The Gold Standard
The journal of The Gold Standard Institute

Editor	Philip Barton
Regular contributors	Rudy Fritsch
	Keith Weiner
Occasional contributors	Ronald Stoeferle
	Sebastian Younan
	Publius

The Gold Standard Institute

The purpose of the Institute is to promote an unadulterated Gold Standard

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Editorial

It's important to understand that the gold standard is not primarily about economics and the monetary science.

Whilst an intellectual understanding of why and how gold works in the way that it does is useful; that is not the real story. The science behind gold only came into being because of the necessity to logically explain to its detractors why gold has had such an illustrious past. The important point is that gold is the freely chosen money of the people and is the only money that has ever worked over the longer term.

It is not easy to isolate the greatest virtue of the gold standard, because there are so many. Maybe it is purely a matter of preference. If I had to isolate one aspect I would plump for the fact that it is the great leveller.

Gold is the one and only money. It attained this stature because it is the world's one and only store of stable value. Once gold is gained, it cannot be degraded; it cannot be reduced in value. It is what it is and will always be.

A wage earned in gold (or silver) is a wage that can be saved and invested without its value being constantly diminished. It is a wage that can be used to lift someone as far as the combination of their work ethic, ambition and ability would have them go.

Today we live in a world where that is not true. To rise above the status to which one was born has about the same odds as winning the lottery. Steve Jobs and Mark Zuckerberg rose from humble beginnings to being very successful people. With paper money that is unusual, so unusual that Jobs and Zuckerberg became celebrities. With circulating gold it would be far more common.

Understanding gold is not at all complex; it is entirely simple. Under the gold standard, governments cannot shaft people. Businesses thrive, jobs are plentiful and, the cause of that, the money gained from surplus production can be accumulated because it holds its value.

Gold is the money of freedom, not just freedom from out-of-control government, but also freedom to be who or what one wants to be. There are no artificial barriers with gold. The great gold leveller allows people to achieve whatever they are capable and desirous of achieving.

Gold is not an academic exercise that has no bearing on day-to-day life. Money affects every aspect of everyone's life. If the monetary science does not interest you then that is fine; for truth be told, some of it is rather dull (not to mention questionable!). As long as you understand gold's virtues, that is enough.

Support for the gold standard is not only support for liberty, prosperity and peace, it is support for oneself and one's family, for what is right and decent and for what works. Maybe that latter point is all that really matters at the moment.

Philip Barton

News

Gold Broker: Viat Mat - Americans need not apply

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Australian Debt Clock (thanks Jacq)

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Business Recorder: Russia and Turkey add to gold holdings

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Independent: Israeli scours lake north of Berlin for looted Nazi gold

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Epoch Times: Finally, asteroid mining begins to become a reality.

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NY Times: Rampant corruption in Spain. Europe is starting to come apart at the seams.

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MineWeb: As anticipated, India's new duty rate hike on gold imports is a bonus – for smugglers.

Reuters: Iran – gold sanctions

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Yahoo: Turkey-Iran gold trade wiped out by new U.S. sanctions

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Mining.com: Russia could overtake Australia, China and US in gold production by 2015

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ABC: A tax hike on gold exports in the Philippines caused a rise in smuggling.

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Bloomberg: Oil to bullion

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BBC: Arsonists attack gold mine in Greece

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Fox News: Peru Says Spain Stole their Gold

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Meanwhile, job growth continues to show healthy improvement. Busking is up almost 40% and bottle and can gathering is through the roof (firm statistics are not available). The military is still expanding and prison security is continuing to develop as an area with good long-term prospects for those seeking a secure career. Also in the area of security – L.A. police report that free market fund-raising by local youths who have banded together for mutual support is also a growth trend. The stock market soared to new highs on the news.

Quote

"I have been a student of money and credit for over fifty years. I could summarize the result of my studies as follows: Most, if not all, the great events in the history of mankind since the advent of money, have a causal explanation. The causes are to be found in the use and abuse of money and credit - provided that we penetrate historiography sufficiently deeply."

Professor Antal E. Fekete - 2010

The Golden Future: Game Theory, Monetary Regimes and the Inevitable Return to a Global Gold Standard

Most if not all advocates of a return to some form of gold standard to restore monetary stability and facilitate a return to healthy, sustainable economic growth are dismayed by the apparent lack of support from sitting central bankers and politicians. Fortunately, their support is not required, merely their acquiescence under necessary conditions. As it happens, most of these conditions are already in place. During the course of this year or possibly next, at least a partial if not official remonetisation of gold will be underway internationally and this will cascade, probably in short order, into a formal global gold standard. To understand why this is so requires only a basic understanding of game theory. A little history also helps to demonstrate the point.

On Monetary Regimes

We know that money has been around for as long as civilisation and that for most of recorded history precious metals have been the most common international money, that is, money used to settle accounts between sovereign entities. Indeed, this international monetary use of precious metals remained in existence for many decades after gold and silver coinage were effectively removed from active circulation due to the imposition of legal tender laws across most countries, prohibiting their use in domestic commerce.

This general use of gold and silver as international money has been subject to periodic regime change. For example, different coins have provided the dominant share of the international money at different times. Prior to the 19th century most coinage was of Spanish origin. This was due in part to Spain's age-old Habsburg and Holy Roman Empire connections and, from the 16th century onwards, their vast Latin American empire.

During the 19th century, the eclipse of Napoleonic France and growth of the British Empire resulted in the British coinage dominating the international monetary scene. Innovations in communications, banking and growing confidence in the enforceability of contracts internationally around this time, however, resulted in sterling banknotes, bills of exchange or other near-money equivalents changing hands more frequently than actual specie or bullion.

Flows of specie and bullion were still important, however, as countries would periodically settle their balance of payments in physical coins or bars. From the 1860s, for a variety of reasons, gold began to supplant silver to the point where the latter fell into near complete disuse for international settlement transactions, although it was still used for domestic coinage in many countries.

International versus Domestic Money

What was true at the international level, however, was frequently not the case domestically. Countries that fell into fiscal crises, such as Spain in the 17th century, France in the 18th century, or Britain in the early 20th century, resorted to currency debasement to liquidate debt. In some cases this resulted in severe inflation or even hyperinflation. Weimar Germany is only one example among many.

This distinction is important. Countries can, and have, resorted to debasing or inflating the domestic legal tender time and again, most commonly to monetise public debts. But history provides no example of a country debasing or inflating a currency used for international commerce without this currency eventually being repudiated by trading partners, thereby making it impossible to pay for imports, difficult to grow the economy and, by extension, difficult to support even a small government with sufficient tax revenues.

Is today's inflating, unbacked dollar somehow an exception? No it is not. Look around the world and you see one country after another taking steps to reduce their reliance on dollar reserves and available statistics show central banks and other official entities are stockpiling gold at the fastest rate since the Bretton-Woods system was still in operation and gold was still a de jure international money.

For all the continuing talk of China's long-held mercantilist growth policies, China stopped accumulating dollar reserves back in 2011. Japan has de-stocked slightly over the course of the past year.

The only countries that have generally continued to accumulate dollars are a handful of oil exporters.

The 'Old Maid' Game is Afoot

With fewer players now in the dollar reserve game the classic 'Old Maid' dynamic obtains. For each additional country that chooses to follow China, Japan and others who have ceased their accumulation of dollar reserves, another country must make a conscious choice to accumulate even more, or the dollar will decline in value. (Alternatively, dollar interest rates could rise to offset selling pressure, but I doubt the Fed would allow that to happen at this stage.) Staring at each other around an increasingly empty poker table, who will be left holding depreciating dollars? And if fewer and fewer countries are, how can dollars continue to be the primary currency for settling international balance of payments transactions?

They won't be. Beyond a certain point the dollar will lose its pre-eminent reserve status. But what other currency can possibly replace it? The euro? The yen? All these currencies share the same problems of excessive debts, risks of devaluation and lack of confidence in their future stability. No, as the dollar's role declines the gold reserves being amassed today will be mobilised to replace it for international settlements. It is just a question of time. From that point forward, countries will have a strong incentive to formally link their currencies to gold because, if they are left unpegged, trading partners will have little reason to hold the currency for even short periods and will demand essentially instantaneous gold payments for exports. Far more practical will be some form of gold standard.

It must be stressed that the international remonetisation of gold does not require enlightened or even conscious choices by policymakers. It can occur entirely spontaneously. With import and export volumes growing unabated as the global economy continues to integrate in ways thought unimaginable just a generation ago, countries finding themselves shorter and shorter dollar reserves and longer and longer gold reserves will naturally begin to rely more on the latter and less on the former.

Indeed, this is precisely the way in which the classical gold standard of the period 1870-1914 arose in the first place. There was no international conference, no major diplomatic initiative, no formal regime building. All that happened was that more and more countries, for various reasons, began to rely more on gold than on silver reserves in their domestic banking systems and past a certain point it simply became impractical to mobilise the remaining silver reserves internationally. (Germany's victory over France in 1871 arguably catalysed this process somewhat as Germany had a strong domestic preference for gold over silver as reserves.)

The Golden BRICs

In a world of excessive debts, including in the country providing the world's currently dominant reserve currency, all major currencies are at risk of some degree of devaluation, in some combination of nominal (vs each other) and real terms (vs gold). In this situation, how can countries trust the dollar? How can they trust the yen? The euro? Sterling? The BRICs, among other countries, separately and together, have made clear repeatedly that they do not believe that the current international monetary regime, centred around the dollar, serves their national economic interests.

The BRICs now account for a larger share of world trade than the US. They trade more with each other than with the US. And it is no coincidence that they are all accumulating gold and slowing or reversing their accumulation of dollar reserves. The BRICs may well represent the tipping point from the unbacked dollar reserve standard to the future global gold standard. For those who understand game theory and know their international monetary history, these developments collectively represent golden writing on the wall.

John Butler

John Butler is a founding partner and the CIO of Amphora, a commodity-focused hedge fund. He has 19 years' experience in the global financial industry, having worked for European and US investment banks in London, New York and Germany. Prior to founding his independent investment firm, he was Managing Director and Head of the Index Strategies Group at Deutsche Bank in London, where he was responsible for the development and marketing of proprietary, systematic trading strategies. Prior to joining DB in 2007, John was Managing Director and Head of Interest Rate Strategy at Lehman Brothers in London, where he

and his team were voted #1 in the Institutional Investor research survey. He is the author of *The Golden Revolution* (John Wiley and Sons, 2012), and author and publisher of the popular *Amphora Report* investment newsletter. His research has been cited in the *Financial Times*, the *Wall Street Journal* and other major financial publications, and he has appeared on CNN, CNBC, ReutersTV, RT and BBC programmes. He is also an occasional speaker at public conferences and private events around the world.

The American Corner: Arizona State Legislation Recognizes Gold and Silver

A friend of mine who works with several state legislators sent me a Capitol Media Services brief about a state Senate bill, introduced by Chester Crandell (Republican). I do not have a link, as I received the text of the article by email.

From the article:

> *Arizonans who fear the federal government will make their folding money worthless may soon be able to substitute privately minted gold and silver coins.*
>
> *The Senate Finance Committee on Wednesday took the first steps to making such coins legal tender in Arizona. SB 1439 would give them the same legal status as bills and coins authorized by Congress.*
>
> …
>
> *But proponents said it's only a matter of time before the country suffers hyperinflation, making the greenback worthless.*
>
> *"We need to have a lifeboat for Arizona so we can construct Plan B," testified Miles Lester.*
>
> …
>
> *But Sen. Steve Farley (Democrat), questioned whether something else was at play. He said a similar Utah law adopted in 2011 was pushed by Old Glory Mint, a company that makes these gold and silver coins. Beyond that, Farley said while the current financial system has its flaws, the country hasn't had the financial panics that occurred regularly in the 19th century.*

To Mr. Farley, I have two responses. First, argumentum ad hominem is the resort of someone who does not have facts and logic on his side. Second, where were you in 2008?

The full text of the bill is here. I think these two clauses are very important:

> *A. Nothwithstanding any other law, the exchange of one form of legal tender for another does not give rise to liability for any type of tax.*
>
> *B. Any tax that is due as a consequence of a transaction that involves specie legal tender shall be paid proportionally in the same legal tender.*

I am not a lawyer, but I read the first clause as saying that there shall not be a state "capital gains" tax on the rising price of gold or silver, as there is currently (the tax at the federal level is not affected by Arizona law). I read the second as saying that if one makes a profit of 10 ounces of gold, then one must pay 1 ounce of gold tax (assuming 10% tax rate).

If my interpretation is correct, this is a very positive development!

One of the obstacles to adopting the gold standard is that taxes are incurred based on the dollar prices of things. Say a business spends 10 oz of gold to buy inventory and later sells it for 11 oz. If the price of gold goes from $1700 per oz to $2700 per ounce during this time, then the government would regard this as a profit of (11 X 2700) – (10 X 1700) = $12,700 and then charge a tax of $1270 (assuming a 10% tax rate). $1270 is about 1/2 oz. However, if they recognize gold as money, then the profit is 1 oz and the tax is 1/10 oz.

Needless to say that in a rising gold price environment, a tax levied on all gains in the gold price could make it impossible to do business in gold. The taxes could be greater than the real profits. Books kept in dollars would show a big profit. Only by using gold as the unit of account would one see this loss for what it is.

Recognizing the right to do business in gold and pay a tax only on the gold profits is a big step towards the gold standard.

Keith Weiner
President of the Gold Standard Institute USA

The Definition of Money

Mr. William (Bill) Buckler writes a fine monthly newsletter, The Privateer… out of Australia. This is one of my favorite reads, as the 'Captain' is usually incisive and shows a thorough understanding and clarity of thought regarding the world monetary crisis. This month he also recommends that we read Professor Fekete's latest writing, about the Gold basis and the Silver saga.

I recommend that all should read Professor Fekete's work; my issue is not with the Captain's suggestion regarding Professor Fekete, but with his theme of the month; "the real war – currencies vs money". His article goes on to discuss the 'definition of money' as 'a medium of exchange', then muddles about trying to show that 'currencies', ie Fiat money, are not a medium of exchange… whereas 'real money' is… a medium of exchange, that is.

This whole line of reasoning is shaky, and is far from clear or decisive. Obviously any 'currency' ie Fiat paper does in fact function as a medium of exchange… at least for the short term, while the currency still has some market value. And at least in one geographic location or country… where the 'currency' is legal tender. So if a 'currency' does function as a medium of exchange, what is the real difference between money and currency as the Captain describes it? Indeed, is there a real difference?

The whole problem is simple to clarify; 'a medium of exchange' is NOT the ***definition*** of Money; it is a ***function*** of money. Two other equally important functions of money are 'a store of value' and 'a unit of account'… and again, these are ***functions*** and not definitions.

The two first functions… a medium of exchange and a store of value… may also be described as moving value horizontally, in a geographic sense, and vertically, in a temporal sense. The third function… unit of account… reflects the success of money in fulfilling the first two functions.

The proper ***definition*** of money is "that which extinguishes all debt". Note the key words 'extinguishes', 'all' and 'debt'. These three words are the key to understanding money, and are the key to understanding the failure of Fiat 'currencies' masquerading as money.

Let us examine the definition of the key words; first, debt is the exchange of a present good for a promise… of some future good. Notice debt is defined without any reference to money.

Historically, debt precedes money; debt and credit exist in a barter society, a society that has not yet developed money. For example, if I lend a pound of sugar to my buddy Joe and give him an IOU in return, we have created a debt scenario; the exchange of a present good… 'a bird in the hand'… in the form of a pound of sugar, for a future good… 'two birds in the bush'… my IOU. No mention of money here.

Debt is not a present good, but a promise. A bird in the hand is a present good; two in the bush is a promise, a hope. We must be very clear on this; another promise cannot extinguish debt, as debt is already a promise; only a present good delivered to the debt holder can extinguish debt. If I give Joe another IOU to replace the one he already has (rolling over the debt) then clearly the debt is not extinguished, simply extended into the future.

Similarly, if when I promised to give Joe back his sugar, I don't have any on hand but scramble around, borrow some from Jane, give Joe the sugar… and give Jane the IOU… the debt has not been extinguished, simply shuffled from Joe to Jane… Joe is clear, but the debt is still in existence… and will be until extinguished by a present good. Most likely the sugar… but perhaps a deal can be made whereby Jane accepts a quantity of salt instead of a pound of sugar; a barter scenario, but clearly salt is also a present good… whereas the IOU is not. Salt, a present good, can extinguish the debt.

The key point is that ***only*** a present good can extinguish debt… and Fiat money is anything but a present good. Fiat money, what the Captain calls 'currency' is nothing but an IOU, a promise. In the USA, Dollar bills, aka bank notes, are IOU's printed by the Fed; and in other countries, their currencies are IOU's created by their respective reserve banks.

On the other hand, Gold and Silver are clearly not promises; they are the actual stuff, the present good, the 'bird in the hand'. Therefore, Gold and Silver money have the ability to extinguish debt. Furthermore, unlike sugar or other bulk commodities, they have the property of extinguishing ALL debt; whereas it would be less than desirable to receive one's wages in the form of sacks of sugar or barrels of crude, it is very much desirable to receive them in the form of real money; Gold or Silver coins and bars.

Before WWI Gold and Silver were known and accepted as money, and while bank notes existed, it was well understood that the notes were merely promises. These promises were redeemable at any time in Gold and Silver. JP Morgan is often quoted to have answered the Congressional question of 'what is money' by stating that Gold is money, all else is debt. Mr. Morgan clearly understood what money is… the world today has forgotten this important truth.

As the monetary destruction proceeded apace, redeemability was lost, and bank notes (debt paper) started to masquerade as money. The current generation of notes that are not even specific promises… unlike pre Fed bank notes, they do not promise anything. The only assumption is the 'full faith and credit' of the US government. So what are 'faith and credit' if not promises? Indeed, vague and essentially meaningless promises.

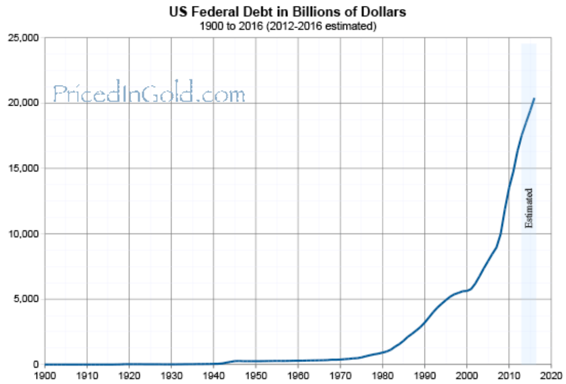
Promises made in bad faith, with no intention of ever being paid off… and no mechanism (circulating Gold or Silver) in existence whereby debt can ever be paid off, extinguished… no wonder the world is in a Monetary Crisis. All the money in existence is sitting in vaults, private or public… and in holes in people's back yards… instead of doing their job of extinguishing debt.

The monetary crisis will not be resolved until this changes. IOU's will continue to be added to outstanding IOU's, existing IOU's will be rolled over, shuffled around, and hidden in the Fed's balance sheet… but debt will not, cannot be extinguished until Gold and Silver take their rightful place in the economy… as the ultimate extinguishers of debt.

Rudy J. Fritsch
Editor in Chief

Is the Debt Bomb a Dud?

Many people are rightly concerned that the US Federal debt has been exploding in the last few years. A quick look at this chart will show why.



This chart doesn't try to show all the debts of the United States, just the publicly acknowledged debt of the federal government. So it doesn't include state and local debt, and it also omits unfunded liabilities (promises to pay in the future for things like medicare and social security). This is the number that grows each year by the size of that year's deficit.

As you can see, it stayed pretty small until the 1940s, when World War II moved spending up to a new level. Even then, it didn't rise dramatically until the 1970s, when the US dropped the last vestiges of the gold standard, and began running the printing presses in earnest to fund social programs at home, and the Cold War abroad.

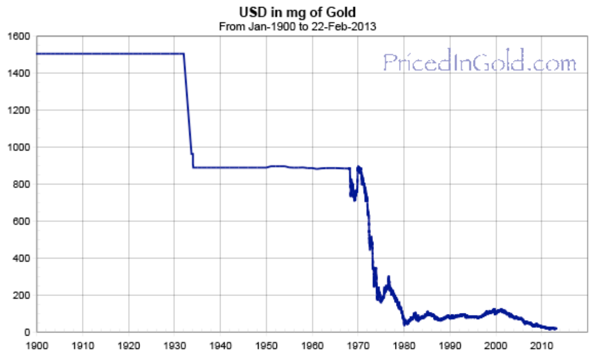
Despite the collapse of the Soviet Union, social and military spending continued to grow in the 1980s and 1990s, paid for with borrowed money. After the market crash in 2001, new programs to "stimulate" the economy were implemented, shooting debt levels to heights never imagined before. And after the 2008 crash, efforts to "stimulate" were redoubled, piling on debt at an even faster rate.

The last few years of this chart are estimates based on the government's own forecasts of future deficits. If history is any guide, these will probably turn out to be on the low side.

Of course these debts are financed primarily by the Federal Reserve buying the government's bonds with money that it creates out of thin air. This process has many pernicious effects, distorting interest rates, inflating the money supply, distorting perceptions of risk, and causing businesses and consumers to misallocate their resources.

Although we are focused here on the United States, this same process is going on, with various twists, in all the major economies, including Japan, Europe, the UK and China. So these distortions are worldwide in scope, and undermine the value of all of the government issued "fiat" currencies.

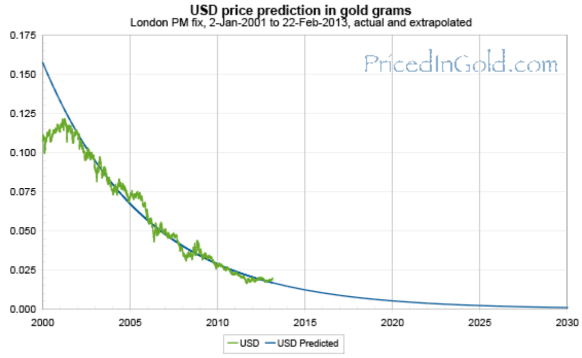
I am old enough to remember 25 cent gasoline and shopping in a dime store. Now we paying $4.00 for gas, while our kids shop in the Dollar Store. You can see this decline of value by charting the amount of gold it takes to buy one dollar. Originally worth about 1500 mg (1/20 of an ounce), it has now fallen to about 20 mg - one seventy-fifth of its value in 1900.



Zooming in on the period from 2001 to the present, which also happens to be the period of fastest growth in government debt, we find that the dollar has been declining in a logarithmic fashion, just the way radioactive elements decay. The time it takes for a substance to lose half of it's radioactivity is called its "half-life", and varies depending on the particular material, with some taking thousands of years to lose half their power, and others decaying in tiny fractions of a second.

If you listen to this decay process on a geiger counter, you hear a random clicking, sometimes with bursts of many clicks close together, other times very few clicks, as nuclei disintegrate and give off radiation. But plotted over time, the rate of decay sticks very close to a smooth curve.

The US Dollar also follows just such a curve. Every four years, the purchasing power of the dollar falls in half. From 125 mg in 2001, to about 65 mg in 2005. From 50 mg in 2007 to 25 mg in 2011, and so on. Like random particle decay, it is sometimes above the pure mathematical curve, and sometimes below, but never far away.



If we project this pattern into the future, we see that its value never reaches zero, it simply keeps cutting in half over and over. First to half, then to a quarter, then to an eighth, and so on.

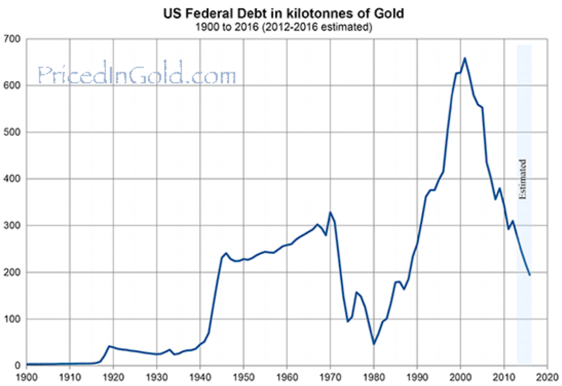
This is the flip-side of the "miracle" of compounding, where your money doubles after some period, over and over again. Compounding is wonderful for the lender, as long as he actually gets repaid in money that has as much buying power as the money he lent in the first place.

But there's the rub - if it takes 7 years to double your investment by compounding, but the money is halving it's value every four years, as an investor you have a problem!

On the other hand, if you are the borrower, everything is turned upside down. Generating enough cash-flow to pay compound returns to your lenders isn't easy. Borrowing even more to keep things afloat and cover your interest payments just digs you in deeper. But being able to pay the loans back with depreciated dollars is a great help to the borrower.

Returning to the subject of the US Federal debt, the government is faced with the task of paying back an exponentially compounding pile of debt, but it can do so with dollars that are rapidly decaying in value. So, which side is winning the "tug of war"?

By simply repricing the debt in gold, we can see the answer in the chart below.



Clearly, for more than a decade, the dollars in which the debt is denominated have been losing value much faster than the debt itself is growing. The massive and growing deficits and endless bailouts, stimulus programs, and rounds of quantitative easing are causing the "bid" for dollars to be lowered faster than those programs add new debt. In fact, currency debasement is crushing the debt explosion, causing it to halve every 5-6 years.

Whether this is due to careful financial and monetary engineering, or just dumb luck, I can't say. But let's follow down the consequences if this pattern continues.

The current federal debt is about 295 kt of gold. The government claims to have 8.13 kt in its reserves. At current rates, those gold reserves will be sufficient to fully collateralize the debt in 5.2 half-lives, or 25 to 30 years. Even that may not be necessary; a return to the debt levels of 1900 (31 kt) will take only 15 to 20 years.

So the good news is that there is a realistic hope of putting government finances back onto a solid footing in the not too distant future, potentially allowing a transition to a redeemable currency without total default on existing obligations. (Of course paying back debts with a debased currency is a sneaky kind of default, but a legal one that people don't seem to complain too much about, for some reason.)

The bad news is what the world will look like for those who keep their books in dollars: in 20 years, dollar prices will be roughly 32 times what they are today. So an ounce of gold might set you back $51,000, gasoline could cost about $128 per gallon, and mailing a first class letter will probably require a $15 stamp (if the US Postal Service is still in existence). Ivy league college tuition will be a million dollars or more per year. It is very unlikely that wages will keep pace, meaning the standard of living for most people will be dramatically lower than it is today.

Owning gold and silver won't make you rich in this scenario. A year of college will probably still require about kilogram of gold, and a silver quarter should be enough to buy a gallon of gas (even with some stiff carbon taxes). But it will preserve the purchasing power of your savings, and leave you in a position to take advantage of the price distortions created by the latest round of lame government regulations. And *that* might make you rich!

Sir Charles Vollum

Charles Vollum has been involved with computer technology for 45 years. After studying mathematics and computer science at Reed College, he pursued a successful career as a software developer before starting his own computer company, Cogent Research, Inc., to develop and manufacture parallel desktop supercomputers in 1986. Selling and servicing these computers took him all over the world, and allowed him to see first hand the effects of many currencies and monetary regimes. After selling Cogent Research in 1992, Charles embarked on a new adventure – sailing a 27 foot sailboat singlehanded across the Pacific from North America to New Zealand, visiting many South Pacific Island nations and learning more about the world's money systems.

An active investor in gold and silver since 1980, Charles slowly began to realize the importance of having a standard of value not tied to any country's currency and monetary policy - that in fact, rising and falling 'gold prices' were really more accurately viewed as falling and rising 'currency prices', measured against the relative stability of gold. This insight led to the founding of Gold Monocle Group, Ltd, and the creation of the Priced in Gold website in 2007.

For the last year, he has been experimenting with Bitcoin, seeking to understand its place in the universe of currencies and its relationship to gold.

In addition to his work on gold pricing and investment, Charles is an avid photographer, sailor, ham radio operator, and home-schooling parent.

About Priced in Gold: At Priced in Gold, we look at the world without the distorting lens of fiat currencies, and see the true prices of things as they've been measured for thousands of years, by pricing them in gold. This insight is critical for anyone who is planning for the future, especially investors seeking real growth in their portfolios over the long term.

News from Europe

I am certain that even beyond Europe it is known that people here are becoming more and more disenchanted with the state of things. This is not without reason – as the living conditions for normal people are getting ever more precarious. Real inflation is rising at an ever-steeper angle and unemployment rates are growing – especially in Southern Europe. In some countries, youth unemployment edges beyond 50 per cent and the rule of law is getting weaker.

It is safe to say that Europe's unification by decree has failed. Failed, because in a cavalier manner no legal basis for this union was simultaneously put in place. To this day, the European Union and the European Parliament have not provided a legal framework for the united Europe. Instead, a crude fiat money currency was supposed to create a foundation, which was doomed to failure from the very beginning. The EU is a legal monstrosity consisting of Councils, Commissioners, the EU Parliament and other bodies and institutions. These names alone send a shiver down our spines since they hark back to a Socialist and Communist past. Furthermore, the various bodies and their responsibilities are subject to "mission creep" – even close observers have lost the overall picture by now. As an example I would like to cite the so-called "troika", which originally described the previous, current and next presidency. Today, the "troika" consists of ECB, IMF and EU Commission.

That the average citizen cannot make head or tail of all this can be taken as gospel. I would even go so far as to say that this entire mess was created on purpose so that the euro would then be perceived as the unifying element that gives a sense and a meaning to an otherwise amorphous something. In reality, of course, the single currency serves to make Europe-wide redistribution easier. I would like to quote from a letter that reached me which mirrors a common sentiment: "The forced monetary peace, treacherous abolition of the deutschmark and monetary straightjacket form an incendiary situation that threatens the rule of law, state and economy in Europe and slowly kills off the European idea and the fabric of German society."

Brussels, however, refuses to recognise the sudden demise of its "drawing board" currency. *"Europe's politics and banking elites propagate the message, that there is no reason to doubt the old goals. The euro is without alternative, even though they fail to deliver an explanation"* says Professor Hankel, a leading euro critic. In the last few months the centralistic Brussels regime tried to prop up what is beyond salvage. Unfortunately, they managed to garner support amongst the member states for legal changes that benefit Brussels. The euro-fanatic national parliamentarians have connived by signing more and more laws that benefit not their constituents but rather the ruling class in their countries as well as in Brussels.

In some countries they even went so far as to change constitutions as if they were mere house rules. This was in order to facilitate the transfer of sovereignty in financial and fiscal questions from the national to the supranational level to questionable institutions such as the ESM.

The population voices their displeasure in many different ways. On the one hand, there are mass protests in the Southern countries, news of which is suppressed in the mainstream media. On the other hand – and this is a much more pleasant development – pro-Brussels parties are now losing at the polls at most national and regional elections in Europe. Alternative parties are sprouting like mushrooms, thus broadening the political offering at an astonishing pace. Everywhere, true democrats – or shall we say anti-Europeans – (which in this context is pretty much the same) form political parties and face their respective Goliaths with partially impressive results.

Important to gold standard supporters is the neoparties stance to the euro. All relevant new political forces in Europe have an explicitly euro-critical attitude or even place the euro revision/abolition at the center of their political ideas.

As elsewhere, so in Austria. Next to the Europe-wide Pirate party, there are a few new parties. Austria is very much a closed shop governed by two entrenched parties acting for their own benefit against the people. Of late, these two parties meet with resistance of unknown vehemence. The main drive of the new parties is for a strengthening of democracy, change/improvement of the euro, fight against corruption and reinstalling financial sovereignty.

One of these parties is called TeamStronach. The founder Frank Stronach was born in Austria, but emigrated to Canada to become a highly successful entrepreneur in the automotive supply industry. For the last 15 years his focus has shifted back to his native Austria and he did not like what he saw, especially the rising public debt levels and the role of EU and euro. In September 2012 he started a party and is now developing new concepts with the aid of experts drawn from science, research and "real life".

I have the pleasure and privilege to chair the expert group Euro/Europe. In this capacity I am working together with the euro critic Professor Hankel (who brought a case against the euro and the ESM at the German constitutional court), Hans Olaf Henkel (BDI – The Voice of German Industry) and other academics. We prepare political declarations and make a clear commitment to a "sound money system". I have to admit that it is very difficult at the moment to call for an unadulterated gold standard but the expert group understands the need for a tool to reliantly bar unrestricted money creation by the political caste and associated parasitical organisations such as banks and insurance companies. Even the gold standard sceptic Professor Hankel as the group's scientific head understands this and will call his next book "The Golden Euro". Therein, he describes a euro that works just like a gold standard – albeit initially without gold backing. An important first step, I should think. [How will it extinguish debt? – editor]

On March 3, two (out of nine) Austrian federal states held an election. Team Stronach achieved a result of approximately 10 per cent in both. This early success could generate a fair amount of momentum towards achieving a clean break-up of the crusted political structures at the federal elections end of September 2013.

In Germany we see a similar picture. "Bund der Freien Wähler Association of Free Voters" , "Partei der Vernunft – Party of Common Sense" and "Anti-Euro-Partei" voice the same demands. An international co-operation between these parties is being prepared. So things are happening in Europe – and many of them for the good. People are rising to fight the forced centralisation and the theft of rights and property with the aid of a centrally coordinated drawing-board currency. A growing number of opposition members view the abolition/change of the euro as a peace project – despite all contrarian propaganda of the "europaths". Common sense, economic laws and democracy might gain the upper hand again. Europe should again be of the people instead of centralistic euro fanatics, banks, insurance companies and parties that have come to serve only their own interests.

Thomas Bachheimer
President, The Gold Standard Institute Europe

Gold, Redeemability, Bitcoin, and Backwardation

I recently released a video about the Internet-based currency, Bitcoin. I asked the question: is Bitcoin money? In brief, I said no it's an irredeemable currency. This generated some controversy in the Bitcoin community. I took it for granted that everyone would agree that money had to be a tangible good, but it turns out that requirement is not obvious. This prompted me to write further about these concepts.

A human being has a physical body with physical needs, and lives in a physical world. He produces that he may eat and clothe and shelter himself. Once civilization develops beyond subsistence, men specialize to increase their production. Each relies on others, who specialize in other fields. Each trades his products for the goods produced by others.

A problem arises, called the *coincidence of wants*. One man produces food and another produces leather moccasins. When the moccasin producer is hungry, the food grower may not need new shoes. Mr. Moccasin must discover that some goods are more *marketable* than others. He can trade less-marketable moccasins for more-marketable salt, for example. He may not need the salt (though he can always use it) but he knows it is accepted in trade for food and other goods.

Eventually, a market process finds the most marketable good. It becomes even more marketable due to its increasing use as money (but it does not lose the attributes that made it useful in the first place).

People accept the monetary good in trade because it fills one of three needs. They will exchange it for something else later. They may want it for its own sake. Or they may accumulate a hoard during their working years so that in retirement, they can dishoard to pay their bills.

Modern civilization layers a complex financial system on top of the monetary good. It has bills, bonds, and savings accounts, etc. Most people do not want to redeem most paper credit instruments, for reasons of convenience and the preference for an income. However, it is important to keep in mind that the possibility of redemption is necessary and essential to a working financial system. Everyone must choose for himself the right balance between holding the monetary commodity directly and various earning assets that promise to be redeemed in a quantity of the monetary commodity in the future.

Only this balancing process can perform one particular and critical function. Hoarding, also known as managing risk, has played a vitally important role throughout human history (and which is almost unappreciated by the economics field). Hoarding and investing are balanced by risk tolerance. In a free market without central banking and bailouts, everyone must think of risk.

To the economist, redemption of paper and hoarding of the monetary good serves to police and clean the system, force the write-offs of bad credit (as opposed to letting them accumulate), and of course empower the saver to enforce his interest-rate preference. This last, is a point that I have not seen anyone make prior to Professor Antal Fekete, and which is under-appreciated today.[1]

To the hoarder himself, hoarding looks and feels very different. He is thinking of having something tangible in hand. A coin in his pocket does not have a risk, it can be carried anywhere, and can be accumulated in a safe place. To anyone aware that he is living in the physical world, there is no substitute to having a physical, tangible commodity.

Today, of course, legal tender laws obscure most of the above. The monetary commodity is not allowed to do its job, and we're lucky that after they removed it from the monetary system they at least once again legalized its ownership for American citizens. Even so, most people regard owning gold as a risky speculation because its dollar price is volatile. It's madness.

Returning to the question of Bitcoin, we have a conundrum. Bitcoin is not debt. In that sense, it is like gold—there is nothing to redeem because the thing is the final good. Unlike gold, it is not a tangible good. You cannot hold it or stack it in a safe in the floor. Other than the value you hope it has in trade, it has no utility by itself.

Bitcoin in this context is like an attempt to reverse cause and effect. Gold is money because people strongly desired it for its physical properties and then, subsequently, discovered that it was the most marketable good and thus useful as money. Bitcoin bypasses this and attempts to go straight to being money. Should hackers break its cryptography, the Internet go down for a few months, or any number of other scenarios occur, the above logic will reassert itself.

Owning Bitcoin is to be in a partially completed transaction. Until it is exchanged for a tangible good in another trade, the owner of the Bitcoin is in the position of having given up something tangible for nothing in return.

I made the point, in a previous video that redemption is not the same thing as purchasing the monetary commodity. Prior to 1933, one could go to any branch bank of the Federal Reserve and exchange dollars for gold. This was not "buying" gold, but redeeming the dollars. One accepted the dollar bill in trade, with the sure and certain knowledge of the terms (e.g. gold value) of redemption. Unlike then, today the dollar can be used to buy gold. But there is no way to know the terms—or indeed if one can even make the purchase at all—until one attempts the transaction.

It is the same with Bitcoin.

[1] http://www.zerohedge.com/news/antal-fekete-responds-ben-bernanke-gold-standard

Now that I have used Bitcoin as the foil to establish several points, let's look at the dollar and its ability to buy gold. Consider the following points that I discussed at greater length in this video:

1. irredeemable debt-based currency provides no way to extinguish a debt
2. the dollar itself is a debt instrument
3. payment in dollars merely transfers the debt
4. all debt is borrowed at interest
5. eventually, the interest cannot be paid out of income
6. the only way to pay the interest in aggregate is further borrowing
7. total debt in the system grows exponentially until it cannot

The system is designed to drive all participants to bankruptcy! "This is," as they say in technology industries, "a feature, not a bug".

In this light, the problem is not the rising quantity of dollars per se (though endless issuance by the Fed is certainly not good) but its falling quality. It is all headed to default when the debtors cannot borrow any more. This point was reached in Greece, but it is years away in the United States.

One might be tempted to ask why the banks and financial institutions don't recognize this and refuse to do business in dollars. The answer is that they are regulated, they ultimately answer to investors who believe in dollars, and they are given perverse incentives to continue to play the game. For example, they can borrow short at near zero from the Fed, and lend long at near 2% to the Treasury. This transaction creates no wealth, but the banks engaging in it earn "profits". They are fat, dumb, and happy to make this spread and others like it.

So who understands it? The lowly gold hoarder does. His challenge is that he is sometimes distracted by the mainstream message that gold is a risky commodity that cannot be used to buy bread. He is often distracted by the goldbug message that the rising gold price is a "profit" (and the falling price is a conspiracy). If he can see through these two mirages, then he can see that all the credit in the system must inevitably and inexorably crash to earth like too many rocks impossibly kept aloft for a while by a juggler who exceeds his limited skill.

"Money is gold and nothing else," as JP Morgan famously said in testimony before Congress. When bad credit eventually is repudiated, gold will still endure.

This is the context to my argument: permanent gold backwardation is a late symptom of the terminal monetary disease. Like jaundice in a cancer patient, signaling to the doctor that the patient is in immediate risk of death by liver failure, permanent backwardation signals to the economist that the monetary system is in immediate risk of death by gold withdrawal.

The dollar is not strictly redeemable, but it can still be used to buy gold. This provides an "escape valve". Those who wish to convert their irredeemable paper into the monetary commodity, to complete the transaction of trading their product for dollars and dollars for the monetary commodity, can still do so.

Backwardation is when the price of a commodity in the futures market is lower than the price in the spot market. Anyone who has the commodity can make a profit by simultaneously selling the commodity in the spot market and buying a future to recover his position. This trade has no price risk, credit risk, or even spread risk. The only risk is default. Permanent backwardation is when all futures contracts fall below the spot price, and the gap keeps widening no matter how much the price rises.

The existence of now-chronic temporary backwardation, is proof that gold owners are starting to become reluctant to trust the dollar system, and the lure of profit is insufficient. If they do not trust the delivery of a future, then they have to question if they will be able to buy gold on any terms. In an environment of collapsing credit and bankruptcies, this lack of trust will be quite well founded.

The final stage is brought on by the complete withdrawal of offers to sell gold for dollars (i.e. the gold bid on the dollar). Collapse will come swiftly because of asymmetry. While no gold holder will then want dollars, some dollar holders will desperately want gold. They will buy any goods that have a gold bid. The trade of dollars → commodities → gold will drive the prices of commodities up to any arbitrary level in dollar terms, and down nearly to zero in gold terms. Oil could become $1,000,000 per barrel and 0.0001 gold grams per barrel at the same time. This process will continue until sellers of commodities will no longer accept dollars.

The dollar is fiat, which means imposed by force. It is debt-based, which means its value derives from the efforts of the debtors to continue to pay. And it is irredeemable which means there is no way for debtors, in aggregate, to get out of debt, and no way for creditors to know the terms by which they can get gold. The government uses force to impose the contradiction of a debt-based currency that cannot extinguish debt. People would not accept it otherwise!

The final resolution of such a contradiction is total collapse.

Keith Weiner

Dr. Keith Weiner is the president of the Gold Standard Institute USA, and CEO of Monetary Metals where he write on the basis and related topics. Keith is a leading authority in the areas of gold, money, and credit and has made important contributions to the development of trading techniques founded upon the analysis of bid-ask spreads. Keith is a sought after speaker and regularly writes on economics. He is an Objectivist, and has his PhD from the New Austrian School of Economics. He lives with his wife near Phoenix, Arizona.