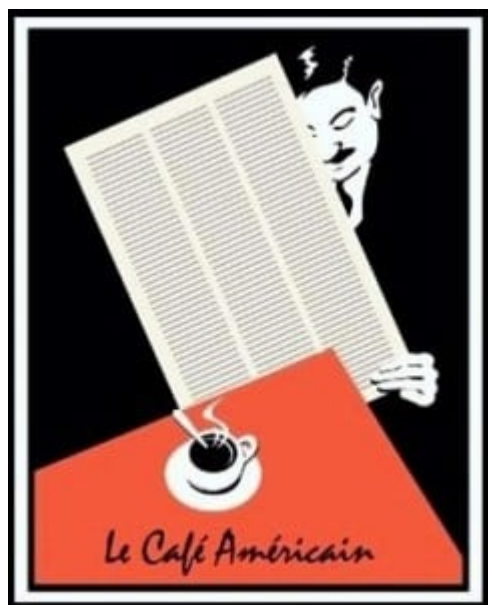


# We Are Seeing An All-out Defense of the Status Quo – Jesse

written by Edward Maas | September 27, 2013

**THE MATTERHORN INTERVIEW Special: Jesse of Jesse's Café Américain – September/October 2013**

## **“We Are Seeing An All-out Defense of the Status Quo”**



On behalf of Matterhorn Asset Management, financial journalist Lars Schall talked with Jesse, the host of the popular financial web site Jesse's Café Américain, about, inter alia: his interest in precious metals; why he thinks the U.S. Commodity Futures Trading Commission decided to take no action regarding complaints about manipulation of the silver market; the future of the so called "currency wars;" and last but not least why he believes that the Federal Reserve is laying the groundwork for its own demise.

**By Lars Schall**

*Jesse's web site Jesse's Café Américain can be found here.*

**Lars Schall: Jesse, tell us at the beginning a bit about your background, please. For example, what motivates you to run your web site and comment on a daily basis on the financial markets?**

**Jesse:** I had a long career in engineering, computers, and communications that was based on a good foundation, a classical education in the arts and natural sciences. As you might expect there was a significant amount of post graduate study in specialized and developing areas of computer science and networking. Fortunately I had a good mind for math, and a talent for music, which makes

for a good encoder and algorithm developer.

Our minds and our time are the two resources that are most within our control. I naturally loved to learn, but it was coupled with a sense of 'obligation for use' that is embodied in the parable of the talents: with advantages come obligations.

This is not to say that I always used what I have been given well and wisely, but I have always made the attempt, even while falling. One learns, and learns to forgive, first others and then themselves. None is perfect in this world.

My corporate career ended at age 50, leaving it in order to spend more time at home, and especially with my young son. I had been working very long hours and spending a significant amount of time away from home for too many years, and did not wish to lose any more of that precious gift of family. Calculations showed that given our savings, and naturally modest lifestyle, we could get by on what I could make from trading in markets and some other investments. And so this has been the way it has been for the past twelve years.

Solitary work lacks the camaraderie of the workplace, and I also knew that without the impedance of producing something 'on paper' and subjecting it to objective evaluation and criticism, that it was all too easy to be fooled into self-indulgence and the subtle misapprehensions of self-reinforcing thought. And a person is not fully alive unless they are changing and creating something.

Voila, *Le Café*.

**L.S.: Do you follow a particular world view?**

**Jesse.:** With a broad education and exposure to many cultures and schools of thought and religions and philosophies, my background is more varied than one ordinarily might enjoy. There are few philosophies and religions that I have not taken for a serious 'test drive.' This is the benefit and the curse of a restless mind.

But it seems as though I have always come back to 'Christian humanism' which has its roots in the Renaissance and the earlier Church. And in my mature thought I am a practicing believer in all that it represents. I understand those who doubt, since doubt is a natural condition and a pre-condition to growth. But at some point my own doubts were overwhelmed by belief, and subsumed in what is called 'faith.' I could not escape coming to the same conclusion, over and over again. It reminds one of the old poem, 'The Hound of Heaven.'

**L.S.: Why do you focus in your work especially on precious metals?**

**Jesse.:** I had always been interested in stocks and bonds, and then derivatives. I took my father and mother's financial situation in hand, and helped them to achieve a comfortable retirement. I was a little more speculative in my personal dealings as I was young. I was an early trader in

the stock options markets when all their listings would cover less than one page on a newspaper.

Gold and silver became interesting for the first time in the 1990's, when I started to study the history of speculation and stock market crashes, and the rise and fall of bubbles.

This led to a fairly serious study of the nature of money. Up to about 1999, I had no interest in gold and silver. What I saw happening in the world economy then sparked my interest in that subject.

I write about gold and silver now because they are at the heart of what is happening. And there is not as much about stocks and bonds, because I have stopped trading actively in such a broad range of things.

I am fascinated by the sea change in the world monetary system, which has been colloquially called 'the currency wars.'

**L.S.: Will those 'currency wars' intensify going forward according to your analysis, and if so, how do you think they will play out?**

**Jesse.:** Yes they will intensify and we are seeing that already. A fiat currency is an exercise in both confidence and power. As confidence weakens, the use of power must intensify to maintain it.

One of the things that people tend to forget is that when one adopts a common currency, they surrender a portion of their economic autonomy. We are seeing this play out in the European Union as monetary theory would predict.

In adopting a common currency, the euro, the entire region thereby agreed to let a central group set their monetary policy for all, which includes the ability to tighten and loosen supply in response to prevailing economic conditions. But whose conditions, when they vary over a broader area?

When a country adopts another currency, they surrender a portion of their own fiscal authority, and thereby their political autonomy. If you do not believe this, just look at what is happening in Greece and Cyprus.

A common fiat currency system works over a large and diverse region such as the United States because in addition to monetary union there is a political union as well, including transfer payments and spending to those regions which may have differing economic conditions. Fiscal policy evens out the blunt force of a unified monetary policy.

This is important, because as the rest of the world is now seeing, the dollar hegemony is not working because the United States is setting monetary policy for itself, but is doing it with the world's reserve currency. This is where the dislocations begin in some regions of higher natural growth, which see inflation and other effects first that place a stress on their political governance.

The outcome of the currency war will either be a supra-regional government that encompasses most of the developed world, with the same problems that

have become apparent in the European Union that leads to repression, or some other resolution that permits for local autonomy with more flexibility for international trade. Obviously this is a range of possibilities and the actual result will be evolving somewhere in between.

The creation of a 'currency' that is not under the control of a single political authority could be achieved by creating a unit of trade based on a broad basket of national currencies. It ought to include of something under the long term control of no one such as gold or silver.

There will still be manipulation of currencies and metals, but the manipulation will be more difficult because the power of each is diluted within a basket if it has been constructed well.

Since money is power, those who are in control of the money of the status quo, the US dollar, will resist this change, even to their own eventual disadvantage and destruction. Pre-eminent among those are the multinational banks, which are loosely called the Anglo-American banking cartel. This extreme defense of untenable positions is an unfortunate tendency of the human nature of those who are driven to seek power and fear losing it.

By the way, the US is suffering a protracted recession now because while monetary policy is active, although misguided, the fiscal policy has stopped functioning well because of political deadlock. The monetary policy that Bernanke has set is a trickle down approach, which is obviously failing because it is operating in a system that was already skewed by corruption and has not been reformed. It is like sending aid to a Third World country. The aid is seized by powerful warlords and used for their own advantage, with little reaching the people.

They know this, but they do not care. It is about personal advantage and careers.

In the US in addition to political deadlock, caused by a struggle for power, there is ironically a credibility trap as well. Both sides are dipped so deep in the corruption of the system that they cannot bear to unleash any uncontrolled reform movement, but they are also fighting one another for the spoils. I have seen this play out in the failure of major corporations, and I am seeing it now again on a larger scale.

**L.S.: What would you say is essential to know in order to understand the precious metals?**

**Jesse.:** Exposure to other cultures and times is most important. One can become very insular and parochial in their thinking. We can believe that what is now has always been, and will always be so.

As the great financier Bernard Baruch once said, gold 'has worked down from Alexander's time. When something holds good for two thousand years I do not believe it can be so because of prejudice or mistaken theory.' So if one wishes to understand what money is, they might start with gold and its inherent characteristics, since the majority of history seems to have voted

in its favor. This is not to say that gold is the only money, but rather, if you wish to understand money, you must first understand the essential characteristics of gold.

One of its great advantages is that gold and silver have no counterparty risk, and depend on nothing but themselves for their value. Think about a time traveler, who takes a fifty US dollar bill and a fifty dollar gold piece back to ancient Egypt or Rome. What is the probable relative value of each? What has changed? Therein are the difference and the risk.

**L.S.:** Would you support a free competition of money so that people can choose the various forms of money that they want to use without a force behind it that imposes it upon them (a monetary diktat)? I think your critique regarding the Modern Monetary Theory (MMT) goes a bit in this direction.

**Jesse.:** Yes you are right, the difficulty I see with Modern Monetary Theory is that it has not constructed a systemically based governor in its monetary construct.

In theory the Federal Reserve and the Treasury are circumscribed by the judgement of the debt markets which are diversely held. With regard to Modern Monetary Theory I have asked what the limiting factor on issuing money might be. The reply to date has been that no limitations are required because a fiat currency cannot default, and the valuation of the currency can be maintained by force of various types.

This only works if one has sufficient political force over everyone who uses the currency. That has been tried before, in the Soviet Union for example. The currency deteriorates from the outside in, from the basis of international trade. And it takes increasing force to maintain the currency as confidence fails.

I am sympathetic to the idea of displacing debt as the basis of currency because of its many abuses. But that speaks more to the corruption of the system which finds no cure in a currency as proposed by MMT which is even more discretionary and powerful unto itself.

A successful currency must emulate some of the characteristics of gold to be sustainable. They would do well to study it. Bitcoin has some promising characteristics, but also some fatal flaws. I have discussed that in the past.

But I should make it clear that I am not in favor of a gold standard per se. First of all, the system is so corrupt and so fragile at the present time that a gold standard would be too severe a cure.

Rather, I would like to see a system where people have a choice to store their wealth in a variety of instruments including gold and silver, and have the ability to settle transactions in things other than an official currency. That becomes a problem given the propensity to tax private transactions, to which I am also adverse. But perhaps that is a discussion for another day.

**L.S.:** Do you think to own gold and silver these days is the right choice, and

if so: why?

**Jesse.:** I cannot speak for anyone else since everyone's circumstances are different. In my own case it seems to be a good idea to have a portion of my portfolio in precious metals as a protection against the debasement of the currencies, and the many unknowns that are brought about in a great change in the monetary system such as we are seeing today.

These great events tend to happen over time, and that lulls us into complacency. But they then seem to come all in a rush and intrude on the public consciousness so that people say, 'how did this happen?' That is how it was with the last financial crisis.

**L.S.:** Is the rigging of the precious metals markets getting more and more obvious for you as a trader?

**Jesse.:** I do not see how anyone who watches the tape can miss it. The sell at market of large numbers of contracts in quiet periods, what has been called the Dr. Evil strategy, is hard to miss. The intent is quite clear, to knock the price down for some period of time. A simple rule would suffice to stop this sort of abuse, but it does not happen.

**L.S.:** What's your comment on the dismissal by the U.S. Commodity Futures Trading Commission of complaints about manipulation of the silver market?



**Jesse.:** It is the credibility trap in action. The manipulation of the silver market has the de facto sanction of the government and the regulators who have turned a blind eye to it for so many years that to admit it now would be awkward and embarrassing. The TBTF banks hold so much power because they can threaten systemic destruction, but also 'know where the bodies are buried' so to speak.

It is ironic that the US system has now devolved into a serious of threats of destruction and power standoffs, in the both the political and financial systems. That is a symptom of lawlessness.

I think that if reform does come it will come slowly, as those in political power try to operate behind the scenes to repair things without risking themselves, and upsetting their personally lucrative arrangements and careers. Transparency is not possible because too many still in power are complicit, and speed is not desirable for them because let's face it, the system is working for them as it is.

The problem is that short term thinking like this can allow a situation to become so bad that it reaches a tipping point. That is why there was such a concerted effort to suppress the Occupy Wall Street movement. No deviation or dissent from the status quo can be permitted at this fragile time.

And this is why they say that every so often progressives and reformers must save capitalism from the capitalists. Their short term greed takes them to some tipping point, and they become locked down in a credibility trap that must be resolved from the outside. That is a period of great risk, because sometimes cures are as bad or worse than the disease.

**L.S.: How do you interpret the movement of physical gold from the West to the East?**

**Jesse.:** It is just a surmise, but I think we are seeing an all-out defense of the status quo, as represented by the Anglo-American banks that are founded on the dollar. This certainly includes the European banks unfortunately, but I tend to view all but the biggest multinationals as more dupes than insiders. Greed and hypocrisy are the fashion of the day amongst many.

The East is taking advantage of the artificial pricing of the metals to 'stock up' if you will, and are not only buying for themselves, but urging their people to buy as well, with a few notable exceptions such as India which has accounting imbalances and has lagged behind on official purchases. The East is preparing for what they think will come next. The West is caught in a failing system, and keeps doing the same thing as though it will still work, somewhat neurotically perhaps.

**L.S.: What does the financial crisis, its causes and how it is managed tell you about the state of the West, for example morally? Or, to ask it differently, do you believe this is just a financial / economic crisis or is this going much deeper?**

**Jesse.:** It goes much deeper. Starting in the 1980's, the culture of greed and self-centeredness has become increasingly ascendant. Yes, there is always a certain amount of cynical corruption amongst a minority of a people, but sometimes that type of behaviour becomes more socially acceptable, almost contagious, and tends to drive out the good behaviour which cannot compete with it in the short term when the rules are overthrown.

**L.S.: If you were calling the shots, what would you do to solve the crisis?**

**Jesse.:** I obviously cannot address that in any reasonable amount of words, except to say that the influence of big money on the political process is the root of much evil. At one time we had a thesis and antithesis in the political debate. But now that the ruling class has found out that they may become quite rich by acquiescing to certain things, and that there are few consequences for what one may do in that pursuit, the outcome is fairly predictable.

We have to bring back consequences, transparency, and the rule of law.

**L.S.: Do you support a free-trade zone between the U.S. and the EU?**

**Jesse.:** Normally free trade zones are not necessary amongst mature economies that are operating on a set of common principles and openness. The zones are generally used to encourage growth in a particular geographic area, so it is a form of government subsidy.

I also do not favor a regional or world government, on the basis that the greater the concentration of power, the higher the probability of groupthink, shared policy errors, crony insider dealings, and corruption. 'Free trade' like free markets is a fantasy that seems to be a stalking horse for world government. They are not naturally free.

I like differences, and think people should have the ability to determine how their own society should function and what its priorities should be within some reasonable set of decencies. And like a common currency, common governance tends to flatten out differences, and encourage repression. I always enjoyed seeing the cultural differences in my travels and would hate to see that replaced by an artificial blandness and dystopian uniformity.

**L.S.:** This year will see the 100th anniversary of the U.S. Federal Reserve. Your thoughts on this?

**Jesse.:** It really doesn't matter what I think, but the Fed is laying the groundwork for its own demise.

**L.S.:** Why do you think so?

**Jesse.:** They are discrediting themselves, and have also painted themselves into a corner. The notion that an all-wise and selfless group of technocrats can wield such enormous power, while operating in secrecy and by their own judgement, is a romantic myth.

Eventually they make mistakes, and seek to cover up those mistakes, and make even more mistakes in the process. Greenspan was like a slow poison for the Fed, but even if he had not been the chairman in service of the political interests for far too long, I am afraid that the Fed would have probably died of old age. A system must renew itself every so often, and the leadership of the Fed has not been up to that challenge. That change must come from outside the Fed which is a creature of the Banks.

It will be replaced by something else. What that will be I cannot say.

**L.S.:** What are your thoughts on the direction that the U.S. has taken in general?

**Jesse.:** If one looks at the marvelous and broad international support which the US had after the 911 attacks, and compares that to where the US stands for now, in the depths of its scandals and corruption, the policy failure is obvious. I have likened the modern presidency to the emperors of Imperial Rome, with Reagan as Julius. And so now we have Obama as Claudius.

We speak of the US, but we must distinguish between the government and the people. The government is in the grip of the monied interests, and pays lip service to the wishes of the people. Reform is needed, and a return to the



principles that made the US a beacon of freedom, even if it may have faltered in practice.

**L.S.: Given your background in computer sciences, do the revelations regarding NSA & Co. surprise you? And what are your thoughts about it that privacy seems to be a thing of the past?**



**Jesse.:** No it does not surprise me. The internet has placed a great deal of information on a common network, and this creates enormous risks for security that were lulled to sleep by a faith in encryption and Virtual Private Networks. I had spent a great deal of time helping certain entities construct secure networks in the past, and the permeability of the new networks makes me shudder. The internet is both a blessing and a curse.

Secrecy is not compatible with freedom. And the partnering of the corporations and the government in secret arrangements is a deadly threat to personal freedom and privacy. There will be technical solutions. The problem is more in the realm of the political. Again, those who love power rarely wish to relinquish it willingly.

The intensity of the reaction against whistleblowers, most lately Mr. Snowden, is a wake-up call to people who cherish their freedom.

**L.S.: Does it frighten you that computers will be pretty soon more intelligent than humans – the so called ‘singularity’?**

**Jesse.:** Not at all because it is not true. A computer is a tool, that does certain things very well. And so is a jackhammer. And a backhoe. And a nail gun.

What is intelligence? A computer is very fast and accurate, and can access an enormous amount of data very quickly. But it is only as good as its programming. It is very adept at deterministic processes. It can ‘ape’ human thought if the programming is good enough, the so called Turing machine. But computers are not self-aware and have no imaginations and no souls. They have no sense of justice.

They are very powerful tools for processing information. But they are tools that remain in the hands of a human mind, for good or ill. People who do not understand them may fear them, but that is how it has always been with all new technology.

**L.S.: Are you optimistic for the future of mankind?**

**Jesse.:** Each person sees great peril and challenges in their own time. This is obviously clear from reading history. I have lived a bit over 60 years, and grew up in a period of time where we legitimately feared mass obliteration. My own parents and relatives grew up desperately poor in the Great Depression, and then went off as young people to fight overseas in terrible wars. And we think it is worse now? Only if we think like children who know nothing but their own fears and needs of the moment.

The human spirit is resilient, and to strive for the ideal is *essere umano*. And so I believe that the long arc of time bends towards justice as has so commonly been observed, even when it appears that entropy has things in hand.

I am particular fond of a German poem by Friedrich von Logau that has popularized, in translation, a theme that has its roots in a philosophical and historical theme that goes back to the Greeks at least.

*"Through the mills of God grind slowly, yet they grind exceeding small;*

*Though with patience He stands waiting, with exactness grinds He all."*

Friedrich von Logau, Sinngedichte

*L.S.: Jesse, you're obviously an homme de lettres. What are the three books / authors you would like to recommend to read?*

**Jesse.:** Alas, you may as well ask me what three foods people should eat. I have read voraciously all my life starting from the earliest age. The greatest gift I had ever received as a young boy was a set of books. But what I enjoyed reading then is not suitable to me now.

I suggest that people put down the popular novels and magazines once in a while, although I hate to say anything that discourages reading of almost anything these days. As human beings we need to challenge our minds by bringing them flush up against the mind of genius on occasion.

But it is hard to do this when one is just coming off the couch of the internet or television, so one must begin with something that catches their interest. Genuine learning occurs when the mind is taken out of itself by experiencing the joy of learning, an ecstasy of understanding. But a little learning is a dangerous thing, so learning must become a way of life.

As Eric Hoffer said, in times of great change, the future belongs to the learners. The learned, those versed and situated in what has been, are experts in something that is fading away. They may resist that change, but they are fighting a battle against time and forces that are probably beyond their understanding. And with genuine learning comes humility, and that also is essential to adapting to change, and being fully human.

**L.S.: Thank you very much for taking your time, Jesse!**

**Jesse.:** Well, Lars, you're welcome! But one thing I meant to ask you is why is the German public accepting the de facto confiscation of its gold so cavalierly?

**L.S.: The main reason is that it isn't well informed about the subject per se, and the other one is that it has no clue whatsoever about the monetary system and why gold will be important in years to come.**

**If our politicians would say – and one day they will – that we should sell the gold that is on our soil in order to pay down some of our public debt, they will welcome it without a second thought.**

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