BYU Studies Quarterly

Volume 14 | Issue 3 Article 3

7-1-1974

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During the past three years, I have been asked a number of times regarding my impression, as a professional economist, of Robert Preston's book, *How to Prepare for the Coming Crash* (Hawkes Publications, Salt Lake City, Utah, 1971). The book has received sufficient attention and acceptance—particularly in the Intermountain area—to warrant serious consideration.

Let me state as accurately as I can what I believe to be the basic theme of Mr. Preston's book (hereafter referred to as *The Coming Crash*). The first half identifies a secret, world-wide conspiracy that is led by international bankers, and that is effectively represented in the United States by the Federal Reserve System. The Communist Party is but a political appendage to this sinister union of international bankers, which intends to create in the United States the most serious depression that has ever been experienced and thus to cause total collapse and anarchy from which it alone will profit and gain ultimate control. This part of *The Coming Crash* is a restatement of W. Cleon Skousen's thesis in *The Naked Capitalist* (published by Mr. Skousen, Salt Lake City, Utah, 1970). However, *The*

*This article is adapted from a paper delivered to a student-faculty economic seminar on 27 July 1972. During the 1972-73 school year, the author was a visiting professor in the Republic of China (Taiwan), which delayed publication and made updating possible. The author wishes to express appreciation to Professor Clayne Pope for his editorial assistance and to the reviewers for their helpful suggestions.

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[1]Robert L. Preston, *How to Prepare for the Coming Crash* (Salt Lake City: Hawkes Publications, 1971), p. 113.

[2]*Ibid.,* p. 59.

Coming Crash goes further than *The Naked Capitalist* by declaring that "nothing, absolutely nothing"[1] can be done to stop the crash, and that it will occur "before 1975" and most likely "as early as 1973."[2] Preston then identifies ten steps which families should follow in preparation for the crash. Two of the more controversial steps are (1) to sell your home if you live in an urban area and move to a rural retreat where you should prepare to provide for and defend yourself, and (2) to invest your wealth in silver bullion after providing for the basic necessities.

The Coming Crash can be judged from two points of view: first, the validity of its claim of a conspiracy of international bankers; and second, whether or not the steps advocated constitute adequate preparation for a depression of the magnitude suggested.

THE INTERNATIONAL CONSPIRACY OF BANKERS

I will add very little to the conspiracy debate. Instead, I refer the reader to the Autumn-Winter 1971 issue of *Dialogue,*[3] which contains a critical review of the Skousen-Preston thesis by Dr. Louis Midgley of the Political Science Department at Brigham Young University, plus a letter from Dr. Carroll Quigley, professor of History at Georgetown University, and a response by Mr. Cleon Skousen.

The idea of a bankers' conspiracy is not new. It was heard in Europe as early as the late eighteenth century, but was seldom mentioned in this country until the late nineteenth century. The charge was often anti-Semitic in nature, with one of the earliest groups accused being the Illuminati—an eighteenth century secret society of Jewish intellectuals. Later the combination reportedly included international bankers, Zionists, and Communists in one monolithic conspiracy. Following the increased wealth and influence of America's famous banking families after the 1870s, the idea gained some support in this country. However, with the diminished power of bankers resulting from the Great Depression of the 1930s, the charge of conspiracy virtually disappeared.

For reasons not easily understood, in the late 1960s some American conservatives revived the idea of a conspiracy among

[3]William Fort, Louis Midgley, Carroll Quigley, and Cleon Skousen, "Round Table Review," *Dialogue: A Journal of Mormon Thought,* 6:99-116 (Autumn, Winter 1971).

bankers. Perhaps it was due to the lack of business support of Senator Goldwater in 1964 or it may have reflected their disillusionment with certain so-called "liberal" policies of President Richard Nixon. According to Cleon Skousen, however, it was the result of disclosures made by Dr. Carroll Quigley, supposedly an insider to the conspiracy, which triggered its revival. Dr. Quigley's book, *Tragedy and Hope: A History of the World in Our Time* (New York: Macmillan, 1966), therefore, plays a crucial role in the arguments of both Skousen and Preston. In a letter accompanying his 155-page review of Quigley's book, Skousen states that:

> Our main problem has been to discover precisely WHO was behind some of the insane things which have been happening. I have waited thirty years for someone on the 'inside' to talk and now Dr. Carroll Quigley has done it. He boastfully describes how the most powerful syndicate in the world is setting us up for a global socialist society. To accomplish their purposes, the Constitutional structure and independence of the United States must be destroyed. And that is what they are intent on doing.[4]

Dr. Quigley, however, has a very different view of his role as chief witness and authority on the existence of a bankers' conspiracy.

> . . . Skousen has simply taken extended passages from my book, in violation of copyright, and put them together in terms of his own assumptions and preconceptions to make a picture very different from my own. Skousen is apparently a political agitator; I am a historian. My book merely tried to give an account of what happened in the world in the early part of the 20th century. . . .
>
> Midgley has pointed out the chief distortions of my materials in Skousen's book. My picture of 'Financial Capitalism' said that it was prevalent in the period 1880-1933. [In fact, Quigley identifies six periods during which the accumulation of wealth led to a great deal of power. Only one of those six periods is the period of financial capitalism (bankers) from 1880 to 1933. Quigley maintains emphatically that that period ended in 1933.] Skousen quotes these dates (1890-1933), yet he insists that these organizations are still running everything. I said clearly that they were very powerful, but also said that they could not control the situation completely and were unable to prevent things they disliked, such as income and inheritance taxes. Moreover, I thought I had made it clear that the control of bankers

[4]Letter from W. Cleon Skousen, Salt Lake City, Utah, no date.

> was replaced by that of self-financing or government-financed corporations . . . I saw a quite different alignment of American politics since 1950. Skousen implies that financial capitalism was not only omnipotent but immoral, both of which I denied.
>
> I must say that I was surprised at the picture of myself which I found in Skousen. Midgley is correct in his statement that I never claimed to be an 'insider' of the Eastern Establishment, as Skousen seems to believe I was; I simply said that I knew some of these people, and generally liked them, although I objected to some of their policies.[5]

Since Quigley's book is central to the discovery and comprehension of the international bankers' conspiracy which is a major factor in both *The Naked Capitalist* and *The Coming Crash,* Quigley's letter emphatically denying that view of his book casts serious doubt upon the entire proposition.

In my examination of *The Coming Crash,* I found its scholarship suffering from two major faults: first, a number of inacuracies exist which, with more documentation[6] and care, could have been avoided; and second, there are numerous errors of logic that appear to result from an inadequate understanding of some basic tools of economics.

The following examples illustrate some of the inaccuracies. In discussing the consequences of inflation, Preston concludes that

> . . . finally it is hopeless, and the money is completely worthless; no one will take it. Then all the factories and stores shut down. Rioting, robbing, looting, and all types of crime begin to stalk the streets. The cities turn into concrete canyons with savages hunting down their prey of other human beings who might have food and drink. Blood flows like rain water in the gutters. It has happened before, in France and in Germany.[7]

No documentation is given, but the last sentence is apparently referring to the hyper-inflations in France during the 1790s and in Germany during the 1920s. The description is not accurate, however. In fact, the record of these inflations stands as evidence against the conclusion that the current inflation in this country is necessarily leading to political and economic collapse. In contrast to the current inflation in the United

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[5]Carroll Quigley, "Round Table Review," pp. 109-110.

[6]Preston's 112-page book contains only 50 footnotes, of which 6 are from Skousen, 5 from other conservative publications, 10 from popular books, and 14 from newspapers or monthly periodicals.

[7]Preston, p. 32.

States of 8 percent per year, the countries of Germany and France experienced rates of inflation as high as several *billion* percent, and yet, as serious as the consequences were, neither country suffered the total collapse and anarchy which is erroneously ascribed to them in the above quote.[8]

The Coming Crash claims that the United States must have a devaluation of at least 75 percent[9] (no footnotes) and later declares that a secret agreement has been made for the United States to devalue 50 percent after the 1972 election[10] (no footnotes). During the spring of 1973, the United States devalued by 10 percent—an amount many economists had been calling for in order to bring the dollar closer to its true commercial value in foreign markets. Since that time there has been little change in the value of the dollar with respect to other countries.

One also finds frequent misuses of quotes. For example, Preston states:

> Well, that is all well and good, except that that is peanuts compared to what really goes on with the Federal Reserve. Now remember that the 12 banks which operate the Federal Reserve System—they don't own it, but they operate it—are all private banks. That means they are privately owned. But who owns them? No one really knows. Why? Because they have never been audited, never turned in an audtited statement. . . .[11]

The source cited is an article in the *New York Times,* "The Federal Reserve May Face Audit," which, in contradiction to the above statement, declares that "the Federal Reserve Board's position has always been that it is already carefully audited by its own specialists with a double check by private accountants."[12] This audit is published each year as the *Annual Report.*[13]

Later in *The Coming Crash,* we find that "Bernard Baruch financial consultant to numerous Presidents, emerged a multi-billionaire because he had almost all of his money in silver—almost one-fifth of the world's visible silver at that time."[14]

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[8]See any standard European economic history text.
[9]Preston, pp. 37-38.
[10]*Ibid.,* p. 59.
[11]*Ibid.,* p. 25.
[12]*The New York Times,* 14 September 1967, p. 32.
[13]Federal Reserve Board, *Annual Report* (58th), 1971.
[14]Preston, p. 100.

It claims that Baruch sold his stocks and bonds and bought silver. Bernard Baruch, who was not included in the bankers' conspiracy, is apparently a witness in whom one can have confidence. Yet in his autobiography, *The Public Years,* Baruch states that in anticipation of the depression he sold his stocks and *bought* bonds and *a small amount of gold*[15]—a very different course of action from that suggested in *The Coming Crash.*

In his book, Mr. Preston claims that the Federal Reserve has "never paid taxes, nor paid any profits to the U. S. Treasury as the law asks."[16] The *Annual Report* of the Federal Reserve for 1971 shows that it has paid $149,138,300 in taxes; $2,188,893 in profits; and $26,460,130,829 in interest on Federal Reserve notes to the Treasury of the United States.[17] Though *The Coming Crash* said that the ratio of paper money to gold was approximately 25 to 1 in 1970,[18] actually, paper currency that year totaled $50 billion and gold supply was $10.1 billion—a ratio of 5 to 1.[19]

Perhaps one of the most surprising remarks in *The Coming Crash* is that the author has "a friend whose uncle bought a brand new car during the last depression" for 500 pounds of potatoes.[20] There is not a price index for automobiles, but one exists for potatoes. From 1929 to 1932 the price of potatoes fell from 32 cents to 17 cents per 10 pounds of potatoes,[21] suggesting that the friend's uncle paid $8.50 for a new car. Incredible!

Second, *The Coming Crash* illustrates the author's lack of familiarity with the concepts of demand and supply, the nature and uses of money, and how the Federal Reserve creates money. This leads to serious errors of logic on almost every page that deals with technical economic questions—most notably pages 24-40. For example, he repeatedly insists that because the Federal Reserve pays only $1.50 for $1,000 worth of Federal Reserve notes, it necessarily follows that the remaining $998.50 represents no real value and therefore constitutes

[15]Bernard M. Baruch, *Baruch, the Public Years* (New York: Holt, Rinehart and Winston, 1960), pp. 222-223.

[16]Preston, p. 25.

[17]Federal Reserve Board, *Annual Report* (58th), 1971, pp. 254-255.

[18]Preston, pp. 27, 58.

[19]*Federal Reserve Bulletin,* March 1972, p. A-16.

[20]Preston, p. 67.

[21]*Historical Statistics of the United States* (Washington, D.C.: U.S. Government Printing Office, 1960), p. 128.

inflation.[22] In fact, the full $1000 represents an obligation of the Federal Reserve to the U. S. Treasury, but neither this nor the $1.50 (nor the amount of gold backing) determines whether or not inflation will result. The value of money is determined by the same forces that determine the value of any economic good—in this case, the demand and supply of money. If economic output is expanding at an annual rate of 4 percent, the Federal Reserve can, and probably should, increase the money supply at that rate without inflation. Failure to expand the money supply at that rate will result in deflation and probably unemployment in the short run. If the money supply is increased more rapidly than the growth of real output, then inflation does occur.

The Coming Crash mistakenly states that for every dollar increase in government debt there is a dollar increase in the money supply followed by a dollar increase in the price level.[23] In practice, an increase in the national debt is often accompanied by an increase in the money supply in order to provide the federal government with an inexpensive credit market. However, this is seldom a one for one ratio, and in theory there is no necessary connection between the two. Nor does it follow that a dollar increase in the money supply necessarily leads to inflation.

Another major concern found in *The Coming Crash* is the lack of gold backing behind the money supply which mistakenly views gold as the determinant of the value of money.[24] Again, the value of money is determined by its supply in relation to its use—which is largely for the purpose of buying the annual output of the American economy, now totaling more than $1 trillion per year.

The Coming Crash charges that the international bankers created the Great Depression of 1929 for their own advantage. According to this thesis, bankers sold their stocks and bonds and bought gold and silver before the crash—thereby profiting from the depression. There is no documentation provided and I know of no evidence that supports this claim. What is well known is that from 1929 to 1933 there were over 8,500 bank failures in this country, affecting almost one-half of the banks existing in 1929—a strange way to profit from the De-

[22]Preston, pp. 26, 34-35.
[23]*Ibid.*, p. 27.
[24]*Ibid.*, pp. 26-28, 37, 58.

pression![25] And, judging from the response of bankers to the Roosevelt administration, they were not in firm control of the political scene. It is inconceivable that bankers who supposedly possess virtually world-wide control are, at the same time, unable to eliminate their competitors—the savings and loan associations and mutual savings banks.

Let me state what must be obvious. From the standpoint of both logic and my own study of monetary history, I do not believe in an international bankers' conspiracy which seeks to destroy the United States and wield total world power. On the other hand, I find ample evidence of the desire of bankers to maximize profits and to exert power and influence commensurate with their wealth. I believe that *The Naked Capitalist* and *The Coming Crash* both naively confuse power with conspiracy. Wealth creates power, and many bankers have wealth, hence power. But must we read sinister motives into fairly common human behavior? As human beings we support with our time and money virtually every sort of idea conceivable, and the more wealth one has the more obvious is his support of "strange" causes. The economic history of the 19th century reveals that Jay Gould, Jim Fisk, and others supported both Republican and Democrat candidates within the same state. If there had been a Socialist party with significant political influence, they may well have been found supporting the socialists as well. It is an old practice of "hedging a bet" by making counterbalancing bets.

The belated discovery of a heretofore secret, though worldwide and virtually omnipotent, conspiracy of international bankers impugns the patriotism or the intelligence of every major government official, banker, economist, and newspaper publisher in this and other countries for the past 100 years. The list of government conspirators or dupes includes virtually every public figure in Republican as well as Democratic administrations: Richard Nixon, Dwight Eisenhower, Arthur Burns, Henry Cabot Lodge, John Foster Dulles, Henry Kissinger, etc.[26] By the same logic, one must include President Nixon's first Secretary of the Treasury, David Kennedy, whose name is conspicuously absent from lists compiled by Mormon authors.

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[25]Ross M. Robertson, *History of the American Economy* (New York: Harcourt, Brace & World, Inc., 1964), p. 519.

[26]Gary Allen, *None Dare Call It Conspiracy* (Rossmoor, California: Concord Press, 1971), p. 90.

In the United States today there are almost 14,000 banks with at least that number again in the rest of the world. The either-or task of enlisting their support in the conspiracy or strictly maintaining its secrecy from them staggers the imagination.

TEN STEPS FOR PREPARATION

Let's now turn to the ten steps *The Coming Crash* recommends to prepare for the collapse. The first five steps are noncontroversial and have been suggested by others for a number of years: one should provide for (1) a safe water supply;[27] (2) an adequate medical supply;[28] (3) an ample food supply —18 pages of the book on this topic are verbatim quotes from the U. S. government, Department of Agriculture's food storage plan;[29] (4) training in first aid and civil defense;[30] and (5) enough food, water, clothing, etc., to be self-sufficient for two years.[31]

The remaining five steps recommended in *The Coming Crash* are more original and more controversial. It advocates that (6) one should prepare to defend himself by joining a gun club and owning a small rapid-fire 22 calibre rifle;[32] (7) those living in cities should sell their homes and move to a rural retreat 200 miles from a large city—seeing no advantage to home ownership, but recommending an older house, a cabin, or a mobile home;[33] (8) one's savings should not be kept in banks or savings and loan institutions;[34] (9) people should secretly convert their currency into silver coins and hide them in many places;[35] and finally, it recommends that (10) wealth be converted into silver bullion.[36] The author will sell non-returnable silver at considerably above the spot price in return for your Federal Reserve notes. Investments to stay away from, according to the author, are life insurance, with the exception of 5-year term policies, all retirement programs, mort-

[27]Preston, p. 67.
[28]*Ibid.*, p. 68.
[29]*Ibid.*, pp. 68-86.
[30]*Ibid.*, p. 87.
[31]*Ibid.*, pp. 90-97.
[32]*Ibid.*, pp. 87-88.
[33]*Ibid.*, pp. 88-89.
[34]*Ibid.*, p. 98.
[35]*Ibid.*, pp. 98-99.
[36]*Ibid.*, pp. 99-100.

gages, U.S. government bonds, and mutual funds.[37] If enough people in the United States followed this advice, the predictions of a severe depression would be self-fulfilling and would not even need any help from a super conspiratorial union of bankers.

Considerable interest and attention have focused on advocating the purchase of silver bullion. One of the most frequently encountered questions is whether or not silver represents a viable hedge against (1) inflation and (2) the type of depression predicted by *The Coming Crash.* The only accurate answer is that nobody—including Mr. Preston and Mr. Wimmer—knows. That answer, or lack of answer if you like, follows from the fact that the question requires a knowledge of the future. What can be known for certain is that the purchase of silver as a hedge is a highly speculative and risky venture, dramatically demonstrated by recent price changes for silver. From 1968 to 1971 the price declined from $2.14 to $1.54 per ounce (a 28 percent decline); the price rose precipitously from $2.97 in December, 1973 to $6.70 on 26 February 1974 (a rise of 125 percent); as of 16 April 1974, the price had declined to $4.31 (a fall of 36 percent—sufficient to entirely wipe out the investment of anyone buying on margins).[38] In my opinion, the silver market is too volatile for the average, small investor, and it surely is not a market designed to assure an investor against risk and uncertainty. One may insist that the price of silver must continue rising because we are producing only 70 percent of current consumption—the remaining 30 percent coming from depleting stocks. But on the other hand, ponder the impact upon the future value of silver should Eastman Kodak, the world's largest consumer of silver develop a substitute for silver in their photographic process. My point is not that the price of silver must fall or rise, but rather that the future is uncertain and that silver is a highly speculative market which no one should go into uninformed.[39] It must be remembered that for every dollar of silver purchased in anticipation of a future in-

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[37]*Ibid.,* pp. 102-104.

[38]*Statistical Abstract of the United States* (Washington, D.C.: U.S. Government Printing Office, 1973), p. 666 and *The Wall Street Journal,* December 1973—April, 1974.

[39]Anyone contemplating the purchase of silver should read an article on the problems of margin buying in the silver market published in the *Wall Street Journal,* 4 February 1974, pp. 1, 18.

crease in its value, someone must of necessity sell a dollar of silver, and he may be equally convinced that the future price of silver will decline.

The answer to the second question, "Is silver a good hedge against the type of depression described by *The Coming Crash?*" is the same. No one knows. In my opinion, if conditions become as severe as the book predicts, it is possible that silver would be of little value. Preston is not describing a depression similar to that of the 1930s—probably the most severe depression in this country's history—but one of much greater severity and consequence. He is predicting a total economic, social, and political collapse, including large scale famine, civil disorder, and anarchy. If conditions were to become that severe, it seems unlikely that any form of monetary unit would circulate. What trade would exist would most likely be in the form of pure barter—goods for goods with no monetary intermediary. On the other hand, if *The Coming Crash* is wrong about the severity of the depression, then silver may be a reasonable hedge against a moderate depression. That, however, is just as uncertain as the answer in the case of inflation. The value of silver is now determined almost entirely by non-monetary forces of demand and supply, and the future of both is unknown.

The question of what sort of wealth portfolio one should hold is a very complex matter because it should include some hedge against the economic opposites of depression and inflation. The answer varies from family to family and from year to year, and should be worked out cautiously with as much professional help as can be afforded.

I believe that one should first look after his debt, insurance, and cash flow needs. To the extent that he is fortunate enough to have a surplus, I encourage him to seek professional advice and to diversify. Normally the higher the potential return, the greater the risk and therefore the greater the probability of loss also. Included in this category are commodities (such as silver, copper, cocoa, sugar, hogs, cattle, soybeans, etc.), international monies, and the so-called "penny stocks." Lower risk investments generally yield less return, but also less likelihood of loss. These include bluechip corporate stocks and land purchases. The safest investments, and therefore under normal conditions the lowest returns, are savings accounts and government and corporate bonds. Silver, as a commodity, falls under the category of high risk and the average family should be very cautious of that type of investment—especially at current prices.[40]

It is my conviction that the predictions and prescriptions contained in *The Coming Crash* are simplistic and of dubious validity. In their more extreme form, they are potentially damaging to true preparedness.

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[40]Recently, the *Wall Street Journal* warned that the gold market (a market closely related to the silver market), "as any intelligent gold speculator knows, is highly volatile." And cautioned that that market "has become an even riskier place." *Wall Street Journal,* 1 April 1974, p. 25.