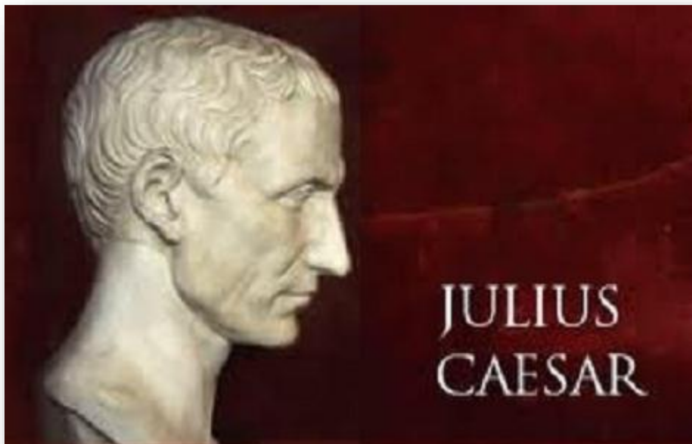
for the death penalty. It appeared that the Senate had been won by Caesar's speech.

The tide was turned, however, by the tribune Marcus Porcius Cato (95–46 BC) who was to be the famed statesman and leader of the Optimates. Cato pretended to be concerned about the Republic. However, what he was supporting was the inherent corruption and the balance of power handed to them by Sulla. Cato attacked Caesar not on any noble ground, but accused him of trying to just terrify the Senate. Cato argued he should be glad to be escaping scot–free himself. He accused Caesar of trying to confuse the Senate and defend common enemies to save them from a just punishment. He accused Caesar of having no pity for his own city, while sounding a cry of lament for these criminals.

Cato proposed that the death penalty should be carried out immediately, with no trial, so much for the Rule of Law, and that their property should be confiscated from their families keeping with the tradition of Sulla. These were neither the demands of a reasonable stoic, nor of a compassionate man to inflict the confiscation of property that would deprive even their families of a place to live. The actions of Cato are not that of a man of the people nor someone you should even name any foundation after pretending he was defending the Republic.

Cicero moved immediately to put the proposal of Caesar and Cato to vote. Caesar argued that there should be two votes, the death penalty and the confiscation of property. Cicero opposed and Caesar appealed to the tribunes who were to protect the people from such unlawful acts, but they gave him no support. The knights who were in charge of protecting the Senate rushed toward Caesar with swords drawn and Caesar could only leave under the protection of the consuls.

After Caesar departed, Cicero put Cato's proposal to a vote without mentioning anything about the second proposal to confiscate the property. It was thus decreed, and the five were there and then immediately executed; so much for trial by jury and the dignity of law. Cato and Cicero showed their true colors, that they were part of the oligarchy that stood against the people. From that day forward the feelings against Caesar from both Cato and Cicero were hostile. Caesar stayed away from the Senate for some time. From that day forward, the people knew where Caesar truly stood. He was a man of extreme loyalty who stood against corruption and was the champion of the people.



Cato indeed saw Caesar as another Marius and sought to strip him of power. The breach began when Cato demanded that Caesar give up his legions. Cato then orchestrated the Senate to reject the word of Caesar who granted citizenship on the Latins who had settled north of the Po River and aided Caesar. The rejection of these 5,000 colonists showed the anti–Popularis attitude in the Senate led by Cato. This is as if the Senate ruled that an American who settled in Alaska lost his citizenship as an American before Alaska became a state. This further demonstrates that Cato was willing to punish the people for supporting Caesar.

Among the cities of Campania, the people believed that the Senate was trying to slap the citizens and Caesar in the face. The enemies of Caesar spread rumors that Caesar had instructed the townspeople to reconstitute themselves as Roman municipia, which was of course false. They were trying to instigate affairs against Caesar who they knew could see into their souls and fell their corruption. Pompey was at Tarentum and took no part in their behind–the–scene–machinations, merely vowing to help only if Caesar actually did something (Cicero, Epistulae ad Atticum 5,7; 5,11,3; ad Familiares 2,8; 3,8,10; Cassius Dio, Historia Romana 40,59,2).

The townspeople seem to have beaten a judge with rods over a questionable legal decision. This seems to have given Marcellus excuse to take some action against the people that prompted Caesar to send two legions into Northern Italy to protect them from a possible barbarian invasion. It was like sending in aircraft carriers to put on a show of force. The dispute and ultimate confrontation against the corrupt Republic was brewing.

Cato and his Oligarchy were so intensely anti–Caesar, that they were willing to do anything to anybody. This event to punish the people because of corrupt judges again reveals that Cato and his following were no Republicans.

Pompey Magnus
(106-48BC)

Pompey had lent a legion to Caesar back in 53BC for the war effort. On July 22nd, Pompey stopped in Rome on his way to Spain and asked about the pay for his troops. He was reminded about the legion he lent Caesar and was told he should ask for its return. Pompey agreed, but objected letting them know he was not agreeing at the demands of Caesar's enemies. The Senate was conspiring that Pompey should take over the legions in Gaul. Pompey at least agreed that Caesar should not be consul without giving up his legions and his province. Thus, on March 1st, 50BC, Pompey's father–in–law Scipio delivered his vote. It was thus decided that all of the new provinces would be stripped from Caesar and that anyone who tried to veto those bills, which could procedurally take place on most, was an act that would be regarded as Caesar was rebelling against the Senate.

What is truly interesting is that Pompey joined this legislation believing that he truly knew Caesar and his loyalty and honor would compel him to comply. He does not seem to believe that this was a break inviting Civil War. The Oligarchy also seems to believe that Caesar would just hand himself over because of his loyalty. But this was a moment in time where the corruption had simply gone too far. Those who hated Caesar like Cato wanted the man dead and would have pulled off whatever manipulations of law to accomplish that. Caesar clearly knew, there would be no possibility of a fair trial as in the Cataline Conspiracy. This was an oligarchy hell bent on ensuring that they would win by any means possible.

Basilica Julia

By September 29th, 51BC, Caesar ran out of civilized options. The Senate even attempted to decide the discharge of his own soldiers. To counteract the Senate, Caesar immediately doubled the pay of his legions granting them bonuses and awards thereafter. Meanwhile, Caesar was still funding the elaborate buildings in Rome under construction that began 54BC paid for by the Gallic victories – the huge Basilica Julia in the Forum, a new Forum, and another building at the Campus Martius. Much like the Empire State Building under construction during the Great Depression provided some hope for the future, this construction gave hope that there would be no war. He also funded festivities in honor of his late daughter Julia who had been married to Pompey.

There was much political maneuvering. There was even a proposal that Caesar would give up his legions if Pompey did the same. But the corrupt Oligarchy would not allow that. The clash in political circles was deepening. The later noted historian Gaius Sallustius Crispus lost his seat and sent a memorandum to Caesar warning him that the Senate was under an unbearable oppressive reign of absolute terror under the Oligarchy that surrounded Pompey. He argues that Caesar had to act to restore the government.

Had Caesar truly been seeking personal power to become a "king" within the Republic, he could have just invaded and avoided the foreplay. Yet he did not. He was a true man of the People and was faced with a government so inherently corrupt that Cato had counted on the honor of Caesar to simply disarm him and then Cato would have killed Caesar or declared him to be a criminal to neutralize any political future resistance in Rome.

Crossing the Rubicon became the only option. Caesar was outnumbered, but he was always outnumbered in Gaul. He crossed the Rubicon in January 49 BC and the famous words attributed to him, **"the die is cast"**, were actually **"Let the dice fly high"** quoting a half line of his favorite Greek poet, Menander. The letter of Crispus stands alongside Cicero's own political works where he at least admits and offers some reforms himself regarding the unjustified power of the present nobility and the corruption of money and bribes must be broken to restore the dignity of the Roman Republic (C. Sallusti Crispi Epistulae ad Caesarem 2,13,5; compare Introduction to C. Sallustius Crispus, 1953). Of course, Caesar's other famous quote, **"Veni, vidi, vici"** ("I came, I saw, I conquered.") is a Latin sentence reportedly written by Julius Caesar in 47 BC as a comment on his short war with Pharnaces II of Pontus in the city of Zela (currently known as Zile), in Turkey. Pictured here is a medieval Paduan Medallion with that famous quote.

PADUAN Sesterius Medalian (VENI-VIDI-VICI)

Cities opened their gates and cheered the invasion of Caesar who was regarded as honorable and a true man of the who would relieve them of the debt crisis. Property values of real estate were collapsing. Debts were excessive. Those who held mortgages refused to accept just the property back. Since the Catiline Conspiracy, the central theme was the cancellation of all debts.

When the Civil War came to an end, there were riots in the city of Rome. Mark Antony (83–30BC) was the ***magister equitum*** in charge of Rome. However, The spendthrift Publius Cornelius Dolabella (c 85 – 43BC) was a Roman patrician general, who had arranged for himself to be adopted by a plebeian so that he could become a plebeian tribune. He married Cicero's daughter, Tullia. It was

Dolabella who brought forward the proposals to cancel all debts and rents which was self-serving. The Senate was once again deeply alarmed. They anointed Antony with the ***senatus consultum ultimum*** bringing in strong troop reinforcements deeply concern about riots. There indeed had been serious street riots and fighting and Antony had to take serious action. The troops stormed the Forum that had been barricaded by rioters. The troops attacked and over 800 were rioters were killed. The Twelve Tablets inscribing the law were smashed. Most of the leaders were killed.

Marcus Antonius
(83 – 30 BC)
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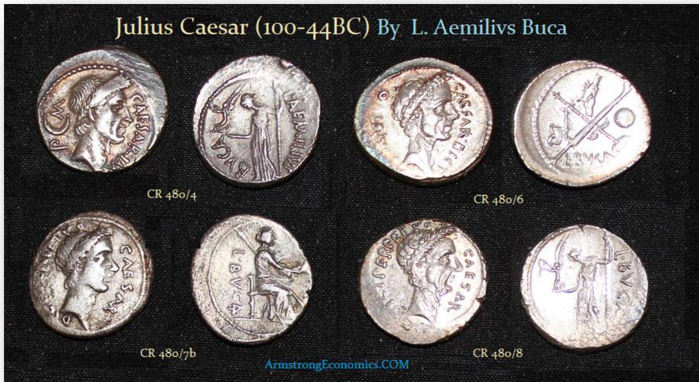
Antony himself was clearly trapped politically. He lost favor with the people and yet he himself was in favor of the cancellation of debts. He in fact bought the estate of Pompey at public auction on the assumption that when Caesar took full power, he would cancel the debt as originally floated by Catiline.

Indeed, Caesar showed his disapproval of Antony and essentially dropped him as a favorite for nearly 2 years. Caesar showed his confidence in Dolabella and granted some relief awarding home-owners offering a rent reduction for the current year of up to 500 denarii in Rome, and 125 denarii throughout Italy. Effectively, Suetonius (38/1) tells us that Caesar remitted a year's rent in Rome to tenants who paid two thousand sesterces or less annually, and in Italy up to five hundred sesterces.

However, Caesar again stood by a decree he made in 49BC rejecting quite decisively the cancellation of all debts (Cassius Dio, Historia Romana 42,50,2–5; Suetonius, Divus Iulius 51). Caesar explained that he had to borrow to fund the war and it was unethical for him to cancel all debts since he himself would benefit.

Caesar then forced Antony to pay the full price that he had bid for Pompey's estate that included everything within it right down to all its slaves. Only Caesar's mistress, Servilia, is said to have secured some bargains at these auctions of property of people who died or were not pardoned (Cicero, Philippica 2,64–69;

2,71–73; 13,10–11; Suetonius, Divus Iulius 50,2). Obviously, property values had crashed as people feared that property could collapsed if Caesar engaged in proscriptions as had Marius and Sulla.



Caesar hesitated concerning the debt crisis. He gave it much thought and clearly this was a man who was not prone to be simply partisan. His widespread forgiveness of his enemies was perhaps his undoing. Clearly, Caesar wrongly believed that by showing he was a man of reason and mercy, he would be able to lead Rome to a new dawn and eliminate the corruption setting the Republic back on track pre-Sulla. It was finally in February 44BC, one month before his assassination, Caesar was appointed dictator in perpetuity. This is the only time we begin to see coins with his portrait appear issued first by L. Aemilivs Buca. This served as the excuse for his assassination by political rivals on the Ides of March in 44BC (March 15th). Caesar was actually preparing for an invasion of the Parthian Empire – the Persians.

Brutus, 42 BC Silver Denarius
"EIDMAR" Declaring He Killed Caesar
on the Ides of March
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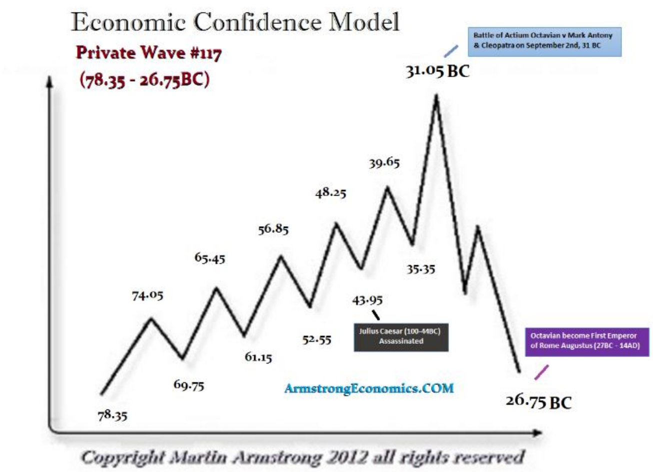
There is no indication of tyranny, for his reasons were not self-serving insofar as cancelling all debts, but clearly cut deep into those who had controlled the Oligarchy. Caesar spared many, and they merely came back to conspire against him once again all to restore their power and financial position gained during the period of Sulla. His opponents were quick to then put their portrait on coins as did Brutus proudly announcing he assassinated Caesar for the Republic.

In Gaul, Caesar often pardoned the offense of his captives by showing clemency that in Latin was ***clementia*** but was truly an act of mercy that amounted to the waiver of the Roman right to punish. Caesar avoided the word ***clementia*** during the Civil War against Romans. What he did instead was use the terms of compassion (***misericordis***), generosity (***liberalitas***), and leniency (***lenitas***). These terms were slightly different than ***clementia*** insofar as they did not imply "mercy" that was more appropriate toward a non-Roman. Even Caelius wrote in a letter to Cicero: ***"Have you ever read or heard of anyone fiercer in attack and more moderate in victory?"*** The picture of Caesar being a tyrant was obviously a justification of eliminating him for self-interests of reestablishing the corrupt Oligarchy.



Caesar is effectively appointed dictator for life at the bottom of fourth wave in the 51-6 years ECM Wave #117. Brutus is dead by October 23rd, 42BC. As that 8.6-year wave peaks in 39.65BC, the last of the civil war comes to an end with the assassins. Marcus Antonius dispatched Publius Ventidius Bassus with 11 legions to the East and drives Quintus Labienus (died 39BC) out of Asia Minor, he retreats into Syria, where he received Parthian reinforcements. Ventidius finally defeats him in the battle at the Taurus Mountains.

Quintus Labienus Parthicus
(died 39 BC)
Son of Titus Labienus a Roman general under Pompey
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In 39 BC, we also find the Pact of Misenum, which ended the blockade of grain to Rome from Egypt. Pompey the Great's youngest son, Sextus Pompey. Had blocked the grain supply to Rome during the Civil War to inflict civil unrest upon Octavian and Marc Antony. They moved to negotiate an end to the grain blockade.

Sextus was also issuing coins with his own portrait as well as those with the image of his father. He also issued coins styling his position as sanctioned by Neptune for his large navy. Octavian and Antony agreed to this peace treaty was to secure not just grain for the people, but to also secure the West before the anticipated campaign against the Parthian Empire.

Sextus Pompey
(67 – 35 BC)
son of Pompey the Great
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Antony, the leader of Rome's eastern provinces, needed a large number of legions to confront the Persians. The peace did not last for long. In Antony's absence, Octavian renewed the conflict against Sextus viewing him and an ultimate challenger. Sextus and Octavian accused one another of violating the terms of the **Pact of Misenum**, but the final straw was the betrayal of Sardinia to Octavian.

Octavian was defeated in the naval **Battle of Messina** (37 BC), so he now turned to Marcus Agrippa and Titus Taurus, both very talented generals. In addition, the third triumvir, Marcus Lepidus, raised 14 legions in his African provinces to help defeat Sextus Pompey. Agrippa fought Sextus in August 36 BC, while Lepidus and Taurus invaded Sicily. Sextus escaped to Asia Minor and, by abandoning Sicily, lost his only base of support. He was captured in Miletus in 35BC, and executed without trial on the order of Antony.

What is extremely interesting is that Sextus is defeated and executed in 35BC right on time with the bottom of that 8.6-year wave. From that low, the ECM turns up into the final peak in 31BC, which was the final battle between the last Civil War between Octavian and Antony – the Battle of Actium where Mark Antony and Cleopatra are defeated on September 2nd, 31 BC.

Agrippa Æ As (29mm, 12.78 grams) Rome Mint
Struck under Caligula RIC I 58 (Gaius)
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Mark Antony & Cleopatra VII
(83-30 BC) (69-30BC)
(Silver (debased) Tetradrachm)

Mark Antony and Cleopatra then commit suicide in 30BC leaving Octavian now sole ruler of the Roman Republic. Upon his adoption, Octavian assumed his great–uncle's name Gaius Julius Caesar. There is no evidence that Octavian ever officially used the name Octavianus for that would distance himself from his uncle who he needed to support his rise to power. All his coinage of this early period reflects the name Caesar – not Octavian. Historians generally refer to this period **BEFORE** becoming emperor in 27BC using the name Octavian.

Octavian (44 - 27BC)
AR Denarius (18mm, 3.61 grams) Military Mint
Traveling with Octavian in Cisalpine Gaul April-July 43 BC
Bare head right / Equestrian statue of Octavian left
The first appearance of Octavian's portrait
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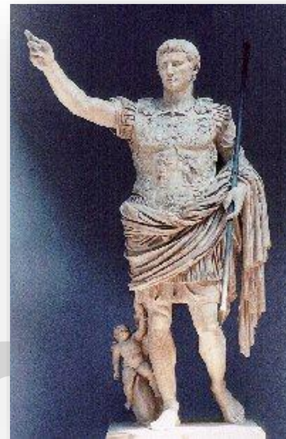
Octavian could not rely on his limited funds to make a successful entry into the upper echelons of the Roman political hierarchy. After a warm welcome by Caesar's soldiers at Brundisium, Octavian demanded a portion of the funds that were allotted by Caesar for the intended war against the Parthian Empire in the Middle East. This amounted to 700 million sesterces stored at Brundisium, the staging ground in Italy for military operations in the east.

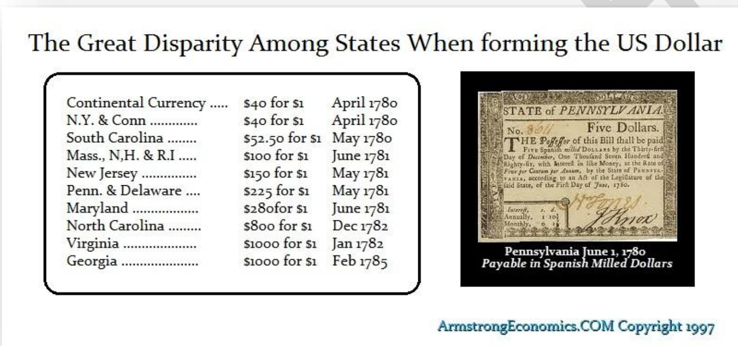
Interestingly, a subsequent senate investigation into the disappearance of the public funds resulted in taking no legal action against Octavian, since he subsequently used that money to raise troops against the Senate's arch enemy Mark Antony. Octavian made another bold move in 44BC when, without official permission, he appropriated the annual tribute that had been sent from Rome's Near Eastern province to Italy.



The bottom of **Wave #117** is 26.75BC. This is when Octavian becomes Augustus beginning the Imperial Era. We have Alexander the Great appears at the bottom of **Wave #111**.

During the Imperial Era that began in 27BC following the last Civil War period with Mark Antony & Cleopatra in 30BC, there were no longer government debt issues to default. There was not even a central bank. Understanding the contrast between the ending period of the Roman Republic and how the central theme was a Debt Crisis and the Imperial era, is incredibly important.

This is akin to the distinction between the Continental Congress and the transition to the United States. In the case of the USA, we see the same identical outcome. The USA no longer issued paper money for that was the hallmark of the financial crisis of the Continental Congress. Indeed, the USA did not issue paper money again until the Civil War in 1861. Insofar as a National Debt was concerned, the compromise between Jefferson and Hamilton was that the debt had to be paid off. That requirement was actually carried out by 1835 of half the 8.6- year cycle = (43 years).



Therefore, the difference between the fall of the Roman Republic and that of Imperial Rome is the distinguished crisis in the matter of debt. Will history repeat with this same distinction if extreme violence?

The Decline & Hyperinflation of the Roman Empire

Nero (54 - 68AD)
Æ Sestertius Temple of Janus

The doors in the front and rear were opened during war symbolizing that the future could be uncertain and closed during peace symbolizing that nothing would change

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The assumption that an increase in the money supply is the root of all inflation is simply a theory that does not stack up even to ancient history. Confidence in the political state is absolutely critical and that is the distinction between a debt crisis and hyperinflation. In time of war, confidence is often shaken. The Temple of Janus was the perfect symbol of that uncertainty. The temple had doors at the front and rear. During periods of war, the doors were opened symbolizing the uncertainty existed and things could change. During periods of peace, the doors were closed which indicated that everything was in order and nothing would change with respect to government.

Even during the American Civil War, the fluctuation of gold would track the win or loss with every battle event. Tremendous animosity rose against the gold traders for people believed they made profit on the causalities of others on the battlefield. War always posed a "political risk" and the Rothschild's demanded a war premium to lend gold to the United States during the Civil War. Lincoln refused to pay that premium and instead issued interest bearing currency, creating circulating bonds that became paper money rather than borrow.

Roman Coinage in Greek Denominations (280-211BC)

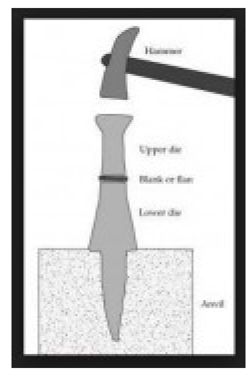
Even when Hannibal (247–183BC) invaded Italy in 225BC, there were Italian cities who supported him because Rome had previously conquered the city–states in Italy and he was perceived to be the stronger. Rome for the first time began to issue gold coins in an effort to project an image of economic stability and confidence. They had never issued gold coins prior to the Punic War. Rome had issued silver coins but they were in Greek denominations issued for trade purposes beginning in 280BC. It was because of the war that Rome began to issue the silver denarius in 211BC with a weight of 4.3 grams down from 6.92 grams reflecting the inflation of war.

Roman Republic AU Stater (c. 225-212BC)
Head of Janus and the reverse an oath taking scene

If we look at the Roman Empire, between 211BC and 68AD, the death of Nero (54–68AD), the Roman monetary system for that segment of some 279 years was incredibly stable. The government minted the coinage and used it to pay its expenses.

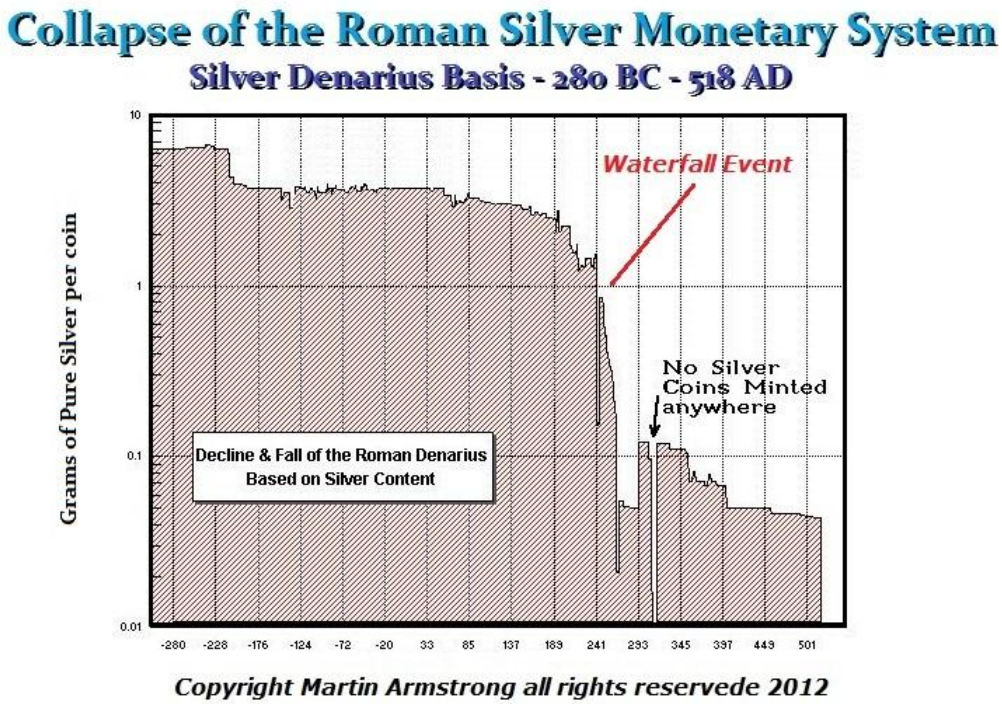
In today's terms, we would say the government just printed money rather than borrowing it. Indeed, the Roman government had no central bank nor did it have a national debt. It produced money to cover its expenses and it is the coinage that documents history so well.

Because the coins were struck from dies that were made by hand, there are subtle differences that allow us to determine how many dies were in use at a given time. We know from testing how many coins can be struck from one die before it breaks on average which was 10,000 up to 15,000. By multiplying that number by the known dies, we can then determine the introduction of new money into the economy took place on an annual basis.



During the Republican period, there were three a ***moneyers*** who was in charge of minting the coins for a given one-year term and each signed his name with initials. We still have this tradition today. The new $1 bill has Steven Mnuchin's signature as Secretary of the Treasury. Beginning with the introduction of the denarius in 211AD, a board of three moneyers – the ***tresviri monetales*** – was appointed to oversee the operations of the mint. These three men were part of an even greater board, known as the ***vigintivirate***, which was a board of twenty who worked under the supervision of the Quaestor. This was typically an entry position into Roman politics.

The Roman denarius was the most secure currency in the world at that time for 309.6 years before any debasement begins under Nero in 64AD. While we saw credit abuse and debt crisis during the Republican period, the Imperial period begin with the debasement approach. The reason for that debasement appears to be linked to the Great Fire which destroyed much of Rome and the rebuilding costs were tremendous. Since there was no state borrowing, Nero began the debasement of the coinage reducing the weight of the gold Aureus and the silver was reduced from 97.5% purity to 93.5%. He was increasing the money supply by issuing more coins with the same amount of silver. Therefore, lacking a central bank and a national debt, the costs were covered by debasement.



We must understand that during the Imperial era that began with Augustus in 27BC, Rome did not have a national debt nor did it have a central bank. The battle between the people and the Optimates who held the power of the Senate and were the oligarchs, permanently stained the issue of credit and debt.

Juno Moneta Reverse

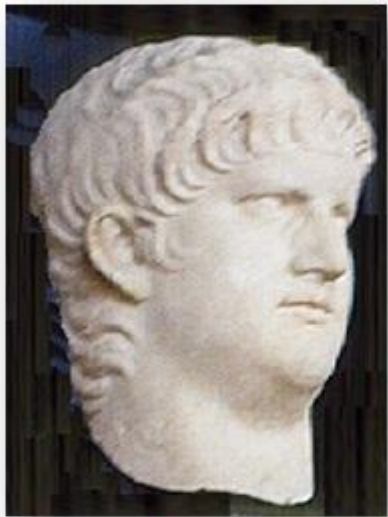
ÆFollis Maximianus (284-305AD)

Throughout history, we will often find that temples of religion served both as banks and as in Rome, the official mint where coins were made. This was caused in the first part by people trying to buy redemption with donations to temples. Since the various gods never spent the money, it became a hoard of cash that served as capitalization for early forms of banks when priests would lend out the money for a profit. This profit became known as interest that was literally acquiring an "interest" in the venture for which money was borrowed. Such interest would be in things as planting next season's crops. The second reason religion became involved in some cultures as the producer of money was because supposedly the priests were trustworthy. In the case of Rome, the actual mint was on the Capitoline Hill at the head of the Roman Forum located in the Temple of Juno. A sacred flock of geese were kept there at the Temple of Juno and in 387BC, there was a marauding Gallic tribe that swept down from the Po River valley and sacked Rome extracting a heavy ransom in gold. While Rome is said to have been founded in 753BC when their last Tarquin King was overthrown creating the Roman Republic in 509BC followed by its first Etruscan wars fought against the Fidenae (437–426BC), the Gallic Invasion was a serious blow.

Juno

As the legend goes, the Gauls attempted to invade the city quietly, but had frightened the sacred flock of geese that made a lot of noise. This alerted the Romans to the surprise attack giving us the word "monere" meaning in Latin to warn. The Temple of Juno then became popularly known as the Temple of Juno Moneta. Since this is where the coins were minted, we now arrive at the word "money" that springs from the origin of this legend and place that was an ancient mint. Our terms such as capital flow now arrives from the Latin word "currere" meaning "to run" or "to flow" and this is where the money flowed from giving us the word "currency" meaning the flow of money. This is why Juno Moneta is pictured on Roman coins as holding the balance scales in one hand and a cornucopia in the other symbolizing endless bounty or wealth. This is the birth of the terms money and currency.

Consequently, the first debasement of Nero (54–68AD) with regard to the silver denarius was really negligible within the scope of the whole historical perspective. While the debasement was needed for aid during the Great Fire, the stories that Nero set the fire and played the fiddle, which did not exist at that



Nero
(54-68AD)

point in history, was fictional. Nero was not in Rime at the time and he immediately returned and began relief measures to help the people. They still didn't trust him for his reputation preceded him. His enemies started the rumor that Nero had ordered the fire started, especially after he used land cleared by the fire to build his Golden Palace and its surrounding pleasure gardens. That was not a good decision, which only created conspiracy theories.

Nero himself blamed the Christians for the fire, and had many arrested and executed beginning the Christian persecutions when he was not executing them for their religion at that time. He just needed a scapegoat. The real source of the stories against Nero are identical in human nature to those spun by career politicians and mainstream media against Trump today. Today, Trump is accused of discriminating against Muslims when it is the same six countries Obama had classified as terrorist nations. The press bashes Trump claiming he has not feelings for 20 million people on Obamacare. The same issue today of reforming the corruption in the Senate, was the central issue for Nero as well.

There were many people complaining about the corruption of the tax collectors and this began Nero's battle against the Deep State – sound familiar? Nero took on the fight clashing with the bureaucracy that set–in motion his own demise. Tax collectors were accused of being corrupt and too harsh with the poor. Nero championed the little guy and transferred the collection of tax authority to lower commissioners. Nero banned also any magistrate or procurator from exhibiting public entertainment for fear that the venue was being used as a method to sway the populace to support their corruption behind the scenes. Furthermore, Nero then impeached many officials for corruption and removed them from government as well as having many arrested for extortion and corruption.

As further complaints arose from the people that the poor were being overly taxed, Nero attempted to repeal all indirect taxes. The Senate convinced him this action would bankrupt the public treasury. As a compromise, taxes were cut from 4.5% to 2.5%. He also began the first debasement of the silver coinage whereas the average fineness pre-64AD was 97.5% as this was reduced to 93.5%. The weight of the silver denarius was also reduced from 3.63 grams to 3.36 grams in 64AD.

Additionally, secret government tax records were now ordered to become public, similar to the $2.3 trillion in missing funds handed to the Pentagon that 911 covered up. To lower the cost of food imports, Nero also directed that merchant ships were declared tax-exempt. None of these measures were Draconian to say the least, but were efforts to weed-out corruption far more than modern government is willing to carry out. The Deep State was getting very angry at reducing their corruption.

Nero not only reduced taxes, he also gave slaves permission to file civil complaints against unjust masters, which was very shocking to many. Now the elite really got angry. Nero also imposed a tax of 4% on the sale of slaves that was to be remitted by the seller. Nevertheless, purchasers typically found that the tax was merely added as part of the price in a European VAT fashion.


Seneca the Younger
(c. 4BC – 65AD)

Seneca the Younger (c. 4BC – 65AD), was a Roman Stoic philosopher and statesman. He was a tutor and later advisor to Emperor Nero. Seneca had a hand in financial reform to improve the financial administration of the Empire. Governors were actually being prosecuted for extortion rather than the modern version of too-big-to-jail. The emperor by an edict forbade any magistrate or procurator in the government of a province to exhibit a show of gladiators, or of wild beasts, or indeed any other public entertainment. This was typically the method Governors bought favor from the people to cover-up the extensive bribery and extortion.

Nero also established retirement colonies of veterans in Italy. There were simply many deeds he enacted prior to 64AD that reveal a decent administrator of the

Empire. Nero even attempted to promote free trade by removing all indirect taxes. However, this proved too difficult to administer due to the pervasive corruption.

The Deep State conspired to kill Nero for his reforms. Some sources state that Seneca may have been innocent, but he was also implicated and forced to take his own life for alleged complicity in the **Pisonian Conspiracy** to assassinate Nero. Human nature most likely implicated Seneca for he was believed to be directing Nero in the reform effort. It makes sense that they would have falsely accused Seneca to get rid of him as well.

The conspiracy of Gaius Calpurnius Piso in AD 65 was a major turning point for it was clearly the Deep State rising up against Nero. The plot reflected the growing discontent among the ruling class of the Roman state with Nero's increasing attack upon corruption. Piso was a leading Roman statesman who it was said intended to have Nero assassinated and replace him as Emperor through acclamation by the Praetorian Guard. He was joined by many prominent senators, equestrians, and soldiers. The conspirators were said to have varying motives. Some wished to replace Nero with a better emperor who understood the Deep State was off limits, others wished to be free of emperors altogether, and restore a purely Republican form of government and all its freewheeling corruption.

According to the Roman historian Tacitus, the ringleaders included a Praetorian tribune named Subrius Flavus, and a centurion named Sulpicius Asper, who helped Piso devise the plot, which was discovered when a woman named Epicharis tried to solicit Proculus, a fleet captain in Campania, to join the conspiracy. Instead, Proculus turned her in, but she committed suicide. Another named Milichus discovered the conspiracy and reported it to Nero's secretary Epaphroditos. When arrested, many conspirators quickly ratted everyone else out to save themselves. Nero ordered Piso, the philosopher Seneca, his nephew

Lucan, and the satirist Petronius to commit suicide. All three may have the revenge of the rats.

There is clearly the same plot to overthrow Trump from the Deep State supported by CNN, Washington Post, and the New York Times, which have shown to the world their moral corruption. History repeats because human nature never changes. We have all the elites on Capitol Hill plotting to get rid of Trump and to justify some sort of impeachment trial. Surely, neither Trump nor those who conspire against him on Capitol Hill and in the media will commit suicide. Nevertheless, they are fighting tooth and nail for the very same issue – to maintain the corruption behind the curtain. Trump cannot be bought as was the case with Nero. How do you bribe someone who needs nothing? So, the conspirators are creating fake news to justify their actions today as they did back then.

Marcus Aurelius Antoninus
(b 121; 161-180AD)

The real decline begins under Commodus (180–192AD) as soon as his father died in 180AD – Marcus Aurelius (177–180AD) Commodus began to debased the silver denarius reducing the fineness to 75% between 180–183AD, the in 184–187AD he reduced it to 74.5%, followed by 188–192 when it fell to 73%. At the time of his father's death, his last coins were struck at 78.5%.

Commodus (180-192AD)
(Pictured as Hercules)

There was a fairly steady decline in the silver content as money was needed for the Army and their pensions. Today, government employees are told they must work for 20 years to receive a pension. That duration was actually set back in Rome.

Commodus
(180 - 192AD)
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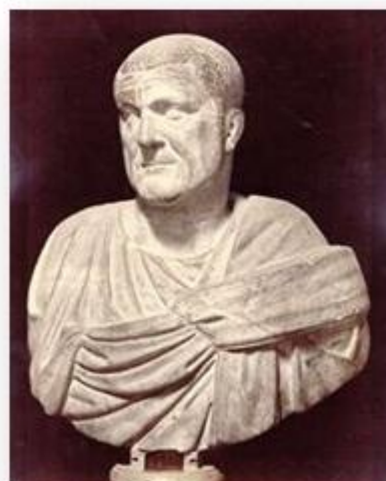
It was during the reign of Maximus I (235–238AD) that we see a sharp drop in the silver content from 55% to 33%. Maximinus I (235–238AD) rose through the ranks as a soldier. Historians preferred to call him a barbarian because he seemed to hate Rome. Nevertheless, he by no means sought to reduce the pay of government employees or care about the finances of the people. He simply viewed the people as an endless source of revenue and raised taxes to pay for his troops. But Maximinus even went much further.


Maximinus I (235-238AD)

Maximinus took three drastic actions against the people which pushed the Empire over the edge. He took the modern Marxist approach and decreed that ALL wealth now belonged to the state! It was not based upon a philosophy of sharing the wealth, but rather it was just raw confiscation of wealth.

The desperate hunt for money on the part of Maximinus set in motion the collapse of the economy. The rich suddenly stopped investing and hoarded their wealth. They had no choice. To show wealth made you a target. As money went into hiding, it never returned in force and thus the collapse of Rome picked up steam.

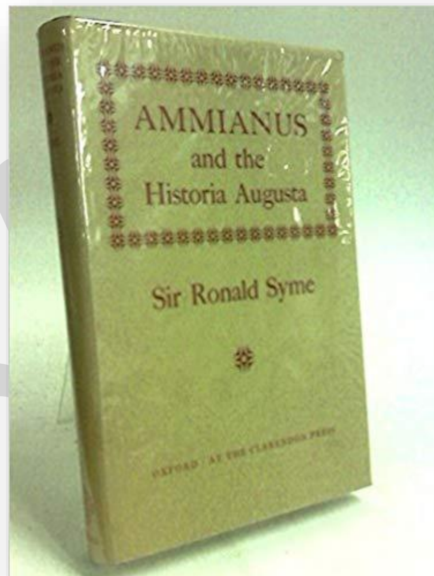
Maximinus doubled the soldiers' pay seeking to firmly establish their loyalty. The military needed additional funds for road–building to maintain control. He also appropriated ornaments from public places and temples. Can you imagine the government coming into your church and taking anything of value to pay for government employee wages? This led to a great tumult resulting in many massacres in defense of religion. Maximinus I ordered Christians were to be persecuted. In opposing those who had supported the previous Emperor Severus Alexander (222–235AD). Under Severus, Maximinus had risen to command the Army of the Rhine. Severus and his mother were murdered while in Germany at Moguntiacum (Mainz). The Rhine Army then proclaimed Maximinus Emperor of the Roman Empire.

Maximinus used Conspiracy, which has always been a crime of tyrants and is still used by the United States yet abandoned in Europe, Russia, and even China. All tyrants have used conspiracy for it allows the conviction of someone for a crime they did not commit, nor even attempted to commit but you claim they "intended" purely as a mental state to commit in the future in agreement with someone else. Maximinus engaged in legal persecution.

Using conspiracy, Maximinus effectively tore the Roman economy apart at its seams. He charged a noted Senator by the name of Magnus, with conspiracy against the Emperor, found him guilty, executed him, and then arrested 4,000 others claiming they conspired with him to intend to depose the Emperor. He then confiscated all property of those he declared were guilty.

The second act of Maximinus was to declare that all wealth simply belonged to the Emperor in a communistic fashion. What took place, however, was the complete breakdown of society. Wealth was driven underground and money now was hoarded causing VELOCITY of money to completely collapse. Coins just vanished from circulation and hoarding became commonplace. This caused the economy to implode as commerce ceased fostering an economic depression.

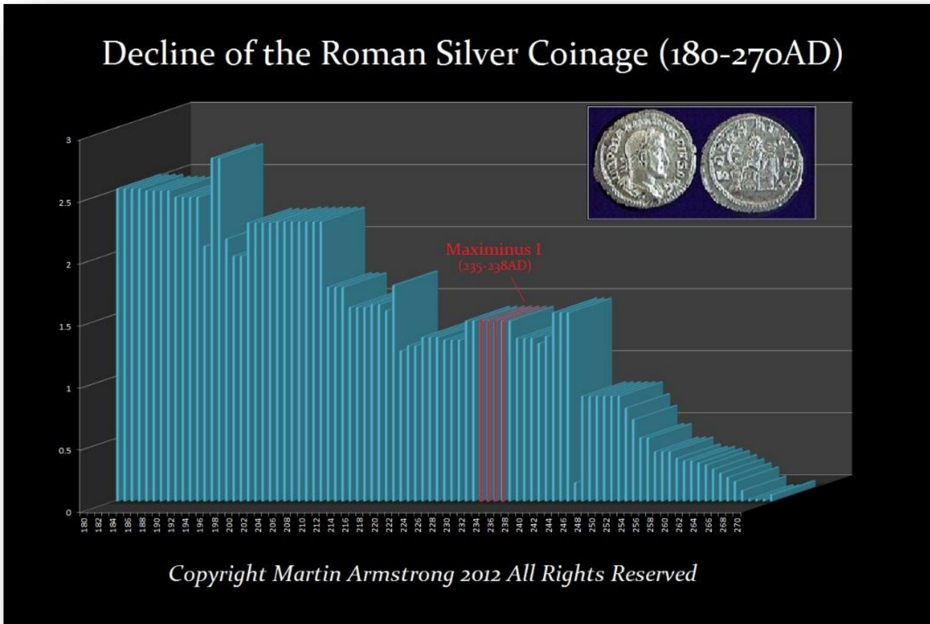
As the velocity of money collapsed due to hoarding, naturally this had the impact of reducing tax revenues. Maximinus did not stop with simply private wealth. Maximinus ordered the wealth of all temples to be confiscated as well and this set–in motion religious persecutions of even pagans trying to protect their images.



Where there had once been golden statues of former Emperors, here also, Maximinus ordered their seizure so they could then be melted down. The Rule of Law collapsed and ***Historia Augusta*** tells us that he – **"condemned all whoever came to trial"** and that he **"reduced the richest men to utter poverty."** There was truly nothing left. Nowhere could a person turn for justice. With the people under siege from their own government, they hoarded wealth to conceal it from state spies. This only caused a collapse in VELOCITY of money to collapse further and commerce foundered. The Roman economy turned downward into a Great Depression as people now lived in fear.

Maximinus did not respect even the gods and this contributed to many thinking he was just a barbarian. It was said that he was the first soldier who rose through the ranks to become Emperor. Others were patrician generals. Maximinus was from Thrace in Greece where he had been a shepherd before joining the army. His actions caused contemporary writers to consider him a barbarian whose parents merely crossed the border into Thrace unable to rationalize his behavior as a Roman citizen.

Effectively, Maximinus engaged in open warfare against the possession of wealth. The more he attacked the economy in search of wealth, the greater the VELOCITY of money collapsed and this compelled him to reduce the silver content of the coinage from 55% to 33%.



Edward Gibbon wrote in his Decline and Fall of the Roman Empire regarding Maximinus I:

> *"As long as the cruelty of Maximin[us I] was confined to the illustrious senators, or even to the bold adventurers, who in the court or army expose themselves to the caprice of fortune, the body of the people viewed their sufferings with indifference, or perhaps with pleasure. But the tyrant's avarice, stimulated by the insatiate desires of the soldiers, at length attacked the public property. Every city of the empire was possessed of an independent revenue, destined to purchase corn for the multitude, and to supply the expenses of the games and entertainments. By a single act of authority, the whole mass of wealth was at once confiscated for the use of the Imperial treasury. The temples were stripped of their most valuable offerings of gold and silver, and the statues of gods, heroes, and emperors, were melted down and coined into money. These impious orders could not be executed without tumults and massacres, as in many places the people chose rather to die in the defence of their altars, than to behold in the midst of peace their cities exposed to the rapine and cruelty of war. The soldiers themselves, among whom this sacrilegious plunder was distributed, received it with a blush; and hardened as they were in acts of violence, they dreaded the just reproaches of their friends and relations. Throughout the Roman world a general cry of indignation was heard, imploring vengeance on the common enemy of human kind; and at length, by an act of private oppression, a peaceful and unarmed province was driven into rebellion against him."*

Id./ Vol. 1; Chapter VII

When rebellion began in Africa against the imperial taxation of Maximinus, the people proclaimed two men Emperor in 238AD, Gordian I (238AD) and Gordian II (238AD). Both were from a wealthy Roman family that held large tracts of land in Africa and were thus directly affected. Both men had been former Consuls, and thus were highly respected among the people. Gordian I was 81 years old. He accepted the Purple reluctantly, only with his son as co–emperor. Both were quickly confirmed by the Senate of Rome itself, which clearly now marked their break with Maximinus. However, the governor of Numidia was loyal to Maximinus and he marched on Carthage where the Gordians were and defeated the younger Gordian in Battle causing the father to then committed suicide. Their reign lasted only three weeks during the month of April 238AD.

Maximinus was now marching upon Rome itself given the Senate's support for the Gordians. He had never bothered to even visit Rome, giving support to these who claimed he was a barbarian. Maximinus' reputation was one of a ruthless and cruel man that struck fear in hearts of the people. Maximinus had networks of spies, who were people eager to hunt down the rich and despised them for their wealth. Maximinus was paying rewards for now turning in people with wealth. This practice of turn people against each other undermined the economy to such an extent, that wealth simply vanished underground. Commerce was deeply affected as a depression set in and this fueled now a distrust of government that would not return to confidence.

The Senate of Rome was now in a state of panic. With the defeat of the Gordians, they knew Maximinus would now march against Rome itself and seek vengeance against the Senate. All their lives and property would now be forfeit.

Panic swept through the Senate and thus they quickly now enacted legislation declaring Maximinus was a public enemy out of desperation as if such a decree would actually protect them.

The Senate then elected two of their own members to defend against Maximinus. They elected Pupienus (238AD) and Balbinus (238AD) as joint rulers. Pupienus had risen through the ranks of the military and was selected to take an army and head north to confront Maximinus who was now marching upon Rome. Pupienus was adopting a scorched earth policy. Maximinus decided to take the northern city of Aquileia. This siege delayed his advance. Meanwhile, Rome was in a stage of complete panic. Balbinus stayed in the city of Rome, but the mob was rioting fearing the worst.

Historia Augusta tells us Balbinus is said to have issued **"a thousand edicts"** that were just ignored by the people who even stormed the imperial palace, but were rebuffed. Anyone suspected of being rich or hiding money was attacked, their homes plundered, and were murdered on the streets. The rich became the hated enemy as under socialism/communism and Maximinus' policies now justified these actions as supported by law no matter how unjust. There was no Rule of Law. Rome nearly ended in a sea of blood motivated by class–warfare.

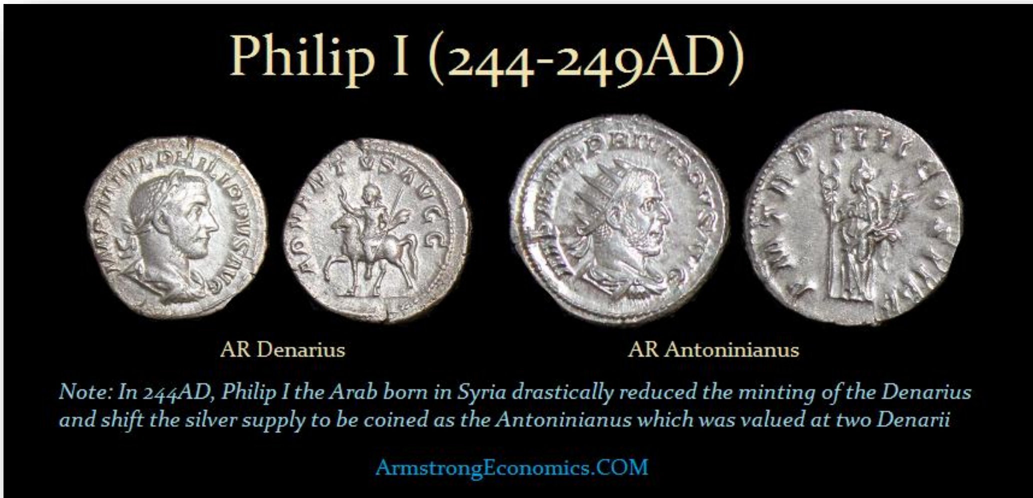
Maximinus was now laying siege to Aquileia where people defended the city with their lives. There was no debate. Legend even tells us that the women cut their hair to make bow strings. The citizens scorched the surrounding land to deprive Maximinus of supplies. To the shock of everyone, the valor of the common citizens could not be overcome by the troops of Maximinus.

The sight that the common people defended Aquileia against the army reduced the once invincible Roman Army to humiliation. When Maximinus was sleeping in his tent, a group of solider entered and murdered him there on the spot. To now demonstrate their new loyalty of the army to Rome, they cut–off Maximinus' head and sent it to Rome. This was the first time that the Senate showed any courage since the age of Augustus (27BC–14AD). In their celebration, the Senate spoke unwisely and insulted the soldiers while patting themselves on the back. They boasted:

"So, fare emperors wisely chosen, so perish emperors chosen by fools."

The army was outraged at this insult and they instantly retaliated. They dragged Balbinus and Pupienus from the palace and executed them on the streets of Rome. Some soldiers stormed even the Senate. But the senators were now all armed and struck down the soldiers as they entered the chamber. It appeared Rome would be plunged once again into civil war. They then hailed Gordian III (238–244AD) as the new emperor despite the fact he was about 13 to 16 years of age.

Nevertheless, Maximinus had seriously disrupted the entire economy. The VELOCITY of money came to a near halt as spies were everywhere and people were afraid to show any wealth at all. This economic implosion was similar to the Communists taking Russia or China. The critical point here is that once capital was driven underground, it did not resurface to its previous extent. Even the sharp debasement of Maximinus was not reversed. Yet the gold coinage had become an international currency which was even imitated in India. The gold was simply worth more in the form of a Roman coin.



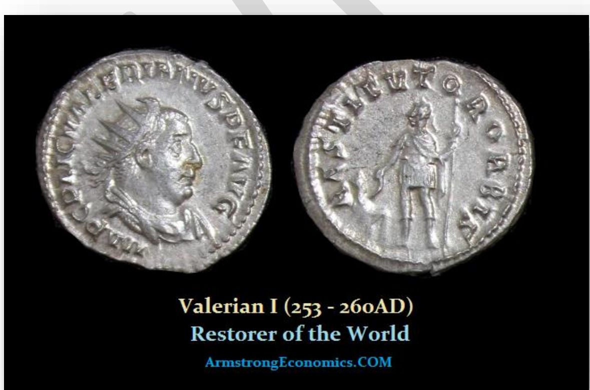
It was in 244AD when Philip I (the Arab) (244–249AD) took the throne after assassinating Gordian III. It was at this time that the denarius begins to become a very rare coin. Philip I shifted the silver bullion to be coined as the antoninianus which was coined at the original denarius weight of 4 grams and the denarius had fallen to 2.8 grams. This was a sharp jump in inflation.

In 252AD, a revolt erupted led by Aemilian (252–253AD) against the Emperor Trebonianus Gallus (251–253AD). The General Valerian was summoned to bring his army drawn from garrisons stationed on the Rhine, in Germany. Aemilian had marched on Italy much faster than anyone expected. Gallus marched out from Rome to meet Aemilian but he was murdered with his son by his own troops. Aemilian gained the support of the Senate since he was an ex-consul and Senator himself. Nonetheless, Aemilian failed to win the support of his own troops. As Valerian (253–260AD) marched on Italy, Aemilian was also murdered by his own troops leaving Valerian the undisputed contestant to the throne.

Aemilian (253AD)

Valerian almost immediately raised his own son Gallienus (253–268AD) to the rank of joint Augustus. We can see that the early coinage was still silver in appearance. There was no drastic debasement until Valerian was captured in battle in 260AD and remained in captivity until he died.

The reign of Valerian was marked by numerous frontier disturbances. In 256AD, Valerian departed Rome for the East in order to deal with the rising threat from Persia (modern day Iran). Valerian established his headquarters at Antioch in Syria and mounted his campaign against the Persians from this base of operations. In 257AD, he appears to have won a great victory, at least according to his coinage. For it was at this time that Valerian took the title **"Restorer of the World."** At the same time, Gallienus was waging his campaign on the northern frontier against the Germans.



A bas relief at Naghsh-e Rostam, Shiraz, Iran with Shapur I on horseback showing Roman Emperor Valerian held captive chained to the wall who he eventually had stuffed as a trophy

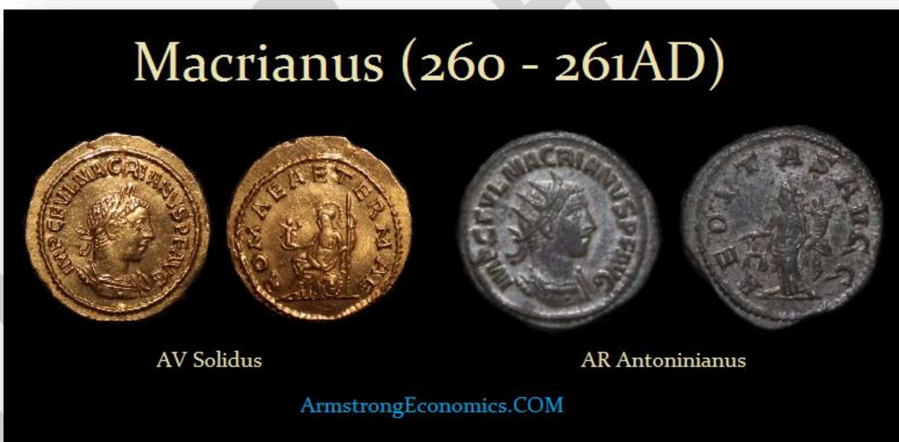
Despite his initial success, in 260AD, Valerian attempted a major assault taking his legions through Mesopotamia. In a tactical error, his legions were surrounded and the Emperor Valerian was taken prisoner. Valerian was turned into a royal slave made to be the foot stool for the Persian King Shapur I (241–272AD). This mural pictured above still survives showing Valerian kneeling and pleading for mercy before Shapur I. Eventually, Valerian was stuffed as a trophy upon his death to demonstrate that he had conquered Rome.

In the autumn of 260AD the monumental message of Valerian's capture by the Persians reached his son Gallienus (253–268AD) in Rome. Gallienus had always been unpopular among the military leaders and with his father gone, rebellion was in the air.

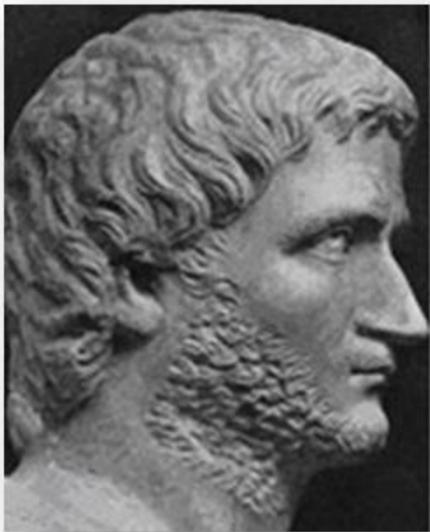
Gallienus found himself besieged on every front. In late 260AD, the capture of Emperor Valerian had left the defenses of the east in complete turmoil. But it was also the FIRST Roman Emperor to ever be taken prisoner. Previously, Trajan Decius (249–251 AD) and his eldest son were both killed in battle against the Goths in the Balkans. Decius was the first Roman Emperor to die in battle by an external enemy.

Shapur I (*The Great*) (241-272AD)

The great city of Antioch in Syria fell to the advancing Persians after the capture of Valerian. Then two Roman generals, Macrianus and Callistus, rallied what was left of Roman troops and defeated the Persian king Shapur at Corycus. This battle halted the Persian invasion forcing Shapur to withdraw back behind the Euphrates.



There was no effort to rescue Valerian for that was just impossible. Then Macrianus (260–261AD) decided the time was right to challenge Gallienus' rule. He nominated his two sons as Emperors of the east, with Antioch as their capital. This rebellion won widespread recognition in Syria, Egypt and Asia Minor (Turkey). However, they were soundly defeated, but this clearly prevented any rescue effort to save Valerian from dying in captivity.



Gallienus
(253 - 268AD)

With the capture of Valerian, the Roman Empire fell into a serious political crisis. Gallienus himself responded quite valiantly considering the embattled state of the Empire at the time. One of his surprising political actions was to reverse his father's anti–Christian edicts, which actually ushered in a period of religious tolerance which lasted for 40 years later.

Between 260 and 262AD, at least 7 internal usurpers laid claim to the throne between 260 and 268AD. With the economic conditions of Rome collapsing and inflation began to convert into hyperinflation post–260AD. The **CONFIDENCE** in government collapsed. You now had the Gallic Empire splitting in 259AD. Once the Persians captured Valerian, now the Goths were encouraged and more barbarian invasions in the north began. Then there was the weather conspiring against them as well as a major pandemic.

The Plague of Cyprian is the name given to a pandemic that afflicted the Roman Empire from about 249 to 270AD which takes its name from a Christian Bishop who delivered a sermon during the crisis. The plague is thought to have caused widespread manpower shortages for food production and the Roman army, severely weakening the empire during the Crisis of the Third Century. This was one ancient plague that a fair amount of historical documentation has survived. Some accounts assert that 5,000 people died per day. Between inscriptions, papyri, archaeological remains, and textual sources all combined, all point to a major pandemic precisely during this same period of hyperinflation. This had a mortality rate that was over 50% and it contributed to weakening contributing to the 3rd century Monetary Crisis as tax revenue also collapsed.

Another aspect of this period is the fact that this is when Christianity began to really gather followers in great numbers. The church experienced a vast growth at this time as there was the plague, the insecurity of the emperor being captured, and the collapse in the economy all simultaneous. The pagan and

Christian sources during this period confirm one another. It was the vivid account of the disease in Cyprian's sermon on the mortality for which the plague took its name. The sermon attempted to console an audience engulfed in a pandemic that was pervasive.

> *"The pain in the eyes, the attack of the fevers, and the ailment of all the limbs are the same among us and among the others, so long as we share the common flesh of this age. … These are adduced as proof of faith: that, as the strength of the body is dissolved, the bowels dissipate in a flow; that a fire that begins in the inmost depths burns up into wounds in the throat; that the intestines are shaken with continuous vomiting; that the eyes are set on fire from the force of the blood; that the infection of the deadly putrefaction cuts off the feet or other extremities of some; and that as weakness prevails through the failures and losses of the bodies, the gait is crippled or the hearing is blocked or the vision is blinded."*

Cyprian has provided an account of the symptoms of the plague which even took the lives of two Emperors – Hostilian & Claudius II. We have also an account from the Bishop of Alexandria in Egypt. The recording of this event implies that the city's population had declined by about 62%. It is unlike that it was Smallpox since that hit two-generations before known as the Antonine Plague which ravaged between 165 to 180AD. Galen was a Greek physician living in the Roman Empire who described it as an ancient pandemic brought back to the Roman Empire by troops returning from campaigns in the Near East.

The winter seasonality of the Plague of Cyprian also strongly suggests that this was a germ that thrived on close interpersonal contact and direct transmission and is more common to the onset of cold which is normally flu season. The hemorrhagic form of the Cyprian Plague implies it was perhaps a viral hemorrhagic fever that is associated with zoonotic diseases caused by various families of RNA viruses. This would include diseases like yellow fever and dengue fever, which have some resemblance to the symptoms described by Cyprian. However, these types of virus are spread by mosquitoes and have limited geographic reach. The face that this took place during the winter season also rules out a mosquito-borne virus.

Recent archeology in Egypt has uncovered a mass graveyard of the victims of the Cyprian Plague. It was located on the west bank of the ancient city of Thebes (modern-day Luxor), which was used since the 7th century BC for private burials. A team of scientists working for the Italian Archaeological Mission discovered the remains of victims struck down by the Cyprian Plague. The remains were covered with a thick layer of lime, which was historically used as a disinfectant. There also appears to have been a major bonfire, in which many of the plague victims appear to have been incinerated. They were unable to extract any DNA from the ancient remains due to the age.

This period is known as Thirty Tyrants in the ***Historiae Augusta***. Listed there, Ingenuus (260AD) was one of the many alternative claimants to the imperial throne with whom Gallienus had to deal with following the capture of his father. Ingenuus was evidently appointed to a senior command in Pannonia by Gallienus himself. That command may have included the supervising of

Gallienus' young son, Valerian II who was at Sirmium which was the capital of that region located today in Serbia and known as the modern region of Syrmia.

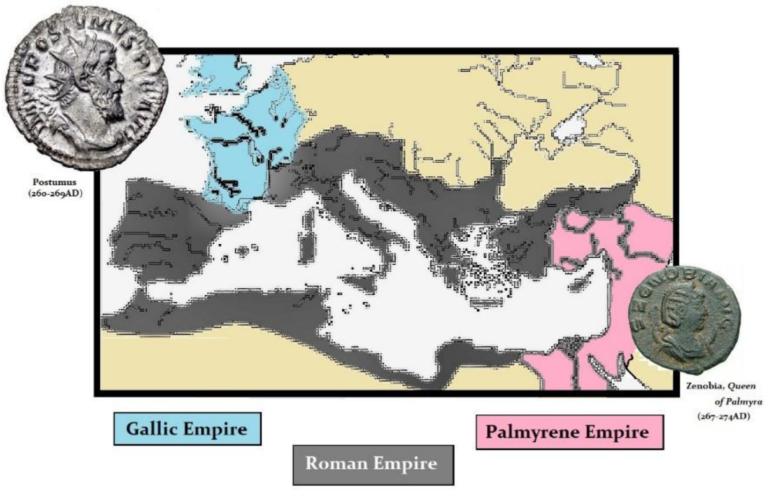
However, Valerian II died in 258AD under suspicious circumstances Gallienus may have demoted Ingenuus while his wife never trusted him. From that point on, Ingenuus declared himself emperor but Gallienus moved upon him there in the Pannonia (Balkans) so rapidly, he never had time to strike any coins in his own name.

Regalianus (260AD) **Wife Dryantilla**

Meanwhile, in Upper Pannonia, Regallianus (260AD) seized power declaring himself to be Emperor following the defeat of Ingenuus who had led the first rebellion of the Danube region. While Ingenius was also defeated by Aureolous, Regallianus' uprising was short lived since he was murdered by his own troops. These usurpers and others, were recorded as part of the

With Britain, Gaul, Spain, and parts of Germany separating in 259AD in a rebellion led by Postumus, the commander of the Rhine legions, the capture of Valerian in 260AD, and the remnants of his Eastern army rallied behind Macrianus (260–261AD) and proclaimed him to be emperor, we then see a move to break away from Rome in the East. Then Gallienus was forced to deal with the Senate of Rome by restricting members from holding any military command. This was in part sparked by the fact that several Senators had often supported some of the very usurpers.

Consequently, Gallienus became extremely disliked in the Senate and he was often blamed by them for the terrible economic condition of the state. Like today the Washington Post even blamed Trump for Hurricane Florence, this same sort of back-stabbing was taking place on the part of the Senate. Gallienus was just being blamed for everything from the break up of the empire, plague, and his father's loss to the Persians.



The remarkably successful usurpation Marcus Cassianius Latinius Postumus (260–268AD) began in the summer of 260AD when he was the governor of Upper and Lower Germany and proclaimed emperor by his troops at the time of a serious barbarian incursion. Saloninus (255–260AD), the teenage son of Gallienus, was besieged by Postumus in Cologne. On the fall of the city he was executed together with the Praetorian Prefect Silvanus.

Gallienus was preoccupied by the eastern crisis resulting from Valerian's capture by the Persians, the uprising in the Balkans, and troubles with the political unrest in the Senate to confront this usurpation of power in Gaul, Britain and Spain. The new "Gallic Empire" that would endure for 14 years confirming the weakness of Rome. Historia Augusta records Gallienus' comment: that the Gauls are "always desiring a change of government"

Postumus proved himself highly effective in countering the barbarian threat in the West and eventually Gallienus seems to have accepted the status quo for to overthrow Postumus meant he would also have to defend the northern border. He did carry out one abortive attempt to overthrow the usurper between 263 and 265.

Postumus (260-268AD)

AR Silver Antoninianus with Reverse type stating "RESTITVTOR GALLIAR" with Postumus standing left with foot on captive barbarian, resting on his spear and raising a kneeling figure of Gallia holding a cornucopiae showing he is saving Gaul

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Even the coinage of Postumus reflects that he was seeking to be the savior of the empire gathering Gaul, Britain, and Spain. He issued a coin picturing himself as the great restorer showing he had a barbarian under his foot. Politically, this is a counter trend move as was the case with Ronald Reagan and even Donald Trump. This first separation was sort of an ancient BREXIT for the Gallic Empire also included the Brits.

Postumus' coinage is of considerable interest for in comparison to that being produced by Gallienus demonstrates the financial collapse that was taking place in Rome. Postumus succeeded in maintaining consistently higher standards of weight and metal purity than those achieved by Gallienus. His aurei average at least 5.50 grams, much higher than those of Gallienus and his antoniniani, although still heavily debased, generally contain almost double the percentage of silver content. The bronze aes coinage is also remarkable given its volume.

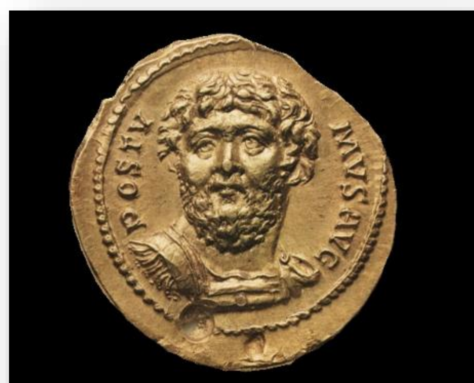
Considerable quantities of radiate double sestertii were struck in addition to sestertii, though large-scale production of forgeries soon led to the cessation of regular issues most likely by 263AD. Mint attributions for the coinage of the Gallic Empire continue to be problematic. Cologne remained the principal mint under Postumus, though the usurper's capital was at Trier (Augusta Treverorum) and this, as well as Lyon (Lugdunum), have both been proposed as alternative locations. The case for Cologne is certainly strengthened by coins bearing the reverse legends.

The invasion of the Goths from the Danube regions was encouraged by the victory of the Persians. This invasion in 268AD prevented Gallienus from seriously addressing Postumus in Gaul and Palmyra in the East. The Goths had invaded Roman territory in 256, 262–263 and again now in 268AD. No doubt, these previous invasions contributed to the rising costs of government that chipped away at the monetary system of Rome.

However, the invasion of 268AD, was by far the biggest and most forceful attempt at taking the seat of power in Rome itself. This time the Goths joined forced with another tribe known as the Heruli from the Black Sea region. Gallienus valiantly marched against the invaders but was too late to prevent their sacking of Athens. Still, Gallienus managed to deliver a stunning defeat to their combined forces at the Battle of Naissus in September 268AD.

The Battle of Naissus was extremely important. It was a major defeat of the Gothic coalition by Gallienus near Naissus located in modern–day Serbia. This was the battle that was a decisive defeat of the Goths that the fled and were effectively removed as a threat from Germanic tribes in the Balkan frontier for the following decades.

Gallienus was taking on the Goths, and left his own formidable general Aureolus in Italy to defend against any attack by Postumus (258–268AD). When Gallienus' general Aureolus, who was based in Milan, rebelled and switched side inviting Postumus to invade Italy, the scales were tipped. Aureolus was an extraordinarily capable general who served under Valerian and Gallienus. Aureolus even struck coins in Postumus' name in Milan, but Postumus did not respond or invaded Italy.



Postumus (260 - 268AD)

AV Aureus

There was a very brief issue of Antoninianus issued in Milan in the name of Postumus produced by Aureolus in 268AD. The coinage of Postumus was predominantly minted in Cologne, with the main mint of the early years in Lugdunum.

This new internal crisis compelled Gallienus to leave the Goths to his generals and he marched back to Italy to confront Aureolus. Gallienus defeated Aureolus' army at the Battle of Pontirolo and Aureolus then fled to Mediolanum (Milan). Gallienus then launched the famous Siege of Milan. Aureolus found himself besieged by Gallienus in Milan, a war which was to prove fatal to them both. The discontent led his own men to assassinate him in a conspiracy most likely involving Claudius II (268–270AD) and Aurelian (270–275AD) two of his formidable generals. Claudius was accused by the Senate of killing Gallienus but nothing was proved. Claudius II then asked the Senate to spare the lives of Gallienus' family and political supporters and to deify him. Probably to make it appear he was not guilty of that crime.

Claudius II Gothicus (268-270AD)

Claudius II then continued the Siege of Milan. He was cunning and did not regard his own honor as important. He made it appear that an agreement was reached, and Aureolus emerged from the city believing there was a truce to meet Claudius face to face. Claudius then seized Aureolus as a prisoner of war and ordered his execution.

Septimia Zenobia of Palmyra (267-272AD)

Vabalathus (268-272AD)

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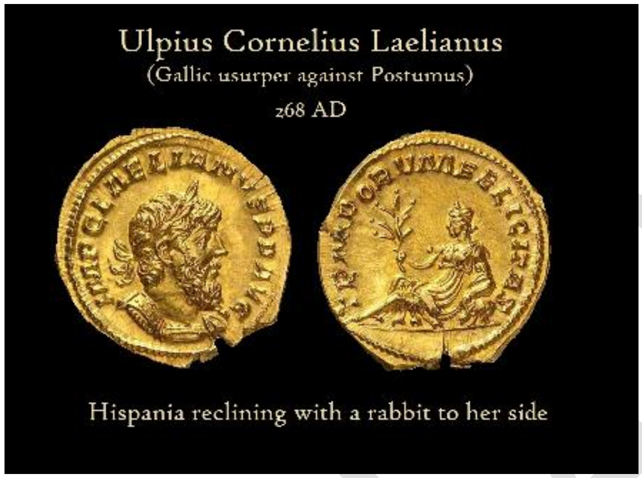
The year 268AD was the year of major political changes. The Gothic invasion of 268AD was also joined in the East by Zenobia (267–272AD) who became far more ambitious upon her husband's death in 267AD. Her husband, Odenathus of Palmyra (220–267AD) located in Syria, seized control of much of the Eastern provinces. However, Odenathus never claimed Imperial dignity – his wife Zenobia would take that step.



Hispania reclining with a rabbit to her side

Meanwhile, back in the Gallic Empire, also in 268AD Postumus faced rebellion himself when Ulpius Cornelius Laelianus (268AD) seized power in Mainz (Moguntiacum) and was proclaimed Emperor by his soldiers. Laelianus maintained himself for several months before Postumus laid siege to Mainz and quickly ended the uprising. However, the Postumus' refusal to allow his troops to sack the captured city led to his own assassination and to a period of instability in the hitherto secure Gallic Empire.

Little is known about Laelianus but he appears to share the same nomen as a prominent Spanish noble family, the Ulpii, which included Emperor Trajan (98–117AD). Perhaps with this family connection to Trajan, Laelianus was able to muster support among the troops. This would explain the reverse of his gold aureus picturing Hispania reclining with a rabbit to her side. This may also perhaps explain the fact that Spain simply broke with the Gallic empire and allied itself with Rome after the deaths of Postumus and Laelianus.

Marcus Aurelius Marius
Gallic Emperor (268AD)

Marcus Aurelius Marius (268AD) was a blacksmith by trade. Marius was one of the "Thirty Tyrants" named in Historia

Augusta during the late 3rd century AD. He apparently joined the Roman army and rose through its ranks to reach the elevated status of an officer. Following the death of the Gallic Emperor Postumus, Marius seized the Gallic throne but was murdered by his own soldiers after a very brief reign. Romantic stories about him like to claim that he was killed by a sword of his own manufacture. It is also said that his reign was a merely a few days. However, based upon the extent of his coinage, it is more likely that his reign was perhaps one or two months.

Marcus Piavonius Victorinus (268–273AD) was a soldier of considerable ability. Victorinus had risen to a high position under the Gallic Emperor Postumus and was widely considered to be his logical successor to the newly found throne of the Gallic Empire. After the assassination of Marius, Victorinus became the Gallic Emperor. Little is known of the history of his short reign, but it appears that Spain seceded from his empire soon after his accession. There were also troubles in Gaul, culminating in a rebellion.

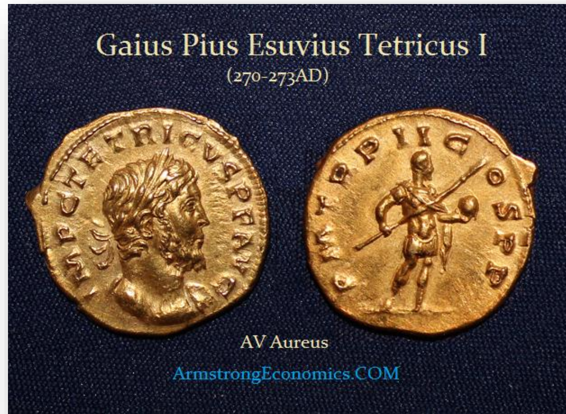
Victorinus succeeded in suppressing the rebellion but only after seven months. Soon afterwards, Victorinus was murdered by one of his own officers at Cologne. It is not known exactly why Victorinus was murdered. It might have had something to do with his reputation for taking other men's wives. However, the coinage under Victorinus demonstrates that a steady economic decline was underway. The coins which had been 55% silver at the start under Postumus, fell to a bronze shadow of its former self.

At this stage in the Gallo-Roman Empire, the monetary system begins to closely mirror the decline in the quality of the coinage which was unfolding in Rome. Curious enough, the style of the craftmanship was far superior to that of Rome. This suggests that perhaps many artists fled Rome to the Gallic dream.

Through the influence of Victorinus' mother Victoria, he was succeeded by Gaius Pius Esuvius Tetricus I (270–273AD) who honored his memory in a brief series of commemorative coins. Tetricus was the last of the Gallo-Roman Emperors. He had been a former governor and Senator from an old noble family. Almost immediately after becoming emperor of the Gallo-Roman Empire, he raised his son, Tetricus II, to the rank of Caesar (equivalent to Vice President & heir apparent).

During Tetricus' reign, the main threats to the Gallic Empire came from initially the Germanic tribes who were raiding crossing over the Rhine. They were also interestingly striking imitation coins of Tetricus. This reflected the fact that the German barbarians in fact were using Roman coins among themselves just as Russians and Chinese had been using US dollars. The barbarian invasions were so intense that Tetricus was forced to move the capital city to Augusta

Treverorum (modern Trier) in late 271AD which became the first city in modern day Germany.



Tetricus was also faced with discontent within his army. He was recognized only as emperor in most of Gaul and Brittania. He was not recognized by the province of Hispania (Spain) since they turned to Rome following the assassination of Postumus and Laelianus in 268AD.

Tetricus attacked the barbarians with some success, mainly during the early part of his reign, even celebrating a triumph for one of his victories. Later in his reign he was forced to withdraw troops and abandon forts, which allowed the border territories to be pillaged. Later Germanic raids were met with almost no opposition allowing them to penetrate deep into Gallic territory which forced the movement of his capital city.

The Emperor Claudius II had died of the plague and he was succeeded by the Roman Emperor Aurelian (270–275). While Aurelian was concentrated upon attacking the Palmyrene Empire mow under the control of Empress Zenobia, Tetricus was able to recover Gallia Narbonensis and south–eastern parts of Gallia

Aquitania. During 273–274, Faustinus, provincial governor of Gallia Belgica, rebelled against Tetricus. However, his revolt was swiftly crushed by Tetricus.

Nevertheless, the Gallic Empire was in serious trouble. It faced constant difficulties with the barbarians along the Rhine. To make matters worse, Aurelian came to power in Rome and he was determined to retake the Gallic Empire and restore the glory of the past.

In the East, Zenobia was no doubt a very ambitious woman. Eventually, she extended her titles, which had been granted to her husband by the Romans, to include her son Vabalathus, who became her joint ruler in 271AD. These titles, after being refused by the emperors Gallienus and Claudius II, were granted by Aurelian (270–275AD). Zenobia celebrated this event by issuing double headed coinage portraying her son, Vabalathus (271–272AD), as Vir Clarissimus, Rex, Imperator, Dux Romanorum on the reverse of her antoninianus and Aurelian on the obverse.

In 271AD, Zenobia took a bold step. She raised her son to the rank of Augustus (Emperor) which was an open challenge to the then Emperor Aurelian leaving him little choice. On her own coinage she too took the title of Augusta. Aurelian marched against Zenobia and her son.

In the battle that followed, Zenobia was soundly defeated by Aurelian's army. Seeking a glorious triumph, Zenobia was captured and taken to Rome for display to the Roman people. Aurelian later gave Zenobia a villa near Tiber, where she spent the rest of life away from political intrigue.

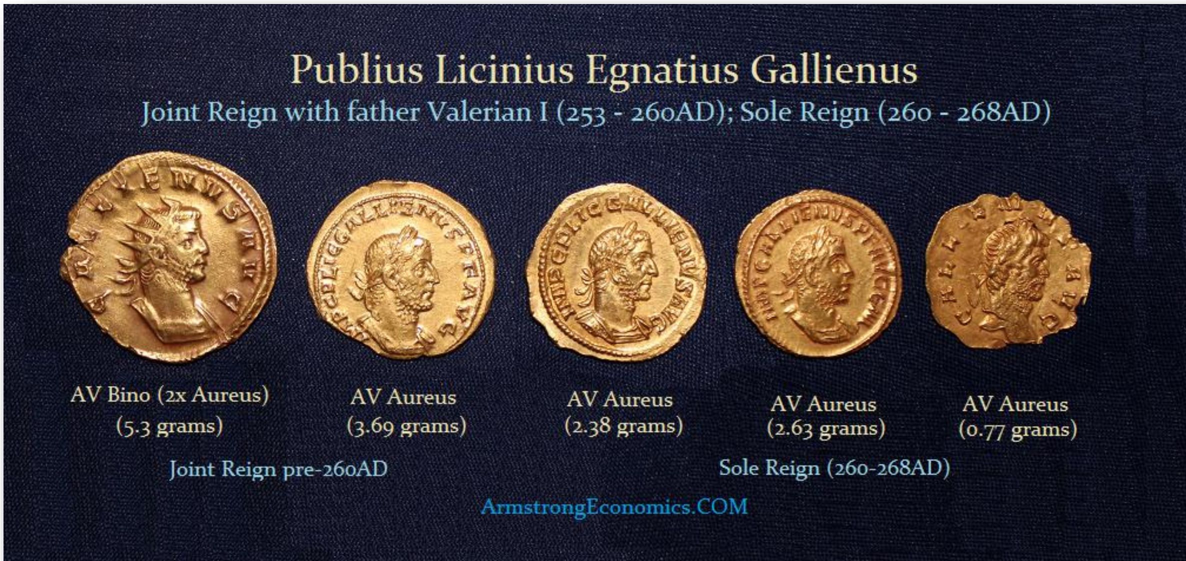
Meanwhile, back in the Gallic Empire, their fortunes were declining rapidly under Tetricus. The final blow came in 273AD when Aurelian invaded Gaul itself. Tetricus, fearing for his life, abdicated and surrendered. Aurelian spared the lives of both Tetricus and his son, and even gave Tetricus a post in the government of Italy. The ex–Emperor spent the rest of his life in Rome, honored by Aurelian and his successors while his son became a Senator.


Caurausius (287-293AD) restored Silver Denarius

Nevertheless, the resentment against Rome was not eradicated by Tetricus' abdication. There was a usurpation of power over Britain and northern Gaul by Carausius (287–293AD) just twenty years later which reflects a continuing trend of discontent by the landed aristocracy and deteriorating morale in the legions due to the pervasion inflation.

Carausius was able to seize power in Britain because of the economic conditions which always sparks political change. Interestingly, Carausius issued a coin trying to project himself as a third emperor in harmony with the current emperors Diocletian and Maximian as did Zenobia regarding her son. A clear ploy to seek political recognition. What is interesting is the coinage again appears in silver within just four years it is debased to bronze.

The underlying common threat to this entire period is the collapse in confidence in the established government following the capture of Valerian in 260AD. Within just 8 years, the monetary system collapses and we enter the period of dramatic political change with the Thirty Tyrants. It was not the debasement which preceded the political chaos but it was the result of it.



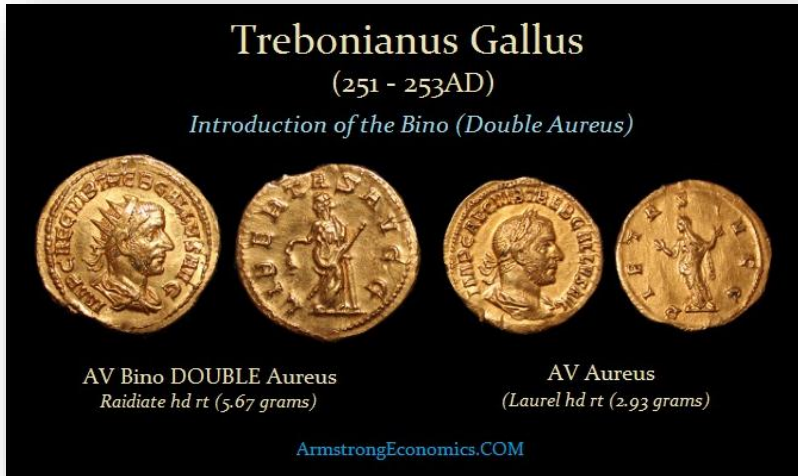
The coinage of Gallienus following the capture of his father Valerian reflects the serious economic difficulties during his reign. Confidence simply collapsed and the velocity of money imploded as the empire also began to split. People suddenly saw the empire as vulnerable with the first Roman Emperor captured profoundly upset the entire concept that the Roman Empire was invincible.

There is no better record for that than the coinage of the empire itself to reflect how everything collapsed very rapidly in the course of just 8.6 years. Both the gold and the silver coinage reflect the great difficulties during this period as inflation transformed into hyperinflation once the confidence was shaken to its roots.

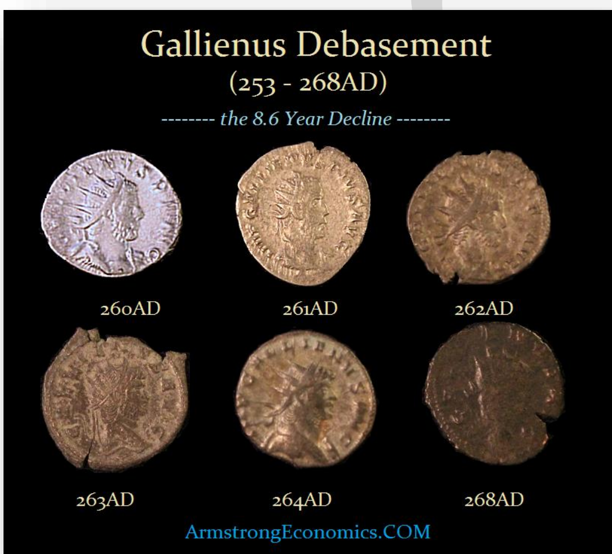
Gallienus
(253 - 268AD)

The weight of the gold coinage varies so greatly, that at first glance it would appear as if there were no monetary standards whatsoever. The gold coinage is both irregular in size and weight. The range in weight for the gold coinage collapsed following 260AD dropping from 3.69 grams to 0.77 grams.

It is clear that a Double Aureus (Bino) was first being introduced by Trebonianus Gallus (251–253AD) at 5.67 grams and prior to 260AD it was 5.3 grams under Gallienus as well. The Aureus, on the other hand, appears that the weight was being reduced virtually monthly between 267 and 268AD establishing the final low.



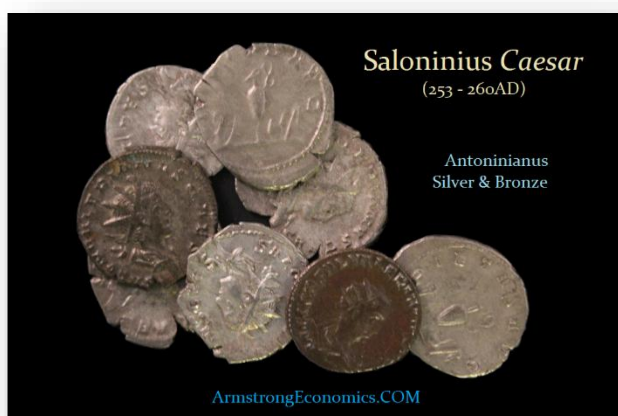
The silver Antoninianus begins with a weight of about 3.5 grams. Within the first two years of his reign, the weight of this coinage declined below 3 grams but the silver content had been at least 55%. The silver coinage began to decline in weight steadily followed the capture of Valerian and separation with the Gallic Empire. By early 261AD, the silver content itself began to decline steadily below 40% becoming a billion greyish white metal. The silver content continued to decline into 262AD. Between 262–268 AD under Gallienus the debasement of the Antoninianus of this later stage had in fact been drastically reduced to the point that the coins were in fact mostly a bronze imitation thinly coated with a fine silver wash to keep up appearances.



While the Antoninianus under Gallienus had been reduced silver content to scarcely one–tenth that of the of the late Severan denarius of the 212AD period, the debasement would continue.

Hoards of antoniniani of Gallienus period tend reflect the varying debasement demonstrating that people did hoard everything post–264AD. The largest hoard discovered in England is known as the Cunetio Hoard, which was discovered in 1978. The site was the ancient Roman town of Cunetio, near modern–day Mildenhall, Wiltshire, and consisted of 54,951 low value coins. The date of this hoard was most likely 275AD since there are no coins discovered later than that period. The coins were contained in a large pot and a lead container. Cunetio was occupied from the 2nd century AD until the end of the Roman period in the early 5th century, when it was apparently abandoned.

In one hoard I purchased back in the 1970s contained a fair number of Saloninius (253–260AD). Since Saloninius was killed by Postumus in the siege of Cologne in 260AD, we definitely have a few rare examples that were debased already to bronze. It possible that these are unique and confined to Cologne in 260AD due to a shortage of silver. There are bronze sestertii and dupondii issued under Saloninus but are clearly from an earlier emission.



ATTICA, Athens. After 449 BC AR Tetradrachm (16.86 grams)
Helmeted head of Athena right / AQE, owl standing right within incuse square; olive branch and crescent above
ArmstrongEconomics.COM

The ancients had to deal with the forgers from practically the birth of coinage. The clever forgers in Ancient Cartage discovered that if copper was cooled slowly, the shinier metals like tin, arsenic or antimony, that were mixed into the metal as impurities, would move to the surface. When the object was cooled, it was polished.

It is rather common to discover Athenian Owls with deep test cuts because of the plating of coins by counterfeiters. The Athens Owls were perhaps the first real World Currency in the European theater.

Constantius II (337 - 361AD)

AV Solidus (22mm, 4.36 grams)
Antioch mint, 5th officina Struck 355-361AD

AV Fourrée Solidus (21mm, 4.06 grams)
Rome mint, 3rd officina Struck 355-357AD

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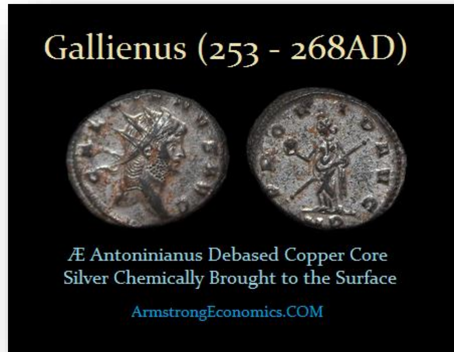
By the 1st centuries AD in Europe, forgers used a mercury layering technique that made its way west from China through the trade routes. They discovered that liquid mercury could become the glue that held thinly beaten gold sheets in place, on a lesser metal. Other methods were to take fine gold or silver dust and mix it into a mercury amalgam. Then they painted this mixture over a copper core coin and then heated. The mercury would evaporate, leaving behind a fine layer of gold or silver. This was the method for counterfeiting gold coins.



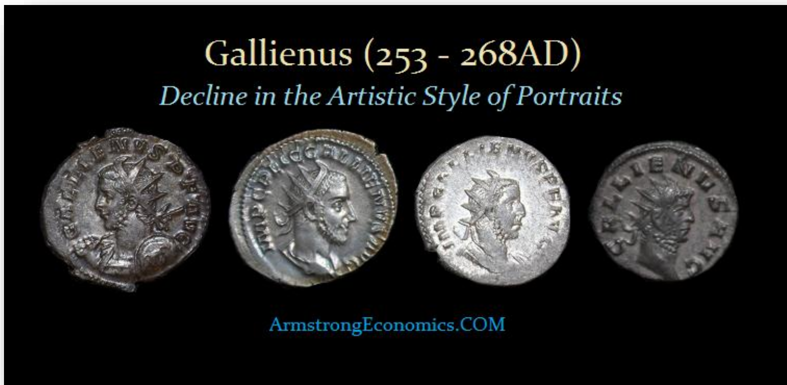
By the 3rd century AD, during the reign of Gallienus, the Romans made an interesting They discovered deposits of AgCl (chlorargynite) in Cornwall, Brittany and Alsace. The Romans observed that if copper or bronze coins were dipped in molten AgCl (mp 455°C), they became coated with silver:

$$Cu + 2AgCl \rightarrow 2Ag + CuCl2$$

The Roman moneyers also had discovered that copper is readily etched away by certain acids and corrosive salts that will leave silver untouched. A coin blank was made in the regular way of an alloy containing about 5% silver, sometimes less. The blank was then dipped in a "pickle" solution of corrosive salts and acid. Sometimes the blank was heated and dipped again to speed up the process. The copper was dissolved out, leaving a microscopically thin layer of pure, spongy silver on the surface of the blank. When the blank was struck up with the emperor's portrait and the design on the reverse, the sponge silver was flattened down and spread across the surface of the coin, leaving a beautiful, brilliant silvery finish on the coin. This soon wore off in circulation exposing the underlying bronze coin.

It has been argued that perhaps the Romans discovered this process entirely by accident. During this politically unstable period of the 3rd century, it has been suggested that someone had hurriedly hidden their money in a privy assuming no one would stick their hand in there to search for anything. The owner of the coins eventually returned to retrieve them perhaps weeks later. It has been argued that urine and other chemical byproducts would have had an etching or leaching effect on the surface of coins containing a small amount of silver. The Romans did not have a perfect method of refining metal. There would have been small amounts of silver in bronze coins to begin with and even traces of gold. Therefore, the Roman discovery of chemical baths may have been made in such a manner. We do not know how they discovered the method for sure.

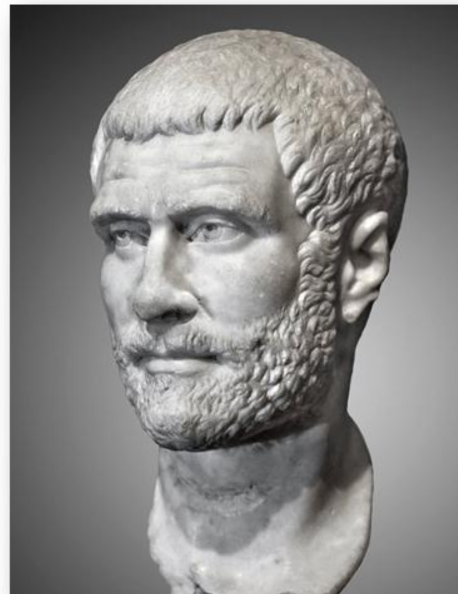
Obviously, such a chemical process like this would have been a closely guarded secret for if counterfeiters learned, it could be a real problem. This is most likely why these mint craftsmen were reluctant to write down the secret. It is unfortunate that so many interesting technological processes learned in antiquity were lost again because of the extreme secretiveness of the guild craftsmen.



What also abundantly jumps out at you from the coinage of Gallienus during this economic meltdown is the rapid decline in the portraiture. Under his father, Valerian I (253–260AD), there are 282 different varieties of Antoniniani or silver coins. That works out to an average of 31.3 types per year. In the case of Gallienus, there are nearly 1483 different varieties of Antoniniani. That works out to be 118.8 types per year.

As the **CONFIDENCE** in the economy collapsed, just as one would see the printing of more money in Germany, Hungary, Zimbabwe, Venezuela, the same process took place during the 8.6–year decline following the capture of Valerian I in 260AD. During the rebellion of Postumus (260–268AD) in the Gallic Empire, the number of coin varieties for the same period was 50.2 per year. His successor, Claudius II, produced 490 varieties in two years or 245 varieties per year.

Gallienus (253-268AD) Debased Coinage Post 265AD
ArmstrongEconomics.COM

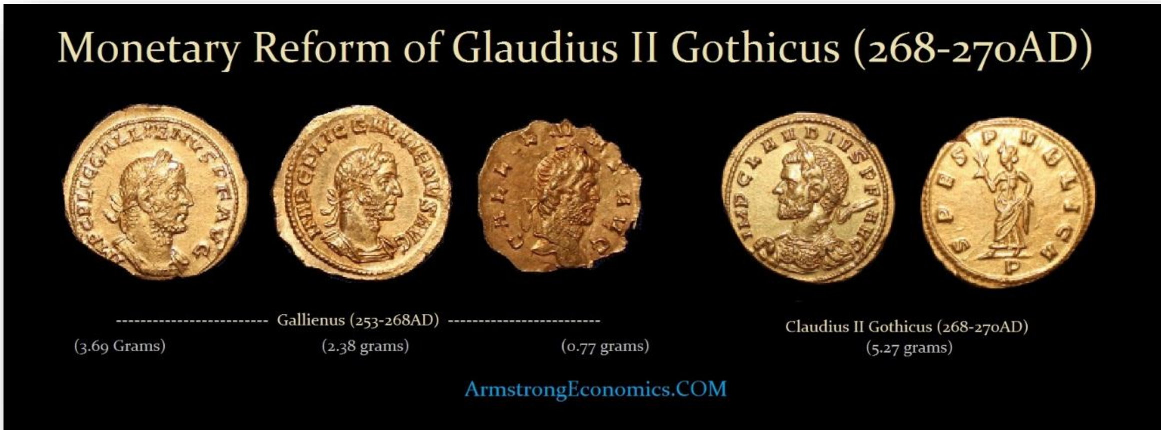


Claudius II Gothicus
(268 - 270AD)

Nevertheless, there is a curiosity that emerges from examining the gold coinage between Gallienus and Claudius II Gothicus (268–270AD). Historia Augusta praises Claudius for his battle against the Gothic invaders. In the final year of Gallienus' reign a Gothic invasion and a rebellion within the army had to be addressed simultaneously. The Gothic invasion of late 267 or early 268 involved 2,000 vessels and 320,000 soldiers according to Historia Augusta. After the Goths had pillaged Greece, Thrace, Macedon, and parts of Asia Minor, they suffered a crushing defeat near Naïssus where it is thought that as many as 50,000 of them died in a single day. Historia Augusta tells us that the rivers were covered over with their shields, and all the banks are buried under their swords and their spears. The fields are hidden beneath their bones.

The victory is traditionally given to Claudius II 'Gothicus', though many scholars now attribute it to Gallienus. Gallienus was not afforded the opportunity to follow it up, because a rebellion at Milan by the commander Aureolus commanded his attention. This was a dangerous situation because Aureolus had taken control of Milan, one of the empire's most strategic cities, and had allied himself with the Gallic rebel Postumus.

By the time Gallienus arrived in northern Italy, the siege of Milan seems to have been initiated by the commander of the Dalmatian Cavalry, the future emperor Claudius II. The assumption of command by Gallienus must have upset Claudius, who probably suspected Gallienus had arrived at the pivotal moment to capture the glory for himself. Claudius conspired with other officers, including the future emperor Aurelian, to murder Gallienus.

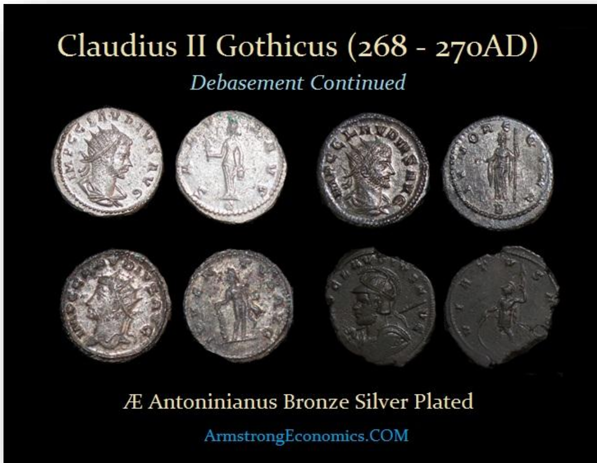


Claudius needed to buy the loyalty of the troops. One of the first measures taken by Claudius was to improve the purity and the weight of the aureus. The army was paid in gold, not the debased silver coinage. Originally, the aureus under Julius Caesar (100–44BC) had been struck at 40 to the pound (320 grams) making it 8 grams per coin. Under Gallienus, the weight of the aureus had decline remarkably being struck at first around 90 per pound and then declined to about 135 per pound. Claudius raised the standard to the 60 per pound range. Examining aurei, we can see that under Gallienus the weight dropped to the 2.38 grams whereas under Claudius the weight comes out to 5.27 grams.


Claudius II Gothicus
(268 - 270AD)

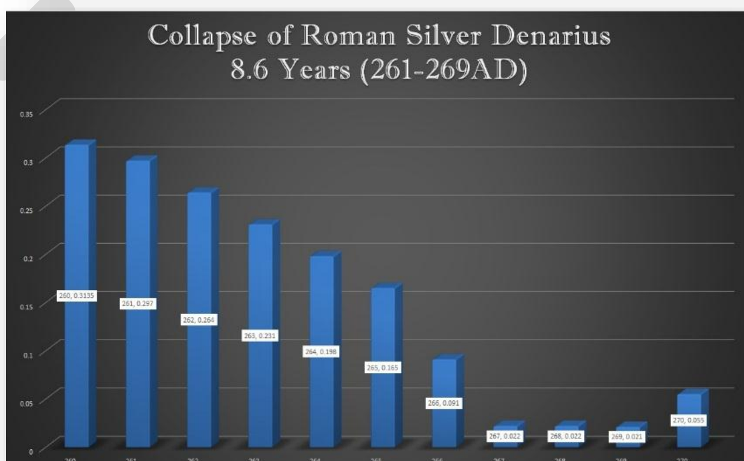
Claudius also struck 8 aurei gold medallions. While not many have survived, of the less than 10 specimens known, all are struck from different dies. This strongly suggests that this was not a small issue but rather extensive more in line with bribing the troops.

Claudius' historical record remains a bit of tarnish with suspicion that he was involved in the plot to overthrow Gallienus on the siege at Mediolanum. We do know that he paid a bribe by handing them all a sizable 20 Aurei bonus. That seemed to have secured the throne.



Gallienus was clearly debasing the coinage out of necessity but this was clearly accelerated by the corruption in the bureaucracy. The debasement continued after the assassination of Gallienus and into the reign of his successor, Claudius II Gothicus (268 – 270AD). Claudius II was confronted by the lack of **CONFIDENCE** in the government as well as the corruption that had even dominated the mint in Rome. The Antoninianus reached its nadir in the opening months of his reign in 268AD. The bureaucracy halved the silver content of the antoninianus of Gallienus from about 4% to just 2% with a weight of about 2.6 grams. When Aurelian tried to remedy the situation the Controller of the Mint, known as the *Felicissimus*, led a rebellion of mint workers who barricaded themselves in on the Caelian Hill in Rome. Aurelian sent in the troops. When it was over, there were 7,000 dead. The mint in Rome was then closed until later in the reign.

When we look at a chart of the detail of this extraordinary period, we can easily piece–together that the collapse of the Roman monetary system took just 8.6 years. Once Valerian was captured in 260AD, the entire **CONFIDENCE** in the Empire imploded. This when Postumus made his move and carved out the Gallic Empire of Gaul, Britain, and Spain. This was quickly followed by Zenobia taken provinces in the East. The Roman Empire was on the verge of total collapse. We find exceptional hoards of coins, even debased one, at this point in time.



Frome, Somerset England Hoard
3rd century AD weighing 160kg Covering 253 to 305AD

Aside from the Cunrtio hoard, there was the 2010 hoard discovered by a metal–detector containing 52,500 Roman coins of varying denominations. The find was located in a field near Frome, Somerset, which was from the 3rd century AD weighing 160kg. This would have been worth around four years' pay for a Roman legionary soldier. This discovery was of great historical interest, for it included coins of 67 separate types, and date from the period 253 to 305AD. The vast majority of coins are made from bronze, but five were made from solid silver. There were 21 emperors and three emperors' wives represented. The most famous rulers included Gallienius, Diocletian and Maximian, with 766 coins of the Carausius, a British usurper who ruled Britain and parts of northern Gaul independent of the Empire during the second attempt to separate from Rome from 286–293AD.

One the first hoards discovered in Britain was in 1957 known as the Agden Hoard which contained 2500 coins. Just in Britain alone, there have been 208,622 3rd century coins discovered in hoards. All have been in pots or bowls. This reflect just how unsettled people were during this period to bury their life–savings.

Imperial mints tried to meet demand for aes during the most severe inflation of the 260s. Gallienus coined sestertii and asses, including a series in 262 that celebrated the Senate and spirit of Roman people and harkened to the line money of Augustan days. His Gallic Empire rival Postumus (260–268AD) produced superior sestertii for the northwestern provinces. Bronze coins, however, ceased to be small change, but instead became a store of wealth as the people began to understand that the once silver antoninianus was really a bronze coin. Consequently, bronze denominations became so prized that at excavated sites dating from the 250s they were replaced by billon antoniniani as the coins most commonly lost. A hoard of 425 sestertii and aes Roman coins was discovered with a metal detector in 1998 known today as the Curridge Hoard.

We can see that the composition of hoards changed actually began to change with large numbers of sestertii or aes were set aside as a hedge against inflation. Such hoards of aes, which total over one-fifth of those from the third century discovered, include very few small fractional coins. From the hoards discovered, clearly few Romans willingly parted with their bronze coins. Has this not been the case, there would be hardly any sestertii which would have survived. Yet strangely, the sestertius remained as the unit of account until the monetary reforms of Diocletian (284–305AD).

Simultaneously, due to the fact that the once silver antoninianus had become debased to the point of a mere bronze coin itself, the traditional bronze denominations of the sestertius, dupondius and as ceased to be minted. The bronze was being used to coin the much more valuable antoninianus.

It appears that post 270AD, imperial mints did not strike sestertii or aes given they were far too costly in raw metal compared to the antoninianus. Here is a rare bronze medallion of Claudius II (268–270AD) which was gilt with gold. Obviously, this was a presentation piece most likely to a soldier for some loyal act. Of course, the barbarians actually updated their coinage to keep pace with the change in the emperors. The continued to strike debased antoniniani.

Claudius Gothicus II (268 - 270AD)
Barbarous Imitation

Effectively, in the United States, the last copper penny to be produced was in 1982. For example, one pound of copper is worth about $2.00 and that quals about 145 pennies. So, therefore, the copper penny pre–1982 was worth more than the actual denominational value. This is what was taking place also during the reign of Gallienus.

The Monetary Reform to end Hyperinflation in Rome

Claudius Gothicus
(270 - 275AD)

When Lucius Domitius Aurelianus (270–275 AD) came to the throne in the year 270AD, the Roman Empire simply broken up into three Empires. Barbarian raids were still a very real threat on every border. However, the Barbarous Radiate imitations of Roman coins in Europe were confined to those of the Gallic Empire namely Tetricus I and II (270–273AD) during this period. I have never seen a barbarous imitation of an Aurelian antoninianus so far. Interestingly enough, where Claudius II increased the weight of the gold aureus to 5.27 grams, we find that Aurelian reduces it to about 4.15 grams.

St this stage in the timeline of the Roman Empire, indeed, Emperors were no longer selected for their aristocratic bloodlines but by the army. Such a man was Neither aristocratic nor Italian, undeniably, now even few rulers for nearly a century had been either. Aurelian was a soldier and therefore no exception to this precedent. Upon the death of Claudius II from plague, Aurelian was hailed by the troops and informed the Senate of his new position as Emperor. He too would eventually be assassinated in a plot concocted by his personal secretary.

The behavior of the gold aureus over some 275 years from the time of Nero (54–68AD) when the first debasement began, reflected a gradual decline in weight rather than fineness. We can see the economic crisis and the eventual collapse in **CONFIDENCE** within the Roman economy and the inflation that ensued as a result. From the pre–reform of Nero when the aureus stood at 7.7 grams, by the time of Gordian III (238–244AD) the gold aureus fell to 4.58 grams which was about a 40% decline. This trend continued and when we reached Volusian (251–253AD) the aureus had fallen to 2.93 grams which represented a decline of 61.2%. However, by this time there was the introduction of the Bino, or double aureus which reflected a 63.3% decline in weight.

By the sole reign of Gallienus, where the early aurei have an average of 2.38 grams and then it took a plunge to under 1 gram with coins actually struck at 0.77 grams perhaps trying to maintain the ratio to the debased antoninianus. It was Claudius II who had to pay the troops 20 aurei for their loyalty after he most likely murdered Gallienus. He clearly increased the weight of the gold aureus to buy their loyalty. However, under Aurelian, the weight once again declines to about 4.15 grams per aureus.

Aurelian (270-275AD)
Antoninianus (20mm, 2.57 grams) Rome Mint, 3rd Officina 1st emission, Struck October-December 270AD Radiate

Claudius II had been compelled to continue the debasement process. As stated previously, the debasement reached its nadir a few months into his reign. Moreover, corruption had become rife in the mint at Rome itself. Here is a coin from the first issue of the mint in Rome struck in 270AD. The portrait is very similar to that of Claudius and the obviously did not have a clear image of what he looked like at this time.

Aurelian spent the winter 270/271AD in Rome and he fought in Northern Italy and in the Danube region against the tribes of the Vandals, Juthungi and Sarmatians. This was the last time that German tribes invaded Italy before the raid of Alaric and his Visigoths in A.D. 401AD.

Between the economy and the extreme pressure on the Roman Empire resulting from these invasions, we also see several rebellions led by Septiminus (Septimius) and Urbanus. There was also the rebellion of Gaius Domitianus, but this was more likely against the Gallic Empire with the death of Victorinus in 271AD. There appears to be another revolt directly in Rome, and it seems that Felicissimus was behind that revolt also in 271AD.

Gaius Domitianus
(Augustus 271AD)

Nevertheless, the corruption in the bureaucracy was reflected by the event of a revolt probably in late 270AD or 271AD of the moneyers led by a man named Felicissimus who was most likely a Procurator Summarum Rationum, or the top official in the monetary system at the time in charge of the Rome Mint. The rebellion of mint workers barricaded themselves in on the Caelian Hill in Rome. Aurelian sent in the troops and it was a major battle ending with 7,000 dead. The mint in Rome was then closed until later in the reign.

This rebellion in Rome itself infers that it took a force of arms to reverse the decline in the currency. For some 7,000 men to have died seems to be extreme if this was truly just the workers at the mint. This may have been more like draining the swamp within Rome. We do know that the mint in Rome was then closed and no coins were struck in Rome for nearly 3 years until 274AD.

Aurelian's army was battle hardened. It does not seem plausible that he would have lost more than a legion in a simply revolt at the mint. It would suggest that the answer to this paradox was that the mint workers were not alone and the corruption was widespread. It is more likely that the moneyers and their allies in the revolt must have included the Praetorian Guard and part of the Senate of Rome.

It is most likely that those in the mint resorted to various forms of forgery or debasement on their own accord rather than official decree. We do know that they were melting down older coins to make more from the same amount of metal. This was most likely an unauthorized debasement which might have been considered to be high treason. Where Claudius II reformed the gold, he did not reform drastically the minting process itself.

Most likely, the Praetorian Guard may have remained loyal to Gallienus to begin with and were not included in Claudius's generous bribe. Aurelian's desire to reform the monetary system appears to have forged an alliance between the Praetorian Guard, Senate and the moneyers. The Praetorian Guard was once the elite legion of the Empire, whose duty it was to safeguard Rome and protect the Emperor himself. But with the border areas being under attack, the emperor's needs were not in Rome. He had his generals and personal guards whose loyalty was not in question.

The Praetorians were most likely not trusted by Aurelian and were in reality were untested in loyalty. Only if the revolt was joined by the Praetorians could the casualties reached 7,000. However, for such a revolt to unfold it had to be closer to a usurpation of power. This would have meant that it required funding and political influence in addition to force of arms. This could have only come from some faction of members in the Roman Senate. Aurelian was not one of them and was another general raised by the army. He was not Italian in his heritage. He was not of noble birth and the Senate may have been looking to reassert itself once again as they had to under Maximinus (235–238AD). They also knew that Aurelian was planning to reform both the monetary system and the Empire.

Tacitus (275-276AD) *(appointed by Senate)*

Double Aureus (6.62 grams) Aureus (4.5 grams)

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If we look to the murder of Aurelian reveals that the very next emperor was nominated by the Senate – one of their own Tacitus (275–276AD). It seems Aurelian's personal secretary, after being reprimanded by the emperor for attempted extortion convinced his personal guard that Aurelian intended to execute all of them. They knew he was draining the swamp so they rushed to his quarters murdered him.

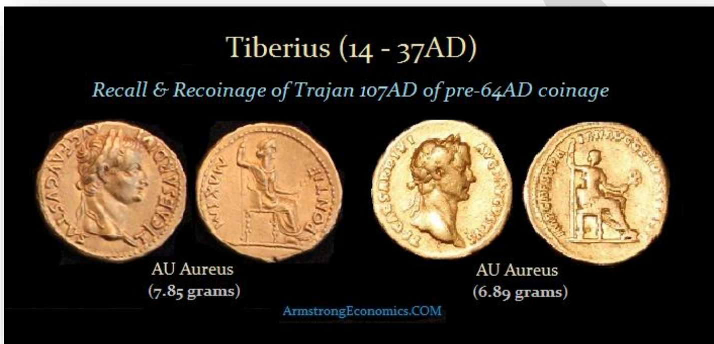
The guard later found that they were lied to and that the personal secretary was engaged in corruption. The guards realized that Aurelian had no such intent on executing them and they took justice in their own hands and swiftly executed the secretary for treason. It was the Senate who now took charge.


Aurelian (270-275AD) Constructed Defensive Walls Around Rome

Moreover, the corruption in Rome was pervasive. The Roman Senate was divided just as the American Congress is today under Trump. Aurelian was desperately trying to make things right and draining the swamp. The Senate even took nearly a year before making their decision to build the Aurelian Wall to protect the people of Rome from barbarian attacks. No doubt, who would get the construction contract and line their pockets from the project took a lot of bribes to finally work out.

On the monetary side, Aurelian wanted to recall in all the old, poorly–made coinage and replace it with new coinage. The problem was that he was going to assign a lower value to the older coinage in relation to the new. Anyone holding large amounts of the poorly–made coinage was going to lose a large part of his wealth with the reforms. Faced with a loss of power and a loss of money, many members of the Senate probably joined the uprising in Rome as well.

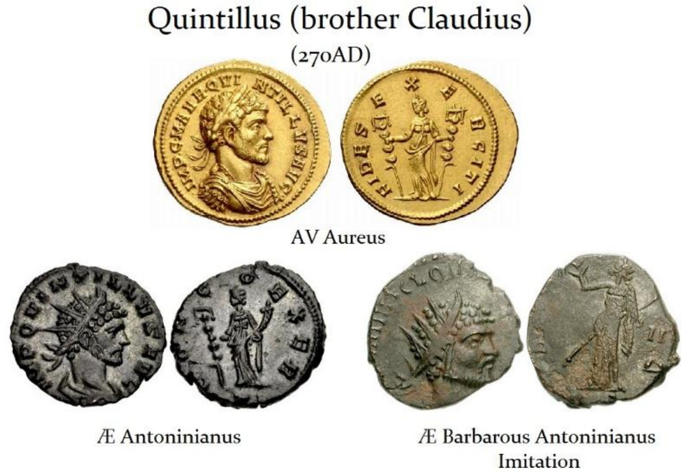
The uprising in Rome chose the Caelain Hill as their base to overthrow Aurelian. In the end, they were defeated. Some of the Senators were executed and many lost their property. The losses and fate of the moneyers and the Praetorians is not recorded. Aurelian took the drastic measure of shutting down the mint in Rome itself until 273AD. Polemius Silvius (laterc. 49, in: Mommsen, Chron. min., Vol. I, pp. 521f.) mentions Felicissimus in his list of Roman Emperors. We do know that several Senators and Equites were probably involved in this uprising in Rome for we do know that in any case Aurelian executed several Senators. This was clearly draining the swamp.



New coinage was produced and the old was recalled. This had been done previously in the year 107AD, by Emperor Trajan (98–117AD) attempted to revitalize the money supply ordering that all the old coinage be "melted down all the worn–out coinage" according to the historian Casssius Dio. In essence, the treasury was greatly depleted due to his prolonged campaign to conquer Dacia, modern day Yugoslavia region.

Trajan actually demonetized all silver and gold coinage that had been issued prior to the reign of Nero because it was heavier than the current issues and his monetary reform of 64AD, which was the first step in the debasement. Therefore, Trajan was recalling all old "worn" coinage and reissuing it with at a lower standard of his period. We see that Aurelian was following the actions about 164 years prior.

When Claudius II became emperor, we know he reformed the gold coinage. It is entirely probable that his imperial administration also tried to end the corruption of the Rome moneyers. There was a brief and rare issue of the Roman



As under Claudius. Upon his death, his brother Quintillus (270AD) came to power who was supported by the Senate being one of them rather than from the army. Hence, because Quintillus had no strong ties with the army and Aurelian claimed that Claudius had meant for him to be the next successor. Whatever little loyalty Quintillus had from the army, it quickly evaporated. With Aurelian's forces coming nearer, Quintillus had committed suicide. His reign was perhaps just 17 days but the numismatic record suggests at least a few of months given the amount of coinage known. There are no known bronze denominations issued and we do find barbarous imitations which imply that his reign was more than just 17 days.

The bronze was simply better used to create Antoninianus which was valued greater. The corruption was too pervasive and the crisis on the frontiers in addition to the splitting of the Empire with the Gallic Empire in Europe and the Palmyra rebellion in the East.

Consequently, Aurelian was left with the task of dealing with the corruption in the mints. As soon as the military situation had been stabilized, he went to Rome, and then forcibly closed down the mint to end the fraud being perpetrated by the mint workers, Senate and Praetorian Guard. As such, at the beginning of 271, the main source of the devalued billon radiates was coming under control. The next stage of the monetary reform came after Aurelian had restored the unity of the Empire defeating Tetricus in the Gallic Empire and capturing Zenobia in the East.

Therefore, it was 274AD and the ensuing closure of the Cologne and Trier mints that had been producing the coinage for the Gallic Empire, that enabled Aurelian to cut off the second source of devalued billon and embark on the actual monetary reform now that the Empire was reestablished.

The western mints of Milan and Rome, which was reopened in 273AD with this aim, served as a test bench for the reform, and in the spring of 274AD, the reformed antoninianus.

Aurelian's reform came really in three stages. With respect to the antoninianus with the marking of **XXI** or its Greek form, **KA** indicates there has been considerable debate over the decades. For all the arguments, to me it is conclusive evidence that the purposes of this marking simply represented the fraction 1/20 with respect to the metal content.

The reason I have concluded definitively that this was the meaning and not the new antoniniani were worth 20 of a smaller denomination such as the As, which Aurelian brought back into production at this time, that 20 antoniniani were worth one of a larger denomination or a gold aureus, which is extremely unlikely given the restored weight of the aureus. Others have claimed that this was some completely new denomination, called the aurelianianus.

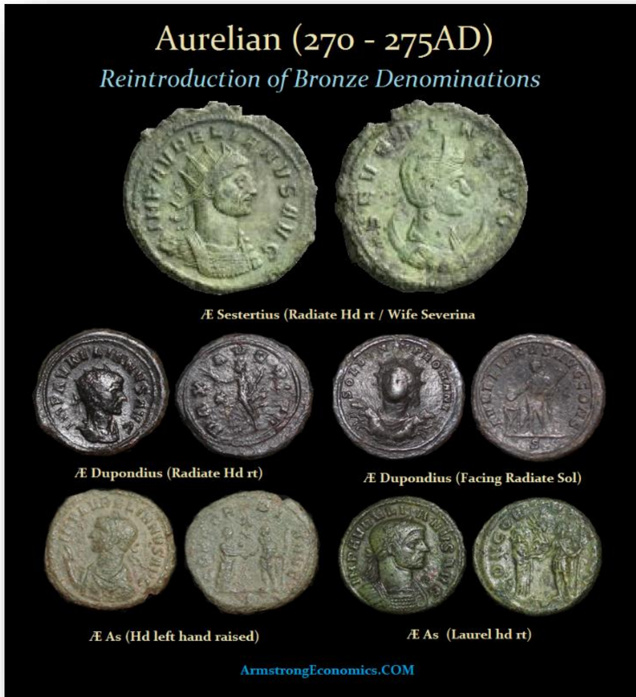
The Alexandria mint in Egypt continued to use the **XXI** marking on the new Follis denomination introduced by Diocletian (284–305AD). Here are three examples of Diocletian, Maximianus, and Galerius Caesar, all from that mint in Egypt. Each has the **XXI** marking in the field. This does not

refer to the denominational relationship but to the metal content – 20 parts bronze to one-part silver. The Follis was introduced 20 years later during the monetary reform of Diocletian. 159)

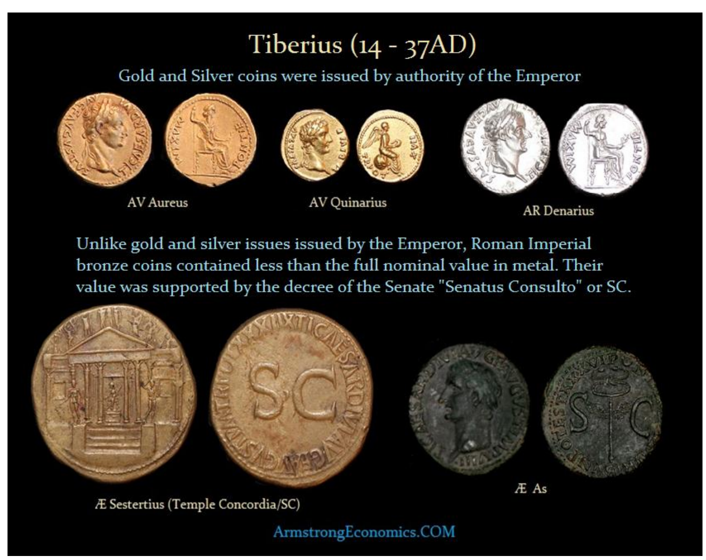
Aurelian's reform aimed at restoring a trimetallic system of gold, silver and bronze faithfully inspired by Caracalla's system. It kept as the central element a radiate antoninianus with a theoretical weight of 4.03 grams and a 5% silver content. Thus, it was by 274AD when we see these new antoninianus reforms introduced with a new silver-washed coin marked **XXI** or **KA** Meaning it contained 5% silver. This became the standard coin until the next monetary reform of Diocletian in 294–296AD. The uprising in Rome in 271AD resulted in closing of the mint in Rome, which was not reopened until 274AD. Clearly, Aurelian had to really drain the swamp by force.

A laureate denarius was now struck once again at 1/124 of a pound (2.6 grams). This new denarius, compared to the antoninianus, which was valued at two denarii as under Caracalla, returned to its weight ratio at the time of the 215AD reform. The Antoninianus was really 1.5 denarius by weight, but that did not reflect the legal tender value of the coin.

The coins were now being minted by 8 mints and 39 officinae or workshops. The mintmarks were now becoming more frequently used, which was all part of the stricter controls. By requiring mintmarks and each workshop having an identifying mark, this demonstrates that much of the problem had been debasement as part of the fraud taking place in the mints rather than an official decree by the Emperor to debase the coinage.



Aurelian also reestablished the bronze sestertius, dupondius, and as. He was obviously attempting to reestablish normalcy to the Empire. Clearly, his insistence upon improving the quality of the coinage and attacking the corruption in Rome itself which was a usurpation of power that resulted in the closure of the mint in Rome was a signal to the rest of the mints that the days of corruption were to end.



Further evidence of widespread corruption and the involvement of the Senate in that uprising of 271AD is the fact that when we look at the bronze coinage reestablished by Aurelian, there is no "SC" marking (Senatus Consulto). Traditionally, the Emperor issued the gold and silver while the bronze coinage was the domain of the Senate.

Aurelian – 270-275 AD
IMP C AVRELIANVS AVG Radiate, cuirassed bust right.

Rev-RESTITVT ORBIS Woman standing right, presenting wreath to emperor who is standing left holding scepter. Q center over XXI in ex.

Aurelian initiated all the necessary reforms in the monetary system and arrested senators involved in the corruption and uprising in a clear attempt to restore the confidence of the people. He restored the empire defeating Zenobia in the East and Tetricus in the Gallic Empire. Both appeared as captives in a victory triumph display in Rome. He constructed a wall around Rome to ease the fear of barbarian invasions. All of these efforts were clearly designed to restore **CONFIDENCE** in the political–economy. Aurelian was **DRAINING THE SWAMP**. His coinage reflected this effort picturing Aurelian as Restorer of the World order.

Clearly, the bureaucracy had their hand in this matter of debasement at least during the 3rd century AD. Nevertheless, for nearly 200 years, there were private counterfeiters who made a living out of forging Roman coins as distinguished from barbarous imitations. The latter is merely copying coins to facilitate the local money supply. The former was attempting to fool the public by creating coins that only appeared to be silver or gold.

Roman Dictator Sulla
(138-78BC)

Cicero (106–43BC) mentions a praetor M. Marius Gratidianus, who widely praised for developing tests to detect false coins, and removing them from circulation during the 1st century BC. Gratidianus was, however, killed under Sulla (138–78BC) the dictator, who then introduced his own anti–forgery law (*lex Cornelia de falsis*), adding serrated edges on denarii.

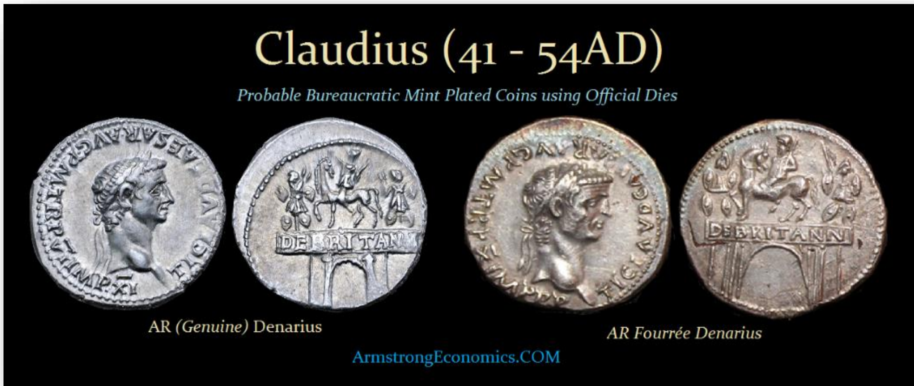
Julia Mamaea
(180 – 235AD)
daughter of Julia Maesa & Mother of Severus Alexander
(Fourrée Denarius)
ArmstrongEconomics.COM

Nevertheless, while the term is derived from a French word meaning "stuffed" is was a fairly common practice for centuries. While they may be typically private counterfeits, because of the quality of the dies, they may also sometimes be officially produced either by government or more likely by people working in the mint.

The crime of *falsum* (fraud) consisted of acts of fraud which were injurious to public (*fides publica*), and it perverted the course of justice by fraud and perjury. Under the Roman Twelve Tables, a person who gave false testimony should be thrown from the Tarpeian Rock (Gell. xxi. 53), and any judge who took a bribe should be liable to capital punishment (Gell. xxi. 7).

The next legislation in *falsum*, was contained in one of the *Leges Corneliae* passed by the dictator Sulla. According to Cicero, there were two types of fraud covered by the *Lex Testamentaria* and the *Lex Numaria* (Verr. ii. 1, 42). Paulus, who gives its provisions, entitles it *Lex Cornelia Testamentaria*. The *Lex Cornelia* appears to have included only two specific kinds of *falsum*, forgery and suppression of wills, and adulteration of the coinage including counterfeiting.

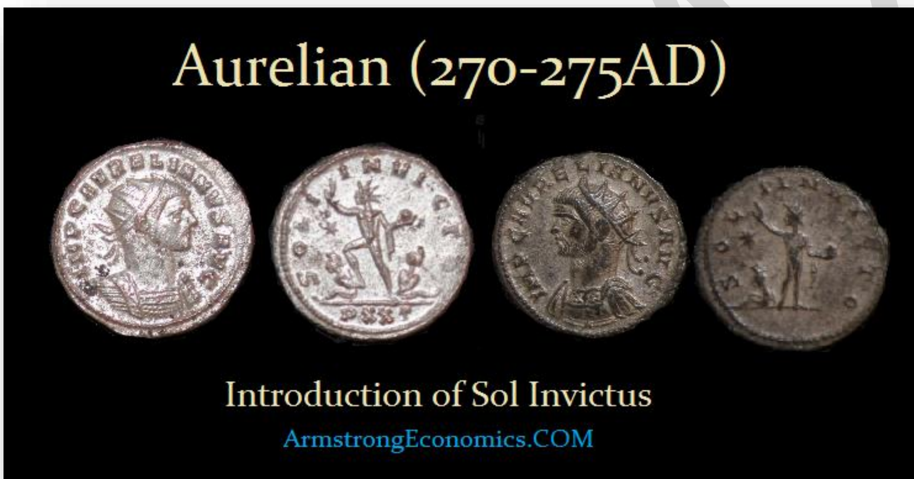
An offence against either branch of *falsum* was a crime against the public (*crimen publicum*). The punishment of *falsum* under the law (at least when Paulus wrote) was *deportatio in insulam* for the higher ("*honestiores*") offense and the mines, crucifixion, or other degrading punishment for the lower ("*humiliores*"). In place of *deportatio in insulam* the punishment, according to the statute itself, was probably the old form of banishment, known as *ignis et aquae interdictio* (q. v.). The property of a convicted person was also confiscated by the state.



Here are two examples of denarii from the reign of Claudius (41–54AD) nearly 200 years before Aurelian. We are not dealing with crude barbaric imitations here. The style is clearly of mint quality standards.

Here we have barbarous imitations of the Roman bronze As of Claudius (41–54AD). We can easily see the poor style of the dies being created. In the case of the silver Fourrée denarii, far too often the designs are of mint quality. This has raised the possibility that there was a systemic practice within the mint to forge a portion of the money supply and pocket the silver bullion or the real coins on the side. This may explain the staunch battle having to send in the troops to shut down the Roman mint with some 7,000 people dead in the process.

The most common method for producing a fourrée was to take a flan of copper, wrap it with silver foil, heat it, and strike it with the dies. If the coin in this manner was sufficiently heated and struck hard enough so this outer layer of alloy (a mixture of 72% silver and 28% copper) had a lower melting point of any mixture of these two metals. Thus, the outer foil was fused together with the core. Exposure of the deception was often due to wear at the high points of the coin, or moisture trapped between the layers that caused the foil to bubble and then break as the core corroded.



Additionally, Aurelian sought to further achieve more unity within the Empire by establishing Sol Invictus as supreme god of the Roman Empire – the undefeatable Sol who was protecting the Romans. At the end of 274AD, perhaps on the 25th of December (Sol's alleged birthday later converted to Christmas by the Christians), he inaugurated the new temple of the Sun-god in Rome on the eastern Campus Martius (today between the Via del Corso and the Piazza San Silvestro). Annual ludi and an agon Solis every fourth year were being held in honor of the Sun-god.

Severina (wife of Aurelian) Double Aureus

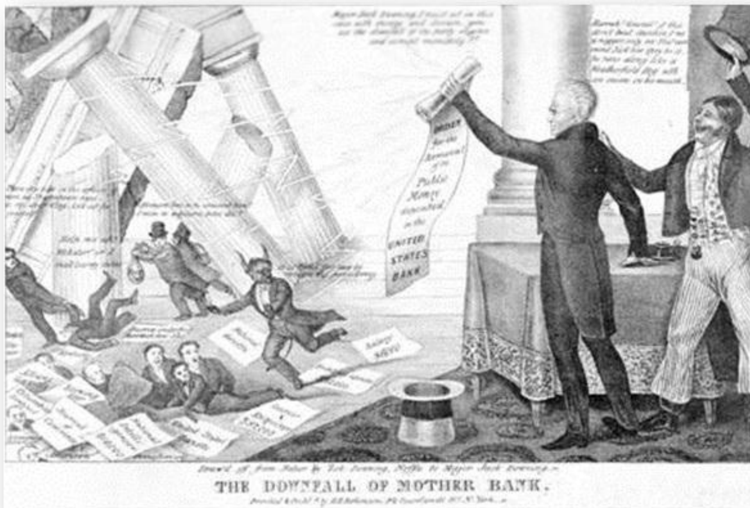
To further establish **CONFIDENCE**, Aurelian took a wife and married Ulpia Severina (her name is only known from inscriptions and coins) and had a daughter. The Roman family was the symbol of stability. It was during the autumn of 274AD, when Ulpia received the title Augusta reflected on her coinage. She also received the title ***mater castrorum et senatus et patriae***, known from previous Severan empresses as well as from Otacilia Severa, the wife of Philippus the Arabian I (244–249AD). It has been suggested that Ulpia Severina was the daughter of the Ulpius Crinitus who is mentioned in the Historia Augusta. Ulpius Crinitus is said to have stemmed from the emperor Trajan (98–117AD) and to have adopted Aurelian. This would have made him appear noble which certainly would have helped to reestablish the confidence of the people in the stability of the empire.

Aurelian also intended to carry out the third phase of the reform, to reestablish a silver coin which was eventually carried out by another British usurper name Carausius (287–293AD) who issued the argenteus, struck at 1/84 of the pound restoring the old Augustan standard. There was also the introduction of the argenteus during Diocletian's reform 295/296AD, struck at 1/96 of the pound (Neronian standard).

Diocletian (284-305AD)
Silver Argentius

This is **HOW** the hyperinflation came to an end. It is always a matter of restoring belief and confidence within the system. Aurelian drained the swamp as best he could. But his own secretary was involved in corruption so his own death reflects just how deep the corruption had become the norm within the government of Rome.

The Sovereign State Defaults of 1839-1843



Andrew Jackson's War on the Banks

In 1841 and 1842, eight states and the Territory of Florida defaulted on their sovereign debts. Traditional histories of the default crisis have stressed the causal role of the depression that began with the **Panic of 1837**, unexpected revenue shortfalls from canal and bank investments as a result of the depression, and an unwillingness of states to raise tax rates. In truth, none of these stylized facts fits the experience of states at all very well. Economic historians have called this the Improvement Era and have offered this as an isolated analysis.

About half of the debt which was permanently defaulted on was held by the British. The depression that unfolded was by no means an isolated American event. For political correctness, economists prefer to always blame only the private sector. Government is usually exonerated because most economists rely upon government for their income or they are plainly just socialists at heart.

Of course, this Sovereign State Default was really set in motion by Andrew Jackson and his war on the **Bank of the United States** for funding his opponents. Once he destroyed the de facto central bank, he undermined the entire monetary system. These traditional explanations simply do not fit the facts of the era. Economists do not understand the private sector investment strategies and give little weight to the most important factor of all – **CONFIDENCE**.

Samuel Untermyer
(1858 1940)

John Pierpont Morgan
(1837-1913)

From ancient Athens, Demosthenes (384–322BC) tells us unsecured loans became quite common based for they were lent upon confidence for "***if you do not know [who] you do not know anything.***" John Pierpont Morgan (1837–1913) when testifying before Congress was interrogated and said the same thing to the ruthless prosecutor, Samuel Unitermyer (1858–1940).

> **UNTERMYER:** Is not commercial credit based primarily upon money or property?
> ***MORGAN:*** No sir. The first thing is character.
> **UNTERMYER:** Before money or property?
> **MORGAN:** Before money or anything else. Money cannot but it … a man I do not trust could not get money from me on all the bonds in Christendom.

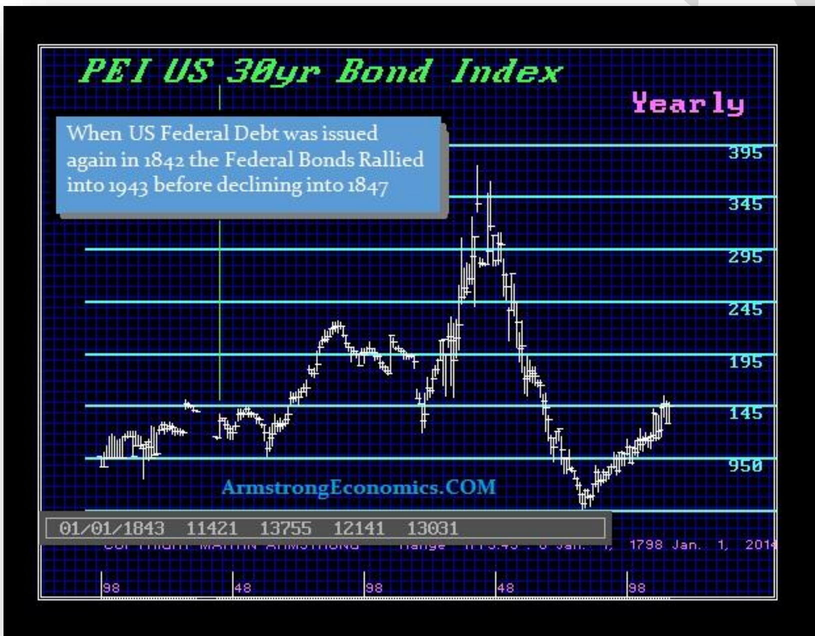
During the 1830s and 1840s, the British and American economies were linked and financial Panics were beginning to unfold as contagions. A sharp financial crisis began in May of 1837 which was followed by a brief recovery in 1838 and 1839. Then a second **Financial Crisis of 1839** hit in October, but this was international and different from the **Panic in 1837**. Still, this subsequent crash which also came in October, as is often the case, produced a recession and deflation that lasted until 1843. This is often the pattern that unfolds. There is the first break as in October 1929, a low in 1930, an attempted recovery which was followed by the 1931 Sovereign Debt Crisis which destroyed capital formation sending the share market crashing to 10 cents on the dollar by July 1932.

First Bank of the United States $20 Draft

In this case, the economic contraction between 1837 and into 1843 produced yet a third financial crisis that appeared during the winter of 1842. This crisis was felt primarily the United States, although conditions continued to deteriorate in Britain through 1842 as well. The two economies were deeply connected yet few people understood this at that point in time. The first acknowledged contagion would come in 1857. Some modern economic historians tried to speculate about the role of each country in provoking the crises. For example, Peter Temin's ***The Jacksonian Economy*** (New York: W. W. Norton and Company, 1969) attributed the **Panic of 1837** and the **Crisis of 1839** to the Bank of England and international factors, absolving the Bank of the United States, Nicholas Biddle (1786–1844), who was the bank's president from 1823 to 1839, and President Andrew Jackson. Biddle himself criticized the Bank of England for its policies in 1839.

Nicholas Biddle
Second Bank of the United states
(1786 1844)

The United States was the emerging market and Britain was the Financial Capital of the World. The market for American state debts played a central role in financial relationships between Britain and the United States for about 50% of State debt issues were sold to British investors. During the late 1830s American states embarked on an internal improvement boom, raising the amount of state debt outstanding from $81 million in 1835 to $198 million in 1841. American states authorized and issued bonds worth $13 million in 1836, $21 million in 1837, $35 million in 1838, $22 million in 1839, $19 million in 1840, and $6 million in 1841. By 1841, estimates are that half of the $200 million in state debt was held abroad, primarily in Britain.



The United States had paid off its **National Debt** in 1835. This meant that US State bonds provided a critical link between financial markets of the USA and Britain. By 1836, state bonds were the only long-term American debt instrument traded in Britain. The single American corporation whose stock traded regularly in London was the Bank of the United States, which lost its national charter in 1836 during the Bank War with Jackson.

The importance of British capital markets and international forces at this point in history on creating the crisis of this period cannot be overlooked so lightly. Nicholas Biddle, in a letter to John Clayton dated April 9, 1841, in which he defended his actions at the Bank of the United States and attempted to explain why the bank had failed after his departure as President, Biddle wrote:

"I have just stated that the winter of 1838–'39 was a season of great abundance and ease in moneyed concerns, both in England and this country; but England was soon after startled by the discovery that the grain crop was deficient, and a demand arose for specie to export for grain, combined with some continental loans, that changed the whole surface of affairs. The Bank of England itself, after borrowing ten millions of dollars from the Bank of France, was still so much drained for coin that it was forced into very severe restrictive measures, which raised the interest of money to twice or three times its usual rate. The most injurious effect was on the stocks of this country [the U.S.], which were no longer convertible in England, accept at great sacrifices. These causes immediately reacted on this country, producing the usual effects of embarrassment in the community and alarm among the banks."

House Document #226, 29th Congress, First Session, p. 488

Millions of dollars of identical state bonds traded in London, New York, and Philadelphia. Movements in bond prices give us a window into the connections between British and American financial markets. Many assumed that the bounce in the markets after the **Panic of 1837** was attributed to state expenditures for canals and railroads, financed largely by British lending. But the economists exaggerate the "recovery" for the bounce could not even exceed the previous year's high. Granted, the capital inflows from Britain to the United States merely lessened the decline briefly. But clearly the high in the market was 1835 which coincides more with Jackson's destruction of the Bank of the United States which was THE #1 American share that was traded internationally. Keep in mind that this also was the first attempt to assassinate a president when the would-be assassin Richard Lawrence's gun misfires on January 30th, 1835.

Listed Securities in US Markets (1797 - 1817)

New York, 1797
U.S. 6 percent bonds
U.S. 3 percent bonds
U.S. Deferred 6 percent bonds
Bank of United States
Bank of New York

New York, 1801
U.S. 6 percent bonds
U.S. 3 percent bonds
U.S. Navy 6 percent bonds
U.S. 8 percent bonds
Bank of United States
Bank of New York
Manhattan Bank
New York Insurance Co.
Columbian Insurance Co.
United Insurance Co.

New York, 1811
U.S. 6 percent bonds
U.S. 3 percent bonds
Bank of United States
Bank of New York
Manhattan Co. Bank
Merchants Bank
Union Bank
Mechanics Bank
New York Insurance
Columbian Insurance
United Insurance
Marine Insurance
Commercial Insurance
Phoenix Insurance
Eagle Insurance
Mutual Insurance
Ocean Insurance
New York Firemen Insurance

Boston, 1811
U.S. 6 percent bonds
U.S. 3 percent bonds
Massachusetts Bank
Union Bank
Boston Bank bond
Late Bank of U.S.
Boston Marine Insurance
Fire and Marine Insurance
State Notes

Philadelphia, 1811
U.S. 6 percent bonds
U.S. 3 percent bonds
Louisiana 6 percent bonds
Bank of U.S.
Bank of Pennsylvania
Bank of North America
Bank of Philadelphia
Farmers & Mechanics Bank
Ins. Co. of Pennsylvania
Ins. Co. of North America
Union Insurance
Phoenix Insurance
Delaware Insurance
Marine Insurance
United States Insurance
Lancaster & Susqueh'a Insurance
American Fire Insurance
Schuylkill Bridge shares
Delaware Bridge shares
Lancaster Turnpike shares
Germantown Turnpike shares
Cheltenham & Willow Grove Tpk shares
Chestnut Hill & Springhse Tav'n shares
Frankford Turnpike shares
Water Loan
City Loan
Masonic Loan

Baltimore, 1811
U.S. 6 percent bonds
U.S. 3 percent bonds
Louisiana 6 percent bonds
Bank of U.S.
Maryland Bank
Baltimore Bank
Union Bank of Baltimore
Mechanics Bank
Farmers Bank
Columbia Bank
Potowmac Bank
Farmers & Merchants Bank
Commercial & Farmers Bank
Franklin Bank
Marine Bank
Baltimore Insurance shares
Maryland Insurance shares
Marine Insurance shares
Chesapeake Insurance shares
Union Insurance shares
Fire Insurance
Reistertown Road stock
Fredericktown stock
York stock
Falls stock
Union Manufacturing
Water stock

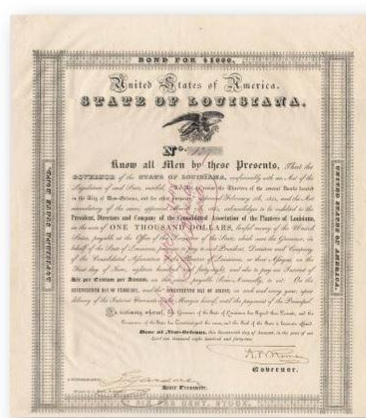
New York, 1817
U.S. 6 percent bonds
U.S. 3 percent bonds
Louisiana 6 percent bonds
U.S. 7 percent bonds
Yazoo/Mississippi (U.S.)
NY State 6 percent bonds
NY State 7 percent bonds
Corporation 6 percent bonds (NYC)
Bank of U.S.
Bank of New York
Manhattan Co. Bank
Merchants Bank
Mechanics Bank
Union Bank
Bank of America
City Bank
Phoenix Bank
United Insurance
New York Insurance
Fireman Insurance
Ocean Insurance
Phoenix Insurance
American Insurance
Pacific Insurance
Mutual Insurance
Washington Insurance
Eagle Insurance
Globe Insurance
National Insurance
Spanish Dollars
Doubloons

SOURCE: *New York Price Current*, issues of Jan. 2, 1797; Feb. 28, 1801; June 29, 1811 (for four cities), and Dec. 24, 1817.

Bank of the United States Dated December 15th, 1840

When Nicholas Biddle lost the Bank War to Andrew Jackson, the Bank of the United States sought a charter from the state of Pennsylvania. In 1836, the Bank of the United States was rechartered as the Bank of the United States of Pennsylvania. The charter was very generous to the state, including a promise by the Bank of United States of Pennsylvania would underwrite $6 to $8 million in state bond issues. As the State of Pennsylvania defaulted on its debt, it contributed to wiping out the Bank of the United States. In February 1836, the bank became a private corporation under the Commonwealth of Pennsylvania law. A shortage of hard currency ensued, causing the **Panic of 1837** and lasting approximately seven years. The Bank suspended payment in 1839 and was liquidated in 1841.

The secondary **Financial Crisis of 1839** had its origin back in Britain. Credit tightening by the Bank of England cut off the capital investment to the emerging market in the United States. American states suddenly found their buyers where not there. Like the European members of the EU have grown dependent upon the ECB buying their debt, once the buying stops, interest rates will soar in Europe as they did during 1839.



1842 Bond State of Louisiana

Unfortunately, the new inflow of foreign capital did not continue in 1839 sending interest expenditures soaring. By the summer of 1842, eight states and the Territory of Florida were in default on their debts, and Mississippi and Florida had repudiated their bonds outright. The collapse of state credit was the most serious consequence of the depression that began in 1835.

The defaults of state debts in default in 1842 impacted the credit worthiness of **ALL** states as well as that of the United States. Clearly, the states tended to borrow for improvements after the **Panic of 1837**; most states did not expect canal investments to return substantial revenues by 1841 and so could not experience unexpected shortfalls in those revenues as some economists have argued. Furthermore, most states were willing to raise tax rates substantially. The relationship between land sales and land values explains much of the timing of state borrowing and the default experience of western and southern states. Pennsylvania and Maryland defaulted because they postponed the imposition of a state property until it was too late when there were no buyers.

Here is a table where we look deeper into the data. This clearly reveals that the states that went into default were NOT borrowing for improvements. Those were primarily in the North. The percentage of the borrowing in the troubled states was to bailout the banks, which in turn, then defaulted upon the state. Note also that the states which did this were primarily in the South – Alabama, Florida, Mississippi, Arkansas, Tennessee, and Missouri. The Sovereign Defaults of the 1840s had the additional impact of wiping out not just the credit ratings of Southern States, but it caused a very deep depression in the South resulting from the capital formation destruction. Then we have the anti–Slavery movement which would undermine their cost basis for labor, this would only contribute to the coming Civil War. The South was deeply impacted by Jackson's Bank War which ruined their creditworthiness for decades to come.

State Borrowings (1836-1841)

Improvements v Bank Bailouts

	State Totals	Percent Bank	Percent 1836-41
Illinois	13,527	22%	100%
Indiana	12,751	19%	83%
Michigan	5,611	0%	98%
Alabama	15,400	100%	64%
Florida	4,000	98%	3%
Mississippi	7,000	100%	71%
Arkansas	2,676	100%	100%
Louisiana	23,985	93%	7%
Ohio	10,924	0%	59%
Massachusetts	5,969	0%	100%
New York	21,797	0%	71%
Pennsylvania	36,336	0%	36%
Maryland	15,215	0%	68%
Maine	1,735	0%	100%
Virginia	8,744	5%	45%
South Carolina	3,691	4%	74%
Georgia	1,325	0%	100%
Kentucky	3,086	0%	94%
Tennnessee	3,416	43%	84%
Missouri	842	43%	100%
Total	198,030	34%	52%

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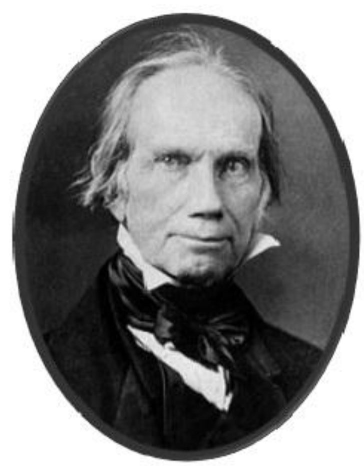
Obviously, the **Panic of 1837** was one such incident involving an unstable currency and financial system resulting in a lack of confidence in both government and the banks. An independent treasury system emerged when President Andrew Jackson transferred in 1833 government funds from the Bank of the United States to state banks.

The Bank of the United States was a national bank created by the U.S. Congress. The first bank (1791–1811), proposed by Alexander Hamilton and the Federalists, aroused opposition, especially from the West, for its conservative policies, which meant it was against inflating the money supply through means of unbacked paper currency.

The charter of the Bank of the United States was therefore allowed to expire. Difficulties in financing the **War of 1812** caused the creation of a Second Bank of the United States (1816–36). It was President Madison who revived the Bank in 1816 due to the rising level of inflation on the heels of the War of 1812. It was at this time that Nicholas Biddle was appointed the head of the bank. Jackson had personal problems with banks and credit. The election of 1828 was quite bitter. Personal attacks were now part of the game, and the unfortunate death of Jackson's wife he had blamed on these slanderous attacks that had deeply affected his wife, causing him to believe they affected her health.



Henry Clay, Sr.
(1777 – 1852)
Speaker of the House of Representatives and was also Secretary of State from 1825 to 1829. He lost his campaigns for president in 1824, 1832 and 1844. He maneuvered House voting in favor of John Quincy Adams to ensure Andrew Jackson lost the election

Nicholas Biddle joined forces with Henry Clay (1777–1852) to apply for renewal of the Bank Charter in order to make it a Presidential campaign issue. When Jackson won, he took this as a mandate to destroy the bank when in fact the charter was not due for renewal until 1836. Jackson's big defeat of Clay who was the Whig candidate, set the stage for the Bank War. Jackson simply say that Biddle lent money to his political opponents.

It was 1818 when Andrew Jackson came to fame because he led a reprisal against the Seminole Indians in Florida and captured Pensacola, involving the US in serious trouble with Spain and Britain. The conduct of **"Old Hickory,"** as he was called, pleased the people of the West and he was regarded as the greatest hero of his time.

Jackson became associated with the increased popular participation in government, which later became known as **"Jacksonian Democracy."** His liberal style movement almost won him the presidency in 1824, but the election ended in the House of Representatives, with a victory for John Q. Adams (1767–1848). This left a bitter taste in Jackson's mouth and seriously injured his pride. Still, Jackson ran again and won the US presidency in 1828.

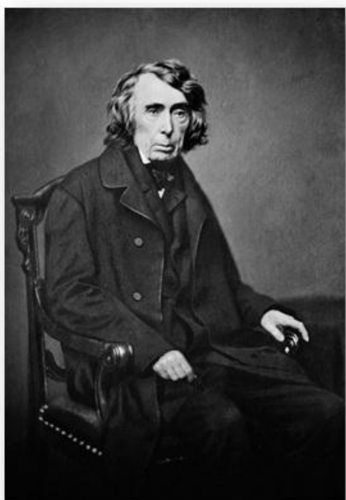
GENERAL JACKSON SLAYING THE MANY HEADED MONSTER.

Jackson's victory brought a strong element of "personalism" to Washington and his administration became known as his **"Kitchen Cabinet."** Andrew Jackson was also the first President to create the **"SPOILS SYSTEM,"** which simply meant that all your buddies who helped in the election got fat paying jobs in government – the **"spoils"** of victory were given to your political supporters.

Andrew Jackson "Old Hickory" (1767–1845)

From this anti–establishment and anti–Eastern States perspective, the fight against the Bank of the United States became an important issue in the presidential election of 1832, in which Jackson defeated Henry Clay. Following his victory, Jackson went about destroying the central banking system of the United States and transferred federal assets to chosen state banks, which became known as Jackson's "pet" banks. This action seriously impaired the confidence in the currency.

Jackson was a debtor to banks in his youth and was against paper money in favor of coins only. Jackson's veto message to Congress set out his objections. Jackson stated that ***"some of the powers and privileges possessed by the existing bank are unauthorized by the Constitution"*** suggesting that the bank was a dangerous monopoly. There was a fierce debate over Jackson's views and Henry Clay tried to have him impeached by alleging ***"Jackson claimed powers greater than European kings."*** Even Daniel Webster viewed Jackson as a monarchical president. In 1834, the Senate censured Jackson over his vetoes on March 28th, 1834. It was 1833 that destroyed the bank.

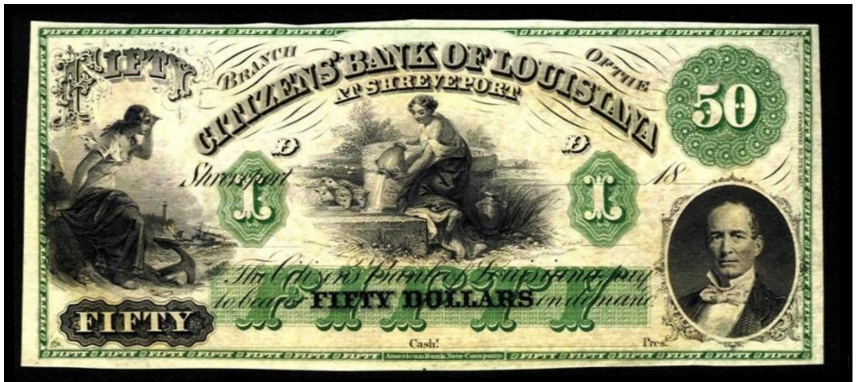


Roger Brooke Taney
(1777 – 1864)
5th Chief Justice of the Supreme Court (1836-1864)
Author of Dred Scott v. Sandford (1857)
12th US Secretary of the Treasury (1833 – 1834)

Jackson saw the way to finish the bank would be to remove the Government deposits. To accomplish this, he had to replace not one, but two Secretary of the Treasury posts until he found the right man – Roger Taney (1777–1864) who served as the Secretary of the Treasury September 23, 1833 – June 25, 1834.

On October 1st, 1833, Jackson announced that federal funds would no longer be deposited at the Bank of the United States. Taney was a strong ally of Jackson but Jackson and then Jackson nominated Taney to the Supreme Court in 1836 as a reward for destroying the Bank of the United States. Hence, not only was Andrew Jackson the founder of the Democratic Party, Taney was the author of the Dred Scott decision for in 1857 which held that negrpos were just property setting in motion the American Civil War.

Biddle retaliated by calling in loans from across the country. Biddle deliberately wanted to create a financial crisis in order to demonstrate his point that a national bank was needed in the country. Biddle 's move backfired, and businessmen as well as the farmers then blamed the Bank of the United States, not Jackson. The political pressure rose and the Bank of the United States lost its charter in 1836.



Citizens' Bank of Louisiana

When Jackson withdrew the federal deposits from the Bank of the United States, he placed it with private state–chartered banks that the press had called "pet" banks. This led to wider acceptance of paper money issued by state banks and caused widespread inflation. Brokers appeared in New York City where they would buy worthless banknotes of some obscure remote bank at deep discounts and placed them into circulation. Nobody knew even if these notes were counterfeits or where the banks really were located. The money supply of the United States became awash with worthless banknotes that collectors to this day refer to as the Broken Banknote Era.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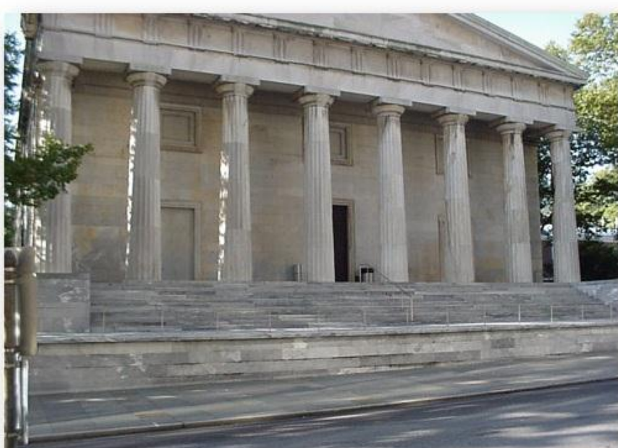
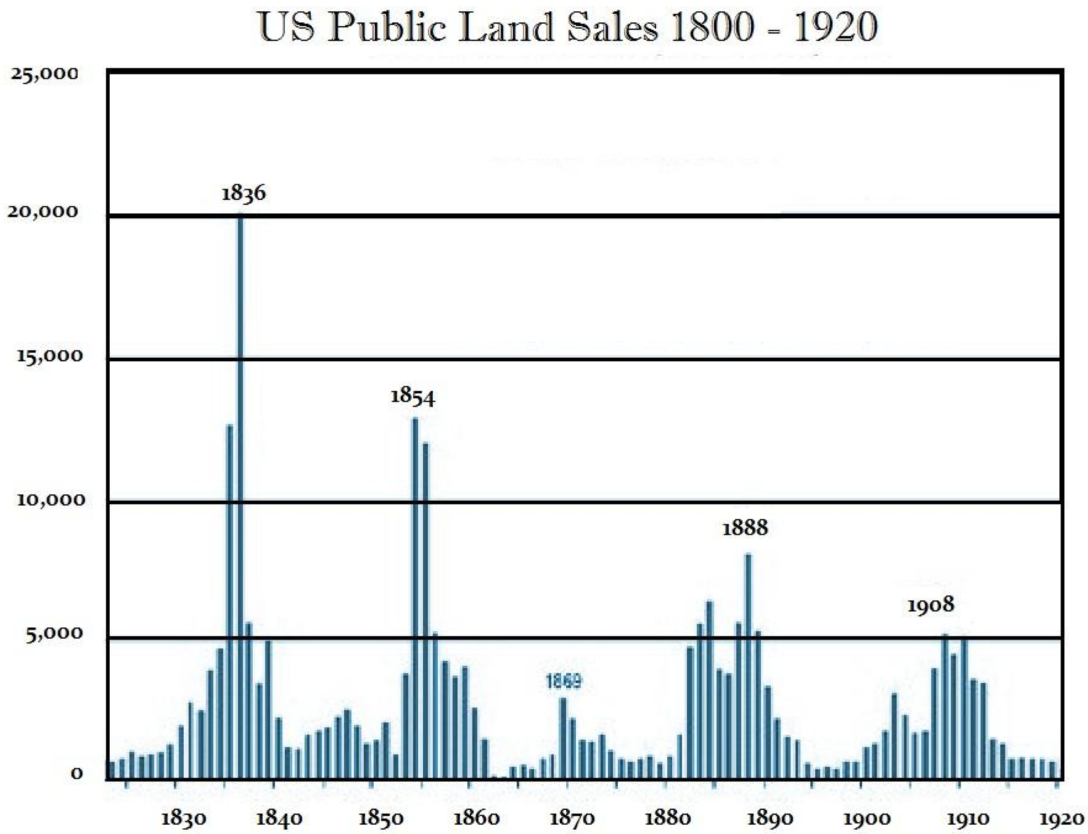
The Bank of the United States had initially prospered under the management of Nicholas Biddle and effectively served as a central bank. However, this again was viewed as a **"TOOL"** of eastern commercial interests by the Jacksonians and the fact that it had lent money to political opponents of Jackson inspire deep hatred. Jackson's destruction of the Bank of the United States was entirely a personal vendetta.


Second Bank of the United States chartered 1816 ceased to exist in 1836



In 1836, Jackson issued the **"Specie Circular,"** which stated that all public lands must be paid for in specie. This in effect hastened the **Panic of 1837** and tended to contradict the private script system where individual banks were allowed to issue their own paper currency. Suddenly, after destroying the Bank of the United States and moving federal deposits to his "pet" state banks, Jackson demanded all payments to be in coin. The share market peaked in 1835, but the Panic of 1837 was inspired by Jackson failing to understand that his demand for gold to be paid for real estate meant that he would also unleash a real estate crash. This is best reflected in the official sales of new public land which reached its all–time high in 1836.

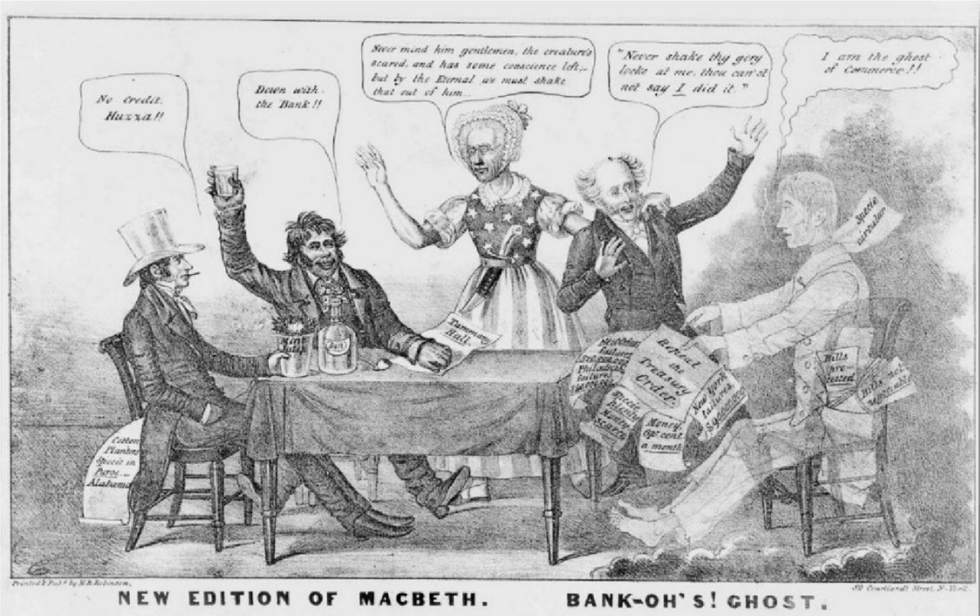
Thanks to the irresponsible actions of Andrew Jackson, the U.S. entered a serious economic depression following the failure of the New Orleans Cotton Brokerage firm, **Herman Briggs & Co** in March of 1837. Inflated land values, speculation and wildcat banking contributed to the crisis, which became known as the **"Hard Times of 1837–1843."**

New York banks suspended payments in gold on May 10th, 1837 and financial panic ensued. At least 800 US banks suspended payment in gold and 618 banks failed before the year was out. Gold disappeared from circulation and employers were forced to pay their help with what became commonly referred to as ***"shinplasters,"*** which were private bank currency of dubious value and far too often outright counterfeit.

Broken Banknote of the 1830s - Canal Bank, New Orleans

In destroying the central bank, Jackson had moved the Treasury deposits to state banks. They called this **"Jackson's Roulette".** This lent tremendous credibility to these state banks that all began to issue their own money. This became known as the **Broken Bank Era** to collectors. These ***"shinplasters"*** were effectively worthless and Jackson set off a massive depression. By the mid–1840s, Southern States were going bankrupt for they had issued bonds trying to bail out the banks. Jackson proved one thing – the need for a central bank.

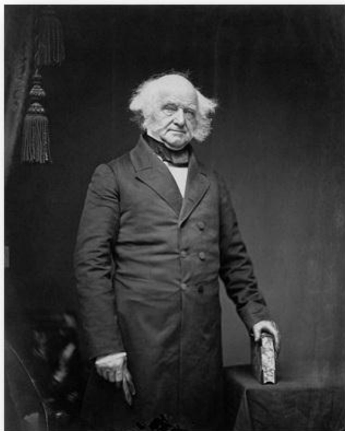
Over 39,000 Americans went bankrupt, losing some $741 million as the depression reduced many to starvation. The depression was a contagion hitting Britain and then spread to the rest of Europe. Congress authorized the issue of U.S. Treasury notes not to exceed $10 million on October 12th, 1837 in a move to help ease the devastating economic financial crisis. By **Financial Crisis of 1839** the credit crisis emerged in Britain and the capital inflows into the United States stopped. The depression had not improved very much at all. Within the next few years, the States of Pennsylvania and Maryland defaulted on their bond issues.



The political cartoons of the day pictured the guy on the left complaining there was no credit; the next guy cheers down with the bank; the woman says never mind him, he still has some conscience left and it has to be shaken out of him; Jackson speaks to the ghost of commerce and says he didn't do it; then the last figure declares he is the "ghost of commerce" reflecting how Jackson destroy the economy from every direction – the bank, sound money, and real estate.

The economic depress was significant from destroying the Bank of the United States creating Wildcat Banking, the destruction of the real estate market, and the rising interest rates, the contagion also spread to Canada. There British subjects in Quebec and Ontario rose in rebellion in 1837 and 1838, protesting their lack of responsible government. While the initial insurrection in Ontario ended quickly after the December 1837 Battle of Montgomery's Tavern, many of the rebels fled across the Niagara River into New York,

Canadian Rebellion: Battle of St. Eustache in Quebec, December 14, 1837 and Canadian leader William Lyon Mackenzie began recruiting volunteers in Buffalo. Mackenzie declared the establishment of the Republic of Canada. Considerable sentiment arose within the United States to declare war on the British.



Martin Van Buren
(1782 – 1862)
Eighth President of the United States (1837-1841)

President Martin Van Buren (1782–1862), the 8th President (1837–1841), sent General Winfield Scott to the border to prevent a war. Scott warned the American citizens that there had to be a peaceful resolution to the crisis, and that the government U.S. government would not support attacking the British. President Van Buran then in January 1838, proclaimed U.S. neutrality with respect to the Canadian independence rebellion. Van Buren back in February 1829, became Secretary of State under Jackson and then later he became Vice President in 1832. In 1836, Van Buren became president but was a one–term president because of the economic decline.

Van Buren appointed in 1840 an independent treasury to reverse what Jackson had done placing federal funds in state private banks. He was intent upon isolating federal deposits from all banks. However, in 1841 the Whigs repealed the law, and it was not until 1846 that the Democrats restored the independent treasury system.

The first US Treasury Building structure was partially destroyed by fire in 1801. It was later burned down by the British in 1814 when they captured Washington, DC during the War of 1812. It was then rebuilt by same White House architect James Hoban. However, due to Jackson's Bank War, when he removed the funds from the Bank of the United States in 1933, the US Treasury building was burned down again by arsonists on March 31st, 1833. The present Treasury Building was built over a period of 33 years between 1836 and 1869. Congress authorized its reconstruction and this time it was designed by Robert Mills, who was

also the same architect of the Washington Monument. Construction began in 1836 and was completed in 1842. Additions were added until 1869. Congress order the building should be fireproof.

With Jackson's Bank War and his withdraw of federal funds from the Bank of the United States in 1833, he set off the age of **Wildcat Banking** which refers to the banking industry from 1837 to 1865 during the United States. Banks were established in remote and inaccessible locations and were chartered by state law without any federal oversight. Some have referred to this period as the **Free Banking Era**.

Because the federal government only issued coins between 1793 and 1861, there was actually a shortage of money before the 1849 California Gold Rush. The United States relied heavily upon both an export economy as well as investment from Europe which regarded the United States as the new emerging market.

The individual States granted charters to hundreds of private banks after the closure of the Bank of the United States in 1836. The age of **Wildcat Banking** or **Free Banking Era** began which collectors refer to as the **Broken Banknote era**. By the mere terms of these charters, a bank was authorized to print and circulate its own currency. The backing for this currency was supposed to be the amount of coin money held on deposit in the bank. Obviously, without sufficient regulation, fraud was ramped.

Michigan was the first state to pass a **"free banking"** law in March 1837. Some thirteen states would follow Michigan's lead passing similar laws that allowed a general incorporation procedure for banks. Previously, state legislators had to vote on specific bank bills, and this often led to corruption following Jackson's lead of granting charters to politically friendly folk under the **"spoils system"** of this period in time.

There was no regulation insofar as a bank had to have proven reserves on deposit at a central bank. At best, banks were quasi-regulated by state officials. The banks were not allowed to actually have multiple branches. There were no interstate banking operations. Some states did require specific securities, which were to be lodged for safekeeping with state banking authorities. This was often state bonds since there were no federal issues. Bonds of another state were generally not acceptable. The system failed to create a secure banking system not so different from the problem we see in Europe lacking a federal bond to back the Euro.

The private banks literally failed by the hundreds. The question is, why did so many American **"free"** banks fail? Was it because they weren't regulated enough? However, the degree of corruption merely shifted from the Spoils System to allow free banking but they were then required to invest in state risky securities. This way state governments were able to consume private capital by issuing bonds the banks were required to buy. The prohibition against branching contributed to prevent diversify which actually concentrated the risk to a local region and the state itself. These regulations on "free banking" contributed to the collapse in the banking system during the Hard Times.

The period was also prior to the telegraph which mean that news was more word-of-mouth and prone to exaggeration and rumor. The rate of failures was accelerated by Jackson's species regulation. In 1837, 618 banks, and in **Financial Crisis of 1839**, no fewer than 959 banks, failed. Banknotes quickly became suspect and loans went into default. Bankruptcies were becoming the normal rather than the exception. Those who stood against the Bank of the United States quickly began to understand what they had advocated.

The crisis in America concerning state debts and banks was crossing the Atlantic to Great Britain. Those who had made advances on American dreams rapidly discovered how a stupendous their mistakes had been scale reminiscent of the Panic of 1825. Those who had lent on lands or other estates, or had invested in the shares of American banks, saw their fortunes swept away overnight.

American credit lines in England rapidly collapsed and America was then seen as a questionable place to even invest in during those days. Not until 1839 was the full extent of the disaster appreciated, when a series of failures occurred far in excess of the average; the gold reserve in the Bank of England fell to little over £2.5 million. There were other factors weighing in creating the **Financial Crisis of 1839** in England. The First Opium War, was fought over opium trade, financial reparations, and diplomatic status, which began in 1839 and was concluded by the **Treaty of Nanking** (Nanjing) in 1842. Britain would get Hong Kong in 1842. Then the crop failures in the United States sent the price of wheat soaring. It nearly doubled in price between 1835 and 1839 as the US share market collapsed.

Fearing yet another financial crisis worse than that of 1837, the Bank of England raised of the bank rate of discount from 4% to 6%. This 50% increase was the result of panic inside the Bank of England. The Bank of England itself borrowed £10 million from the Bank of France and it was face with a huge drained on its gold reserves.

Prime Minister Sir Robert Peel
(1788 – 1850)
Prime Minister : 1834-1835; 1841–1846

The **Bank Charter Act 1833** liberalized the bank's ability to set interest rates since the act made the Bank of England's notes officially legal tender. The Bank's notes were made legal tender for all sums above £5 in England and Wales so that, in the event of a crisis, the public would still be willing to accept the Bank's notes and its bullion reserves would be safeguarded. Then in 1836 and 1839, the further banking crises drove Prime Minister Robert Peel (1788–1850) to restrict the issue of bank notes solely to the Bank of England. He looked at the actions of Andrew Jackson in the United States and moved in the opposite direction creating a monopoly for the Bank of England. In his view, he was deliberately attempting to create a more stable market and money supply.

Britain Penny Black
May 1, 1840

US First Postage Stanps
July 1, 1847

As 1840 arrived, interestingly enough this marked the first postage stamp to ever be issued known as the Penny Black in Britain featuring the portrait of Queen Victoria. The United States would introduce its first postage stamp seven years later in 1847. Meanwhile, the first Covered Wagon Trains began to take immigrants on a journey from Missouri River towns to what is now the state of California. The trip was about 2,000 miles and each night the Covered Wagon

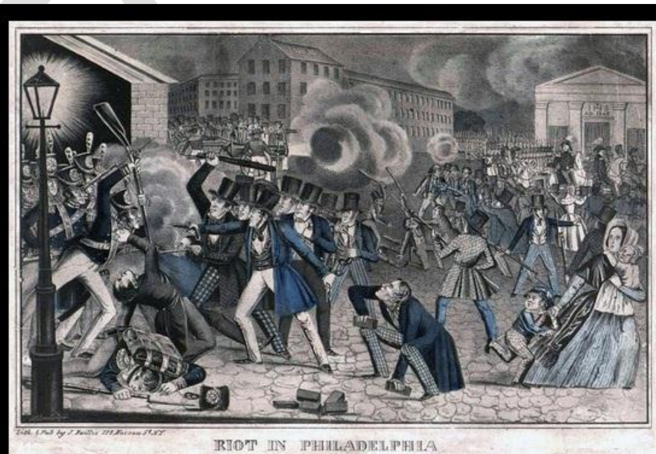
Train would form a circle for shelter from wind and extreme weather, they would put all the animals in the center to prevent them from running away or being stolen by Native Americans. The success of these early migrations would lead to a more significant migration within a year. This would later be followed by the discovery of gold in 1849 which began the Gold Rush to the West.

The US share market crashed between 1835–1842. While the economy clearly continued to decline harshly into 1849 before the Gold Rush injected inflation to end the deflationary bout, interestingly enough the share market bottomed **WITH** the Sovereign Defaults. Capital was shifting away from government debt as well as banks. People began to migrate from the East to the West in hopes of starting new. The 1843 wagon train was comprised of about nine hundred people. Bidwell's immigrants had been split on going to California and Oregon. The definition of this as the first wagon train is made by its number of participants. The earlier wagon trains had only been small expeditionary groups. Therefore, the 1843 marked the first true major migration from the Hard Times on the East Coast.

Samuel Morse
(1791 – 1872)

In 1844, Samuel Morse (1791–1872) begins the age of communication. He had created an electromagnetic telegraph in 1836 and he had written the code that was to be transferred on it. Morse Code used dots, dashes and spaces to represent the letters of the alphabet. The U.S. government had requested a line be built between Baltimore and Washington, and it sent the first message on May 24th, 1844. We begin to see innovation at the bottom of this economic wave which was extremely important.

In London, the economic crisis had created a wave of insolvencies. This finally resulted in political reform. On April 2nd, 1844, the Fleet Prison for debtors in London was finally closed. This was a significant milestone in establishing human rights. Interestingly enough, it would be the Clintons who handed the bankers their request to deny the right to declare bankruptcy on student loans. Although the bankers cannot imprison you for debts, they can deprive you of income for life. However, a huge step toward denying human right also was made on August 28th, 1844 when Friedrich Engels and Karl Marx first met in Paris, France.



1844 Philadelphia Nativism Riots Against Irish Catholics

The Philadelphia Nativist Riots were a series of riots that took place between May 6th and 8th and again on July 6th and 7th, 1844, in Philadelphia, Pennsylvania. The riots were a result of immigrants coming to American during an economic decline much as the migrants arriving in Europe post–2010. The violence was effectively over the fact that there were no jobs and the "native" Americans saw the Irish Catholics as willing to work for less. This was cast as an uprising that was anti–Catholic in sentiment, but it was rooted in economics. The government brought in over a thousand milita who then confronted the nativist mobs and killed and wounded hundreds.

In the five months prior to the riots, nativist groups had been spreading a false rumor that Catholics were trying to remove the Bible from public schools. A nativist rally in Kensington erupted in violence on May 6th, 1844 and started a deadly riot that would result in the destruction of two Catholic churches and numerous other buildings. Riots erupted again in July, after it was discovered that St. Philip Neri's Catholic Church in Southwark had armed itself for protection.

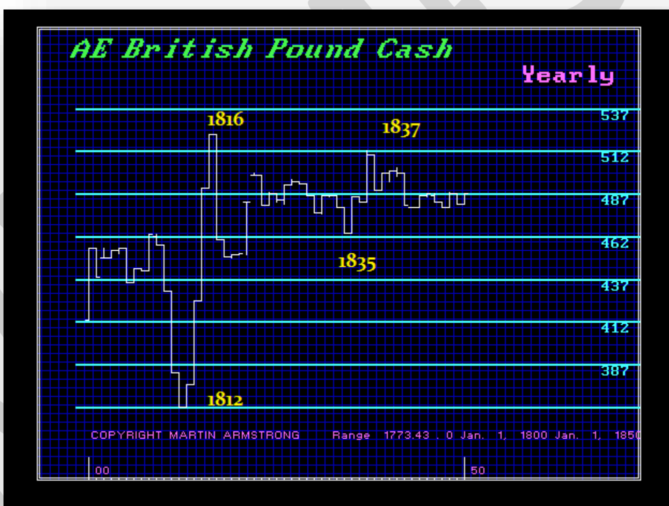
Extreme violence and fighting broke out between the nativists and the soldiers sent to protect the church, which resembled a war. This confrontation resulted in numerous deaths and injuries. Two of the 13 Catholic churches were burned to the ground. The nativist movement, which opposed all immigrants during the Hard Times, were looked down upon nationally. The extreme violence in Philadelphia led to the decline of the nativist groups as they all tried to deny any responsibility.

SEALING OF THE BANK OF ENGLAND CHARTER. 1694.
SIR JOHN HOUBLON, *Governor.* SIR JOHN SOMERS, *Lord Keeper.* MR. MICHAEL GODFREY *Deputy Governor.*

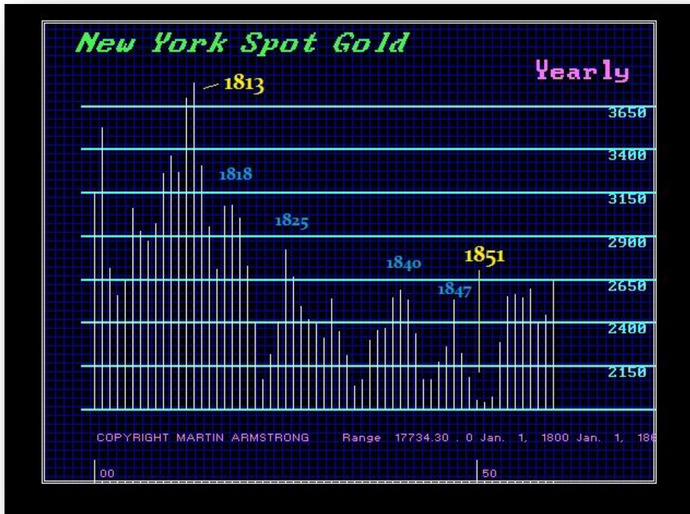
In Britain, the Parliament introduced the **Bank Charter Act 1844**. This act settled the debate on the ratio of gold that needed to be held. In 1844 it was settled in the favor of the gold held must exceed the notes issued. New banks could no longer issue their own notes. Only Bank of England notes were acceptable.

The economic crisis which continued into 1849 was rather apparent for in 1846 there was the **Barings Banking Crisis** which emerged when Barings found themselves overextended in Argentina which suddenly stopped making repayments. The government and the Bank of England had made a secret agreement to cover half of Barings losses in order to prop-up the market, a familiar problem which was a covert bailout. The Bank of England played an important role in avoiding a complete collapse of the financial market in 1846.

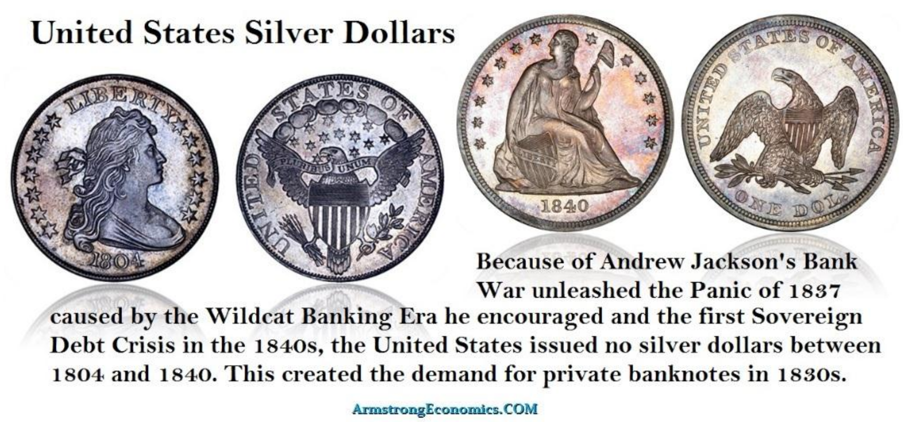
The Barings incident with the default of Argentina created a restriction on British overseas investment until confidence began to return and the prospect of exploiting the resources of South Africa began to emerge. Gold, however, was not discovered in South Africa until 1886.



When we look at the British Pound during this period we can immediately see that the pound rose sharply during the War of 1812 with the dollar bottoming in 1816. The pound rallied significantly after they defeated Napoleon at Waterloo in 1815. The dollar also declined for two years between 1835 and 1837. We can see that the dollar rallied as there were problems in Britain between 1837 into 1849.



Obviously, the tensions between Jackson and the establishment were being transferred into political unrest. The violence against the government appears to begin with the arson of the US Treasury building in 1833 coinciding with the beginning of Jackson's Bank War when he withdrew deposits from the Bank of the United States. Distinctly, the entire period quickly became known as **Hard Times** of 1837–1843. Gold made two rallies reflecting the deflationary periods in 1840 and again into 1847. They were reactions within the overall decline for gold which lasted 18 years from 1813 into 1851.



The collapse of the banking system was primarily caused by the fact that the U.S. government produced only coins and no paper currency between 1793–1861 and they stopped issuing silver dollars in 1804 and did not resume until the crisis of 1839 with the first silver dollars reappearing again in 1840.

Bank of United States Note Issued in 1831 Signed by Biddle

Therefore, all paper currency was issued by private banks. When Jackson wages war against the Bank of the United States, he undermined the share market since that was a major stock that was traded even internationally and he unleashed the wholesale issue of state banks and their worthless currency.

Moreover, what also had taken place was that the United States was prospering, and it soon became apparent that there was insufficient "real" money in actual circulation to meet the demand of commerce. The previous highest gold denomination coin had been $10 which also was not issued after 1804 until 1838. Therefore, the highest denomination was the $5 gold coin with a $2.50 gold coin. Without silver dollars, there was a shortage of money. This is why paper currency was eagerly accepted. When gold is money, it declines in purchasing power during inflationary periods and rises in value during deflation. Therefore, the 18–year decline reflected the overall expansion of the American economy which was viewed as an emerging market to Europeans and gold declined in value with inflation.

The shortage of money was accelerated as people then hoarded the coinage. This resulted in many stores have to begin to issue their own paper currency in small denominations that customers could use later as this 12.5cent Coffee House note.

The monetary system of the United States did devolve into **Wildcat** banking with fraudulent banking issues of currency due to the shortage of money when the Feds only would issue coin. Under such an unregulated banking system, it is not difficult to comprehend why gold declined in value during this period. Then when the **California Gold Rush** took place in 1849, this is when the first $20 gold coin was introduced as well as a $1 gold coin. The price of gold therefore fell into 1851 completing the 18-year decline as inflation expanded.

In response to the Sovereign Defaults among the States, the Feds passed the **Act of 1846** which ordered that public revenues be retained in the Treasury building or in subtreasury in various cities – not state banks. The Treasury was to pay out its own funds and be completely independent of the banking and financial system of the nation. From then on, all payments in and out were to be in exclusively specie (gold). In practice, the system created problems in prosperous times by amassing surplus revenue and thus restraining legitimate expansion of trade; in depressed times, the treasury's insistence on being paid in specie reduced the amount of specie available for private credit.

The large expenditures of the US Civil War also revealed problems, and Congress created the national banking system in 1863–1864. The independent Treasury was later used to stabilize the money market, but the **Panic of 1907** proved the attempt futile. The Federal Reserve Act of 1913 marked the end of the system and the emergence of our current reserve bank establishment.

Lessons from the 1840s & Our Vulnerability Today

One lesson of the 1840s 9 of 28 U.S. states and territories defaulted in the crisis of the early 1840s. Twelve of the 19 that did not default had debts and might have defaulted. Arkansas, Florida, Louisiana, Michigan, and Mississippi—repudiated their debts, in part or in whole. In every case repudiation was connected to state borrowing for bank investments which were attempted bailouts. In the Northwest, Illinois, Indiana, and Michigan defaulted, but Ohio did not. In the commercial–industrial Northeast, Maryland and Pennsylvania defaulted, but Massachusetts and New York did not. Nine of the ten states with the highest per capita debts defaulted.

Clearly, the primary reasons were incredible gross political "incompetence" and "corruption." The incompetence was clear that merely electing people to a post did not ensure they were qualified to understand finance. Then there was the serious problem of bribery. The military reforms of Marius during the Roman Republic reflect on this issue. When the army was made up of the poor, they rebelled and used their power to plunder the rich. Then those in the army had to be property owners to prevent that abuse of power. This is also why they hate Donald Trump – he has wealth so he cannot be bribed.

The downside of electing politicians who do not have wealth lays the political system exposed and vulnerable for bribery. Thus, the corruption involved in state–chartered banks was off the scale. When the spoils system was converted to Free Banking, then the politicians demanded that the banks bought their debt.

We remain **EXTREMELY VULNERABLE** to the same crisis moving forward. Pension funds are required by law to own a majority position of public debt or up to 100% as is the case with the Social Security system in the United States. This is the **IDENTICAL** mistake made during this banking crisis of the 1840s.

The corruption in **Free Banking** stressed that the people were defrauded when politicians and promoters lied about the costs and returns of improvement projects. When corrupt politicians tied state credit to private projects ignoring lending restrictions and misallocated state funds, then promoters and contractors lined their own pockets along with politicians. It was easier to dupe voters using the power of government to also prevent any investigation into their questionable practices. Hence, incompetence and corruption themes are not mutually exclusive and were far too often intertwined.

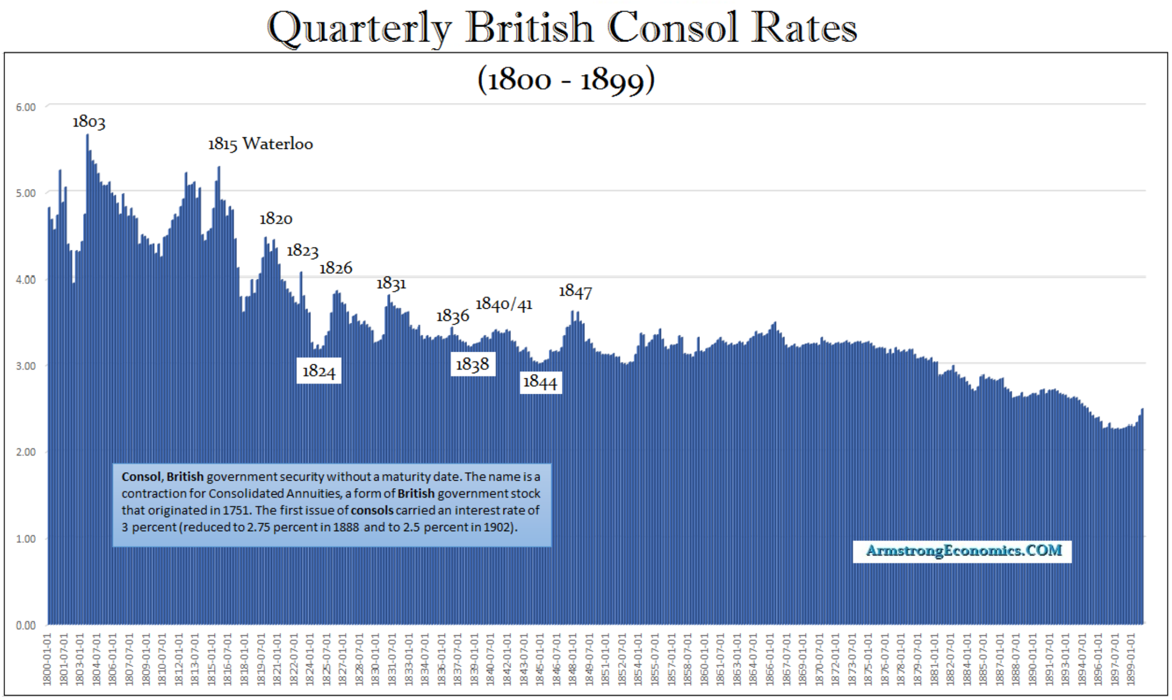
The distinction in the 1840s between incompetence and corruption was critical in one respect. States that defaulted on and then repudiated debts invariably repudiated because they felt they had been victimized by corruption. We will see the same outcome when politicians blame the abuses of previous politicians or the failure to manage money among pension manager as they did during the S&L Crisis.

The backlash from the debt crisis in the 1840s did not to stop state and local governments from borrowing again for such purposes, or even waiting long before doing so. Louisiana borrowed to build railroads in the 1850s and New York voters approved a bond issue to expand the canal network in the 1850s as well. States continued to charter banks, sometimes with public investment in them. The corruption and incompetence merely resurfaced over time but less direct as to granting charters for banks based upon bribes and demands to buy government debt.

Nonetheless, the Federal Reserve was established during 1913 and its means to **"stimulate"** the economy was to buy short-term corporate paper thereby funding corporations when banks were not lending. This would ease the pressure to lay off employees during an economic downturn. When World War I took place, the federal politicians directed the Federal Reserve that they were to buy government debt only. Of course, when the war was over, they never restored the Federal Reserve to its former structure. Today, the idea of **Quantitative Easing** is all about buying in government debt. The central banks have made the **SAME EXACT** mistake that led to the widespread banking failures of the 1840s. The mismanagement of government now exposes the banking system as well as the entire political system in its entirety.

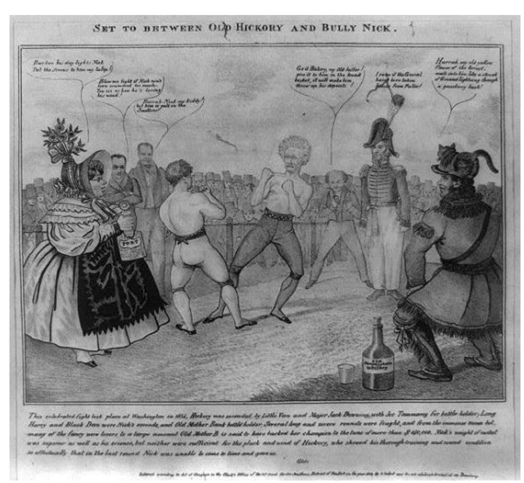
When we look at how the markets responded during the crisis what can we learn? We can see that the stock market crashed between 1835 and 1842. The high took place two years **PRIOR** to what history calls the **Panic of 1837**. Note that the dollar also declined between 1835 and 1837. It was on January 8th, 1835 when Jackson, a hard money guy and anti–banker, paid off the United States public debt for the only time in history. While at first, this would seem as sound money policy, the fact that there were no silver dollars produced between 1804 and 1840 as was the case for a $10 gold coin, there was actually a shortage of money within the system which enabled the wholesale production of "shinplasters" as the flood of private bank notes took place. The only other newsworthy event was the start of the Texas Revolution on October 2nd, 1835 with the Battle of Gonzales. Therefore, the only important event economically was paying off the Debt. The shortage of money had created a deflationary period causing the stock market to decline. This was in line with the fall in the dollar against the pound for two years into 1837.

British supremacy was generally accepted at this point in time. The Dutch had been eliminated as any serious competition worldwide. The British were willing to invest overseas and fund purchases which meant that doing business with the British was attractive and often necessary being the financial capital of the world.



The **Financial Crisis of 1839** in Britain when it was raising interest rates on the Open–Market yields sharply from 4% to 6% coincides with not just the crop failures, but with its war with China (1839–1842) where it ends up with Hong Kong. The official government Consol rate steadily declined. This demonstrates the flight to quality where the government Consol rate declined and the Open–Market bank lending rate rose by 50%. In fact, the Open–Market Rates would climb generally into the mid–1860s.

In the financial markets, the government bonds were called "stock" and private shares were call "ordinary shares" yet they would also refer to government bonds as "funds" or "gilt–edged" that today are often called just gilts. In Australia, the general share index is still called the All Ordinaries.



If we look at 1834 when gold bottomed, it appears that the markets were in fact reading the tea leaves in advance. The political parties split and this is when the Whig Party begins with Henry Clay, Jackson's nemesis. This cartoon is Jackson fighting Biddle in his war on the Bank of the United States.

Then on March 28th, 1834, Andrew Jackson is censured by the United States Congress for his actions that even Daniel Webster viewed were the actions of a monarchical president rather than an elected president. It is also true that while on July 7– 10th, 1834, there were Anti–abolitionist riots that broke out in New York City, the rising ant–slavery movement has led to Britain abolishing slavery as few weeks later on August 1st, 1834. It appears that gold starts its rise as the politics begins to turn dark in 1834. Jackson did sharply increase the quantity of $5 gold coins produced. In 1833, there were 193,630 $5 gold coins produced compared to 707,601 in 1834. Clearly, Jackson was increasing the coinage produced but the withdraw of funds from the Bank of the United States in 1833 appears to be a warning of a shortage of credit and money was on the horizon.

Then we have the weather conspiring to reduce the wheat crop which send the price up nearly double between 1835 to 1839. On the other hand, the price of cotton fell by 25% in February and March 1837 which further impacted the Southern States which were highly dependent on the cotton price. This rise in the price of food during a down economic cycle is rather important for this is a counter–trend we must be well aware of remains possible as weather become more violent.

We must understand that the decline in the US share market at this point in time was due to a larger extent to the speculation in land. Industrial companies were just getting their start as was the case with rail road. This was the period dominated by land speculation, banks, and canals – with some railroads or industrial manufactures. The Panic of 1837 sent daily volume to 1,534 shares in June of that year.

It was in 1825 which the Erie Canal Opened. However, there were no shares since it was funded by New York State. Yet the excitement over this new transportation system let to a DOT.COM type of bubble of enthusiasm, the interest was then focused in trading New York State bonds, issued to finance the canal, which were very active on the New York Stock Exchange.

The roads in the country were horrible to say the least. The invention of canals and railroads was seen as a huge improvement that would expand the country. Canal travel was attractive to passengers because it eliminated the bumpy ride on stagecoaches which would make many people sick. The new technology of steam railroads was also attractive with the idea that travel could be relatively a smooth ride. The Mohawk Hudson Railroad, charging 62.5 cents per passenger, in New York was the first railroad and its share was listed on the New York Stock Exchange (NYSE).

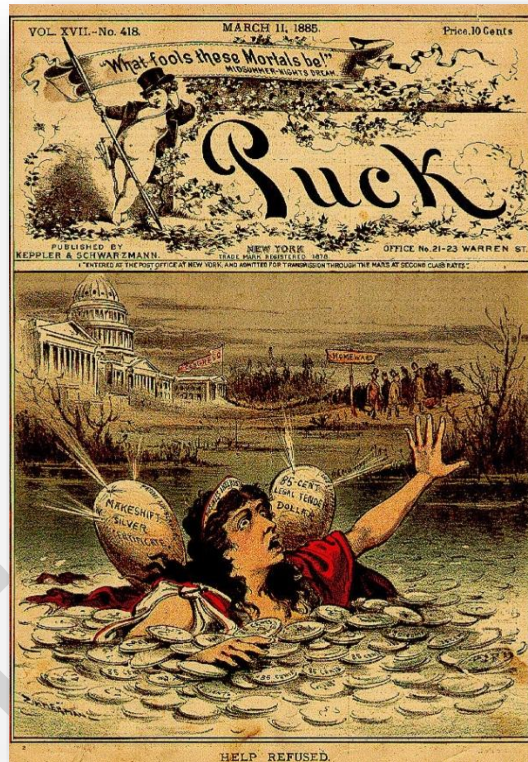
The daily trading volume during this age of canals and the birth of railroads reached 8,500 Shares, which was a 50-fold increase in just seven years. As the market peaked in 1835 and the crash began, the NYSE prohibited its members from trading in the street or "curb" in 1836 within one year of the major high. By 1837, the daily trading volume collapsed from 7,393 in January to 1,534 by June. Eventually, the introduction of the telegraph and its incorporation into the NYSE in 1844 helped to broaden the market participation by facilitating communication with brokers and investors outside New York City.

Panic of 1893 When the Federal Government Goes Broke

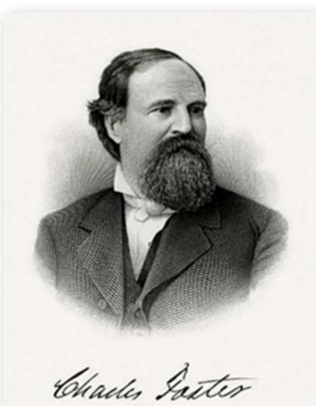
The **Panic of 1893** was quite different from the US panics that had preceded. To a large extent, the **Panic of 1893** came on the heels of American speculation in overseas investment which had kept up with the trend toward "global diversification" and opportunity much like that of the 1990s.

The **Panic of 1893** was sparked at first by the collapse of an important railroad company, and an industrial corporation that had been paying dividends illegally. Therefore, we had a crisis in the private sector confidence at the outset.

However, the underlying weakness was caused by the persistent reckless spending of the Democrats who had been intentionally inflating the money supply by overvaluing silver relative to gold. This fiscal irresponsibility on the part of government established a vulnerable hidden risk that the public was much unaware until it was too late.



The **Panic of 1893** resulted in destroying some 172 State banks, 177 private banks, 47 savings banks, 13 loan and trust companies and 16 mortgage companies. It also placed the United States Treasury in the position of being bankrupt for the first time in its history as a massive drain on its gold reserves was unleashed when fear spread throughout the public community that the government would be unable to honor its debts. This created a stampede to redeem outstanding currency notes. During nine months of extreme financial pressure as the melt-down unfolded, Secretary of the Treasury Charles Foster (1891 – 1893) was engaged in a continuous struggle to save the redemption fund in a desperate effort to avoid the collapse of the United States government. He lasted as Secretary of the Treasury only until March 6th, 1893.



Charles William Foster
(1828 – 1904)
40th Secretary of Treasury (February 25, 1891 – March 6, 1893)
ArmstrongEconomics.COM

The strain relaxed temporarily in the autumn of 1892, when interior trade was again very large. Practically no gold was imported, but, on the other hand, exports ceased almost entirely. Moreover, upward of $25,000,000 legal tenders were drawn from the New York banks to the West and South, and the Treasury obtained some gold from these institutions in exchange for notes delivered at interior points. But when the eastward flow of currency began again, at the end of the harvest season, gold exports were resumed and with them the presentation of legal tenders for redemption. In December, 1892, and January, 1893, upward of $25,000,000 gold was withdrawn by note–holders from the Treasury to provide for export needs.

By the close of January 1893, the Treasury's gold reserve had fallen to a figure barely eight million over the legal minimum. With February's early withdrawals even larger, Secretary Foster so far lost hope of warding off the crisis that he gave orders to prepare the engraved plates for a bond–issue under the Resumption Act. As a last resort, however, he reminded himself of Secretary Manning's gold–borrowing operations of 1885. In February 1893, Secretary Foster came in person to New York to urge the banks to give up gold voluntarily in exchange for the Treasury's legal–tender surplus. That did not go well and he left office by the 6th of March. He was succeeded by John Griffin Carlisle (1834 – 1910) who remained as the 41st Secretary of the Treasury until 1897.

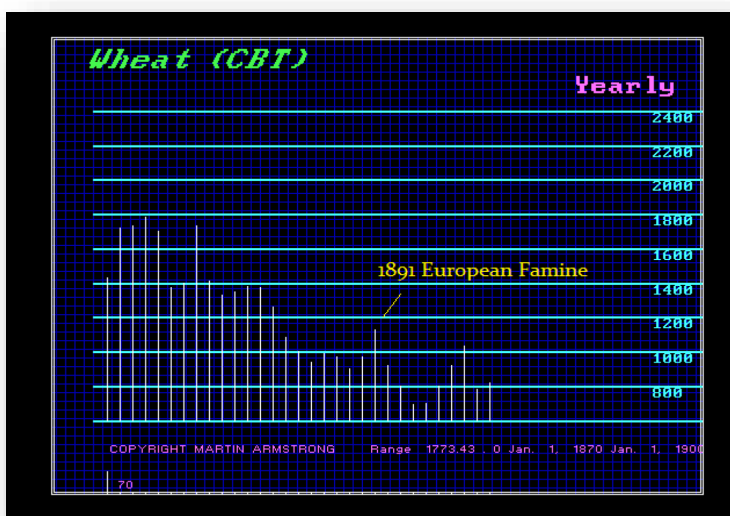
Such a situation could not continue long. The very sight of this desperate struggle going on to maintain the public credit was sufficient to alarm both home and foreign interests, and this alarm was now reflected everywhere. The dollar had been declining sharply since the Silver Democrats were dictating the money supply. The dollar declined sharply between 1882 and 1895 when the British pound reached it high during the financial crisis.

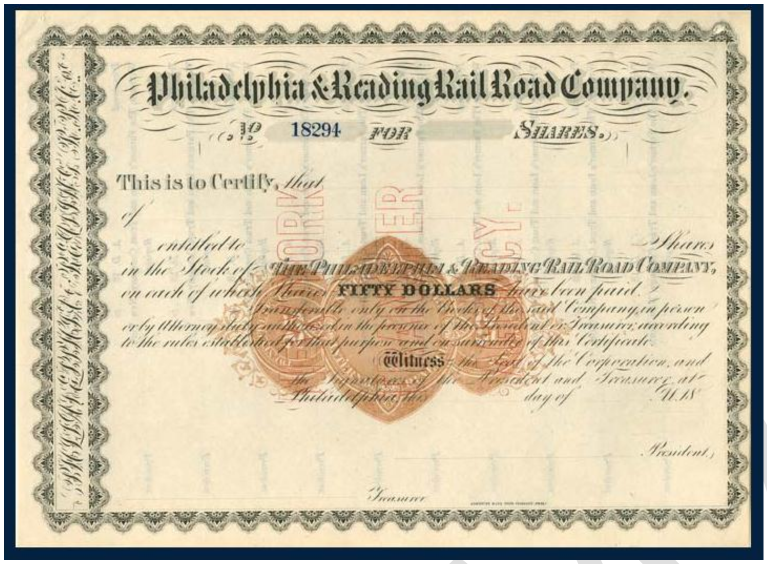
The feverish money market, the disordered and uneasy market for securities, and the renewed advance in foreign exchange against the dollar, all combined to bring matters to a head. On April 15th, 1893, Secretary Carlisle gave notice that issue of Treasury gold certificates should be suspended. This action was taken merely in conformity with the Law of 1882, already cited. It was, however, a public announcement that, for the first time since resumption of specie payments, the reserve against the legal tenders had fallen below the statutory minimum calling into question if the government would default.

The news provoked immediate and uneasy inquiry as to what the Treasury's next move would be. No definite advice came from Washington, but in the following week a very unexpected and financially alarming rumor ran through the markets. Out of the $25,000,000 legal tenders redeemed in gold during March and April 1893, nearly $11,000,000 had been Treasury notes of 1890. Under one clause of the Law of 1890 the Secretary was empowered to ***"redeem such notes in gold or silver coin at his discretion."*** The burden of the rumor of April 17th, 1893 was that the Treasury, now that its gold reserve had actually fallen below the legal limit, would refuse further redemption of these notes in gold, and would tender only silver coin.

During the two or three days in which this rumor circulated, general misgiving and uneasiness prevailed about the credit worthiness of the government. The security markets fell into great disorder, foreign exchange again rose rapidly, and the money market ran up to the panicky rate of 15%. The US federal bond market had peaked in 1888 and declined for 8.6-years into 1896. There was obviously **NO FLIGHT TO QUALITY**. **The flight was to the British pound**.

The public mind was on the verge of panic. During a year or more, it had been continuously disturbed by the undermining of the Treasury, a process visible to all observers. The financial situation in itself was vulnerable. In all probability, the **Panic of 1893** would have come twelve months before, had it not been for the accident of 1891's great harvest, in the face of European famine which brought in gold capital flows.





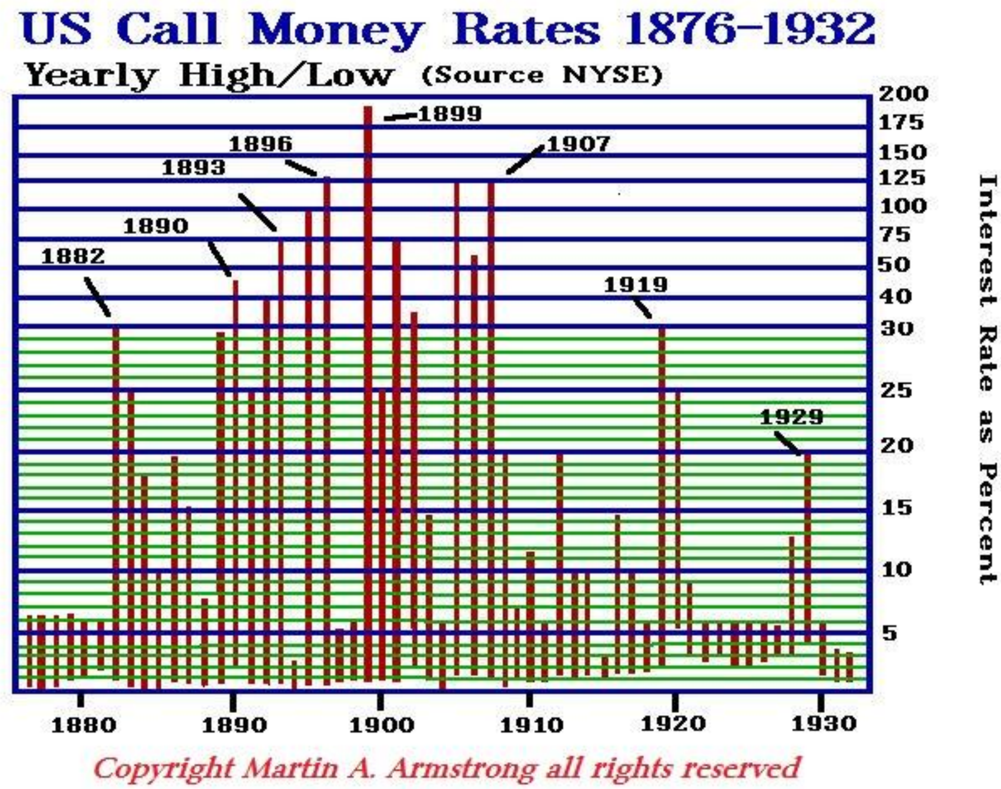
The **Panic of 1893**, in its outbreak and in its culmination, followed the several successive steps familiar to all such episodes. One or two powerful corporations, which had been leading in the general plunge into debt, gave the first signals of distress. On February 20th, the Philadelphia and Reading Railway Company, with a capital of forty million and a debt of more than $125,000,000, went into bankruptcy; on the 5th of May, the National Cordage Company, with twenty million capital and ten million liabilities, followed suit.

The management of both these enterprises had been marked by the wildest sort of speculation; both had been favorites on the speculative markets. The Cordage Company in particular had kept in the race for debt up to the moment of its ruin. In the very month of the company's insolvency its directors declared a heavy cash dividend; paid, as may be supposed, out of capital. As it turned out, the failure of this notorious undertaking was the blow that undermined the structure of speculative credit.

In January 1893, National Cordage stock had advanced 12% on the New York market, selling at 147. Sixteen weeks later, it fell below ten dollars per share, and with it, during the opening week of May, the whole stock market collapsed. The bubble of inflated credit having been thus punctured, a general movement of liquidation started. This movement immediately developed very serious symptoms. Of these symptoms the most alarming was the rapid withdrawal of cash reserves from the city banks.

Panic is in its nature unreasoning; therefore, although the financial fright of 1893 arose from fear of depreciation of the legal tenders, the first act of frightened bank depositors was to withdraw these legal tenders from their banks. But the real motive lay back of any question between the various forms of currency. Experience had taught depositors that in a general collapse of credit the banks would probably be the first marks of disaster.

Many of such depositors had lost their savings through bank failures in the panics of 1873 and 1884. Instinct led them, therefore, when the same financial weather–signs were visible in 1893, to get their money out of the banks and into their own possession hoarding it with the least possible delay. As a rule, the **legal tenders** were the only form of money which they were in the habit of using. But when the depositors of interior banks demanded cash, and such banks had in immediate reserve a cash fund amounting to only six per cent. of their deposits, it followed that the Eastern "reserve agents" would be drawn upon in enormous sums.



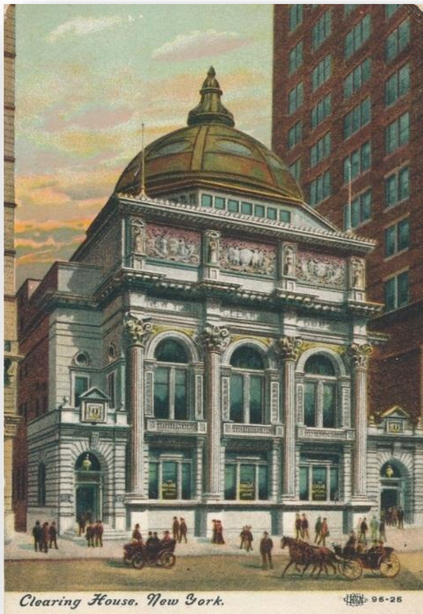
On the New York banks the strain was particularly violent. During the month of June 1893, the cash reserves of banks in that city decreased nearly twenty million; during July, they fell off twenty-one million more. The deposits entrusted to them by interior institutions had been loaned, according to the banking practice, in the Eastern market; their sudden recall in quantity forced the Eastern banks to contract their loans immediately. But in a market was already struggling to sustain itself from raw crisis and such wholesale impairment of resources was the final disastrous blow. In the closing days of June 1893, the New York money rate on call advanced to 74%, time loans were simply unobtainable. Banks refused to lend money for any duration.

We have seen that the inflation of credit, during 1892, had been heaviest by far in the interior. The early withdrawals by depositors in the country banks were only a slight indication of what was to follow. In July 1893, this Western panic had reached a stage which seemed to foreshadow general bankruptcy. Two classes of interior institutions went down immediately — the weaker savings banks, which in that section were largely joint-stock enterprises, and a series of private banks, distributed in various provincial towns, which had fostered speculation through the use of their combined deposits by the men who controlled them all.

The government drastically reduced the production of silver coins. In 1892, the government issued 6.3 million silver dollars. In 1893, the total amount of silver dollars was cut to 1.4 million. Of the $20 gold coins, the 1892 production was 961,938 which was increased to 1,358,916. This was raised further in 1894 2,417,540. By 1895, the production of silver dollars dropped to less than 1 million.

In not a few instances, country banks were forced to suspend at a moment when their own cash reserves were on their way to them from depository centers. Out of the total one 158 national bank failures of the year, 153 were in the West and South. How widespread the destruction was among other interior banking institutions may be judged from the fact that the season's record of suspensions comprised 172 State banks, 177 private banks, 47 savings–banks, 13 loan and trust companies, and 16 mortgage companies. The ruin resulting in the seaboard cities from the **Panic of 1893** was undoubtedly less severe than that of twenty years before. But no such financial wreck had fallen upon the West since it became a factor in the financial world.

During the month of July 1893, in the face of their own distress, the New York banks were shipping every week as much as $11,000,000 cash to these Western institutions. Ordinarily, such an enormous drain would have found compensation in import of foreign gold, and, in fact, sterling exchange declined far below the normal gold–import point. By now, there was effectively a blockade of credit which was so complete that operations in currency exchange, even for the import of foreign specie, was completely impracticable. Banks with impaired reserves would not lend even on the collateral of bank drafts on London.



So large a part, indeed, of the Clearing–House debit balances were now discharged in loan certificates that a number of banks adopted the extreme measure of refusing to pay cash for the checks of their own depositors. Charged with such refusal in the press and on the floor of the United States Senate, the banks simply intimated that they had not the money to pay out. This was not far from general insolvency. Long continued, a situation of the kind must reduce a portion of the community almost to a state of barter; and in fact, a number of large employers of labor actually made plans in 1893 to issue a currency of their own, redeemable when the banks had resumed cash payments known as Depression Scrip.

On the 25th of July, the **Erie Railroad failed**, the powerful Milwaukee Bank was suspended, and the governors of the New York Stock Exchange seriously discussed a repetition of the radical move of November, 1873, when the Exchange was closed. The very hopelessness of the situation brought its own remedy.

Relief began to emerge as the large volume of outstanding Clearing–House loan certificates were purchased by three New York banks combined who then said they would to take out three to four million more. This credit fund was wholly used to facilitate gold imports. At almost the same time, the number of city banks refusing to cash depositors' checks had grown so considerable that well–known money–brokers advertised in the daily papers advertising that they would pay in certified bank checks a premium for currency. This reflected the severe shortage in money.

Checks on banks which refused cash payments were still good for the majority of ordinary exchanges, but they were useless to depositors who had, for instance, to provide large sums of cash for the weekly pay–rolls of their employees. Even bank certified checks trading at a discount for they were simply no redeemable for money in paper or coin.

A POWERLESS DEFENDER.

Bank checks were readily exchanged at a discount to their face value between 1.5% and 4% depending on the broker and the bank. As paper money and coin rose to a premium, naturally people began hoarding whatever they could. The Panic of 1873 saw the same pattern of cash trading at a premium to bank checks. The primary difference was that during the Panic of 1893, this trend far surpassed that of the Panic of 1873.

Commerce was coming to a screeching halt and businesses could not even pay their employees. The wheels of industry were coming to a grinding halt. Th entire trend merely accelerated the suspension of cash payments in the majority of city banks. This was clearly the case once the premium for cash reach 4%. The banks would only accommodate their own customers where it was proven they needed the cash for either a personal emergency or for business uses. Anything else was denied.

Confidence and Panic have always gone hand and hand. In most cases, the Panic has been worse whenever the perception of insolvency within government is greatest. The later part of the 19th century was yet another period when turmoil and chaos seemed to rule.

Grover Cleveland was one of the few presidents to serve two terms that were not consecutive. Cleveland was both the 22nd (1885–89) and 24th (1893–97) President of the United States. An enemy of the "machine politics," Cleveland was named the Democratic "clean" government candidate to oppose James G. Blaine in 1884, and was elected after a bitter campaign. As president, Cleveland pursued his conscientious, independent course, offending the left-wing zealots of his party by his moderate use of the **Spoils System**.

In the 1888 election, Cleveland campaigned on a lower tariff, but in spite of a popular majority he lost the election to Benjamin Harrison. The **Panic of 1893** struck a hard blow at his second administration, and he angered radical Democrats by securing repeal of the Sherman Silver Purchase Act. The Democratic Party stood on the old inflation platform. The Democrats had overvalued silver relative to gold by taking 72 cents worth of silver and calling it a $1. This persistent policy led to the near collapse and bankruptcy of the US government. Cleveland repealed the Sherman Act and attempted to restore a sound currency. In the midst of that chaos, President Grover Cleveland stood before a special session of Congress on August 8th, 1893 and said…

Grover Cleveland (1837–1908)
only President of United States to serve two non consecutive terms (1885–1889 and 1893–1897)

"At times like the present, when the evils of unsound finance threaten us, the speculator may anticipate a harvest gathered from the misfortune of others, the capitalist may protect himself by hoarding or may even find profit in the fluctuations of values; but the wage earner – the first to be injured by a depreciated currency – is practically defenseless. He relies for work upon the ventures of confident and contented capital. This failing him, his condition is without alleviation, for he can neither prey on the misfortunes of others nor hoard his labour."

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Cleveland was a conservative within the midst of a very liberal Democratic party. There was a deep rift forming within the Democratic Party which widened when Cleveland refused to sign the tariff measure as put forth by the protectionist Senator A.P. Gorman. In the **Pullman Strike** of 1894, Cleveland sent in troops and broke the strike on grounds that the movement of the US mail was being halted.

BANKRUPT RAILROADS.

The record of railway bankruptcies in the present year, as presented by the *Railway Age*, is a terribly long one, with an alarmingly large total of liabilities. Receivers have been appointed for seventy-one lines, having an aggregate length of 22,534 miles, a funded debt of 753 millions, and capital stock of 534 millions. This is nearly 13 per cent of the total mileage and more than 12 per cent of the entire railroad capitalization in the United States. Roughly speaking, one-eighth of the railroad system of the country has gone into the hands of receivers in the last twelve months, or nearly four times as much capital and more than twice as much mileage as were treated similarly in 1892.

The Philadelphia and Reading failure in February was the first great wreck of the year. Several others soon followed, but they were of minor importance, and the most notable calamities did not occur till after the panic set in. July 25 came the Erie failure, in August the great Northern Pacific confessed bankruptcy, and in October the Union Pacific system went into the hands of receivers. Meantime and since then less notable companies, though many of them were of great importance, dropped into the insolvent list. The totals above given are for little less than eleven months from Jan. 20 to the middle of December. It is not impossible they may be augmented before the close of the year. If there be no addition the total of involved capitalization considerably exceeds a billion and a quarter of dollars.

The record of foreclosure sales, which are in sequence to receiverships, is less discouraging. Twenty-three roads were sold to the highest bidder this year, but all of them are relatively small, their mileage aggregating only 1,410 miles and their capital stock and bonds 47½ millions. Both of these totals are less than for several years previous, showing that "the harvest from the crop of receiverships sowed in the bad times of 1885-'87 has been nearly gathered." This record is a small one when contrasted with that of the new defaults, but it would be somewhat larger if it had been made to include three partly graded roads which were sold under foreclosure within the last twelve months.

THE CHICAGO TRIBUNE: SATURDAY, DECEMBER 23, 1893-

In foreign affairs, Cleveland took a strong stand on the Venezuela Boundary Dispute, and refused recognition to a Hawaiian government set up by Americans. Cleveland's independence marked him as a man of integrity – a man destined to clash with the liberal inflationists within his own party.

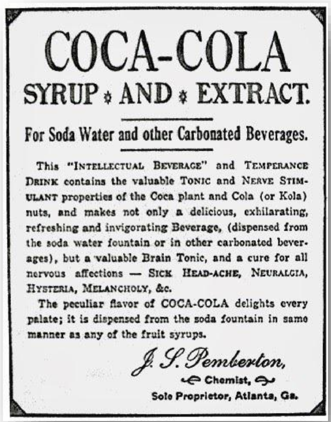
The immediate Panic of 1893 had ended but not until the movement of liquidation had run its course. The stock market bounced marginally into 1895 and then turned down again into 1896 to make its final low.

The record of business failures for the year gives some conception of the ruin involved in this forced liquidation. Commercial failures alone in 1893 were three times as numerous as those of 1873, and the aggregate liabilities involved were fully 50% greater. It was computed that nine commercial houses out of every thousand doing business in the United States failed in 1873; in 1893, the similar reckoning showed thirteen failures in every thousand. The bankruptcies in the railroads was truly just catastrophic.

There were 71 railroads in bankruptcy by the end of 1893 which covered 22,534 miles of track. The outstanding debt of these companies was $753 million with capital stock of another $534 million. This represented 13% of all tracks and 12% of the entire capitalization of the industry.

The share market consolidated in 1894 and into 1895. While the majority of liquidations had come to an end, there was no economic recovery to speak of. What is most interesting is that the actual peak took place in 1889 and the rally into 1892 was a retest of the former high.

At the peak of 1889 we find the incorporation on January 15th, 1889 of the Pemberton Medicine Company in Atlanta, Georgia, which was actually the Coca–Cola Company as it was indeed originally incorporated. The secret ingredient was a "valuable Tonic and Nerve Stimulant properties of the Coca plant and Cola…"



This birth of international capital flows that had first appeared with the **South Sea** and **Mississippi Bubbles** in 1720 that created the first true speculative bubble post–Dark Age after the famous **Dutch Tulip Bubble** of 1637. The downside of a precious metals monetary standard became clear with the events of the late 19th century – when it is the same product used globally, it can be arbitraged. International Capital Flow was now manifesting in full–blown moves of capital rushing around the globe.

This net capital movement was undermining the entire foundation of economic theory that was built upon isolated domestic fundamentals. Now, fundamental changes in a distant land could spark net capital outflows and selling of domestic assets even when there was no such change whatsoever in the domestic economy. Capital moved and the idea that politicians could actively manage the economy at will be regulation and crafting Draconian laws was nothing but an illusion – a fool's dream.

The impact of net capital movement was clearly not understood by economists who were still trying to expand their own power with theories of absolute control. This was the period of rising Marxism on a global scale. Karl Marx (1818–1883) wrote ***The Communist Manifesto*** in January 1848, using as a model a tract Engels wrote for the League in 1847. In early February, Marx sent the work to London, and the League immediately adopted it as their manifesto. In ***The Communist Manifesto***, Marx predicted imminent revolution in Europe.

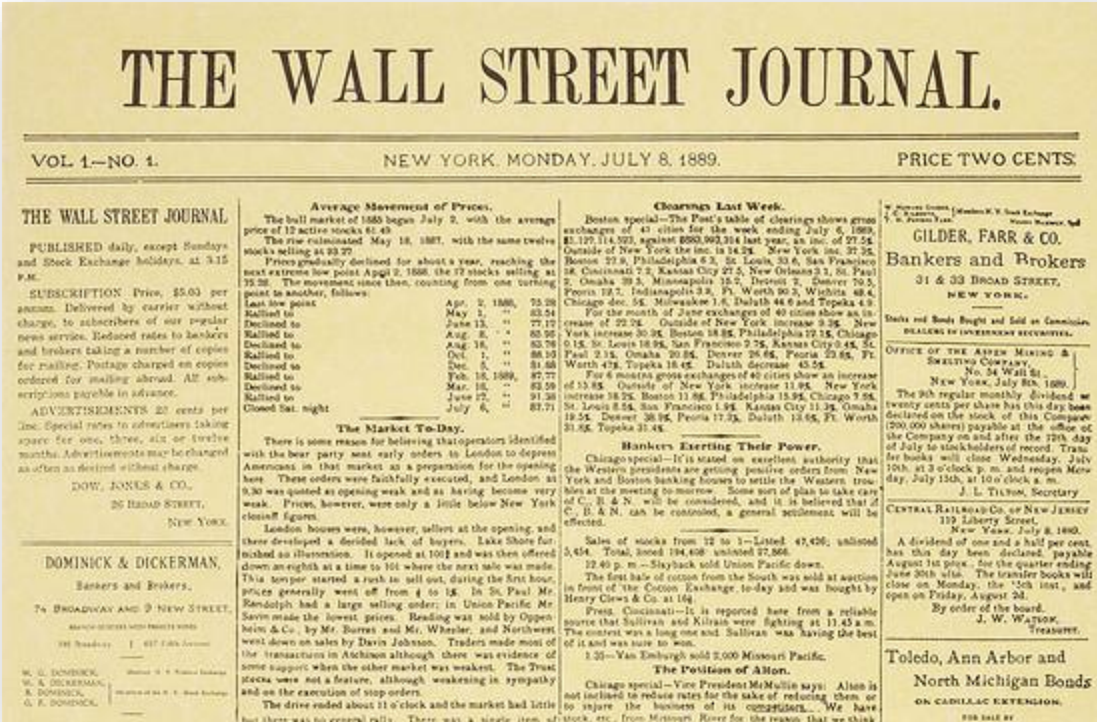

Karl Heinrich Marx
(1818-1883)

In 1887 Congress passed the **Interstate Commerce Act** (ch. 104, 24 Stat. 379), making the railroads the first industry subject to Federal regulation. Congress passed the law largely in response to public demand that railroad operations be regulated. The act also established a five-member enforcement board known as the Interstate Commerce Commission. In the years following the Civil War, railroads were privately owned and entirely unregulated. The railroad companies held a natural monopoly in the areas that only they serviced.


John Sherman
(1823 –1900)

Next came the **Sherman Anti-Trust Act** (Sherman Act, July 2, 1890, ch. 647, 26 Stat. 209, 15 U.S.C. §§ 1–7) that also sought to prevent the consolidation of business reducing the number of employers. The act was enacted in tandem with the **McKinley Tariff** of 1890. William McKinley (1843–1901), an Ohio Republican and chairman of the House Ways and Means Committee worked with John Sherman (1823–1900), the senior Republican Senator from Ohio, to create a package that could both pass the Senate and receive the President's approval. This was immediately followed by the core legislation that set-in motion the **Panic of 1893** that culminated in this Panic of 1896 – the **Sherman Silver Purchase Act** enacted on July 14, 1890.

Sherman Silver Purchase Act, 1890, passed by the U.S. Congress to supplant the **Bland-Allison Act** of 1878. It not only required the U.S. government to purchase nearly twice as much silver as before 4,500,000 ounces (130,000 kilograms) per month, but also added substantially to the amount of money already in circulation. The **Sherman Silver Purchase Act**, named after John Sherman, was enacted in support of the advocates of the **Free Silver Democrats**. This Act created massive unsound finance that undermined the U.S. Treasury's gold reserves. Only after the **Panic of 1893** , President Grover Cleveland called a special session of Congress and secured the repeal of the Act.



THE WALL STREET JOURNAL.

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Average Movement of Prices.

The bull market of 1885 began July 2, with the average price of 12 active stocks 61.49.

The rise culminated May 18, 1887, with the same twelve stocks selling at 93.27.

Prices gradually declined for about a year, reaching the next extreme low point April 2, 1888, the 12 stocks selling at 75.28. The movement since then, counting from one turning point to another, follows:

Last low point	Apr. 2, 1888,	75.28
Rallied to	May 1, "	83.54
Declined to	June 13, "	77.17
Rallied to	Aug. 8, "	85.96
Declined to	Aug. 18, "	83.76
Rallied to	Oct. 1, "	88.10
Declined to	Dec. 5, "	81.88
Rallied to	Feb. 18, 1889,	87.77
Declined to	Mar. 16, "	83.59
Rallied to	June 17, "	91.38
Closed Sat. night	July 6, "	87.71

The Market To-Day.

There is some reason for believing that operators identified with the bear party sent early orders to London to depress Americans in that market as a preparation for the opening here. These orders were faithfully executed, and London at 9.30 was quoted at opening weak and as having become very weak. Prices, however, were only a little below New York closing figures.

London houses were, however, sellers at the opening, and there developed a decided lack of buyers. Lake Shore furnished an illustration. It opened at 100⅞ and was then offered down an eighth at a time to 101 where the next sale was made. This temper started a rush to sell out, during the first hour, prices generally went off from ¼ to 1⅛. In St. Paul Mr. Randolph had a large selling order; in Union Pacific Mr. Savin made the lowest prices. Reading was sold by Oppenheim & Co., by Mr. Burres and Mr. Wheeler, and Northwest went down on sales by Davis Johnson. Traders made most of the transactions in Atchison although there was evidence of some support when the other market was weakest. The Trust stocks were not a feature, although weakening in sympathy and on the execution of stop orders.

The drive ended about 11 o'clock and the market had little but there was no general rally. There was a single item of

Clearings Last Week.

Boston special—The Post's table of clearings shows gross exchanges of 41 cities for the week ending July 6, 1889, $1,127,114,523, against $880,992,314 last year, an inc. of 27.5%. Outside of New York the inc. is 14.2%. New York inc. 37.3%. Boston 22.9, Philadelphia 6.2, St. Louis 33.6, San Francisco 18, Cincinnati 7.2, Kansas City 27.5, New Orleans 3.1, St. Paul 2, Omaha 39.5, Minneapolis 15.7, Detroit 2, Denver 70.5, Peoria 12.7, Indianapolis 3.8, Ft. Worth 90.3, Wichita 48.4, Chicago dec. 5%. Milwaukee 1.6, Duluth 44.6 and Topeka 4.9.

For the month of June exchanges of 40 cities show an increase of 22.7%. Outside of New York increase 9.3%. New York increase 30.9%. Boston 18.8%. Philadelphia 27.1%, Chicago 0.1%, St. Louis 18.9%, San Francisco 7.7%, Kansas City 0.4%, St. Paul 2.1%, Omaha 20.8%, Denver 26.6%, Peoria 23.6%, Ft. Worth 47%, Topeka 18.4%. Duluth decrease 45.5%.

For 6 months gross exchanges of 40 cities show an increase of 15.8%. Outside of New York increase 11.9%. New York increase 18.7%. Boston 11.8%. Philadelphia 15.9%, Chicago 7.5%, St. Louis 8.5%, San Francisco 1.9%. Kansas City 11.3%, Omaha 19.5%. Denver 38.9%, Peoria 17.3%, Duluth 13.6%, Ft. Worth 31.8%. Topeka 31.4%.

Bankers Exerting Their Power.

Chicago special—It is stated on excellent authority that the Western presidents are getting positive orders from New York and Boston banking houses to settle the Western troubles at the meeting to-morrow. Some sort of plan to take care of C., B. & N. will be considered, and it is believed that if C., B. & N. can be controled, a general settlement will be effected.

Sales of stocks from 12 to 1—Listed 47,426; unlisted 3,454. Total, listed 194,408 unlisted 27,866.

12.40 p. m.—Slayback sold Union Pacific down.

The first bale of cotton from the South was sold at auction in front of the Cotton Exchange to-day and was bought by Henry Clews & Co. at 16¼.

Press. Cincinnati—It is reported here from a reliable source that Sullivan and Kilrain were fighting at 11.45 a.m. The contest was a long one and Sullivan was having the best of it and was sure to win.

1.35—Van Emburgh sold 2,000 Missouri Pacific.

The Position of Alton.

Chicago special—Vice President McMullin says: Alton is not inclined to reduce rates for the sake of reducing them or to injure the business of its competitors. We have stock, etc., from Missouri River for the reason that we think

GILDER, FARR & CO.
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Stocks and Bonds Bought and Sold on Commission.
DEALERS IN INVESTMENT SECURITIES.

OFFICE OF THE ASPEN MINING & SMELTING COMPANY,
No. 34 Wall St.,
NEW YORK, July 8th, 1889.

The 9th regular monthly dividend of twenty cents per share has this day been declared on the stock of this Company (200,000 shares) payable at the office of the Company on and after the 12th day of July to stockholders of record. Transfer books will close Wednesday, July 10th, at 3 o'clock p. m. and reopen Monday, July 15th, at 10 o'clock a. m.

J. L. TILTON, Secretary

CENTRAL RAILROAD CO. OF NEW JERSEY
119 Liberty Street,
NEW YORK, July 8, 1889.

A dividend of one and a half per cent. has this day been declared, payable August 1st prox., for the quarter ending June 30th ulto. The transfer books will close on Monday, the 15th inst., and open on Friday, August 2d.

By order of the board.
J. W. WATSON,
Treasurer.

Toledo, Ann Arbor and
North Michigan Bonds
ON CADILLAC EXTENSION.
FOR SALE BY

The peak in 1889 was also a technology boom. On June 3rd, 1889, the very first long-distance electric power transmission line in the United States was completed. It ran a total distance of 14 miles (23 km) between a generator at Willamette Falls and downtown Portland, Oregon. The dawn of electricity was the hot topic. Then with just a few days, the Wall Street Journal was established in New York City. Meanwhile, there were a number of states that joined the union in 1889.

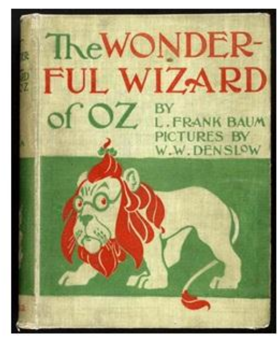
As always, the economic decline spread like a contagion and we begin to see revolutions in South America namely in Brazin and then Chile. It was during 1890 that we begin to witness Marxist inspired union and strikes. Then on July 2nd, 1890, the **Sherman Antitrust Act** and **Sherman Silver Purchase Act** became United States law. This is what would set the stage for the **Panic of 1893. Sherman Silver Purchase Act** supplant the **Bland–Allison Act** of 1878 and required government to purchase nearly twice as much silver as before. However, it also added substantially to the amount of money already in circulation creating inflation and unsound finance that drove gold out of the country. President Cleveland called a special session of Congress in 1893 to repeal of the act.

Jocob S. Coxley (1854-1951)

Coxley's Army Marched on Washington

The first march upon Washington over unemployment emerged at this time known as Coxley's Army. This was a group of men who marched during the depression year of 1894. Jacob S. Coxley (1854–1951) was a businessman in Ohio whose idea was that government should provide employment through creating Public Works. His ideas were eventually incorporated in Franklin D. Roosevelt's New Deal and became the WPA in 1935. Coxley set out for Washington on March 25th, 1894, with about 100 men and arrived there on May 1st with about 500 who had joined. Coxley's First Amendment rights were of course violated for they arrested him for walking on the grass pretending it had nothing to do with his march.

Lyman Frank Baum (1856–1919)



First Edition 1900

Nevertheless, it was this event that became the Wizard of Oz for Lyman Frank Baum (1856–1919) was impressed by this movement. Off to see the Wizard was Washington. The Tin man was industry, the Scarecrow agriculture and the Cowardly Lion was William Jennings Bryan. The Yellow Brick Road was the gold standard. It was hoped to persuade Congress to authorize a vast program of public works, and restore the repealed **Sherman Silver Purchase Act** to increase the money supply. This movement was all about financing a substantial increase of the money in circulation, to provide jobs for the unemployed.

William Jennings Bryan (1860–1925)
Cross of Gold Speech - July 9, 1896

Then the final straw was about to land as the country moved into the 1896 Presidential elections. As always, the allegations flew wildly designed to just win office w3ith no regard whatsoever for the impact upon the public confidence in government as is always the case.

That contrast was perhaps never so immortalized as it was by William Jennings Bryan at the National Democratic Convention (Chicago 1896) when he stated..."***You shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold."*** Glorified words that simply called for unsound finance and inflation by overvaluing silver relative to gold as a means to prosperity once again.

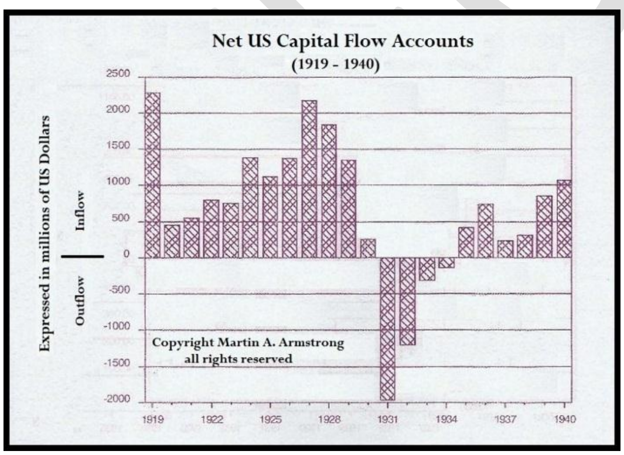
The **Panic of 1896** is perhaps best known for the fiery speech of William Jennings Bryan (1860–1925) who was the Silver Democrat's Presidential candidate that year. The major thrust down took place during the **Panic of 1893**. However, by 1896, the economic conditions had not improved very much. There was still a dramatic and acute economic depression in the United States that was dragging on like a slow–death. It was the end of the Long Depression that began back in 1873.

Despite the **Sherman Silver Purchase Act** being repealed, none of the other legislation was repealed yet it was all the same inspiration. The **Sherman Anti–**

Trust Act was inspired by Marx and the idea was based upon the observation that all of these start–up railroads were being purchased and consolidated. The politicians saw this as eliminating jobs and this took the view of labor rather than economic efficiency. This entire rise of Marxism culminated in the passage of the **Income Tax Act** in 1909 rejecting the wisdom of the Founding Fathers and adopting the philosophy of Karl Marx. Politicians found the evil to point at to win elections using Marxism to target the "rich".

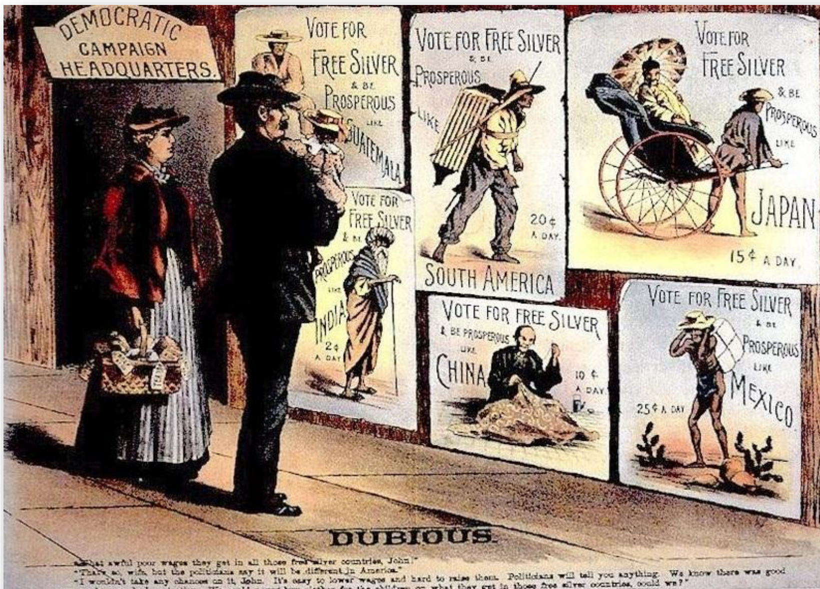
The failure of Marxism has been the assumption that the economy can be controlled by laws and central planning. This is why communism collapsed and socialism is the final straw. This has been the evolution of what many called the New Economics that was added to by John Maynard Keynes. Nevertheless, the **Panic of 1896** proved one thing – that these ideas were fruitless and dangerous for capital can and will rush around the world. Cleveland put it best in his observation that the ***"speculator may anticipate a harvest gathered from the misfortune of others, the capitalist may protect himself by hoarding or may even find profit in the fluctuations of values…"***

Capital flows around the globe at all times and has done so since ancient times. Cicero commented that any event in Asia (Turkey) be it financial or natural, sent waves of panic running through the Roman Forum. Therefore, we are not dealing with purely a modern evolution of net capital movement, Even Aristotle complained about the people who made money from money in the Agora that inspired Karl Marx.



Pictured here, is the net capital flows concerning the United States that show after the Panic of 1896, much of what can be credited for turning the nation around economically was not political genius, but simply war in Europe that sent capital fleeing to the United States. We also saw major net capital outflows during 1987 Crash.

Nevertheless, we remain ignorant of this development economic fact that demonstrates how the global economy functions. We instead try to force it to do as we like without understanding its core nature. Both the field of politics and economics remain as ignorant today void of any ability to ever learn from plain observation of what is actually taking place because we are caught up in the desire to pursue our own self-interest. No one has dared to explore and observe to uncover **HOW** things work as Adam Smith himself had done. We prefer to try to redesign everything like trying to make every day sunny.



The financial crisis that became the Panic of 1896 was precipitated by a drop-in gold reserves to the point that the US government was virtually bankrupt. International capital flows were providing the check and balance against domestic mismanagement. While William Jennings Bryan (1860–1925) in his 1896 Presidential speech (listen above) realized that there was a risk of international capital flow disruption, nevertheless, he felt that if the US adopted whatever it desired, other nations would follow the US example. That simply did not prove to be the case. Overvaluing silver presented also the argument of making foreign labor more expensive.

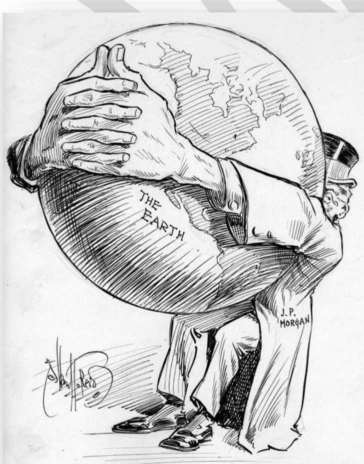
1896-S SILVER DOLLAR

Consequently, as this trend of international capital outflows of gold from the USA was accelerated by the **Sherman Silver Purchase Act** of 1890, politicians remained ignorant of the implications of setting the silver-gold ratio at 16:1 compared to Europe's 15:1. Arbitrage emerged where people could take gold from the USA purchasing it with silver that was overvalued thanks to the Silver Democrats. These simple-minded politicians had no clue how capital moves globally. Instead of forcing the Europeans to adopt the US inflated silver value, the opposite unfolded where the USA attracted overvalued silver and the Europeans took the gold home.

The European gold reserves began to expand sharply with the US gold reserves collapsing at an alarming speed. This serious drain on the US gold reserves caused by the overvaluation of silver, led to the famous bailout of J.P. Morgan (1837–1913) to save the United States. President Grover Cleveland was a Democrat while J.P. Morgan was a Republican. Nevertheless, Morgan voted for Cleveland because he stood against the Silver Democrats and insisted upon sound money and the gold standard. Cleveland's speech during the **Panic of 1893** about its cause lying in unsound finance established the common-ground between the two men.

John Pierpont Morgan
(1837-1913)

The conspiracy theories of the day made it impossible for Cleveland to even turn to J.P. Morgan being a Wall Street Tycoon leaving him politically paralyzed. Morgan had been one of the targets of the **Sherman Anti-Trust Act** once it was passed. J.P. Morgan in 1892 arranged for the merger of Edison General Electric and Thomson-Houston Electric Company creating General Electric. Morgan's assistance in creating big companies made his deeply hated by many. Nonetheless, by January 24th, 1895, the US gold reserves had fallen to just $68 million. Gold coin was being hoarded by the citizens everywhere. Cleveland could not be seen to be turning to Wall Street for help, yet simultaneously, he had little choice. Cleveland turned to the Rothschilds in London to try to avoid Wall Street. The Rothschilds turned in London then turned to J. S. Morgan and Company there, who




August Belmont, Jr.
(1853–1924)

then agreed to participate only if J.P. Morgan handled the American end. They could not deal at such levels without local support.

The Rothschilds representative at that time in the USA was August Belmont, Jr. (1853–1924). Belmont and Morgan met at the US Treasury office in New York. While nothing was then settled, over $9 million in gold on ships headed to London was taken off and returned to the city vaults that night. The meeting also fueled the conspiracy theories of the Wall Street–Washington league.

Morgan's correspondence at this time revealed his contempt for European opinion, his distrust of politicians and Jewish banks and his disdain for unsound finance. In a matter of weeks, the flight of gold had in fact resumed and now default appeared to be absolutely certain by February. Europeans would not buy debt coming from America. The confidence in the United States vanished.

The politicians clearly knew nothing about; what they had done. A bunch of absolute idiots destined to destroy the entire US economy because of their political favors to the silver miners and farmers. The cabinet informed Morgan and Belmont that they now rejected their proposal for a bond issue to raise gold. They were still refusing to admit that they had done anything wrong and the country would pay for that.


Daniel Scott Lamont
(1851 –1905)
39th US Secretary of War
(March 5, 1893 – March 4, 1897)

Daniel Morgan and Belmont jumped on trains destined for Washington. They were met by Daniel Lamont (1851–1905), Secretary of War, who informed them that the President decided **against** a private syndicate and would not see them. JP then said in reply: ***"I have come down to see the president, and I am going to stay here until I see him."*** (Allen, Great Pierpont Morgan, p90). The Marxism that dominated the atmosphere had so poisoned the well it was astonishing how it took the courage of JP Morgan to save the nation that day in the face of obstinate politicians.

Cleveland was holding out in hopes of making a "public bond" issue rather than a private one. As the politicians delayed, it took a clerk to inform the white House that all that now remained was $9 million left in gold coin in the government vaults. JP told the politicians that he knew of a $10 million draft that would be presented and by 3 o'clock, the country would be completely bankrupt. Finally, Cleveland for the first–time asked JP, **"What suggestions have you to make, Mr. Morgan?"** *(Satterlee, J. Pierpont; Morgan, p289); (Chernow, The House of Morgan, p75)*.

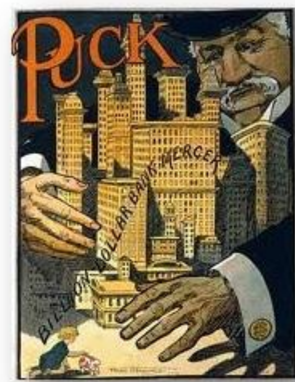
J.P. Morgan replied to Cleveland that the combination of Morgan and Rothschild firms in New York and London would now put together 3.5 million ounces of gold with at least half coming from Europe in return for $65 million worth of gold backed 30–year bonds. Yet the boldness of the proposal went even further. He guaranteed to rig the gold market so that at least temporarily, no gold would leave the United States in the foreign exchange markets.

The proposal was bold indeed. Nonetheless, Secretary of the Treasury John G. Carlisle (1834–1910) relied on the 1862 statute that had been enacted during the Civil War for Lincoln granting emergency powers to buy gold during the war. This law, he argued, gave the President such authority.

John Griffin Carlisle
(1834 – 1910)
41st US Secretary of the Treasury
(March 7, 1893 – March 5, 1897)

Cleveland had no choice but to now see the light. He still sought to get Congress to enact a public bond offering to raise Gold. Nevertheless, he knew that if they failed for political reasons, he had no choice but to turn to JP Morgan. The Congress defeated the bill to allow the US Treasury to sell long–term bonds to the public clinging to their idea of forcing the world to comply with their wishes that were merely bribes from the miners.

News broke about the Morgan–Rothschild operation. On February 20th,1895, the bond sale in London sold out in 2 hours. In New York, they were sold out in just 22 minutes. The conspiracy theorists used this rise in demand for the bonds to argue that Morgan–Rothschild had cheated the government. They had sold the bonds at 104 and they rose to 119 on the open market. Of course, they failed to realize that a high print of that nature does not mean the entire bond issue could have been sold at 119.

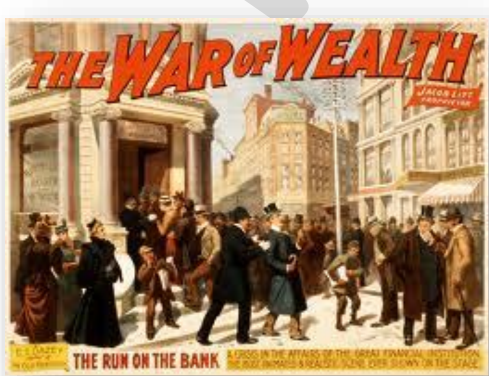


February 2nd, 1910 Cover of Puck
The English Magazine
"The Central Bank - Why should Uncle Sam establish one, when Uncle Pierpont is already on the job."

Now the uproar expanded to include anti–Semitism because Rothschild was involved. This became the backdrop to the 1896 Presidential elections and the Democratic Convention where William Jennings Bryan (1860–1925) ran for President and delivered his infamous speech that: ***"Thou shalt not crucify mankind on a cross of gold."***

JP Morgan saved the nation that day. He had suffered the arrows of every possible sort when the politicians refused to yield and were destroying the country with their silver madness. Morgan's view of politicians was certainly well founded. They were simple fools whose opinions were shaped by bribes – never a love of their country. They will never listen and only lash out at any person who dares to criticize them. Even when the end was staring them in their face, they still would not yield.

The image that JP Morgan gained anything on the transaction was of course the fuel of conspiracies for decades. Even in England by 1910, they still hurled insults at the man who saved the nation when the USA was starting to look to create a central bank to perform the very tasks that J.P. Morgan had done in so many moments of despair.



The conspiracy theorists fed on the ideas of Karl Marx and were to a large extend espousing the same ideas. This was also the era of American Marxism that had taken hold of much of the nation.

The conspiracy theories against Morgan reflected this class struggle, yet it was ironic that Morgan was not really interested in money. JP lamented over his duty that he felt he owed to his country and more than anyone else, he aided the shift in economic power from London to New York. Above, is a poster from a play that appeared on Broadway – ***The War of Wealth***. This was then inspired by the **Panic of 1893** and we begin to see the Marxist tone had gripped the nation.

The unsound finance and the attack upon business with the whole **Sherman Silver Purchase Act** in 1890 set a tone of caution within the capital markets and sent the US economy into a tailspin. The efforts of JP Morgan restored confidence as demonstrated by the chart above. The major low and end of the Long Depression took place with the actions of Morgan in 1896. This no doubt contributed to the defeat of William Jennings Bryan in that election by William McKinley (1843–1901), who would be assassinated in 1901. McKinley had been a *"straddle bug"* on the currency question, favoring moderate positions on silver such as accomplishing a bimetallism through international agreement.

The Age of Marxism had indeed arrived. There was a rising anarchist movement spreading and many assassinations were taking place in Europe. Spirit of revolution was perhaps a consequence in the USA following the Haymarket affair (also known as the Haymarket massacre). It began as a peaceful labor demonstration on Tuesday May 4, 1886 supporting the ideas of Marx in Haymarket Square located in Chicago. This peaceful rally in support of workers striking for an eight-hour day turned violent when an unknown person threw a dynamite bomb at police who reacted and gunfire erupted resulting in the deaths of seven police officers and at least four civilians with many people wounded.

It was this event that then inspired the Marxism Anarchist movement that attracted people like **Emma Goldman** (1869–1940), a Russian immigrant, whose speeches were also fiery and emotional. Her position she stated:

Emma Goldman (1869–1940)

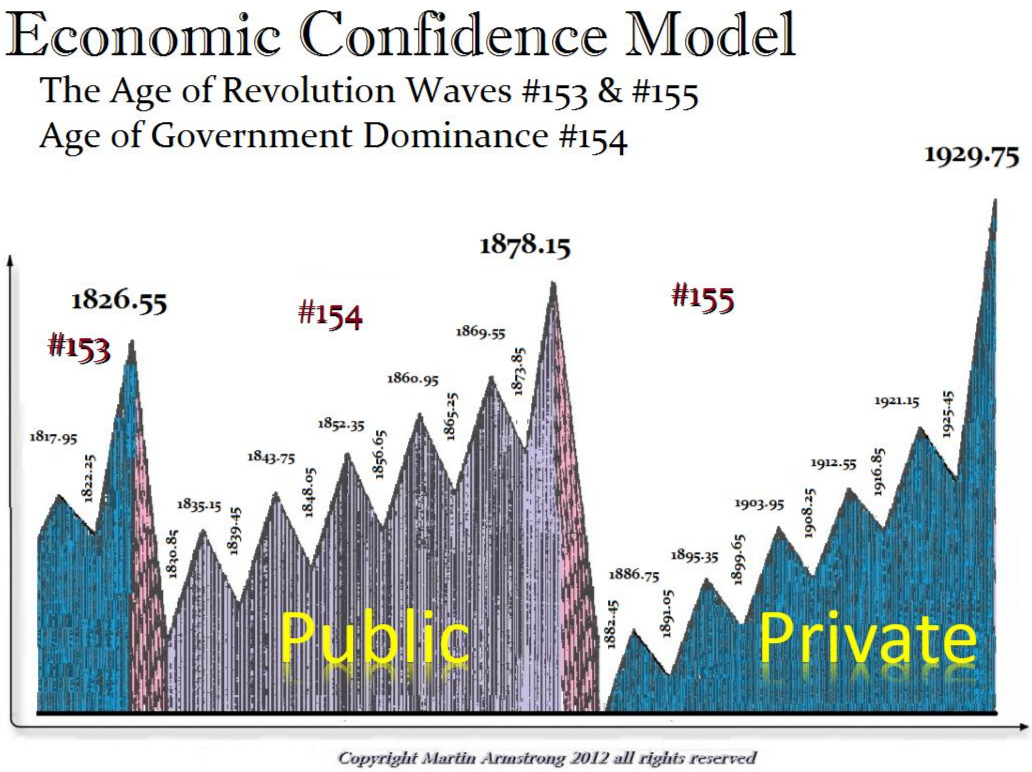
> ***"Anarchism stands for the liberation of the human mind from the dominion of religion and liberation of the human body from the coercion of property; liberation from the shackles and restraint of government. It stands for a social order based on the free grouping of individuals…"***

Goldman's speeches became popular and in turn inspired **Leon Frank Czolgosz** (1873–1901), a Polish immigrant, who became convinced that he had to be a hero and assassinated on September 6th, 1901, President William McKinley was shot on the grounds of the Pan-American Exposition at the Temple of Music in Buffalo, New York.

William McKinley (1843 – 1901)
25th President of US (1897-1901)
Assassinated on September 6th, 1901
Anarchist Leon Frank Czolgosz (1873-1901)

Therefore, the **Panic of 1896** was the end of the Long Depression and marked the beginning of a new era where the USA started to move toward the role of becoming the new Financial Capital of the World. The assassination of McKinley was part of an anarchist uprising based upon Marxism. This would eventually culminate in the assassination that sparked World War I

Lessons from the 1890s & Our Vulnerability Today



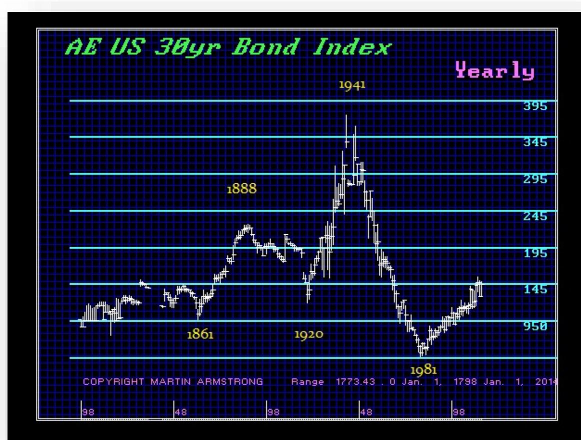
The critical lesson to learn from the Panics of the 1890s begins with the fact that this was the first half of the 51.6–year wave which would peak in 1929.75. This was a **Private Wave** #155. Consequently, the transition period is typically confined to the first half and then the second half is the full–blown dominance of the Private sentiment among the people.

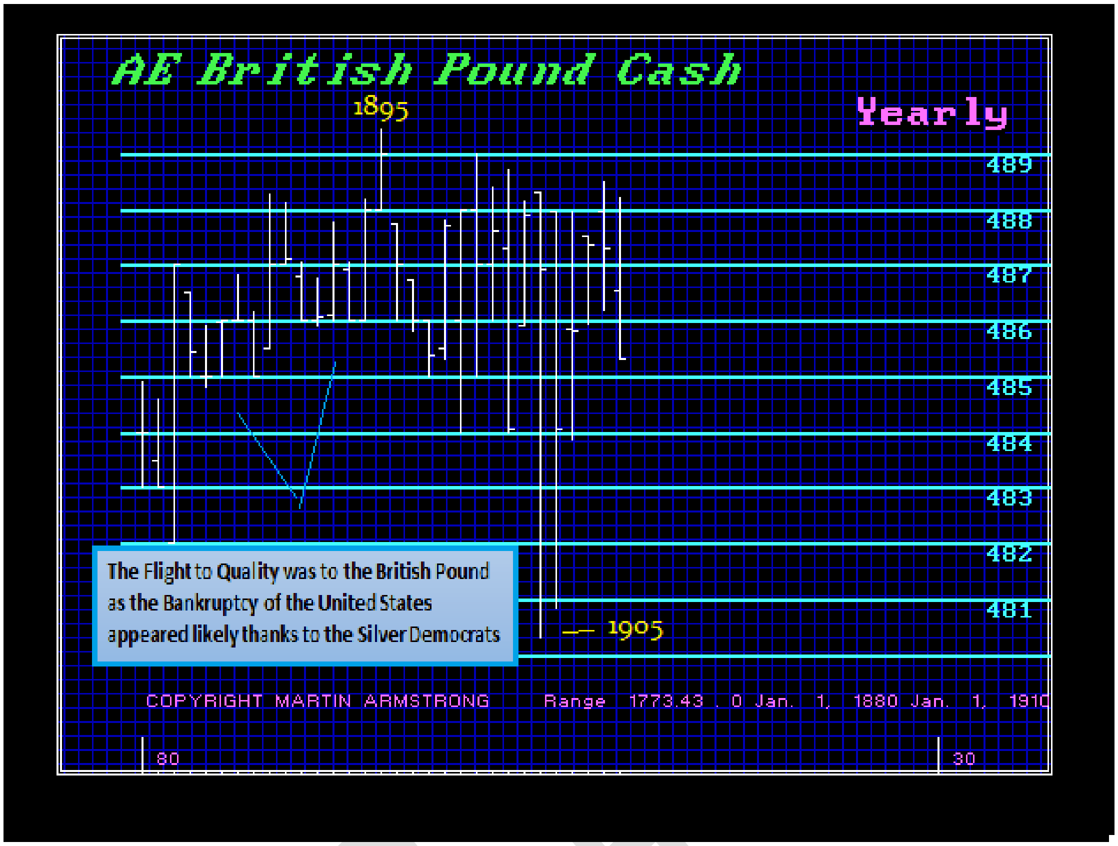
The previous Wave #154 which peaked in 1878.15 was a **Public Wave** where the dominance of government is in control. Thus, we had the 1848 European Revolution which was a contagion throughout the continent which failed. Likewise, there was the American Civil War which was also an attempt to split the country and failed. Such events are successful when they take place within a Private Wave when government is vulnerable.

Hence, the Panics of the 1890s right down to the Coxley Army March, were rejections of the previous wave of Silver Democrats and the free markets were once again in control. This why we also see the rise of the Anarchist Movement inspired by people such as Emma Goldman.

While the stock market decline for 7 years between 1889 and 1896, it elect only the first Yearly Bearish Reversal at the close of 1893 warning that it would not end there. Granted, there was a two-year consolidation period, but while it rallied intraday, the 1893 closing was 3332 and 1894 closed lower at 3249 and 1895 closed lower again at 3180. The closing of 1896 elected two Yearly Bullish Reversals confirming the low would hold and new highs were on the horizon.

The US government bonds peaked in 1888 and would then bottom in 1920. The sentiment would shift whereas once the capital flows poured out of the US thanks to the Silver Democrats and Morgan arranged for a bailout loan in 1896, the decline in the bonds was effectively a Pi Cycle 31.4 years. Only after World War I and the decline in confidence in Europe did the Roaring '20s bring capital inflows for investment fleeing Europe.





The **Flight to Quality** was clearly **NOT** to the United States bond market. It would make no sense to sell equities and rush to bonds when the government itself was at risk of defaulting and suspending redemption of its paper currency to gold. Capital will always try to seek shelter wherever it appears to be safe. In this instance, the capital flight was to Britain which was perceived to be the Financial Capital of the World at that moment in time.

The Sovereign Debt Crisis of 1931

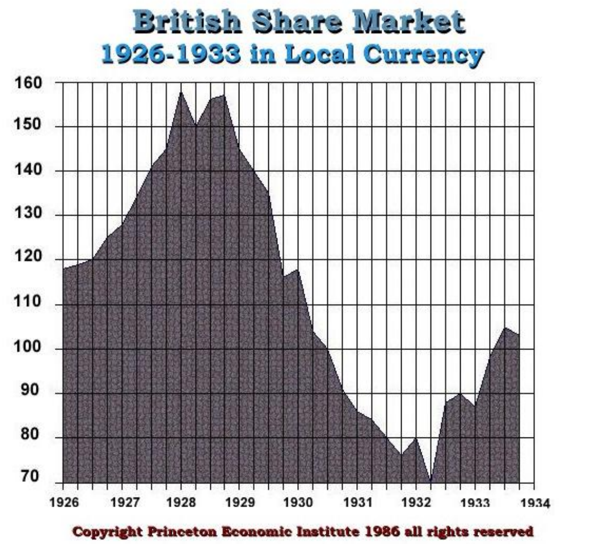
The blame game has been around for a long time. All we hear since the crash of 2007–2009 is how the stock market is going to crumble to dust. Every single time the Dow Jones Industrial Index falls a few hundred points, out they come predicting the end of the world once again. This has been the most hated Bull Market in history. Normally at the peak, all you hear is how it will never end. This rally has been nothing like that – it is all about the crash that will come any day now.

When we look at the Dow Jones during the Great Depression fall, all we hear is that it collapsed to 10 cents on the dollar. They neither look at the pre–1931 price action where the Dow had fallen 40% from the high into December 1930 (386.1–154.45) nor do they comprehend that most of Europe permanently defaulted on their debts, China, and South America also followed that course. They ignore the fact that the bulk of money is **ALWAYS** invested in bonds. The sheer collapse of the bond market as traded on the New York Stock Exchange in 1931 demonstrates that the losses were not merely a correction that would recover. The bonds simply defaulted and were removed from the exchange.

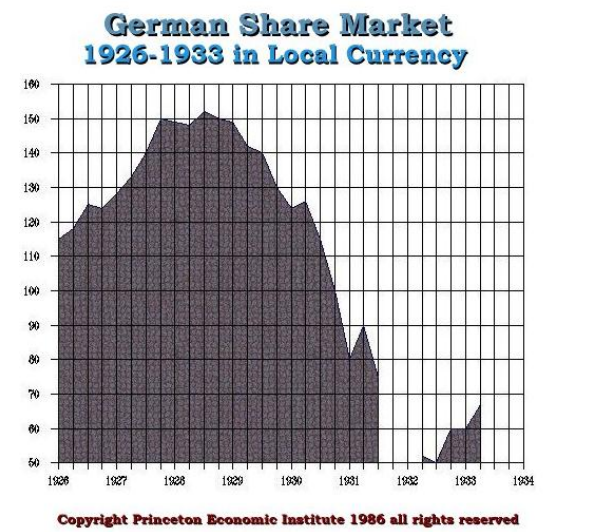
When we just glance around the world to look at when the major share markets peaked, we see interesting divergences.

Britain peaked actually in 1928 and made a respectable retest of the 1928 high intraday. However, 1928 remained as the highest annual closing as was the case for the United States on that level.

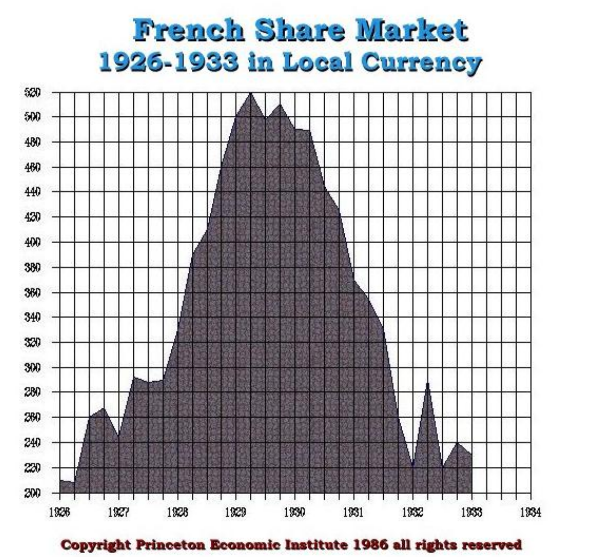
German 50 Rentenmark (1925 issue)

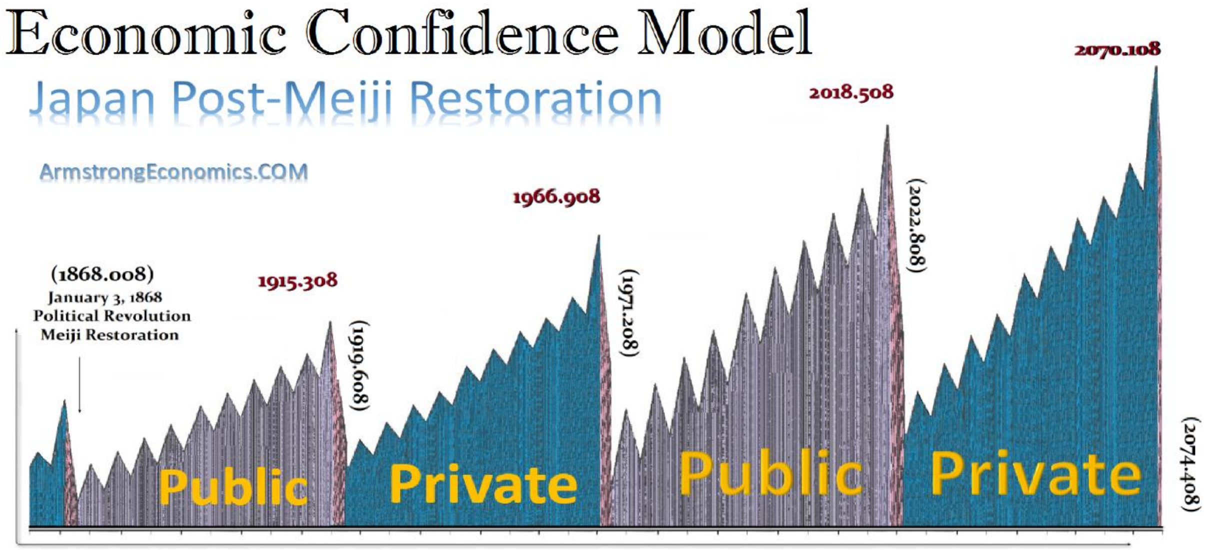


Germany also produced an intraday high in 1928. This was aided by the collapse of the hyperinflation and the introduction of the new currency in 1925 of the Rentenmark backed by real estate.



The French were trying to take over Europe and were building their gold reserves. Consequently, they saw their peak in the first half of 1929 and the latter rally was merely a retest of that high. On July 24th, 1929 Prime Minister Raymond Poincaré resigned and Aristide Briand takes the position. He signed the Kellogg–Briand Pact, renouncing war as an instrument of foreign policy, but he then proposed on September 5th, 1929 his plan for creating the United States of Europe – the first idea of federalizing.

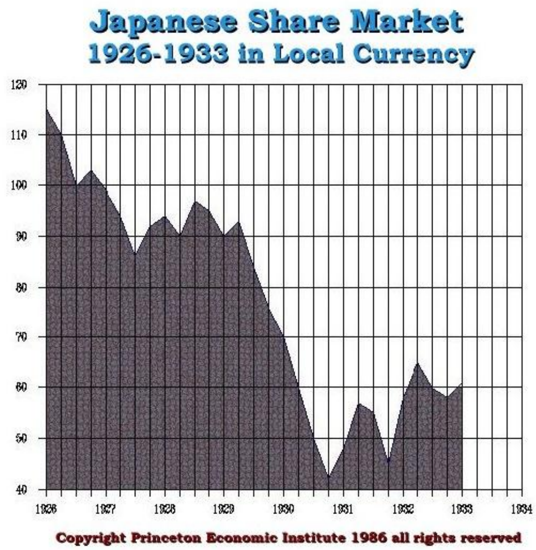




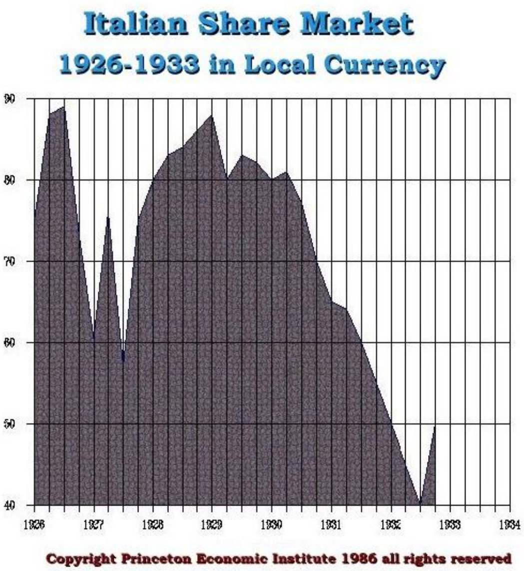
Japan had abused its power of authority by constantly devaluing the outstanding money supply every time a new emperor came to the throne. It got to the point that Japan lost its ability to issue any money. The economy diverted to barter and would use the coinage of China. After 600 years without any Japanese coinage, the revolution of 1868 created the Meiji Restoration and we begin to see a strong government reemerge. However, while Japan participated in World War I from 1914 to 1918 in an alliance against Germany securing the sea lanes in the West Pacific and Indian Oceans, politically, the Japanese Empire with growing military control seized the opportunity to expand its sphere of influence in China, and to gain recognition as a great power in postwar geopolitics.

Japan peaked in 1926 and entered into a Depression. On December 25th, 1926, the Emperor Taishō died and is succeeded by his son Hirohito who becomes Emperor Shōwa. Emperor Shōwa quickly found himself dominated by the increasing military power within the government, through both legal and extralegal means. The Imperial Japanese Army and Imperial Japanese Navy held veto power over the formation of cabinets since 1900, and between 1921 and 1944 there were no fewer than 64 incidents of political violence. This was really the Shogun element retaking power in Japan. The Emperor may have reigned, but he could not rule. It was a Private Wave.

Neither Japan nor Italy participated in the final Private Wave economic boom into 1929 obviously for political serious reasons internally. Both were governments being dominated by the military.

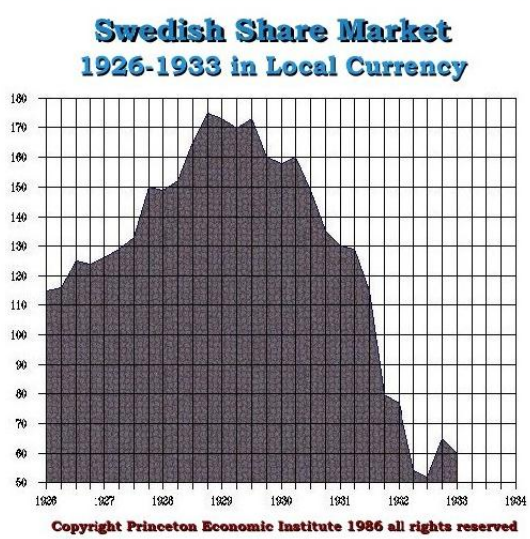


Italy had flipped to a Fascist political system as Mussolini took power. He would naturally blame the economic depression on the American share market and its evil speculators. He remained oblivious to the massive flight of capital from Italy to America because of his Fascist policies.

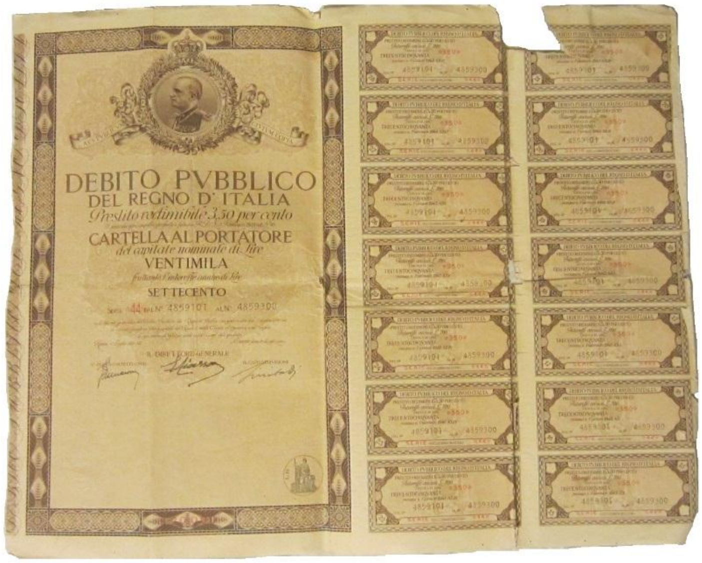


Benito Mussolini came out and blamed the depression on the U.S. collapse in the stock market. He said: "[O]ur general economic situation has grown worse since last October, when the American crisis burst with the violence of dynamite.

Up to today not even President Hoover has been able to work [economic] miracles and he is the most powerful man in the world at the head of the richest country in the world."



Mussolini preached the virtues of Fascism saying that the free markets "complicate everything with innumerable companies on a chain system, with boards of directors composed of nonentities who exercise no true leadership, often with faked



balance sheets and non–existent dividends. They are the true, authentic, most dangerous kind of anti–Fascists because they speculate on the good faith of the public. Prison is small retribution for their misdeeds. They sow such infinite ruin and misery and they do such harm that they truly deserve Death!"

As was the case in the U.S., the Italians were hunting for those who they felt were responsible for manipulating the market. Although Mussolini did not go as far as imposing a death sentence, many faced fines and imprisonment on effectively the theory that those who profited must have manipulated.

In the United States, the new rising investors were the life insurance companies. The advertising campaigns had paid off. By the end of 1930, the life insurance industry controlled nearly $19 billion dollars in investments, which had doubled since 1923 alone. This vast sum of money had made the insurance industry a major player in all aspects of the financial marketplace. This sum represented nearly three times the amount of funds in the call money market. Of their nearly $19 billion in assets, 40.3% was invested in real estate mortgages. Next in line was a 37.6% investment in stocks and bonds of corporate America and 7% was invested in U.S. and foreign government bonds of federal and local issue.

Some shifts within their investment portfolios had been noted. Railroad securities had accounted for only 17% of the total investments at the beginning of 1931, as compared to 35% in 1906 just before the **Panic of 1907** when the railroads led the way down. Public utilities had risen to 9.4% in 1930, compared to 8.9% in 1929, demonstrating that sentiment at the time viewed the utilities as a more conservative stock investment. The trend within the shifting assets of the life insurance industry's portfolio was indicative of the nationwide investment trend.

However, the other new investor was the investor trusts. During the Boom-Bust Cycle of 1929, banks became traders. Whatever they could make money on was fair game. Goldman Sachs was caught-up in the whole bull market just like everyone else. Under the leadership of Waddill Catchings (1879–1967) was an American economist who co-authored a series of economics books that were highly influential in the United States in the 1920s and even influenced many policy makers, including Herbert Hoover.

Waddill Catchings
(1879 – 1967)

Catchings graduated from Harvard and eventually he replaced Henry Goldman as senior partner of Goldman Sachs in 1918. He transformed the fledgling brokerage house into a huge investment trust, establishing the Goldman Sachs Trading Corporation (effectively, a hedge fund), and nurtured its meteoric rise during the boom years of the 1920s to the point it reached nearly half-billion dollars in assets.

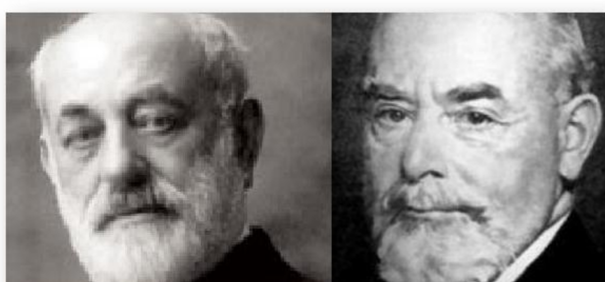
Catchings saw that a giant fund could maximize profits by buying and selling stocks to generate commissions for the firm. He promoted this as a business that was professional, and the profession was investing.

By 1931 he had nearly bankrupted Goldman Sachs, through his formation of the Goldman Sachs Trading Corporation and its floating of the Shenandoah & Blue Ridge investment trusts. Catchings' fund was wiped out during the crash of 1929. Academics never make traders. Catchings left the firm in 1930 and would later become the head of Muzak Corp., which was a company that centrally-played music by telephone wires to loudspeakers owned by subscribers, usually restaurants and hotels.

Catchings gave this new entity the name: Goldman Sachs Trading Corporation placing at risk the entire firm. The deal was that Goldman Sachs would be paid 20% of the profit, offering stocks at $104 per share. The stock jumped to $226 per share – twice its book value. This would be the very same mistake exposed in the Crash of 1966 when shares in mutual funds traded on the exchange allowing them to be bid up well beyond their asset value.

Goldman Sachs expanded the leverage going right into the eye of the storm that was about to hit starting on September 3rd, 1929. In the summer of 1929, Goldman Sachs launched two more trusts: Shenandoah and the memorable Blue Ridge. The shares were over-subscribed; Shenandoah began at just $17.80 and it closed on the first trading day at $36 per share. Blue Ridge was leveraged even more, and the partners at Goldman Sachs put pressure on everyone to buy as a sign of support. The leverage was astonishing for with just about $25 million in capital, there was now more than $500 million at stake.

The disaster was monumental to say the least. Goldman Sachs Trading Company, whose shares had stood at $326 at their peak, fell during the Great Depression to $1.75. They fell to less than 1% of their high. The loss suffered at Goldman Sachs on a percentage basis was **far worse than at any other trust**. In fact, of the top trusts, Goldman Sachs had lost about 70% of the entire trust market.



Marcus Goldman (1821-1904) Samuel Sachs (1851-1935)

Goldman Sachs was awash with lawsuits and it became the target of jokes in Vaudeville. This would fuel the anti-Jewish feeling in New York for decades to come. Samuel Sachs (1851–1935) died in 1935 at the age of 84. He was devastated, for what he had worked for was to build the firm's reputation. That is what broke the family in two.

Sidney James Weinberg
(1891–1969)

Catchings' No. 2 at Goldman Sachs Trading was Sidney Weinberg (1891–1969), who would have to unwind the worst fund management in history. This near-death wound the thing down and succeeded in at least paying off all its debts (its share price dropped from $326 to $1.75). Weinberg started with Goldman Sachs as a $3/week janitor's assistant. The grandson of the firm's founder, Paul J. Sachs, liked Weinberg, and promoted him to the mailroom, which Weinberg reorganized. Weinberg was a natural trader, which is something you just do not learn in school. He dropped out of high school at the age of 13 yet became known as "Mr. Wall Street" by the New York Times. To improve Weinberg's penmanship, Sachs sent him to Brooklyn's Browne's Business College.

Goldman Sachs bought Weinberg a seat on the New York Stock Exchange in 1925 and he became a partner by 1927. Weinberg took over the division, becoming a senior partner in 1930. He became head of the firm in 1930, saving it from bankruptcy, and held that position until his death in 1969.

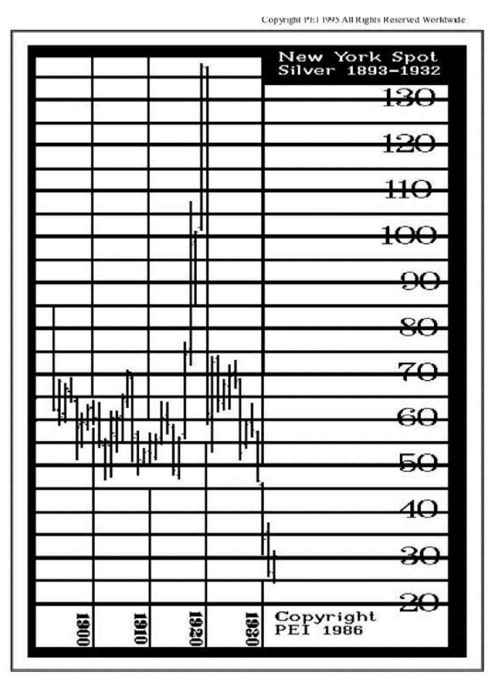
Any time someone loses money in speculation, they always seek to pin the blame on someone else. Never do they tend to point at themselves. Such was the case as the stock market continued to decline. Money managers were chastised when, in reality, bonds, stocks, diamonds, furs, commodities, and real estate offered nothing but devastating losses. The witch hunts of the Great Depression were merely in their infancy. The cries of many to punish someone, anyone, for their losses were indeed numerous. It became common to talk of huge bears in control of the market who were squeezing the very lifeblood from the market drop by drop.

Others argued that the cause was sparked by overproduction rather than manipulation, while others rebuffed this charge and claimed that it was the other way around. Some point to governments such as the Canadian Wheat Pool which had been in operation since 1924 and had attempted to control world prices, but failed. Even Hoover's Federal Farm Board attempted to peg prices, but ended up buying huge surpluses with no way of disposing of the grain.

Then the oil industry was blaming the antitrust laws for putting the fear of God into the industry as a whole, leaving it wide open to many small producers who waged price wars to gain their share of the business while the giants were barred from merging. Then the steel industry pointed the finger at the European Steel Cartel which had renewed itself at the end of 1930. U.S. steel producers had united to try to battle the Europeans rather than themselves, but still no direct mergers were allowed among the big producers. The antitrust laws were actually not just prohibited price agreements among the U.S. producers, forcing things were done under-the-table, but they were also forcing companies into bankruptcy rather than mergers.

The formation of the Copper Exporters Inc. in 1926 attempted to fix the price of copper in Europe. The American producers in this industry appeared to have some sort of gentlemen's agreement where they tried to ward off price cutting, but again, this was done at the risk of the antitrust laws. By 1931, copper producers were attempting to curtail production in an effort to hold the price. Copper had rallied from 9 cents to 12 cents back in November 1930. As 1931 began, copper drifted back down to 10 cents. Threats now loomed on the horizon of new discoveries in Africa, which would soon overshadow any curtailment on the part of the Western producers.

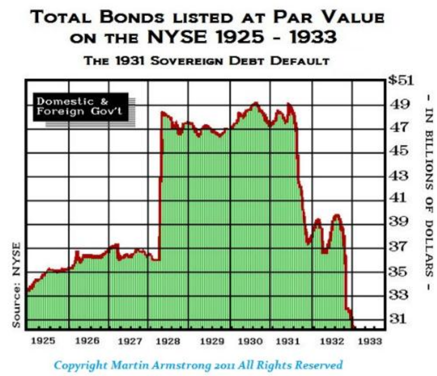
The tin market was also approaching the crisis level as well. The tin producers met in London during December 1930, but no agreement could be reached to curtail production. The battle between Bolivia and the Far East could not be brought under control. The improvement of new machinery in the Far East had raised the productive capacity and they were determined to take full advantage of the situation.



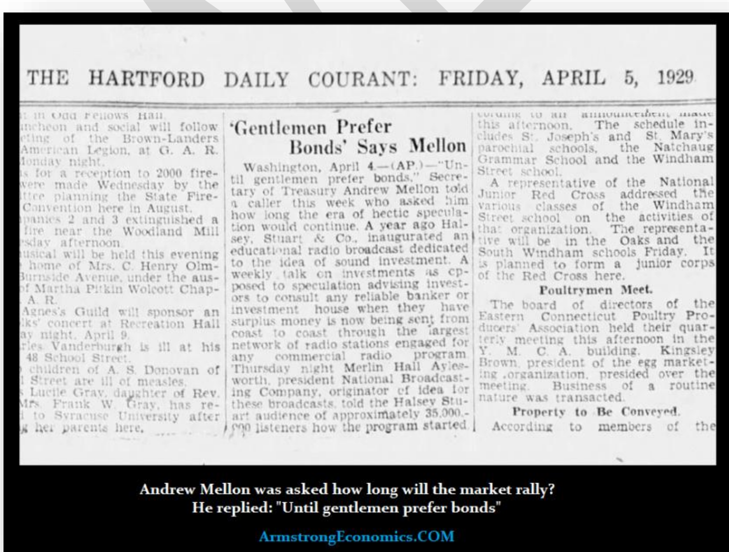
Silver's perils were endless. Irving Trust in New York blamed Britain for the demise of the silver market by taking India off a silver standard and moving on to a gold standard. Thus, substantial selling of silver on the part of India prevailed and created the final low in 1932.

Indeed, while everyone was pointing the fingers at everybody else, they failed to comprehend this was a global event that wiped out not just Goldman Sachs, but the capital formation of the average person.

The two most **CRITICAL** investment sectors are bonds and real estate. This is where the bulk of capital investment resides. Insofar as the real estate is concerned, there were no long-term mortgages. Loans were generally for 5-year periods, but could be renewed. As banks were in trouble, the just called in the loans and would never renew. Hence, real estate was being auctioned off and only cash buyers could benefit usually for pennies on the dollar.



The bankers were more interested in their stock investments. They would gladly offer foreign bonds to people in small denominations. The conservative investors who were afraid of the stock market flocked to bonds. They bought foreign government bonds paying high yields. These bonds were listed on the NYSE. As nations began to default, we can see that the number of listings just collapsed. By the end of 1932, the losses were devastating. As the **"conservative"** investors who thought they were clever and escaped the stock market crash were smacked in the face with the 1931 Sovereign Debt Crisis, their losses led them to withdraw their deposits and then the banking system was imploding as well. The famous quote of Andrew Mellon and bonds actually has been taken out of context. He replied to a question in April 1929 as to how long the market would rally. He said: ***"Until gentlemen prefer bonds!"***


THE HARTFORD DAILY COURANT: FRIDAY, APRIL 5, 1929

'Gentlemen Prefer Bonds' Says Mellon

Washington, April 4.—(AP.)—"Until gentlemen prefer bonds," Secretary of Treasury Andrew Mellon told a caller this week who asked him how long the era of hectic speculation would continue. A year ago Halsey, Stuart & Co., inaugurated an educational radio broadcast dedicated to the idea of sound investment. A weekly talk on investments as opposed to speculation advising investors to consult any reliable banker or investment house when they have surplus money is now being sent from coast to coast through the largest network of radio stations engaged for any commercial radio program. Thursday night Merlin Hall Aylesworth, president National Broadcasting Company, originator of idea for these broadcasts, told the Halsey Stuart audience of approximately 35,000,000 listeners how the program started.

this afternoon. The schedule includes St. Joseph's and St. Mary's parochial schools, the Natchaug Grammar School and the Windham Street school.

A representative of the National Junior Red Cross addressed the various classes of the Windham Street school on the activities of that organization. The representative will be in the Oaks and the South Windham schools Friday. It is planned to form a junior corps of the Red Cross here.

Poultrymen Meet.

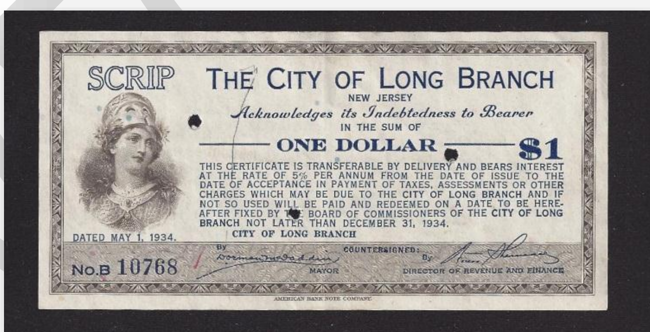
The board of directors of the Eastern Connecticut Poultry Producers' Association held their quarterly meeting this afternoon in the Y. M. C. A. building. Kingsley Brown, president of the egg marketing organization, presided over the meeting. Business of a routine nature was transacted.

Property to Be Conveyed.

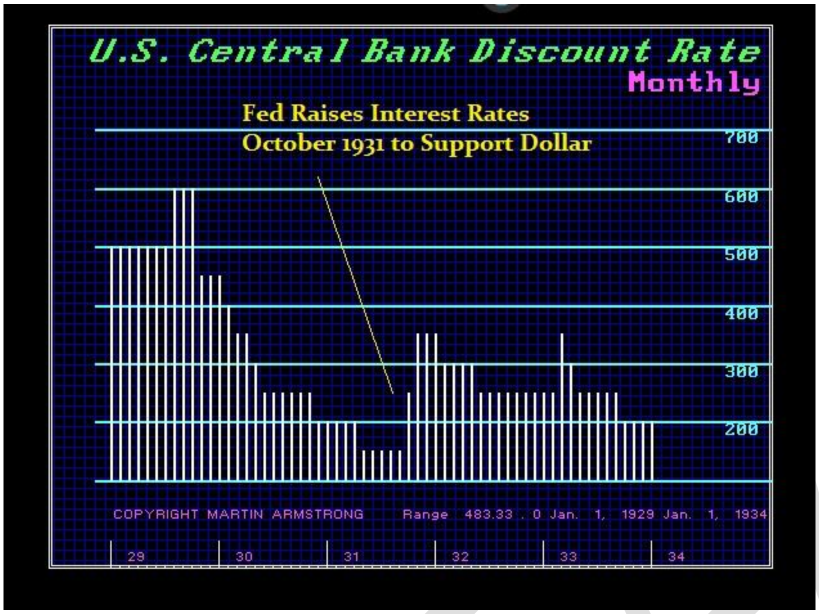
According to members of the

Andrew Mellon was asked how long will the market rally?
He replied: "Until gentlemen prefer bonds"
ArmstrongEconomics.COM

As the economic depression deepened in the United States during the early 30s, which also was when the Dust Bowl unfolded, farmers had less and less money to spend in town and could not pay their loans. Banks began to fail at alarming rates in the Mid-West as farmers could not repay, and in the East, the default on foreign government bonds wiped out savings and caused depositors to withdraw funds. During the 20s, there was an average of 70 banks failing each year nationally. During the first 10 months of 1930, 744 banks failed. By 1934, 9,000 banks had failed in all. It's estimated that 4,000 banks failed during the year of 1933 alone. By 1933, depositors saw $140 billion disappear through bank failures. This is what made the Great Depression so great. Banks saw bad loans soar and mom and pops who bought foreign bonds were wiped out. On top of that, 40% of employment was in the agricultural sector. The Dust Bowl destroyed farms and it was the farms that became the HoBos.



The combination of these events led to the massive collapse in the capitalization of the economy. More than 200 cities had to issue their own money for there was a shortage of money and banks. The Feds believe that AUSTERIDY was the key for they had to maintain the confidence in the bond market. This resulted in a widespread shortage of money and the introduction of Depression Scrip.



The Federal Reserve lowered interest rates to no avail. Rates dropped from 6% to 1.5% into 1931 with no effect on helping the economy. They theory proved to be bogus for if the economy is collapsing, people will **NOT** borrow to create jobs and banks were collapsing so they would not lend. Lowering interest rate did absolutely nothing.

The US dollar rallied significantly to its historic high up to that point in time. Considering the nation was virtually bankrupt in 1896, in the course of 35 years, the dollar had displaced even the British pound. With European nations defaulting permanently or moving into a moratorium suspending interest payments, the capital flight was to the dollar. Then after everyone defaulted, they assumed the US would do the same. The dollar began to crash and the Fed raised rates then to support the dollar overly concerned about bonds and the currency rather than the domestic economy. The rise in the dollar and the fall in agricultural prices is what prompted the age of protectionism. Smoot–Hawley were both from agricultural states not industrial.

Protectionism

Then we have Protectionism which so many economists and politicians attribute to creating the Great Depression. The problem with all of the analysis is this same attempt to reduce the cause to a single event. In school, we read the Great Crash by Galbraith. He was a socialist so he blamed the corporations and never bothered to ever even mention the Sovereign Defaults of 1931 for that would have put blame on government instead of the private sector. Then there is the argument that the tariffs at least "contributed" to the Great Depression if were the leading factor, again disregarding the Sovereign Debt defaults.


THE PHILADELPHIA INQUIRER, TUESDAY MORNING, OCTOBER 1, 1929

TARIFF FIGHT FACES VOTE TEST TOMORROW

Administration Forces Predict Victory for Flexible Provision by Narrow Margin; Gains From Democratic Ranks Indicated

Smoot–Hawley wasn't signed into law until June 17th, 1930, when stocks had already taken a nose dive from 1929 September high. Cato Institute's Alan Reynolds argued that Smoot–Hawley was an ongoing drag on the economy and that it was, in fact, a substantial contribution to the stock market arguing that traders saw it coming and acted in anticipation. The argument on the one hand correctly states that traders acted in anticipation, but it incorrectly adopts the position that BUT FOR the tariff issue, the stock market would have continued higher anyway?

Moreover, the pretense that somehow the Smoot–Hawley Tariff created or contributed to the Great Depression ignoring the European Sovereign Debt Crisis, is really a specious argument. This ignores the entire issue of tariffs that predate Smoot Hawley. The Emergency Tariff Act of 1921 was a stopgap tariff measure which was rushed out and put in place until Congress could deal with the issue. The Republican Party wanted to quickly reverse the low rates of the Underwood–Simmons Tariff of the Wilson administration prewar. Protectionism had never died–out but remained merely dormant on the back–burner during World War I. After the war, the supporters of tariffs based their arguments on both economics and nationalism. They argued that the economic prosperity which occurred during the war as America produced the food for Europe and goods, unfolded because there was no competition from imports and therefore it was the abundance of exports that created the economic boom (the German export model today which lurks behind the euro). While on the surface this was correct, they overlooked the problem that Europe could not produce in the midst of war and therefore American production sustained Europe. Now that the war had ended, European imports would increase and this would threaten the current economic prosperity was the dominant argument.

The protectionists further argued using nationalism stating that Americans would now suffer economic hardship after sending our boys to fight in a war that America did not start. They argued that America should remain in isolationism as a policy staying out of international affairs. Indeed, Roosevelt could not get the USA involved in World War II until the Japanese bombed pearl harbor. The attitude toward isolationism and nationalism was very strong in the United States. After World War II, the Deep State pushed for maintaining a global power ending isolationism with the invention of nuclear weapons.

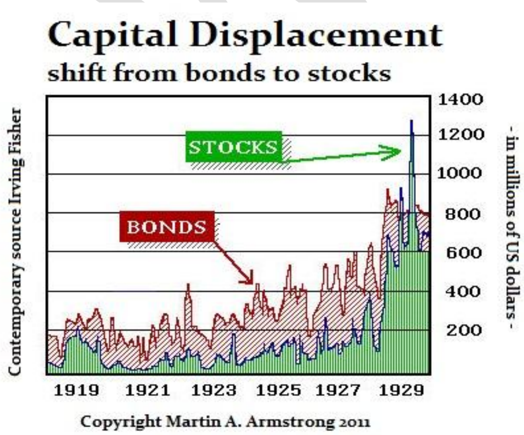
United States Tariffs 1909 - 1922

	1909 Payne-Aldrich	1913 Underwood-Simmons	1922 Fordney-McCumber
Raw Sugar..........	$1.68 a pound	$1.25 a pound	$2.20 a pound
Tungsten	20% ad valorem	Free	0.45 a pound
Ferrotungs..........	25% ad valorem	15% ad valorem	0.60 a pound
Manganese........	Free	Free	0.01 a pound
Poultry..............	0.03 a pound	Free	0.03 a pound
Eggs..................	0.05 a dozen	Free	0.08 a dozen
Corn..................	0.15 a bushel	Free	0.15 a bushel
Oats..................	0.15 a bushel	0.06 a bushel	0.15 a bushel
Rye..................	0.10 a bushel	Free	0.15 a bushel
Olives...............	0.15 a gallon	0.15 a gallon	0.20 a gallon
Wheat...............	0.25 a bushel	Free	0.30 a bushel
Apples.............	0.25 a bushel	0.10 a bushel	0.25 a bushel
Apricots............	Free	Free	0.50 a pound
Lemons............	0.015 a pound	0.50 a pound	0.02 a pound
Potatoes...........	0.25 a bushel	Free	0.50 per 100
Peanuts............	0.01 a pound	0.01 a pound	0.04 a pound
Butter...............	0.06 a pound	0.025 a pound	0.08 a pound

Source: New York Times, September 13, 1922, p. 12.

Nationalism was on the rise in the United States, as the Senate, in the last days of the Wilson administration voted against joining the League of Nations. It had been Wilson's idea he could not sell to Congress. Isolationism, nationalism and the concern for continued prosperity merged and gave support to the protectionists to push their arguments for higher protective tariffs. These trends led to the passage of Emergency Tariff in 1921 and then to the Fordney–McCumber Tariff a year later. The rates of these tariffs rivaled the protectionist Payne–Aldrich Tariff of 1909 and were considerably higher than the Underwood–Simmons Tariff passed in 1913. Tariffs were in place throughout the 1920s. Smoot–Hawley has been criticised as a major cause of the Great Depression with no mention of the tariffs that predated the 1930 legislation.

The tariff issue was by no means something that was scaring the stock market. The trend from 1927 into 1929 was one of a major shift in assets from bonds to equities as hints of a European debt crisis appeared on the horizon. The smart money began to see that the real crisis was debt. This is a serious problem for even today the debt to equity ratio has varied from 7:1 to 10:1. When only a small portion of smart money begins to shift to equities, this becomes a bottle-neck and what happens is prices rise exponentially



in what I have labeled a "Phase Transition" meaning that prices at least **DOUBLE**. This is a not really Asset Inflation where assets merely rise in proportion to the decline in the currency. A "Phase Transition" typically marks a shift in capital whereby it concentrates into one sector and often one country.

Irving Fisher (1867-1947)

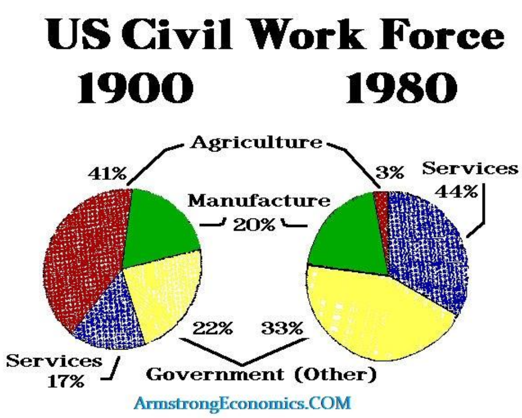
Irving Fisher (1867–1947) was a prominent economist of the day who lost his credibility when he came out and said the market had reached a new plateau and thus it would not crash. Part of his reasoning was this shift in capital from bonds to equities. He did not realize that this is a phenomenon I call a Phase Transition signals the end of a trend and not the beginning. The shift from bonds to equities can lead to a new plateau PROVIDED it takes place gradually as a trend. When it erupts short–term and causes a doubling in price, this is a warning sign that we are dealing with a bubble rather than a broad ban shift in the investment trend as was the case following the turn of the Economic Confidence Model back in 1985. That case, when the Dow Jones Industrials were at the 1,000 level, we forecast that the Dow Jones Industrial would see 6,000 in a few years. That was the shift in trend for cyclically the new wave was beginning not ending and we would move into a Private Wave (shift to equities) and were concluding the end of a Public Wave (when bonds are the #1 investment strategy).

Secret Meetings of the Central Bankers Germany - USA - Britain - France

On July 1, 1927, Montagu Norman of Britain was accompanied by Hjalmar Schacht, head of the German Reichsbank. They were joined by Charles Rist, governor of the Banque de France. All three went into conference with Benjamin Strong to discuss the weak reserve position of the Bank of England and the capital flight from Europe to America. It was hoped that lowering US interest rates would deflect the capital inflows from Europe.

To understand the entire Smoot–Hawley Tariffs which are blamed by most economists for contributing to the Great Depression, we must look at the whole economy both globally and domestically. It was in 1927 when there was not merely a secret meeting of the four main central banks that conspired to lower US interest rates in hope of deflecting the capital flows back to Europe, but also there was the League of Nations' World Economic Conference which also met at Geneva that year. AT that conference it was officially concluded that "the time has come to put an end to tariffs, and to move in the opposite direction."

The resentment toward Germany was really too great, particularly for the French. This was despite the fact that the German government had been overthrown in the 1918 Revolution that created the Weimar Republic. The reparation payments imposed on Germany led to the revolution in 1918 and the overthrow of the Germany Emperor. These payments could only be made through gold, services or goods. The Germany people were being punished for the action of the political leaders. France broke ranks and began in 1928 enacting a new tariff law and quota system. This really was targeted at Germany and if they could not sell goods internationally, then they could not make reparation payments. This would eventually lead to proposals to allow Austria and Germany to merge in 1931 to which the French began shorting German bonds in the marketplace. The punishment of Germany led to the rise of Hitler. They failed to distinguish between the previous government and the German people.



Additionally, the economic shift in trend due to the innovation of electricity combined with the combustion engine had drastically altered the economy. In 1900, about 40% of the civil–workforce was employed in agriculture. By the late 1920s, the United States economy had changed remarkably. There were exceptional gains in productivity due to electrification, which increased production of goods and the combustion engine which profoundly altered agricultural production. With tractors replacing horses and mules, previously, up to 25% of the agricultural land had been used to feed horses and mules. This land suddenly became available to produce crops. The ability to produce food soared and exceeded market demand creating what was called overproduction and underconsumption.

Willis C. Hawley (left) and Reed Smoot (right)
Hawley Republican Congressman from Oregon
Chairman of the House Ways and Means Committee
Smoot Republican Senator from Utah
Chairman of the Senate Finance Committee
ArmstrongEconomics.COM

This is what Senator Reed Smoot, who was a Republican from Utah and chairman of the Senate Finance Committee, and Congressman Willis C. Hawley, who was a Republican from Oregon and chairman of the House Ways and Means Committee, were focused on listening to farmers who wanted high tariffs to prevent competition. Neither Utah nor Oregon were industrial states. Smoot–Hawley was to protect farmers from falling prices not due to imports as much as it was to overproduction much as the Silver Democrats had done for miners during the second–half of the 19th Century.

Nonetheless, because of World War I and the wholesale destruction of the European economy, the United States was still running a trade account surplus as manufactured exports of goods were rising rapidly. Therefore, Smoot was looking primarily at the food exports which had been declining as Europe found it easier to restore agricultural production than manufacture goods requiring the construction of plants. The actual value of food imports was a little over half that of manufactured imports and thus the farmers were crying for help in an industry that was changing forever. It was NOT true that the markets were so concerned about the tariffs issue when the industrial production was in a trade surplus and profits were rising.

Senator Reed Smoot, was a Republican from Utah and chairman of the Senate Finance Committee, championed a tariff increase in 1929, which became the Smoot–Hawley Tariff Bill. In his memoirs, Smoot made explained: “The world is paying for its ruthless destruction of life and property in the World War and for its failure to adjust purchasing power to productive capacity during the industrial revolution of the decade following the war.” This was a partially correct statement, but he overlooked the dramatic change in the economic foundation set in motion by the innovation of electricity and the combustion engine.

The 1928 Presidential election saw Herbert Hoover promise to help the farmers by increasing tariffs on agricultural products. Upon winning the election, Hoover did ask Congress for an increase of tariff rates for agricultural goods and a decrease of rates for industrial goods. He saw this as a balancing act to appease trading partner nations. Indeed, the House passed a version of the act in May 1929, increasing tariffs on primarily agricultural products. Those who have blamed Smoot–Hawley as a major cause of the 1929 Crash argue that when the House passed the bill on May 28th, 1929, which was the first version, and the stock market was battered. This is simply not true. The bill was passed on Monday 28th which was the low point and it was not attributed to the tariff bill. On May 3oth that week, the British elections took place and ended in a hung Parliament, which was regarded politically as a crisis. The following day, the Ford Motor Company signed a nine-year contract with the Soviet Union. The Soviets agreed to purchase $30 million worth of Ford products within four years while Ford agreed to provide technical advice and help build an automobile factory in Nizhny Novgorod. To say the market responded negatively in May 1929 in "anticipation" of the tariffs was simply not true. There was a clear distinction between agriculture and industrial imports.


SANTA CRUZ NEWS
Member Associated Press, United Press and Audit Bureau of Circulations.
SANTA CRUZ, CALIFORNIA, THURSDAY, OCTOBER 24, 1929
BANKERS CHECK WILD SHARE SELLING
STOCK MARKET PANIC BREAKS ALL RECORDS
KING POSITIVE STOCK MARKET PROBE CERTAIN

Those who blame tariffs further argue that on October 23rd, 1929, a Wednesday, it became clear the tariffs would be much broader than first believed. Again, they portray the tariffs as the reason for the crash. I found no headlines to support that interpretation, which appears to be predetermined. In fact, that very day of the 23rd the bankers attempted to support the market. The downside of such intervention is when it fails, then confidence collapses completely. Also, on that day, there was an assassination attempt on the Italian Crown Prince. He narrowly escaped with his life. Americans were concerned that Europe was still fighting among themselves, which was entirely correct. The resentment concerning Germany was massive and would not just fade away gracefully.


ITALIAN CROWN PRINCE NARROWLY ESCAPES DEATH

WOULD-BE ASSASSIN FIRES AT HIM WHILE HE IS PLACING WREATH ON TOMB

HIS ARM KNOCKED UP AS HE TRIES TO FIRE SECOND TIME

Man Is Italian; Occurs on Day of Announcement of Betrothal to Belgian Princess

Brussels, Belgium, Oct. 24.—(AP)—Crown Prince Humbert of Italy, affianced husband of Princess Marie Jose, narrowly escaped death today at the hands of an assassin who fired a shot at the royal suitor as the Prince was placing a wreath on the tomb of the unknown soldier.

The quick work of one of the Italian Embassy party who knocked down the assassin's arm, seized the gun and overpowered him, was believed to have saved the Prince's life.

This focus on tariffs as the culprit for creating the crash was an argument from the Democrats as they did against Reagan with "trickle–down" economics. Along with such tariff proposals, some of the senators advocated a detailed investigation of the Federal Reserve Banking system, as put forth in the pending resolution of Senator William Henry King (1863 – 1949) who was also a Democratic representative from Salt Lake City, Utah who served in the Senate from 1917 until 1941. The was over the secret meeting of central bankers to lower US rates in hopes of deflecting capital flows back to Europe to ease the debt crisis building there.

Senator Carter Glass (1858 – 1946) of Virginia, who was one of the authors of the Federal Reserve banking act and then the Glass–Steagall Act, also in the midst of the October crash, started pushing his bill providing for the imposition of a 5% excise tax on sales of stock which had not been held over sixty days. It was his present plan to offer the bill as a "rider" to the pending tariff bill. To say that people feared the tariffs, which really did not impact the industrial stocks, is absolutely absurd. They were concerned about a 5% tax on stock investment the Democrats were trying to stuff into the tariff act. The Democrats contributed to creating the crash in 1929 with these proposals arguing against the rich.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The Coshocton Tribune

CIRCULATION BOOKS OPEN TO ALL — AND TIMES-AGE — FULL INTERNATIONAL NEWS SERVICE NEWS REPORT

THE WEATHER
OHIO—Cloudy and continued cold tonight, Friday fair with slowly rising temperatures

VOL. XXI, NO. 52. — THURSDAY EVENING, OCTOBER 24, 1929. — THREE CENTS

PLOT TO WRECK HOOVER TRAIN SUSPECTED

There was also talk of an investigation into the stock market decline to blame someone. Eventually, this would take place and lead to the creation of the Securities & Exchange Commission (SEC). Herbert Hoover in his memoirs apologized for the investigation into the stock market. On top of that, two men were arrested for placing a car on the train track which would have wrecked the coming train carrying President Herbert Hoover. No headlines I found covered tariffs as some dark omen for the economy at this junction is the timeline.


Herbert Hoover
(1874 - 1964)
(President 1929 - 1933)

> But when representative government becomes angered, it will burn down the barn to get a rat out of it.

memoirs p-130-131

The Senate debated its tariff bill until March 1930, with many Senators trading votes based on their states' industries. It was not purely supported by Republicans. The Senate bill passed with 39 Republicans and 5 Democrats voting in favor of the bill because they were farming states. The conference committee then aligned the two versions, largely by moving to the greater House tariffs. The House passed the conference bill on a vote of 222 to 153, with the support of 208 Republicans and 14 Democrats. The Democrats who voted for the bill were primarily influenced by the farmers. The Tariff Act of 1930 (codified at 19 U.S.C. ch. 4), commonly known as the Smoot–Hawley Tariff or Hawley–Smoot Tariff, implementing what would be called "protectionist" trade policies was signed into law on June 17th, 1930. Once again, when Smoot–Hawley was passed, I found no damning headlines how this would end the economy.


WILKES-BARRE TIMES LEADER
FINAL MARKETS
BANKERS HALT STOCK DECLINE
MANY RECOVERIES REPORTED IN FINAL HOUR OF TRADING

The bankers were in once again attempting to manipulate and save the market on the very day that Smoot–Hawley was enacted. I found no commentary that attributed the decline to the tariff issue. The day the bill was signed, the Democrats argued that the crash was because of the tariff act, which completely ignored everything else and was used simply as a political criticism of the Republicans. As the press wrote: "It increased duties on sugar, shoes, lumber, cement, bricks and wool and hides, particularly, aroused the Senate to the most extreme political debate in recent times."


OLEAN EVENING TIMES
FINAL
President Hoover Signs Tariff Bill
Ambassador Morrow Is Favored To Win New Jersey Primary
Ousted In Fight Against Gangsters
WHITE WINS IN MAINE
New And Higher Duties Go Into Effect Tonight

Sadly, because the Democrats kept trying to blame the Great Depression on the Republicans, we have the entire tariffs issue still to this day present a view of creating the crisis which was simply not true. It was the wholesale default of Sovereign Debt which had been sold by investment banks to the average American public in small denominations. This wiped out the saving of people and resulted in wholesale default of thousands of American banks – not tariffs.

20,000 Daily Readers

The Daily Messenger

A COUNTY PAPER FOR ONTARIO COUNTY PEOPLE

The Weather

Established in 1797. Vol. 134—No. 112. CANANDAIGUA, N. Y., TUESDAY, MAY 12, 1931. Single Copy, 3 Cents

Disarmament Held Menace to States by Senator Davis

CONGRESS MAY ASK BUSINESS MEN FOR HELP

Speeding Motorist Runs Down Drum Corps; Kills One and Injures 10 More

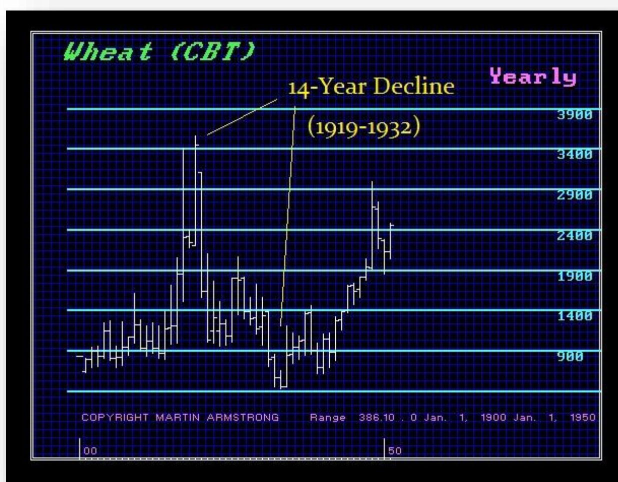
SEES JUMP OF 40 MILLIONS IN POSTAL DEFICIT

21 Roman Catholic Buildings Burned by Reds in Spain

WARNS AGAINST "GIMME" BOYS ACROSS OCEAN

Call for War Debt and Tariff Policy Revision Called Deep Affront

Spending was being cut especially to the military. The debated was thus really focused on the cut in spending and the tariff issue on top of aid to Europe. Many in Congress began to consider the Europeans calling them the "GIMME BOYS" for they wanted free access to the US market while blocking access to their markets to rebuild their economies.



We have to understand that the entire tariff issue began because of the overproduction of agriculture and that this sector had been 40% of the entire civil–workforce. The economy was transforming from an agriculturally based system to one of industrialization. This economic transformation was **NOT** understood by politicians at this point in time.

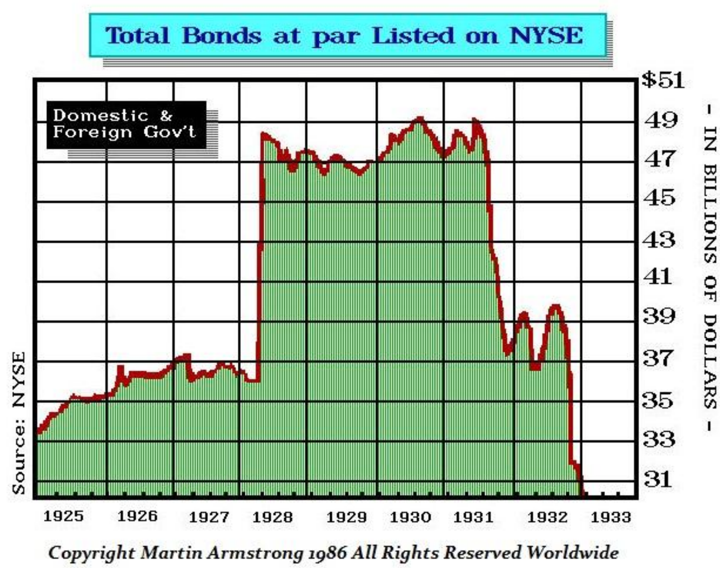
Then in 1931, the rug was pulled out of the world economy. With the bankers' attempts to support the market always failing, the confidence level kept declining. Government and the bankers were suddenly cast in a light of total incompetence. Survival became one dependent upon oneself. Investors in the stock market were now being hunted. Anyone who was short was being investigated. The Senate eventually held hearings subpoenaing countless people and interrogating them as to their stock holdings. On March 2nd, 1932, senators passed Senate Resolution 84 authorizing the Committee on Banking and Currency to investigate "practices with respect to the buying and selling and the borrowing and lending" of stocks and securities. The committee made little progress, however, during its first 11 months. Banking executives repeatedly denied committee requests for bank records and internal documents. Witnesses easily evaded questions posed by counsel.

In early 1933, Banking and Currency Chairman Peter Norbeck (R–SD) hired a new chief counsel, former New York deputy district attorney Ferdinand Pecora. Norbeck called him a "happy discovery." In April 1933 the new committee chairman Duncan Fletcher (D–FL) offered Senate Resolution 56, expanding the scope of the inquiry to include private banking practices. It was from this assault upon the banking and stock market that the Securities & Exchange Commission (SEC) was born and the lead prosecutor, Pecora, would become a founding member of the SEC.

Credit Anstalt - 1931 Austria

The Creditanstalt Bank in Vienna failed on May 11th, 1931, leading to a national currency crisis as investors began pulling their funds from Austrian banks and moving them to other countries. Meanwhile, Germany was in the political throes leaning toward fascism. It was on May 8th, 1931 that same month when the prosecution of Adolf Hitler by Hans Litten (1903–1938) for complicity in manslaughter committed by members of the Sturmabteilung at the Tanzpalast

Eden ("Eden Dance Palace") in Berlin in 1930 was dismissed. Litten was eventually arrested on the night of the Reichstag fire along with other progressive lawyers and leftists. Litten spent the rest of his life in German concentration camps, was tortured and constantly subjected to grueling interrogations. Finally, after five years of this treatment, cut off from all outside communication, he committed suicide. His attempt to stop Hilter's rise was admirable, but it came at such a personal cost.



To argue that the tariffs were even a major cause of the Great Depression is really ridiculous. It was the product of Democratic propaganda to simply blame the Republicans for everything, which worked in the end. The real cause that wiped out the world economy came from Sovereign Debt Defaults. Because these were sold in the small denomination to the average public, those who believed the stock market was risky and bought bonds, suffered the total loss of their investment.

Here is a chart of the bonds that were once listed on the New York Stock Exchange. We can see the collapse in the value of bonds dwarfed that of equities. While the Dow Jones Industrials collapsed by 89%, the bonds collapse 100% and never returned. The collapse in debt saw American municipal also suspend payments. The City of Detroit suspended debt payments in 1937 and resumed in 1963 so they can claim they never defaulted.

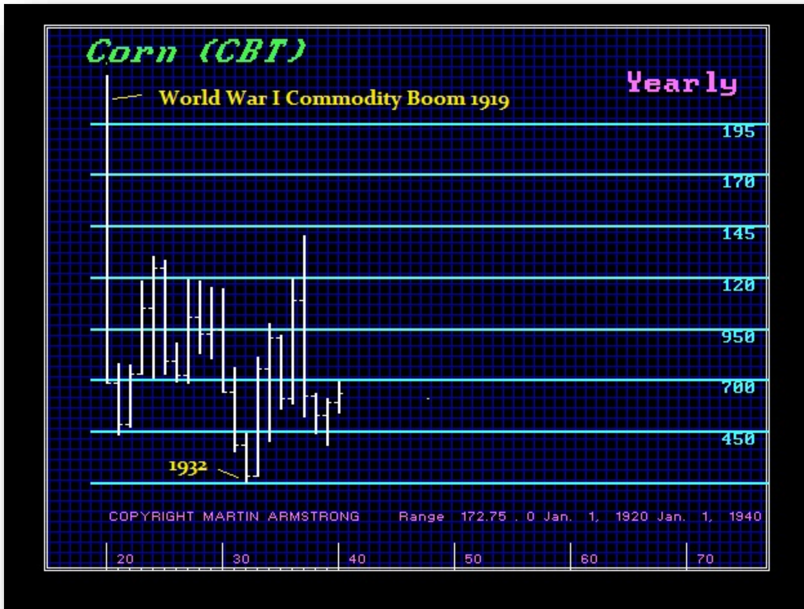
The collapse in the bond markets was far more serious than tariffs.

Lessons from the 1930s & Our Vulnerability Today

When we look at the events of the Great Depression we again walk away with critical lessons on how capital and politicians respond during a crisis by looking closely at the core of the crisis. Yet there is another interesting aspect to these correlations. They always seem to also be interlinked with a crisis in the agricultural markets thanks to weather. This is a fascinating curiosity that also warrants our attention.

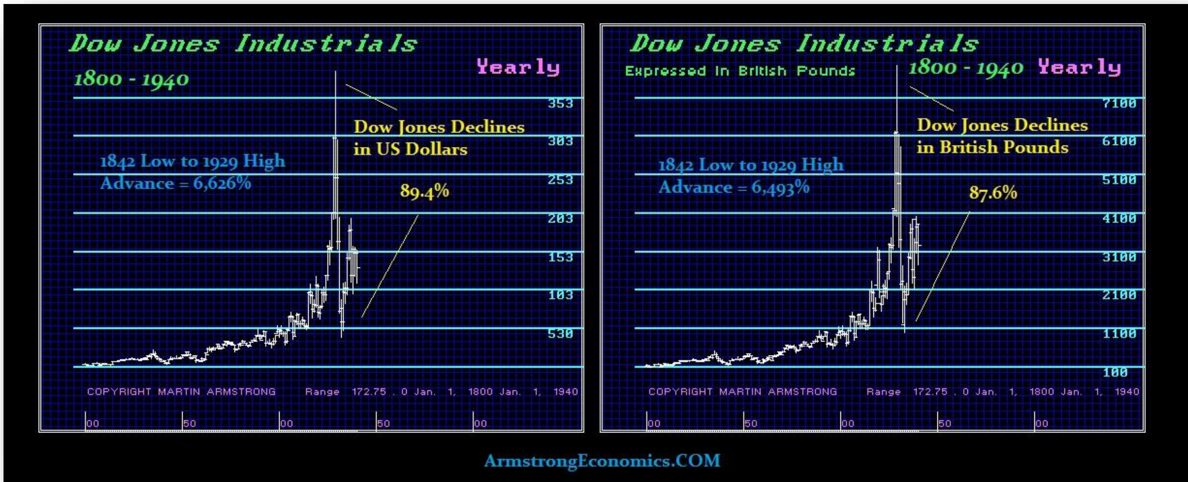
What is very clear here is when we place all the pieces of this puzzle together we can see that the worse condition possibly took place here in the 1930s. This was the deadly impact of undermining both the bond market and real estate. Where the 2007–2009 crisis was a real estate collapse, it was not as devastating as the 1930s were we also had a collapse in the sovereign bond markets. Undermining both of these sectors together destroyed 2/3rds on the capital formation of the economy.

The entire period produced a rising tide of Nationalism which eventually manifested into World War II. In 1993, Roosevelt was elected in the us, Adolf Hitler in German and Mao Zedong came to power. It was not a particular political philosophy, it was a surge in Nationalism which we again see today for identical economic reasons.



Senator Smoot, who was a Republican from Utah, and Congressman Hawley, who was a Republican from Oregon, were focused on listening to farmers. Neither were from industrial states. We can see what happened to all commodities going into 1932. The previous cycle of war created a commodity boom. Once that cycle was complete, capital then shifted to equities, real estate highlighted by the Florida land boom, and bonds. So, we have the real estate peak in 1927, then the equity peak in 1929, and the bond peak in 1930 with the collapse in 1931. Therefore, we ended up with **ALL** three sectors in crash mode.

This is why the Great Depression was so "great" because all three major sectors were hit. Cash became KING and this is what drove the dollar soaring higher into 1931. Capital was fleeing from Europe and Asia pouring into the United States. The USA had tremendous gold reserves, but it did not coin the gold fearing inflation. The USA followed the **AUSTERITY** model until FDR took office in 1933.



The deflation that took place was massive. The Fed clung to this theory of Austerity as is the case going on in Europe. The policy of restricting the creation of new money to support the currency and maintain confidence resulted in a massive shortage of money for circulation. Commerce came to a screeching halt as companies could not pay employees and banks would not lend. Over 200 cities began issuing their own Depression Scrip to just survive. People accepted the scrip for there was no other way to just live. This period proved beyond a shadow of a doubt that what constitutes "money" does not really matter as long as society agrees.

Even the clearing houses began to issue their own scrip in small denominates. People could not sell their shares for there was no guarantee that there would be a buyer who had actually money. We begin to see exchanges issuing scrip just to be able to settle trades. This is why stocks fell like a stone. It was the same crisis as in real estate. Buyers had to have cash – there was no credit available.

Therefore, all we ever hear from analysts is how the stock market will crash to 10 cents on the dollar. All they do is look at the charts and fail to comprehend the connections being the charts. The research they have conducted has greatly misrepresented the truth of the event. They have ignored the interconnect of real estate, trusts, insurance, bonds, and equities not to mention the fact that the Federal Reserve practiced the policy of Austerity.

Franklin D. Roosevelt's 1933 Brains Trust

Adolf Berle (1895–1971) **Raymond Moley** (1886-1975) **Rexford Tugwell** (1891–1979)

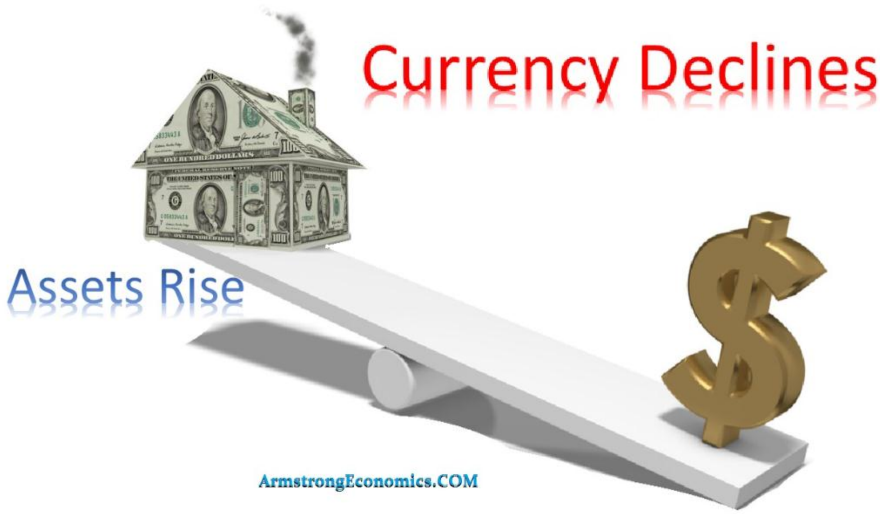
Roosevelt's Brains trust became a term applied to the so-called group of advisers to Franklin Roosevelt during his presidential administration. Roosevelt's speechwriter and legal counsel, Samuel Irving Rosenman (1896–1973), put forth the idea of creating an academic team to advise Roosevelt in March 1932. He took the idea from the group of academic advisers of President Woodrow Wilson he formed in 1917 to prepare for the peace negotiations following World War I. It was the journalist James Kieran of the New York Times in 1932 who coined the term "Brains Trust" on September 6th, 1932.

The core of the first Roosevelt brains trust consisted of a group of Columbia law professors **Adolf Berle** (1895–1971), **Raymond Moley** (1886–1975), and **Rexford Tugwell** (1891–1979). Note that they were lawyers, not market investors, technicians, or economists. They knew how to get around the Constitution, not how the economy worked no less about trading or investing. Roosevelt expanded his Brains Trust adding **James Paul Warburg** (1896–1969) who was the son of the famous banker **Paul Moritz Warburg** (1868–1932). Nonethless, James lacked the banking experience of his father. **Louis Dembitz Brandeis** (1856–1941) was another lawyer who became a Supreme Court Justice. Another lawyer educated in Chicago also joined the Brains Trust, **Harold Lill Ickes** (1874–1952). There was the social–activist, **Harry Lloyd Hopkins** (1890–1946), who wanted to create jobs rather than handouts which led to the WPA. The first woman appointed was **Frances Perkins** (1882–1965) whose background was chemistry and physics. Another lawyer was **Basil O'Connor** (1892–1972) who went on to become head of the American Red Cross.

Roosevelt's Brains Trust was the subject of many newspaper editorials and editorial cartoons ridiculing them as impractical idealists. The image created was that these men where restructuring the economy when in fact they were lawyers who were more concerned about finding loophole in the Constitution rather than would it actually work.

The core of the Second Roosevelt Brains Trust emerged from men associated with the competing Harvard law school **Benjamin V. Cohen** (1894–1983), **Thomas Gardiner Corcoran** (1900–1981), and **Felix Frankfurter** (1882–1965) who also became a Supreme Court Justice although he was born in Vienna. These men played a key role in shaping the policies of the Second New Deal (1935–1936). There was also **Hugh Samuel "Iron Pants" Johnson** (1881–1942) who graduated West Point and went on to get his law degree from Berkeley University in 1916.

None of Roosevelt's Brains Trust were ever experienced in economics and none were traders who would have ever observed market movements. **Raymond Moley** broke away in disagreement with Roosevelt becoming a sharp critic of the New Deal.



It was **George Warren** (1874–1938) who was the farmer–economist out of the mainstream whose idea was the devalue the dollar. The Brains Trust totally disagreed and they had nothing to do with the devaluation of the dollar. It was Warren who understood that the deflation was being caused by the high value of the dollar whereas inflation is not truly the rise in assets but the decline in currency value.


George F. Warren (1874-1938)

In 1932, George Warren had written, **Wholesale Prices for 213 Years**; 1720–1932. Effectively, this work was a forerunner to Monetary Theory by making observations that prices rose with the gold discoveries and declined when supplies of gold declined. This work was a simplistic monetary view of the world that Franklin Roosevelt could understand.

Maintaining the gold standard created deflation as prices collapsed and gold became scarce. Warren's theory thus became a simple relationship that the only way to raise prices and end the deflation of the Great Depression, was to lower the value of the dollar by raising the–price of gold. Warren thus explained that a dollar devaluation was critical to reversing the deflation.

This was a first and important step in comprehending the role of money. But to the classical economists and bankers, this was pure heresy since they believed money should be tangible, which created **DEFLATION** (Austerity). To this day, we still have people calling for a commodity–based currency system for they fail utterly to understand that the true value of any currency is the productive capacity of its people. Russia had all the resources from gold, platinum, diamond, and oil. In theory, it should be the wealthiest country in the world. Its oligarchy prevents a free economy and China soared to become #2 in the world. Even after World War II, Germany and Japan soared to become the two biggest economies outside the USA without gold reserves. It is the total productivity of the people that counts and suppressing that with regulation of an oligarchy is detrimental to the rise of any nation.

Roosevelt indeed suspended gold exports on his **FIRST DAY** in office. This was **NOT** formally a suspension of the gold standard, but it was building a Berlin Wall around capital using in effect capital controls. At this point in time, nobody quite understood what effect such capital controls would even have on the dollar and the economy.


The Seattle Star

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ROOSEVELT PROMISES NATIONAL RELIEF

QUICK ACTION TO BE PUT UP TO CONGRESS

GREAT THRONGS HEAR ADDRESS OF EXECUTIVE

And Now, a Man of Courage Is at the Helm

Thousands See Nation's New President Take Oath

By April 1934, Roosevelt then announced to his **Brains Trust** that the country was off the gold standard. He then showed them what was the **Thomas Amendment** to the **Agricultural Adjustment Act** which allowed the President to devalue the dollar by 50% and issue $3 billion in currency without gold backing. The entire **Brains Trust** was horrified. Everything they had come to believe that the gold standard represented and the need for **AUSTERITY**, had ended abruptly. Some argued there would be riots, civil unrest, and maybe even a revolution. Money just had to be backed by gold in their minds. Nothing of that nature took place. In fact, it was quite the opposite effect that proved Warren was correct.

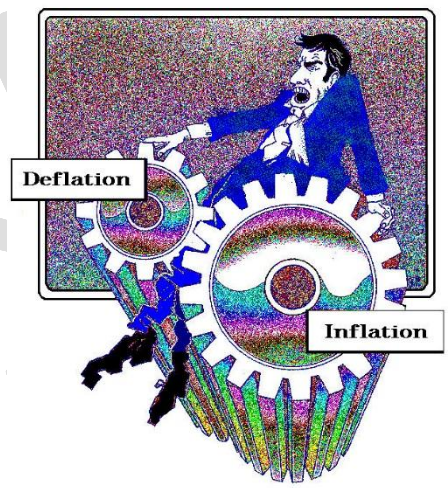
It is often not appreciated how much Roosevelt was very much an outsider looking in being a former Governor of New York State. He won the election because people wanted change. He did not articulate what that change would even be. He denied he would confiscate gold even the night before the election.

To the dismay of the Brains Trust, the stock market took off like a rocket ship. It jumped 15%. To the total amazement of the economists and bankers, this was the **ONLY** act that made any real difference in turning the economy. The stock market continued to advance rising sharply nearly doubling over the subsequent 3 months. The rally continued into 1937. Even wholesale prices began to rise as did orders for industrial goods. The only thing that lagged behind was unemployment. What they did not understand, employment would be the last to rise because companies seek to expand to the maximum possible production under current trends fearing to expand not knowing if the reversal in trend will lead to a reversal in fortune as well.

Clearly, the traditional economists and bankers failed to understand the role of money. They did not understand what really happened in Britain and that when it had to abandon the gold standard in 1931, the devaluation of the pound marked the end of the depression for Britain as prices began to rise. Warren was approaching everything from the fringe making truly a groundbreaking evolution in the concept of money, but that is where all major change comes from in every field. Only those with creative minds can think out of the box whereas the field promotes conformity to gain respect of the industry. This has always led to the simple maxim that the majority are always wrong.

France, who had worked so hard to gather gold and seeing this as the means to European dominance, was now left alone clinging to its gold reserves, the second largest in the world and the largest in Europe. France made its people endure hardship by austerity for the image of a future greater glory. Finally, in 1936, Bank of France abandoned the gold standard only when it became so obvious that their economy was now becoming isolated, unable to export due to an overvalued currency. This made their labor the most expense in the world.

The traditional economic thought considered Warren a crackpot. The conventional wisdom simply failed to comprehend what is even money or its role within the scope of our collective society. The missed the entire point that money declines in purchasing power during economic booms and rises in purchasing power as assets decline during economic recessions and depressions. This also causes the cost of labor to rise creating unemployment.



The assumption that money had to be tangible was just not correct for money rises and falls in value with economic booms (inflation) and recessions (deflation). The ultimate object of the medium of exchange is the exchange of one thing (object or labor) for another (object or labor). What constitutes "money" is simply the medium of exchange like words that relay concepts between two parties, At the core, lies the perception of value and that fluctuates according to demand and supply.

Therefore, Warren demonstrated that if you wanted prices to rise, the value of the dollar had to decline. Thus, the only way to do that was to abandon the gold standard. Gold is merely one recognized object of value for the advantage was it is movable compared to real estate. It is internationally accepted as a valuable object and thus it is free of opinion regarding quality such as diamonds. It is the **HEDGE** against government, but it need not be the medium of exchange to fulfill that role. Gold can be free to float outside of an official sanctioned medium of exchange and provide the hedge against the policies of the state.

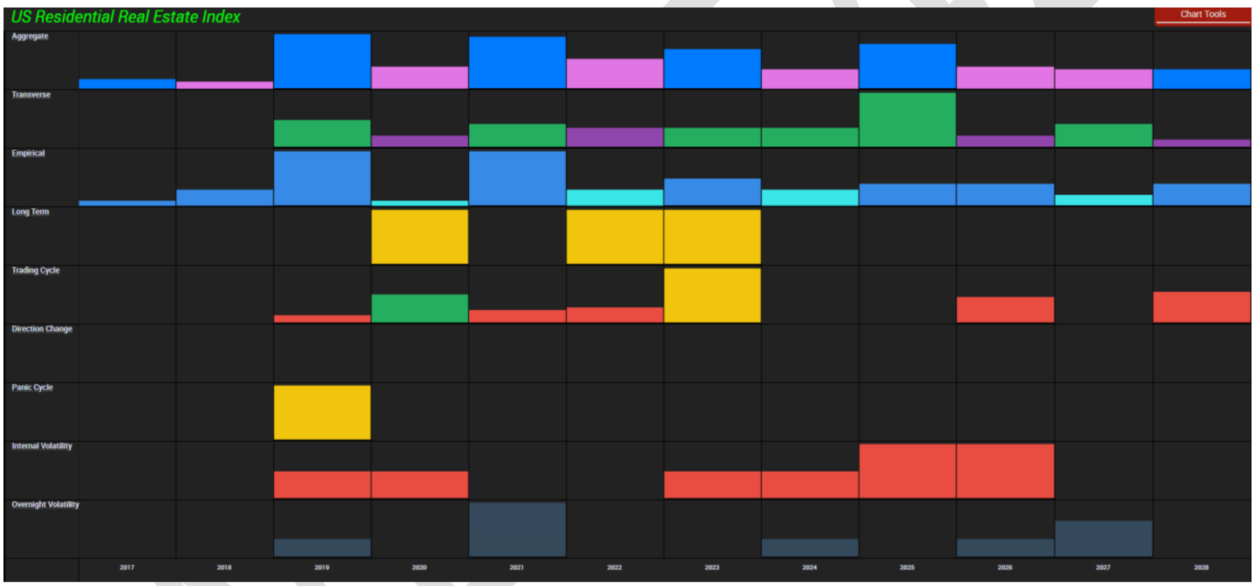
It was George Warren who saved the day ending **AUSTERITY**. To understand the Great Depression, we cannot ignore the Sovereign Defaults and the US policy of AUSTERITY which maintained a shortage of money preventing the economic recovery.

The Greatest Trade of the Century

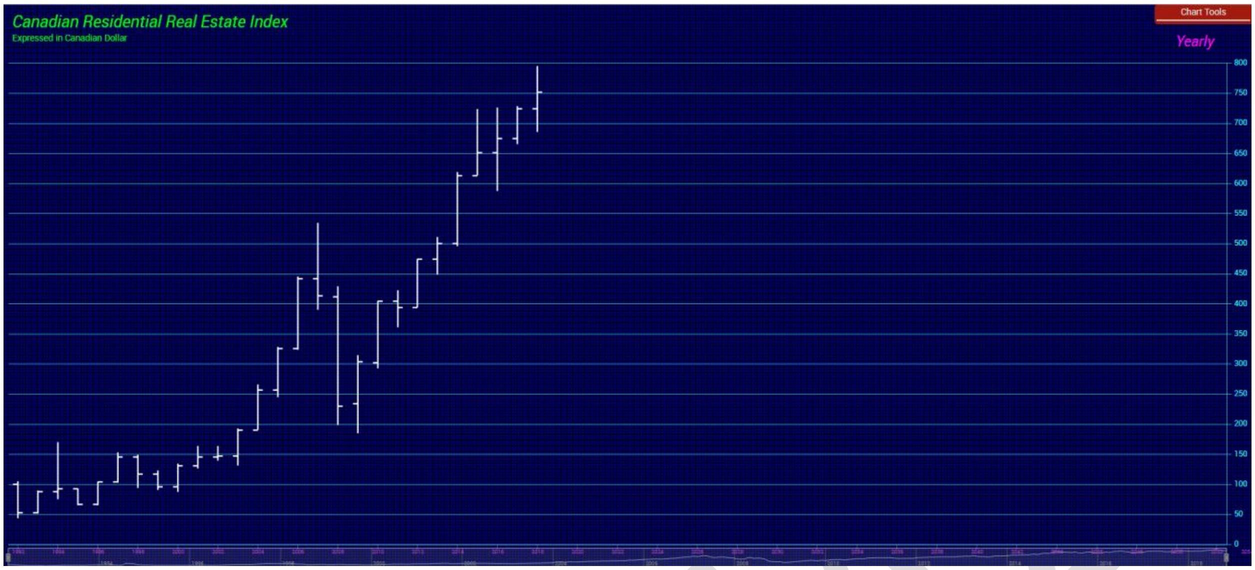
Real Estate

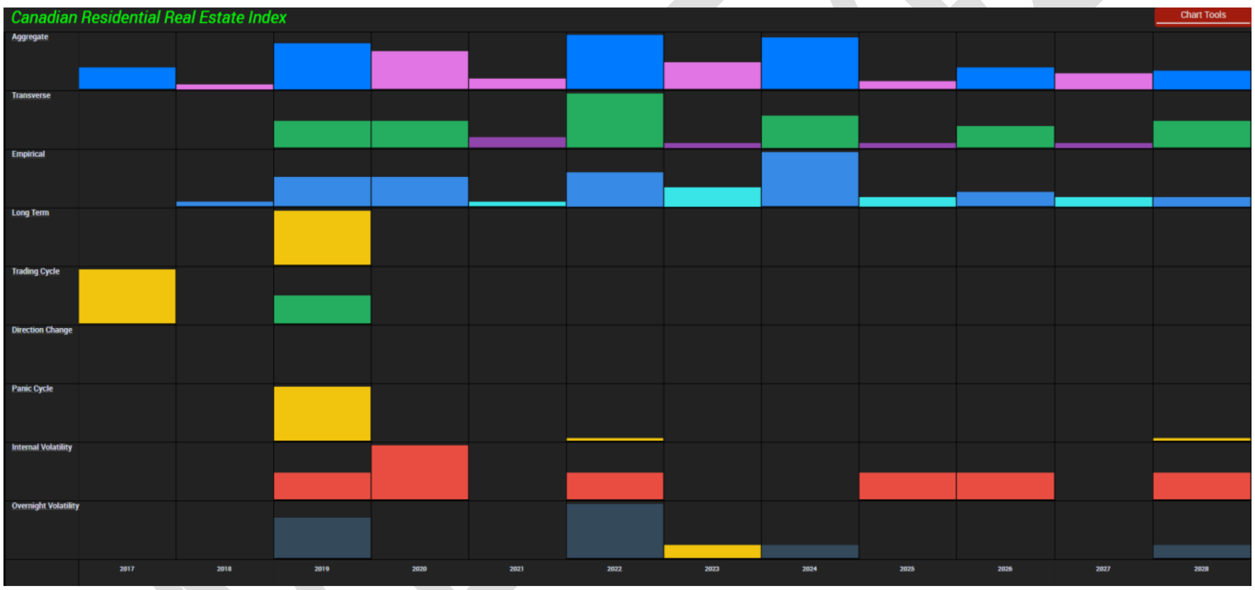
When we put all of these factors together, we absolutely must understand how everything will mix. Real Estate is something we all need just to have a place we call home to live in. We **MUST** understand that a resolution to the real estate crisis during the Great Depression, Roosevelt created the 30-year mortgage. This effectively has leveraged the entire real estate market and then we throw on top of that the simple raw fact that municipal government tax property annually to survive. Failure to pay property taxes results in the seizure of the property so you no longer have a place to even call home. In some places, they have imposed a steep sales tax (stamp duty) to buy a house.

A crack in the banking system from looses elsewhere means a contraction in bank lending for real estate. Suddenly you end up with a reverse-leveraged decline in value. Because real estate is **NOT MOVABLE**, as municipal governments try to cover their costs for pensions, they raise taxes and enforcement even when property values are declining.



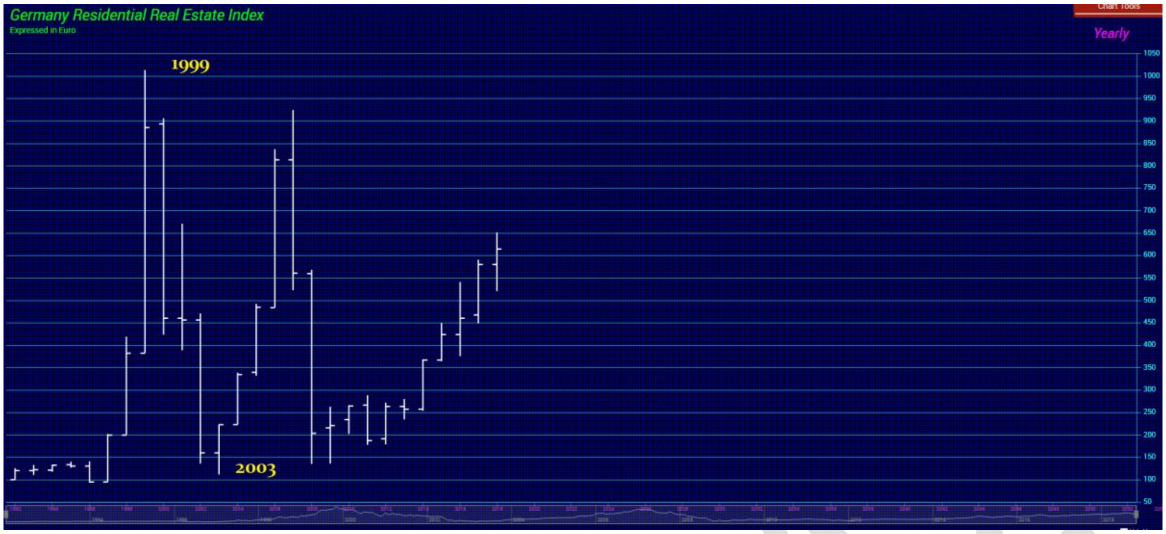
When we look at real estate in the United States on the whole, we still see a decline into the 2021 period with a rebound into 2024 during what appears to be coming as an inflationary bout. Some areas are declining very sharply such as Illinois, New Jersey, California, just to mention a few, but this is due to the great disparity in taxation. Illinois and California are in deep trouble with their pension for state employees. They are much more aggressive in raising taxes and have create net migration out of their states. Others like Texas and Florida are experiencing property values rising in certain areas as people are fleeing from other regions when neither state has income tax.

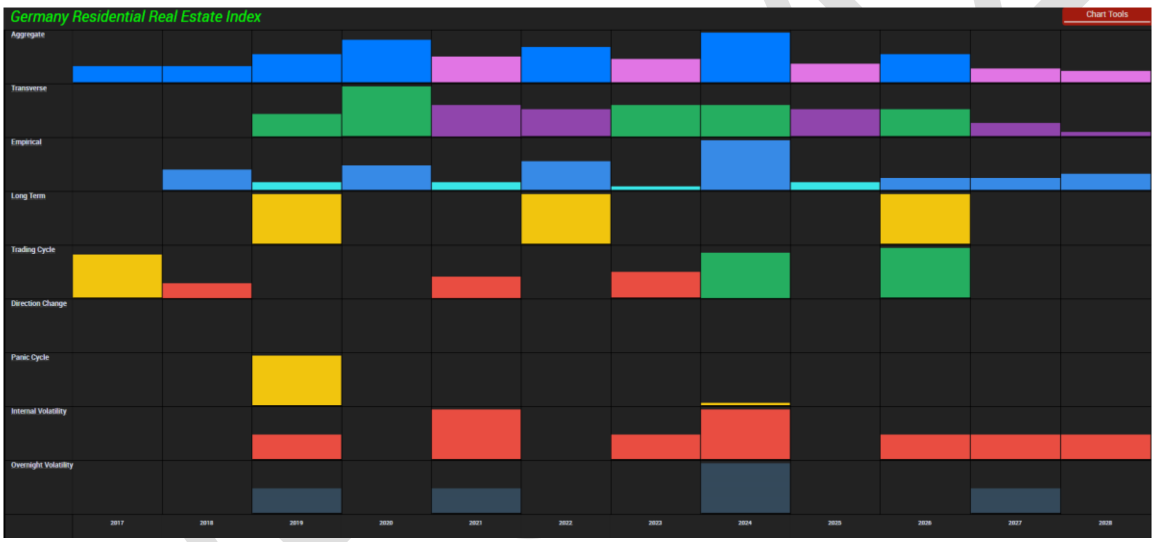




The Canadian residential market rallied into this year and with the aggressive tax changes along with the Global Warming taxes, property values have entered a crash mode in the hot spots. When we look at this in terms of US dollars, then the peak remains that of 2015. So, the index has rallied into 2018 only in nominal $C terms warning this is just a currency play.

Overall, aside from choppiness, it appears that we may see a low form in 2021. Thereafter, property may rebound with what appears to be coming in as a commodity boom inflationary period going into 2024.

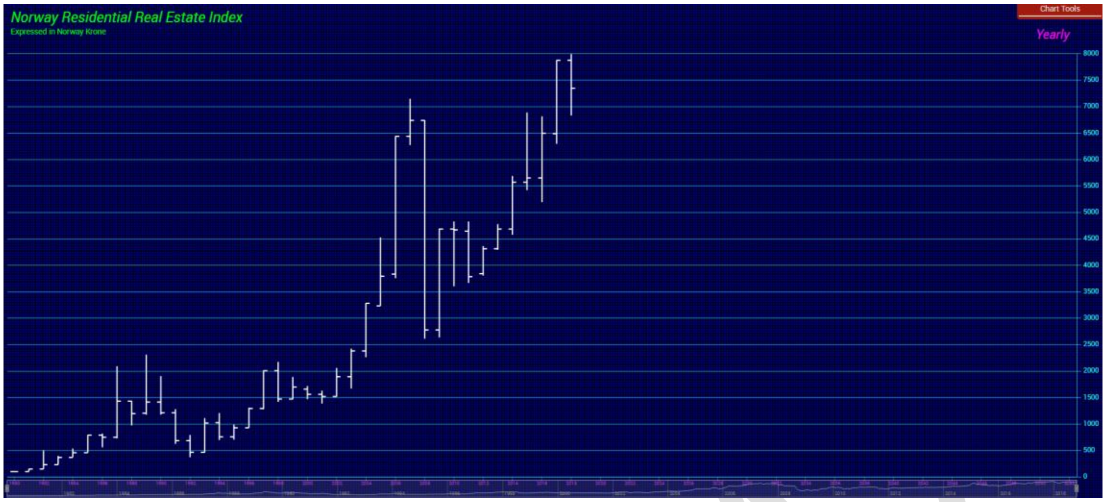


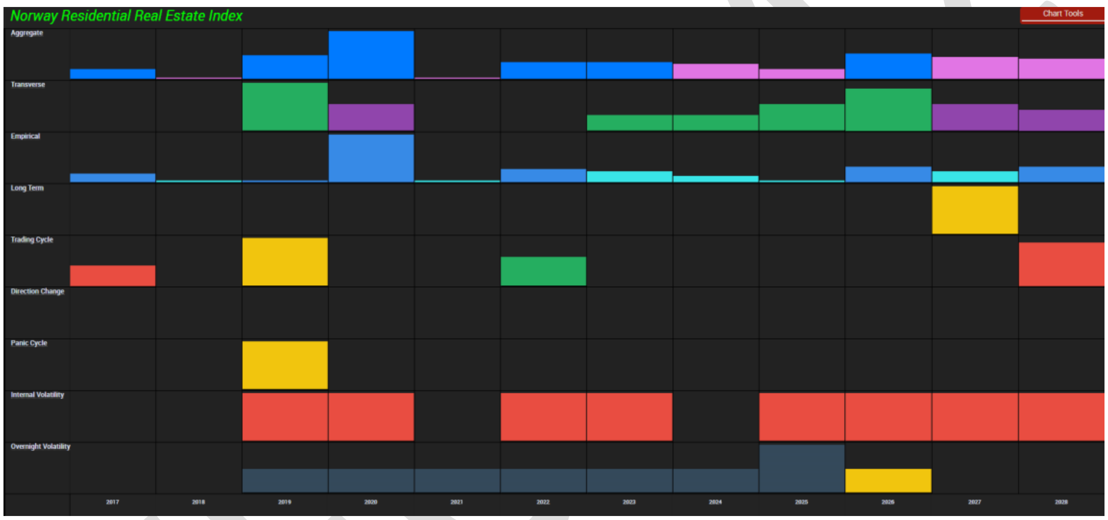


Despite all the hoopla how the Euro would be the Dollar killer, when we look at the raw data, the failure of the Euro dream becomes very clear. In the case of German real estate, the high remains that of 1999 – not even 2007.

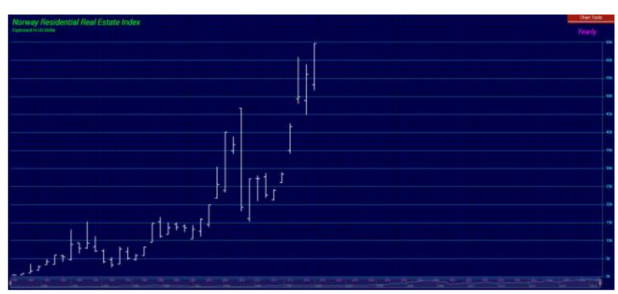
It appears that real estate in Germany will still decline into 2020 in real terms. If we see new highs nominally, the nominal high will be 2020 and a major crash thereafter into 2024 would be likely. However, given the banking crisis in Europe, it would seem that perhaps even the nominal value of housing will be under pressure as the Euro Crisis unfolds going into a low in 2020.

Recently, the German banks have been lending like the US did going into 2007. The belief that housing will rise because of all the refugees led banks to lend into the real estate market with hardly anything down whatsoever.

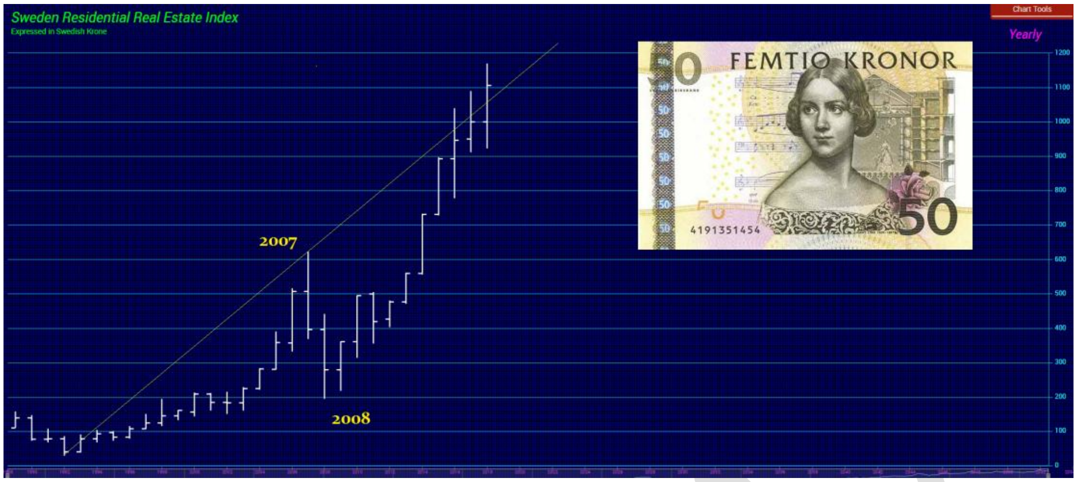


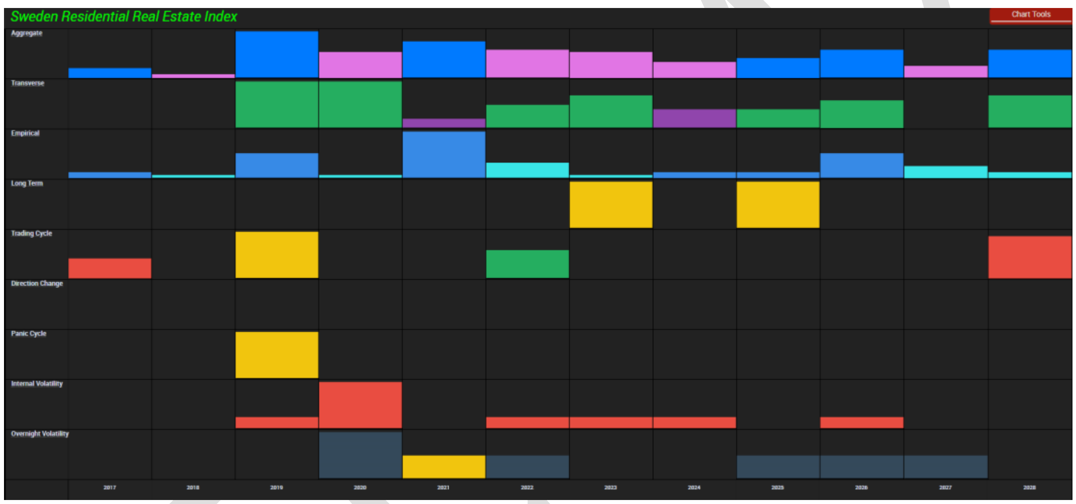


When we look at Norway, we can clearly see the difference the Euro has made. Norway remains outside of the Eurozone and as such we see a pattern that is more respectable insofar as there was a 2007 high and a 2008 low, but the property market in Norway has rallied to new highs going into 2018 in contrast to Germany which has been unable to exceed its 1999 high. When we plot this is US$, we can see that the Norway market has been strong.

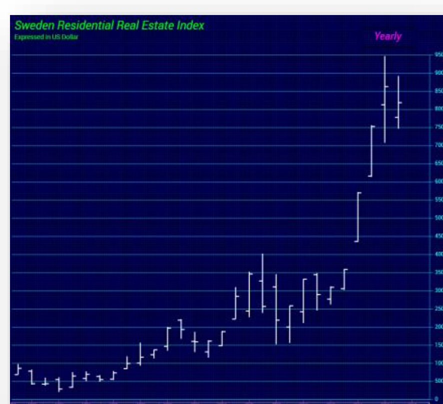


Cyclically, volatility is going to rise from 2019 onward. We should see a turning point in 2020. This is clearly the major high in this market from a cyclical importance perspective.





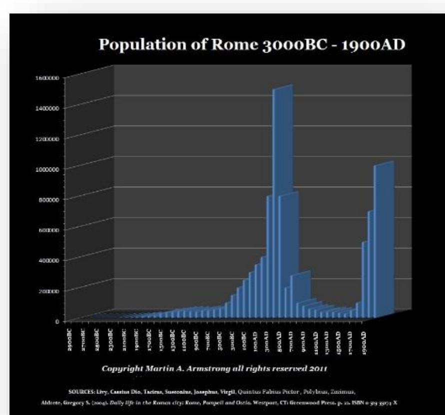
While real estate in Sweden has been rising when many other places are declining, it does not appear as if this singularity will be able to continue. Much of it has been on capital fleeing from the EU. However, real estate has gone to NO BID in much of the Middle East, and the same is taking place in parts of Europe and even in London. The high-flying properties have peaked.



Our timing models are warning of a Panic Cycle and a change in trend in 2019 in the Swedish property market. Any buyers or present holders should look at fixing rates while lenders may consider pulling back right now. When we filter this through the US$, we can see that the market in real terms peaked in 2017. This raises concern about 2019 to the downside in real terms.

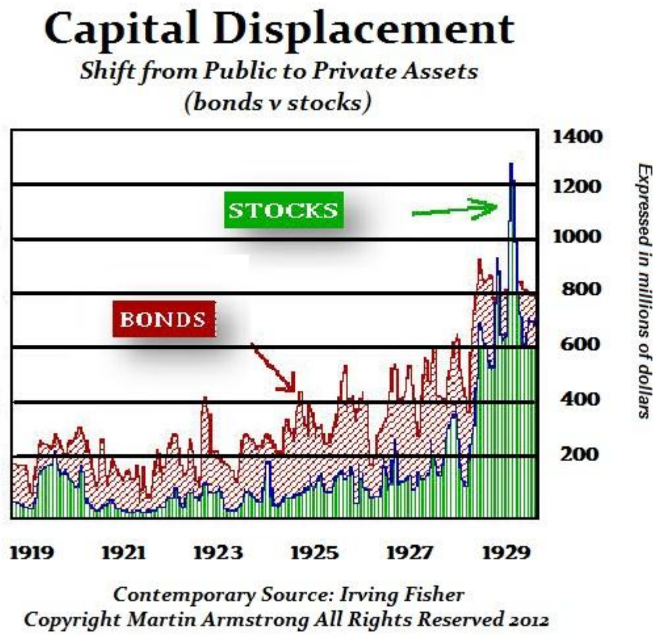
Land auction - Spotsylvania, Virginia - 1933

The greatest risk to real estate is the collapse of the mortgage market which is in peril in Europe in particular. Buying property at auction from banks etc. in a contraction if we see that far going into 2020 in Europe may be reasonable. But keep any bids cheap and look at it mainly for land values rather than structures.

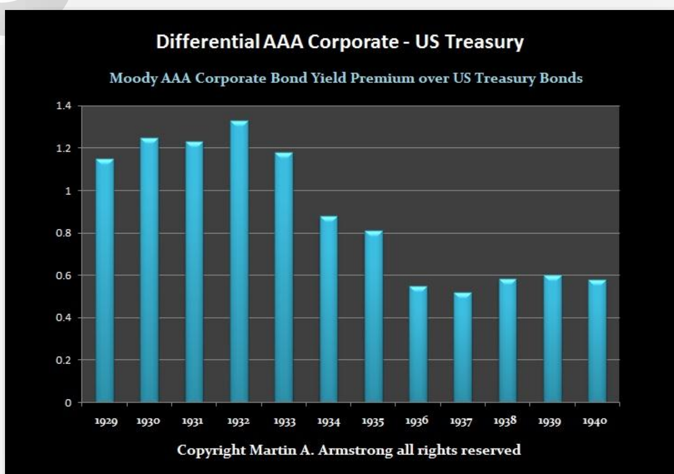


Remember, **"cash is kind"** in such circumstances. The key factor will be the geopolitical security available in any particular region. Always remember, the longer the EU government tries to dominate the situation, the steeper property values will fall. Like Rome, at some point people just walk away.

Bonds

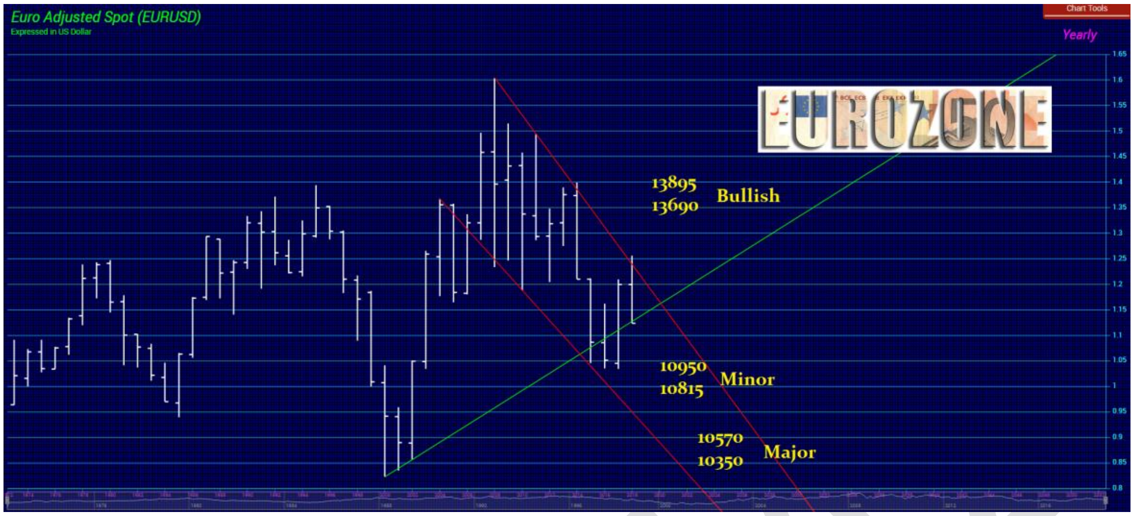


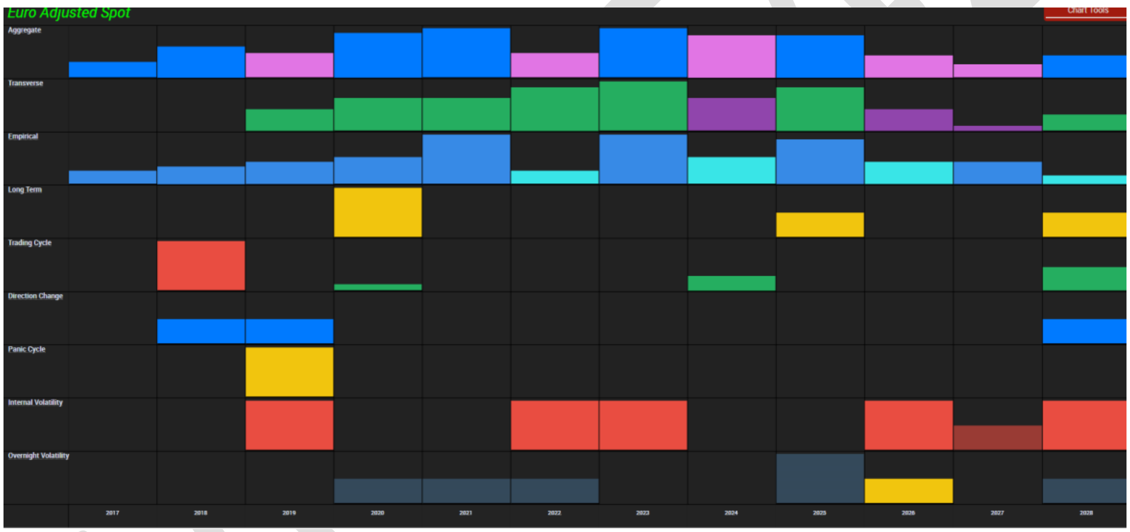
The bond market is going to be critical. In this case, the displacement between bonds and equities has by no means taken place in this bull market. In a real bubble, the demand for shares is so great that finally at the very tail end there are more shares issued in value terms than bonds. We have not seen that yet and we may not until the 2024 cycle. This is another factor to look at in terms of judging the future of the capital markets and where we reside at this particular moment.



The next relationship we will witness as countries begin to be questioned in both Europe and Emerging Markets, will be the fact that top grade corporate debt will become more sought after than public. As governments default, smart money will look at corporate bonds. Just keep your maturities short-term for we are long at interest rates rising exponentially as capital begins to witness the crisis in the Eurozone is real.

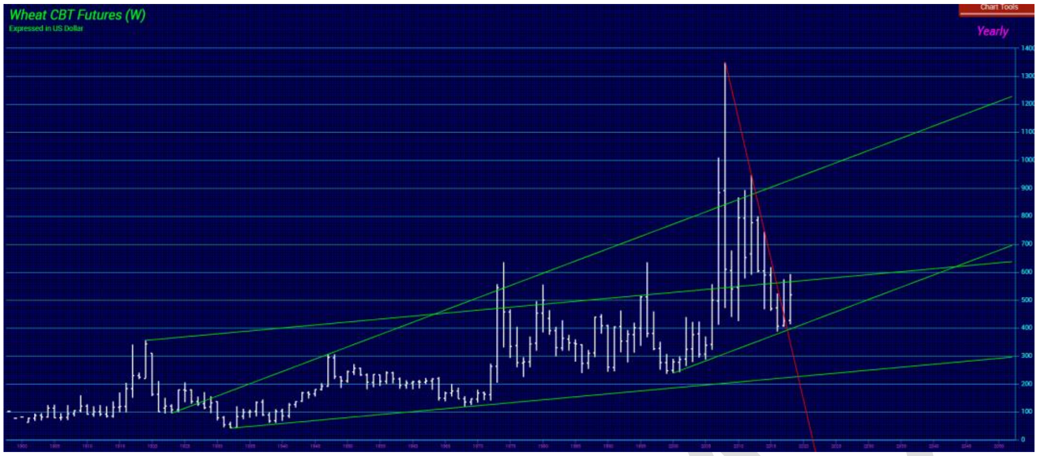
The Dollar

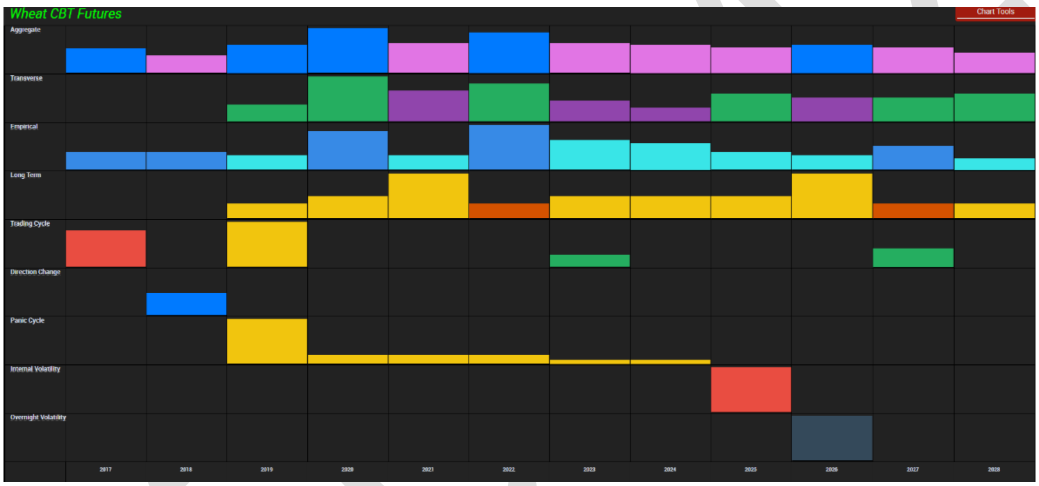




In the Euro, we have a Panic Cycle next year. The absolutely **CRITICAL** support is in the 105 and 103 level. This is the breakpoint of no return. Once we see monthly and quarterly closings beneath those levels it is all over. This market movement will most likely be catastrophic to maintaining the Eurozone. The Italy Crisis demonstrates the problem. The failure to consolidate the debts means the EU sticks its nose into everyone business. That is not the structure of the USA. Either the EU federalizes and surrender all power to Brussels, or the strain breaks it apart. A closing at year-end 11615 will keep the Euro vulnerable for 2019 and we will then see lower lows. This type of pressure in sending the dollar higher will have an impact upon Trump as well and we are likely to witness the recession in China and in the United States begin to materialize in 2019.

Agricultural Commodities

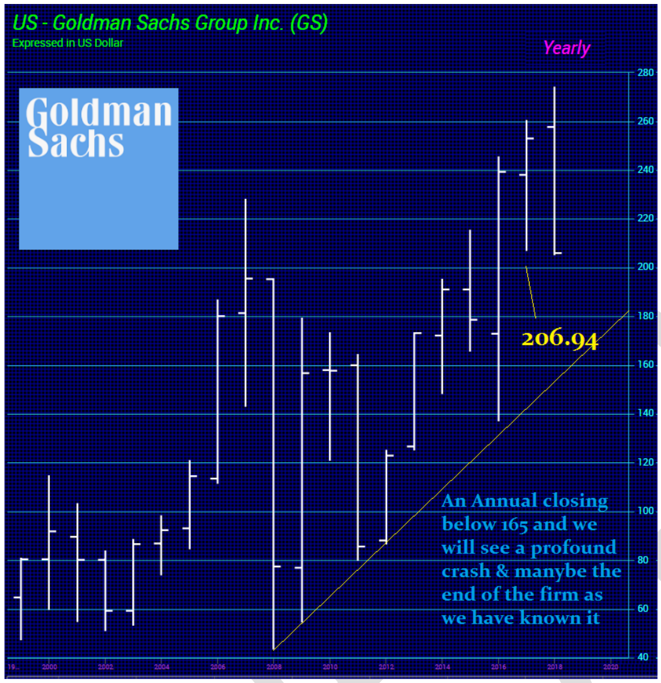




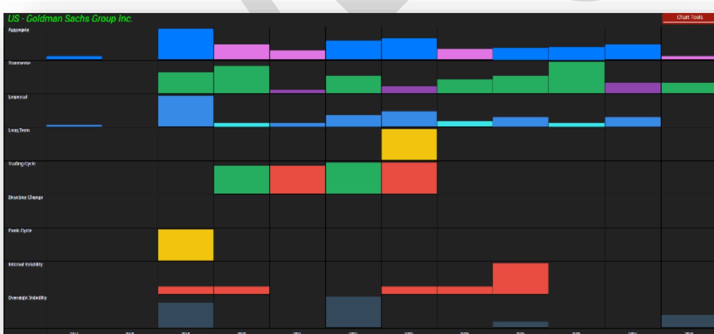
When it comes to agriculture, the weather is kicking up its heels and as we have witnessed during other events, it appears that weather also turns nasty contributing to such major turning points. We have elected a Minor Yearly Bullish Reversal which raises the potential for the 2016 low to hold. We need an annual closing above 8000 to confirm a breakout to the upside. Holding above 4600 on an annual closing basis is also suggesting that we are building a base.

Keep in mind that we do have a turning point in 2020, 2021, and the 2024. Wheat can still base into 2020 if we see a strong dollar rally. However, thereafter, the real inflationary cycle appears to emerge much like the rally out of the 1932 low – the shift in confidence with respect to currency. A strong surge in the dollar into 2020/2021, will force some sort of a new G5 type meeting or Bretton Woods world conference on monetary systems. This is when we may see the commodity boom from a currency perspective but weather is also impacting this event.

Banking Shares

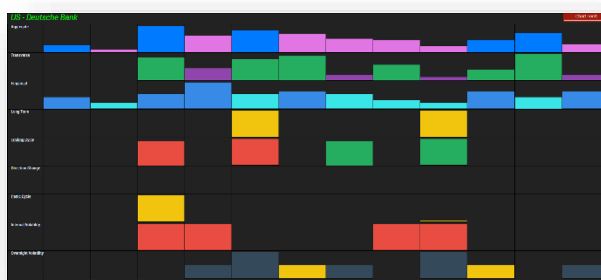


While it is no secret I am personally biased against Goldman Sachs, the price action is all that really counts. You can see that this has been an outside reversal to the downside so far. A closing at the end of 2018 BELOW the 2017 low of 206.94 will be a PROFOUND technically bearish pattern that warns we will see lower prices ahead. An annual closing below 165 will warn that the days of Goldman Sachs ruling the financial sea around the world will come to an end.

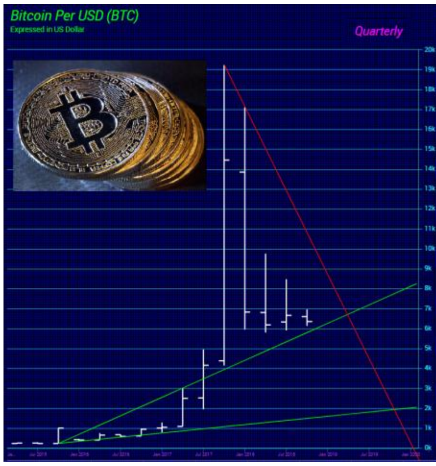


What is incredibly important here is that the pattern we are witnessing so far in Goldman Sachs will become a contagion that infects the entire banking stocks sector. We will witness the shift from the bank stocks to more industrial and high-tech companies as the risk of banks begins to surface more so in Europe than in the USA. It looks like 2019 is going to be a bad year for Goldman Sachs. Definitely sell whatever you may have.

When we look at Deutsche Bank, this is the largest bank in Europe. It has been under tremendous pressure every since the high of 2007. The crisis in the Eurozone banks (which excludes UK, Switzerland, and Scandinavia), has been the fact that the very same policy of a refusal to consolidate the debts played a role in how they also dealt with the banking crisis. Where the USA took the bad loans out with TARP, the ECB did not take any such action. The bad loans were left on the books of the European banks because to gather them all into a single central place would be bailing out some economies at the expense of others. Hence, the EU crisis is all about trying to pretend they are a single currency with none of the support necessary to carry that to completion. The ECB has tried to pretend it is just a little bit pregnant.



The share prices of Deutsche Bank simply reflect the reality of the European Banking Crisis. There is technical support at 6.57, but an annual closing below that warns that the bank could actually vanish. The real question that remains is just how stupid will Merkel be in Germany vowing not to bailout a German bank? Once again, when we look at the Array, 2019 is coming up as a Panic Cycle and a hard year for DB. If this unfolds in conjunction with a crisis in Goldman Sachs, find a place to hide and fast. A contagion in bank stocks is likely.



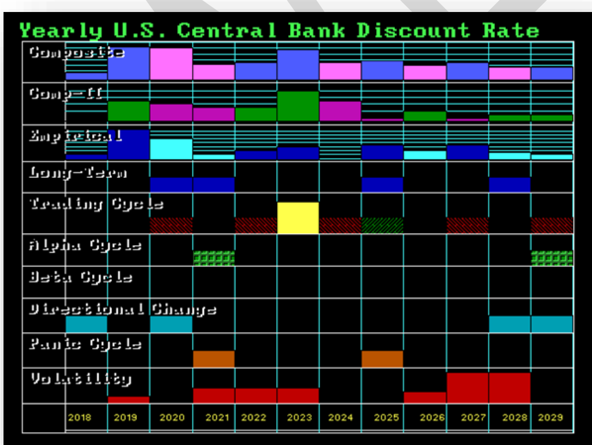
Those who still think that private cryptocurrencies will by themselves become the Reserve Currency and force all countries to abandon their currencies and adopt Bitcoin, neither understand history or the power of politics. That is akin to saying we can have a REVOLUTION and government will just say OK – you are right! We are taking about the most powerful self-interest in history – government. They will never surrender power for with that goes all their pensions.

That is separate and distinct from using Block Chain technology to track transactions etc. A Cryptocurrency for each nation is not out of the question for less than 5% of transactions already are electronic. That does not mean they yield power to Bitcoin. They would just adopt their own technology to ensure they can hunt every half-penny you ever spent for taxes.

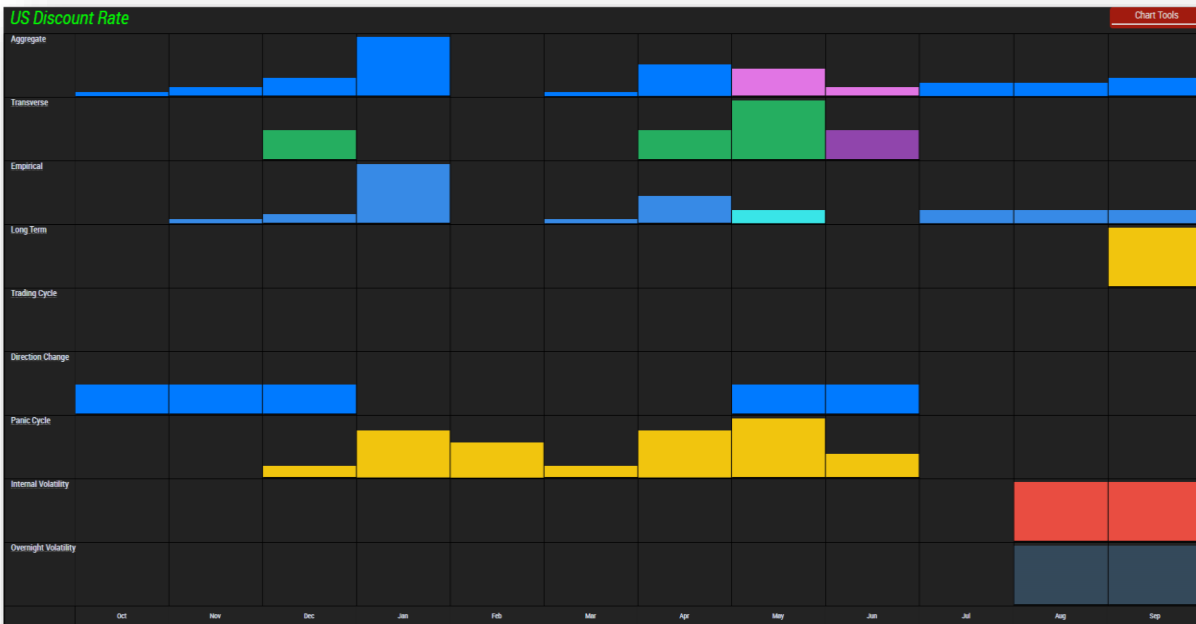
The bulk of the world is not electronic. There are even places in the USA when you travel into the sticks you lose cell phone connections or they are very static in use. In ancient times, t6he peripheral economies imitated the coinage of the core economy such as Egypt minting imitation of Athenian Owls to be able to do business with the outside world when they never bothered to issue their own coins. There will still need to be some sort of two-tier monetary system to allow the world to function. It appears that Bitcoin remains in a holding pattern and it appears to get more volatile the first quarter 2019 perhaps in a banking crisis and then against the second half of 2020.

Interest Rates

At last year's WEC, we warned that interest rates were going to take off and that exceeding 2.25% at the Federal Reserve would confirm that forecast. We can see that the Fed Discount Rate has broken out above the Downtrend Line technically and in fact it is now at 2.75% so we will most likely elect our Yearly Bullish Reversal confirming the upward trend in interest rates. The next Yearly Bullish Reversal stands at 5.25 and exceeding that we have a vast gap up to 12% to retest the 1981 high of 14%.



When we look at the Array, we see 2019 comes up with higher volatility, and a Directional Change hits in 2020 on top of 2019 being a Turning point. A crisis in the bank stocks next year could still cause the Fed to lower rates and retest the Yearly Bullish Reversal at 2.25% assuming we close 2018 at 2.75%+. Technical support is at 2.5%. Keep in mind that the Fed will misread the economy as always for they will cling to their old academic theories that have been proven to be wrong without fail. Roosevelt's academic **Brains Trust** was a waste of time and Goldman Sachs bringing in the academic Waddill Catchings nearly bankrupted the firm are just two examples.

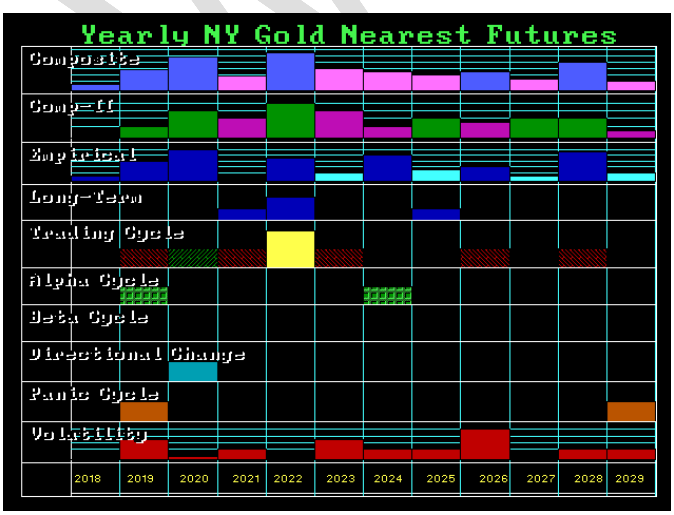


When we look at the Fed Discount Rate on the monthly level the alarm bells start to ring. The first thing that jumps out is January/February in a major target for a turning point. But then look at the Panic Cycles. They also turn up in January but do NOT subside until June. We are looking at the subsequent turning point being March 2019 followed by May and then June/July.

Where 2018 was the Year of Consolidation, it now appears that with the Democrats in change of the House, they will be far more concerned about obstructing Trump for the sole purpose of winning the election in 2020 for the White House. Believe it or not, Hillary is toying with running again in 2020.

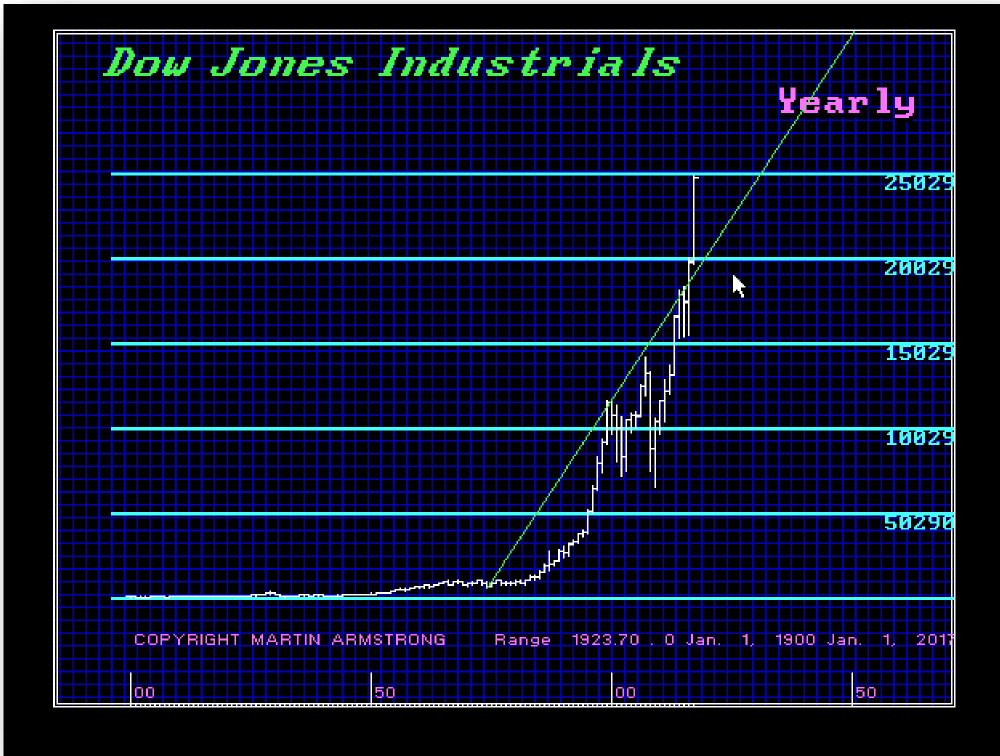
Gold – Dead or Alive?

A year-end closing for gold below 1178 will signal, technically, that gold can still press lower before it breaks out to the upside. When it comes to 2019, we have a **Panic Cycle** and it looks to be a far more volatile year ahead for the yellow metal. Note that the next turning point is due in 2020 where we also have a Directional Change. Then the next turning point will be 2022 followed by 2024/2025 in line with the next 8.6-Year ECM which also just happens to be the next Presidential Election after 2020.

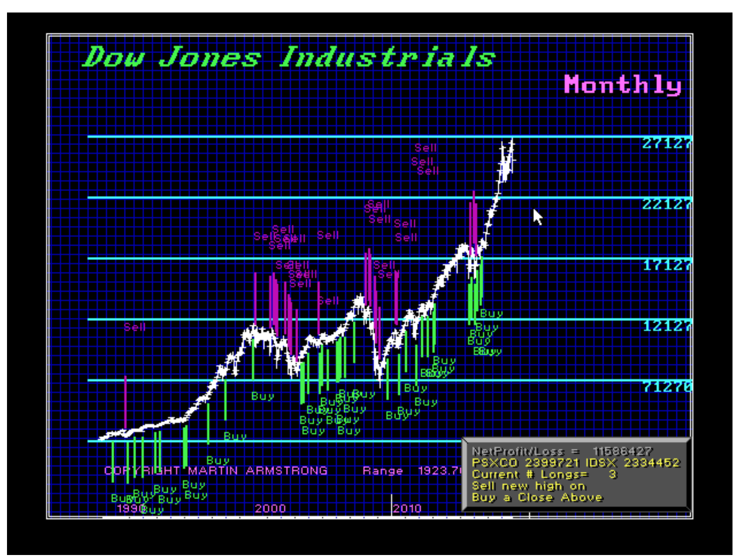


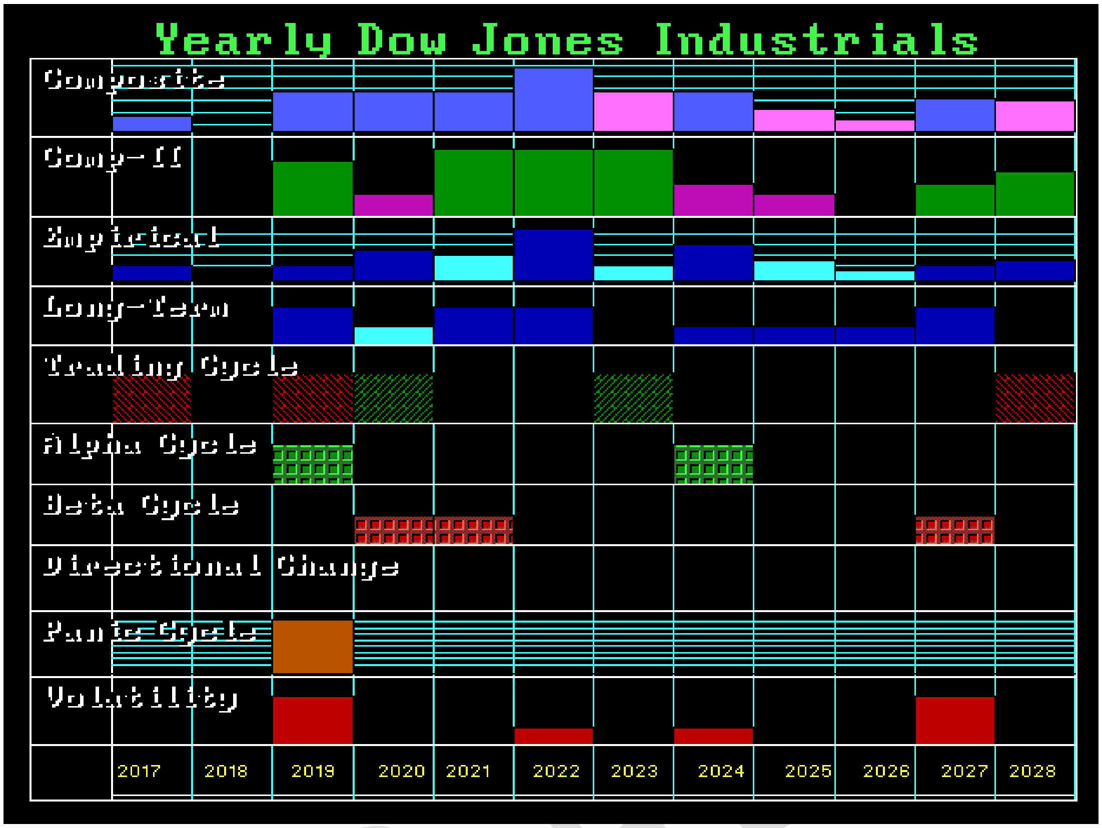
The closing for 2017 was 1309.30. With gold hovering around the 1200 level, a closing for year end below that 1178 level will warn that gold can decline into 2020 and still break the 1000 level but marginally. That may be driven by a very strong rally in the dollar. This seems to be a currency move to flush out the diehard bulls.

The Dow Jones Industrial Index



I have written many times that the Dow Jones Industrial Index is the trophy index for this is where the "big" foreign capital invests FIRST. The support on our original projection rests at 19920 on the Dow going into 2019. The highs were have reached were August for the NASDAQ, September for the S&P500, and October for the Dow. Each reflected a different investment audience with the NASDAQ more domestic retail and the S&P500 more the domestic institutions. At no time have we elected a Monthly Bearish Reversal in the Dow since the rally has begun. When we look at trading just on the Monthly Reversals, we can see that the system remains long 3 positions with last taken on the close of June 2016.





While 2018 was to be the year of consolidation, we see rather the opposite coming in 2019. Here we see volatility rising with a Panic Cycle. We have the long-term models pointing to a minor turning point in 2019, the key target seems to be 2022 with the next turning point coming in 2024 which will be the Presidential elections. Politics in Europe are likely to go nuts in 2019 so this will have an impact on international capital flows pouring into the dollar.

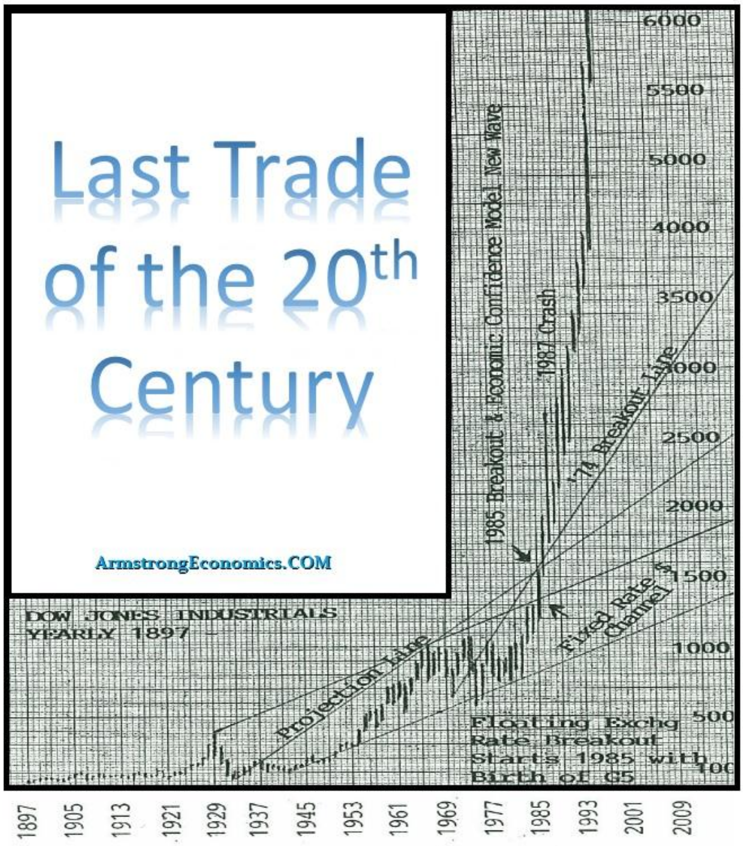
The US Midterm Elections are so close, we still have no definitive numbers and may not until the end of November. The cracks in the EU are appearing and this can send capital rushing into the USA so stay on guard. This can push the dollar to record highs forcing political changes to the world monetary system as those in power are desperate to retain it.

CONCLUSION

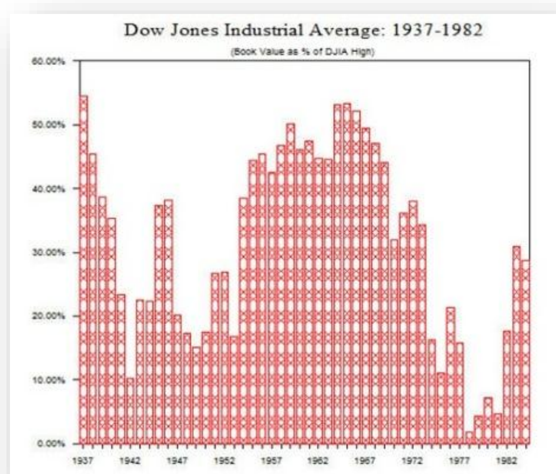
When we look at the opportunity for strategic trading, such things present themselves perhaps once or twice in a lifetime but ONLY within a Private Wave. Public Waves tend to be dominated by government and as such volatility tends to be less as markets contract. That is the real quote of Andrew Mellon when asked how long the bull market would continue in April 1929. He responded: "***Until gentlemen prefer bonds***." What he was referring to was when the Flight to Quality will take place and people then sell the assets and run to cash.

This time we have a problem. If we are dealing with a **Sovereign Debt Crisis**, a potential **Banking Crisis**, **Pension Crisis** that will manifest into civil unrest, weather that will cause crop failures and prices to rise as we saw in each of the previous economic crises, these we must look closer at the events I have gathered to demonstrate how people respond to such events.

Central banks will wrongly assume that lowering rates is what they should do despite the fact that it has NEVER worked even one single time. As long as they rely upon banks to do their job, the central bankers will fail as always. The best they can do is indirect management tools but with the banks worried about failing themselves, then they will not lend even on 150% collateral.



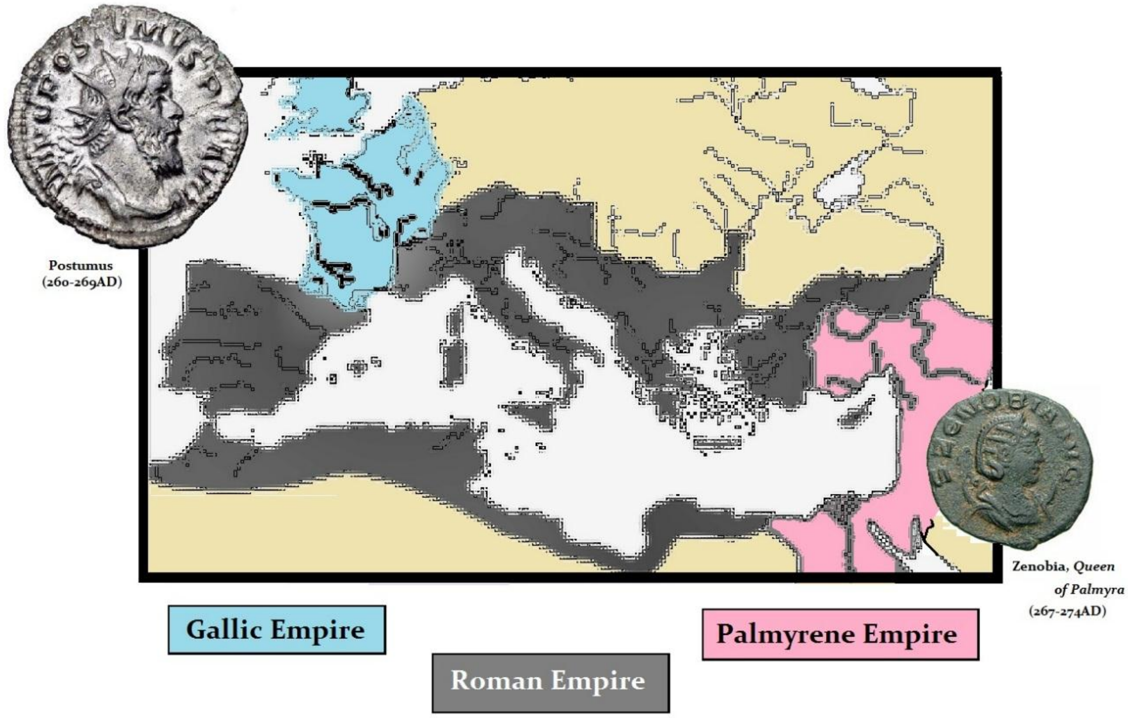
The last Trade of the 20th Century came at the start of this particular 51.6–Year Private Wave on the Economic Confidence Model. I was doing institutional presentations back in the 1980s for which I was subsequently blamed for starting the Takeover Boom. It was very straight forward. After a 51.6–years of an ECM Public Wave, stocks had become extremely undervalued as gentlemen preferred bonds. I demonstrated that the low in book value was 1977 from the high in 1934 after the dollar devaluation. That was a **PERFECT** 43–year decline. With the ECM turning into a Private Wave in July 1985, the trade of the Century presented itself. I demonstrated to our clients when you could buy a company, sell its assets, and double your money, there was no way stocks were overvalued.



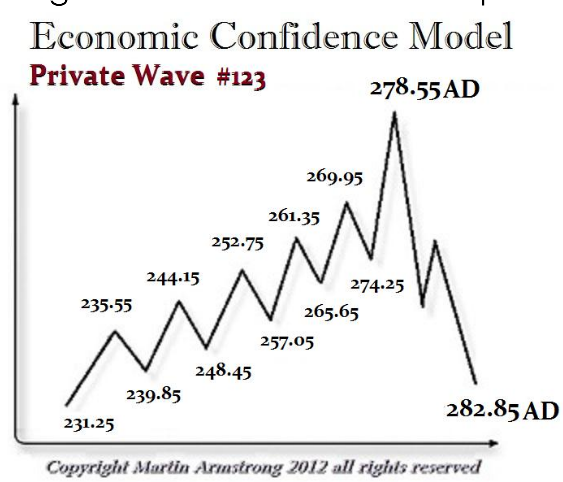
The fascinating aspect has been just how hated the bull market has been. They claim the market is a false rally because it is corporate buybacks. What they fail to understand is that during the 1920s the same thing took place. The corporate buyback increases the earnings per share, but it also creates a shortage of equities. On the market.

It is similar to the hatred pointed at Trump. Those that despise him have the audacity to say he is not their president. This attitude rather striking for they hate Putin as well and then paint **ALL** Russian with that same brush. They often appear ready to just nuke all of Russia because they hate Putin. You have to wonder if such an attitude of hatred would just push the launch button on Washington to get one man.

Here too we have the most hated bull market in history. There is nothing this market can do that seems to please these perpetual bears. What we must understand is that this is a **Private Wave** and during such periods is when we get revolutions, civil unrest, and the wildest of times with separatist movements as well. While history repeats, it is more like lightening. It does **NOT** repeat identically twice. Therefore, I have provided the detailed support of the Roman Republic for there we have debt cancelations and sovereign defaults. The debt crisis leads to civil war which today would be akin to the **Student Loan & Pension Crisis** combined when the bulk of the population is beyond the means to sustain itself. Now we through in the Imperial Era where the coinage is debased between 260AD and 268AD and we have separatist movements and currency reform but not a debt crisis since government refrained from borrowing after the fall of the Roman Republic back in 27BC which was about 309.6 years prior.



Clearly, the **Economic Confidence Model Private Wave #123** was the breakup of the Roman Empire which splits into three regions. We also have a tendency to witness separation movements after a Public Wave which is precisely what is taking place. The rise in political turmoil also goes hand-in-hand with a private wave. Rome really goes through this period of a monetary crisis during the second half of the wave. This is the same timing when Trump was elected in 2016 from the beginning of the current wave on 1985.65.



Therefore, combining these two events of the fall of the Roman Republic due to a debt crisis and the fall of the Roman Empire due to the political instability and the collapse in confidence that then resulted in the hoard of money thereby compelling the debasement of the coinage under Gallienus (253–268AD), we can see how lightening will not strike in the same identical manner. We face a combination of events coming together.

The trade of the 21^{st} Century will be the shift from Public to Private. However, each phase will come in stages pushing the next into motion. With the bulk of the analysts all bearish predicting 5,000 on the Dow, one must simply ask the question – so where is the Flight to Quality?

We can see that when the dollar was in trouble during the 1890s, the flight to quality was not to equities nor bonds. It was to the British pound. The roles are reversed. Europe is now in deep trouble and as such the flight to quality will be to the USA. As that capital comes in, the smart money will turn to equities. AT first, there will be a flight to short-term US Treasury paper just as Mellon said in April 1929. But when government's survivability comes into question, then the capital will turn and flee from the bonds to the private sector. So, pay attention to also how the yield spread between corporate and governments will narrow. This will be another confirmation that we have a massive shift underway from Public to Private assets. Each sector will perform according to its place in the domino chain. The risk of the dollar rising first can have a negative impact upon commodities. Then when capital turns and fears the US government, then the dollar will crash and we will witness the rise in commodities including gold.