The Gold Standard

The journal of The Gold Standard Institute

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

Contents

Editorial

There is much in the news at the moment about the Gold that the governments of Russia and China, amongst others, are supposedly accumulating. Is that a good thing? As with all else, it depends upon your point of view.

If you believe that the problems of the world are due to there not being enough control over our money, and therefore our lives, by governments, then the answer is 'yes'. If you believe that all problems can be solved by free people and markets, then the answer is an unequivocal 'no'.

The benefits of the Gold standard cannot be achieved by governments locking up more and more money. Quite the reverse.

The Gold standard requires money to be in the hands of the people. When it is the people who determine what percentage of money is hoarded, invested in productive enterprises or bonds, or circulating, then we have major components of the Gold standard in place. Other components would be the removal of all legal tender laws, and all taxes and regulations that applies to Gold – from mining to coining.

Then, finally, markets will again have an extinguisher and be able to address the debt problem. Markets will also immediately bring interest rates back to their natural equilibrium.

Never forget the immortal words of Ronald Reagan: *"Government is not the solution to our problem; government is the problem."*

Government ownership of Gold is a further hindrance to free people and free markets, and thus to recovery from the dreadful mess that governments and central bankers have created. By hoarding Gold, the governments of

Russia and China could be reasonably suspected of caring more about the perpetration of their own power than the freedom and prosperity of the people.

Another quote from the legendary Reagan rings even truer today than it did back in the 1980s: *"Government is like a baby. An alimentary canal with a big appetite at one end and no sense of responsibility at the other."*

Philip Barton
President, Gold Standard Institute
Times of Gold

News

Keith Weiner Economics: Regulation, Thy Nature is Flawed

≈≈≈

Bloomberg: Gold Vaults Replace Swiss Bank Accounts

≈≈≈

Chicago Tribune: Yamamoto's Gold tooth?

≈≈≈

Ottawa Citizen: Hopefully he laundered the proceeds of his crime

≈≈≈

Youtube: You might just be richer than you realise

Mining.com: Rare Gold Roman coin found in Jerusalem

≈≈≈

Youtube: 18-ounce nugget found in California. Prospecting for Gold is a super fun outdoor activity.

≈≈≈

Monetary Metals: Partners with Broker-Dealer Ashton Stewart & Co., Inc. to Market and Offer its Investment Funds

≈≈≈

al fin next level: Russia Haunted by Spectre of Disintegration.

Dick Seegers

The Institute has forged some strong relationships over the years. None more so than with Dick Seegers from the Netherlands.

Dick was a successful inventor who devoured life. He trained as an economist, but studied (amongst other things) chemical engineering, maths, IT and money. It was upon researching the latter topic that he contacted the then newly-formed Gold Standard Institute. He read everything written by Antal Fekete, Keith Weiner, Hugo Salinas-Price and Rudy Fritsch. Dick was there for us. He did Dutch translations for some of Weiner and Fritsch's articles and gave a final edit to Dawn of Gold.

Dick and I have been in regular email contact for all those years. He was an intellectual, an ally and became a close friend. While the cement that underpinned the relationship was the common desire to see the return of honest money, a camaraderie on a deeper philosophical level developed.

Dick died on Wednesday 21st September after a long illness. He went at the time and place of his choosing. His farewell email to me arrived the day before the due date and most of this is being written as the final hours tick away. My inbox will never again hold quite the same promise.

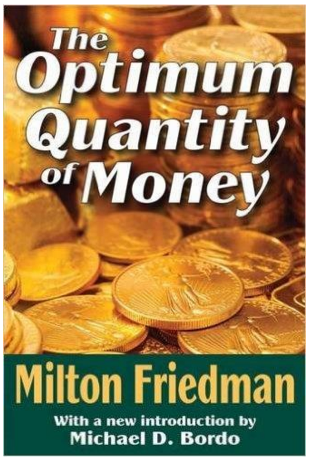
Those who truly understand money are not thick on the ground, which is why the world is in the mess that is. Dick was an eclectic man of great integrity; one of the few who was a part of the solution, not the problem.

Vale Dick Seegers.

Philip Barton

The Optimum Quality of Money, or Could Negative Nominal Rates Falsify the Quantity Theory of Money?

A short note on the monetary experiment-in-progress.



In 1969, perhaps anticipating the era of irredeemable currency, Milton Friedman published "The Optimal Quantity of Money", a collection of his essays from as early as 1952. [Its cover art, an image of US gold eagle coins, disguises a fool's gold money system! More on this later...] If your recollection is that Professor Friedman advocated a steady 2% rate of inflation, you'll be as surprised as I was to learn that the "Friedman Rule" for monetary policy, advocated by his central article, literally calls for a **0% nominal short-term interest rate** coupled with mild *deflation* to yield a small positive real rate of interest. Daniel Sanches of the Philadelphia Fed recently wrote an excellent survey article on Friedman's rule and its critics. The rule is clearly being dusted off as academic cover for the zero interest rate policy (ZIRP). I'll see that bet and raise the stakes: the arrival of negative rates will validate the most piercing criticisms of Quantity Theory (QTM) and perhaps even expose it as a *false* conjecture.

In a 2014 "Grumpy Economist" blog post, John Cochrane hesitantly asked whether, given the onset of zero percent interest rates, central banks should proclaim Mission Accomplished vis a vis the Friedman rule. His hesitation is only over whether the trend is converging on 0%, or inexorably headed ever lower. If short term rates actually stabilize at or very near the 0% level, they would be landing, per Friedman, not on a zero bound but on the *social marginal cost* of printing irredeemable currency. This explanation is already waxing magical in its thinking. But if it's so, and even adding in the spread that central bankers pay to bond speculators, we have many more halvings of the interest rate yet to go (a Zenoesque progression). In practice, impediments at the zero bound have materialized. But if Europe is any indication, these could turn out to be insubstantial faced with the brute force of monetary doctrine. Yet, if Friedman is right, current economic conditions are the *sweet spot* for irredeemable currency—Utopia here we come! If he's not, could present circumstances form a falsifying experiment?

Is there a doctrine in the house?

Opponents of QTM, including Fredrick Hayek, question whether the Quantity of Money is a knowable aggregate value. Thomas Sargent and Neil Wallace honed this critique (in 1982) by calling out the "**failure of 'means of payment' to be an analytical category** that sharply distinguishes one class of assets from everything else." Failing to be an analytical category is the respectable way to say a term is fuzzy thinking. One observation they made 35 years ago is particularly telling—even predictive.

Quantity theorists . . . **propose . . . legal restrictions on private intermediation.** The legal restrictions are meant to separate 'money creation' from 'credit creation,' that is, from the process of intermediation. Thus for example, Friedman (1960, p.21) hails the feature of the National Banking Act which taxed state bank notes out of existence and advocates 100 percent reserves against bank liabilities called demand deposits. Even Adam Smith, who, according to [Lloyd] Mints (1945, p. 9), had provided the 'most elegant statement' of the real bills doctrine, advocated restrictions: they should not be allowed to issue notes in small denominations and all notes should be payable on demand. (Sargent & Wallace 1982, p2 emphasis added)

The Fed's many banking regulations and the ratcheting-up of the Basel accords regarding international banking are the most recent attempts to govern what can qualify as a demand-deposit of legal tender. Notice that Adam Smith's restriction to large denomination notes (meant to keep the velocity of social circulating capital low relative to metal coins) cuts in the opposite direction of the modern War on Cash. At the zero bound, we're seeing new modes of restriction, directed both at the intermediation (banks' loan practices) and at the physical qualities of cash itself.

Quantity theory has long had a problem with the concept of cash equivalents. In Sargent & Wallace's day, the challenge was money market funds (I fondly recall getting a 12% return in Vanguard's Prime Reserve fund at that time!)

That any such 'means of payment' approach to defining money leads to difficulties can be illustrated by considering common-stock or money-market mutual funds. Everyone agrees that the function of such funds is to convert fund assets into other assets, shares in the funds, which are more easily held by lenders or savers. Under some circumstances, **quantity theorists, who often favor laissez-faire in non-financial markets, endorse measures to restrict the scope of such intermediation**. If fund liabilities become too convenient to hold, which is to say become too close to being 'means of payment,' then quantity theorists advocate intervention. (Sargent & Wallace 1982, p3 emphasis added)

In the War on Cash, cash equivalents are a Trojan Horse

In 2008, desperate to stanch the collapse of credit, the Treasury offered extraordinary deposit guarantees to money market funds as a subsidy for them to continue holding assets (such as securitized mortgage obligations) that were suddenly considered toxic. When the market threatened to fracture the monolithic edifice of cash equivalents into tiers of differing liquidity, the quantity theorists spent public resources to keep up the appearance of a distinct analytic category. Rumor has it that the Vanguard Prime Reserve fund, which by then paid only a 0.01% nominal return, was actually operating in the red for many weeks during 2009; a claim I have been unable to confirm.

In a sense, this Treasury program half-activated the Fed's real bills doctrine thereby repudiating the passive role in which it had been invoked in 1929. Treasury's assurances *monetized* assets that met a very liberal definition of 'eligible paper' without literally rediscounting them. As one move in a larger bailout effort, the after-action reviews have been mixed. But by preventing the worst case of 'breaking the buck,' full panic was averted and the appearance of cash equivalence was sustained.

Under Basel protocols, bail-ins will supposedly become the proper way to break the bucks of demand-depositors. It is hard to imagine this will have a calming effect in a panic. It's only purpose is the orderly redistribution of losses. This is clearly impractical unless the possibility of on-demand redemption into cash has been ruled out. Like an invading army that sacrifices its escape route to emphasize its threat, Europe's central bank (the ECB) is now eliminating €500 notes, and boarding the Trojan horse of pure deposit accounting. Such is the fervor for electronic fiat. Without a physical debt-extinguisher, and eventually without even a physical incarnation of the unit of account, the way beyond the zero interest bound may now lie open. What will that experiment reveal? Will the Greeks take the city or will the Trojan Horse trap its occupants?

Will the means of payment and store of value stay confined within the central bankers' legal tenders? Or will people find substitute ways to exchange values so as to avoid losses being redistributed from disturbances in the financial sector? When the official money supply begins to violate peoples' common sense expectations, increasing in value (deflation) even as their account balances dwindle away (due to negative nominal interest), do you think they will be content to stay within the boundaries drawn around the Quantity of Money that a central bank deems optimal? Friedman says yes. Indeed he says they'll never be happier than when they've done so, as they'll be holding *just the right amount* of cash equivalent to stay alive.

The Quality of Money

At this point, you surely know my answer to the above. The proposition that the asset with constant marginal utility can take on a multiplicity of forms is pretty doubtful. Strict cash equivalence is a convenient fiction, well worth trying to construct, but it is a fiction nonetheless. The attempts to mimic gold necessarily fall on a spectrum of fidelity to the original concept. This alternative view, which recognizes differences in degree of liquidity, should be familiar to anyone who has traded in any markets. The intellectual argument for gold standard money, augmented by a free banking system which works (for profit) to match liquidity to the customer's needs, is more nuanced than the binary 'our paper is money; your gold coin isn't' dictum from a central banker backed by legal tender laws.

In an election year, nuanced reason is drown out by the emotional appeals that assault us daily. Gold's emotional appeal is muffled by a few weak excuses—the fear, uncertainty and doubts (FUD) sown by anti-capitalist propaganda. Beyond these, stretch the vast cultural memory of money *so* sound we still refer to the highest quality of any good as its Gold Standard. It is not by accident that Milton Friedman's publisher and every popular article about bitcoin choose gold coins as illustrations. Only when a gold standard advocate deploys such artwork, is there no bait-and-switch in progress. When you talk about sound money, as an election issue, with other wage earners, or with your children, let them handle a coin or two—not as a boast or taunt, but as a fact of nature. Your arguments and advice will fade but the tangible, inimitable *qualities* of these valuable tokens will resonate on an emotional level to remind them of what is now, and ever shall be, money... political economists notwithstanding.

Greg Jaxon
Greg Jaxon is an American software engineer and student of New Austrian economics. He devotes as little as 20 minutes a day to challenging reading on the subject because it virtually forecasts the financial news that has everyone else in a panic.

Poor on Ricardo – Part I

In 1877, Henry Varnum Poor (1812-1905) wrote *Money and Its Laws: Embracing a History of Monetary Theories, and a History of the Currency of the United States*. He was a financial analyst and founder of a company that evolved into Standard & Poor's. Poor was a proponent of the real bills doctrine and the classical gold-coin standard and, thus, the quality theory of money. He gave little credence to the quantity theory of money — especially if credit money, such as bank notes, were convertible on demand in species.

In the latter part of his book, he discusses leading monetary theorists from Aristotle (350 B.C.) to David A. Wells (1875). The economists whom he discussed were proponents of the quantity theory of money. We will look at his discussion on David Ricardo.

David Ricardo (1772-1823) was a British economist. Included among his major works are *The High Price of Bullion: A Proof of the Depression of Bank Notes* (1809), *Proposals for Economical and Secure Currency* (1816), and *Principles of Economy and Taxation* (1817). When Parliament returned Great Britain to the gold standard after the Napoleonic Wars, it relied on his works. It also relied on his works when developing banking and monetary laws in the decades that followed.

Ricardo argued that a currency without a specific standard was a chimera. He favored a monometallic silver standard. Also, he preferred the bullion standard to the coin standard. That is, banks redeemed their bank notes in standard bullion bars instead of coin. Thus, people would be forced to make small payments with paper money. Ricardo was a proponent of the quantity theory of money and believed that the value of money can be properly maintained by regulating its quantity. Now we will look at Poor's discussion of Ricardo. My comments are in brackets. Referenced page numbers enclosed in parentheses are to Poor's book.

Ricardo believed "that value was not a necessary attribute of money. . . . [M]oney became such by virtue of the insignia of government; that its value was in ratio to its quantity, — that the most worthless pieces of paper, or the most debased coin, might be raised to the highest pitch of value simply by limiting their amount" (p. 221). That is, the government can declare anything to be the medium of exchange, give it a specific value, and maintain that value by properly regulating its quantity.

[Menger proves the falsity of this notion. Gold and silver were used as purchasing media before any government insignia was stamped on it. Gold and silver have been used throughout history, and even today, as purchasing media without a government insignia stamped on it. When a government debased its coins, history shows that the value of the coin falls until it reaches the value of its gold or silver content. Therefore, the metal content, and not governmental decree, fixes the value of the coin.]

Poor quotes from Ricardo's *Principle of Political Economy and Taxation*:

> *The quantity of money that can be employed in any country must depend upon its value. . . . A circulation can never be so abundant as to overflow; for, by diminishing its value, you will in the same proportion increase its quantity, and, by increasing its value, diminish its quantity. . . .*
>
> *While the State coins money, and charges no seigniorage, money will be of the same value as any other piece of the same metal of equal weight and fineness; but, if the State charges a seigniorage for coinage, the coined piece of money will generally exceed the value of the uncoined piece of metal by the whole seigniorage charged, because it will require a greater quantity of labor, or, which is the same thing, the value of the produce of a greater quantity of labor, to procure it.*
>
> *While the State alone coins, there can be no limit to this charge of seigniorage; for, by limiting the quantity of coin, it can be raised to any conceivable value.*
>
> *It is on this principle that paper money circulates: the whole charge for paper money may be considered as seigniorage. Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin or of bullion in that coin. On the same principle, too, namely, by a limitation of the quantity, a debased coin would circulate at the value it should bear if it were of the legal weight and fineness, not at the value of the quantity of metal which it actually contained. . . .*
>
> *[I]t will be seen that it is not necessary that paper money should be payable in specie to secure its value: it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be its standard. If the standard were gold of a given weight and fineness, paper might be increased with every fall in the value of gold, or, which is the same thing in its effects, with every rise in the price of goods.*

Poor argues against Ricardo's assertion that the government can charge whatever seigniorage that it wants. For example, if the government charged 9 ounces of gold to coin 1 ounce, Ricardo believes that people will still bring gold to be coined because they need coins, or money, in commerce. Poor argues that people will cease bringing their gold to be coined. Instead, the metal will be privately assayed and will pass by weight. "A person possessing bullion might wish to sell it for use in the arts, or for the purchase of foreign commodities; for which it would be received at its full value" (p. 223). Noting that a lack of coinage may cause inconveniences, he adds that "great commercial communities existed long before coinage was invented" (p. 223). Furthermore, "[t]he inconvenience resulting from the want of coinage, relative to the magnitude of the transactions taking place, would be much less now than before the invention or use of symbolic money; for the reserves necessary for the conversion of such currency may be in the form of bullion, nearly as well as in that of coin. They are now largely held in bullion" (p. 223). Disagreeing with Ricardo about the government's insignia giving money value, Poor writes, "[G]overnment can no more create values by its insignia without an obligation, than the Alchemist could create gold out of curious and fanciful combinations of the baser metals" (p. 223).

[Moreover, history shows that under the gold standard, bank notes without the government's insignia circulated at par with gold coins as long as they were convertible in gold coin on demand.]

Ricardo acknowledges that paper money has no intrinsic value. However, according to Ricardo, its value can be maintained by properly controlling its quantity. Poor argues that governments cannot be trusted with the issuance of paper money. As history shows, they will always abuse that power. Therefore, Poor argues that paper money should always be issued by private parties or bankers (p. 224). As long as bankers have to convert their paper money to species on demand, their issue of paper money will be regulated. Any excess issue of paper money, i.e., in excess of the real demand of the domestic markets, people will convert to gold for use in foreign markets.

[A situation like this occurred in the United States in the early 1890s. In response to political pressures, the U.S. government had left a large quantity of U.S. notes, greenbacks, in circulation following Lincoln's war to suppress Southern independence. Gold backed less than half these notes. Also, to satisfy the silver interest and the inflationists, i.e., the "easy money" folks, Congress enacted the Sherman Act. This Act required the U.S. government to buy large quantities of silver with legal tender Treasury notes of 1890. These notes were redeemable in gold or silver at the discretion of the Secretary of the Treasury. He chose to redeem them in gold. People began redeeming U.S. notes and Treasury notes of 1890 for gold, which they exported. The Secretary of the Treasury could retire Treasury notes when they were redeemed. However, the law required him to reissue U.S. notes that were redeemed. The reissued U.S. notes were redeemed for gold, thereby creating a vicious cycle draining the treasury of its gold. The crisis ended with the repeal of the silver purchase part of the Sherman Act and the sale of bonds for gold to European bankers to replenish the treasury's gold stock. Nevertheless, this crisis helped to precipitate the depression of the 1890s.]

Part Two in next month's issue.

Thomas Allen
http://tcallenco.blogspot.com.au/

Remember Nuremberg

If this topic has not yet been sent 'down the memory hole', you will recall the Nuremberg Trials, where the victors of WWII brought Nazis to trial for war crimes. The main theme that emerged at Nuremberg was the criminal Nazis' defense; they claimed to be 'just following orders'... and thus claimed to be innocent.

The judges made a different call; that there is a 'Higher Morality'. Following orders was rejected as a defense. Many Nazis were found guilty, many were executed, and many jailed. Hmm...

Of course, no one has (yet) brought Allies to trial for their war crimes. By Nuremberg logic, 'following orders'... like Truman's order to nuke and murder unarmed residents of Hiroshima and Nagasaki is a crime against 'Higher Morality'. Following Churchill's order to burn Dresden to the ground was a crime against 'Higher Morality". How interesting.

Now POTUS supposedly has a plaque on his desk that says 'the buck stops here'... that is, the President is the highest authority in the land... but Nuremberg disagrees with this. Indeed, did Bush not say that he was 'following God's commands' when he bombed Iraq? So where does the 'buck' really stop?

This is distressing... ninety percent of Humanity simply wants to 'follow orders'; tell me what to do, Boss, and I will do it. Tell me what to think, Guru, and I will think it. Tell me who to shoot, Sergeant, and I will shoot him. Tell me what money is, Bankster, and I will sweat and grovel for it.

Humanity is a social species, oriented to 'getting along'... and in a small tribe, with up to a few hundred members, 'getting along' is simple and works well. The natural elites are easily recognized, and following the suggestions of wise seniors is a no brainer, indeed a survival issue. Unfortunately, this does not work so well in larger societies... like in the seven billion global tribe.

The boss looks to the supervisor, the guru looks to the ayatollah, the sergeant looks to the general, the bankster looks to the central bankster... most of us look outside and 'up' to decide 'what to do'. Now if our leaders were honest, and decent, and had the best interest of the 'tribe' on hand, this could be fine. Reality is somewhat different.

About five percent of humanity are recognized as being psychopaths; as being not fully human. No conscience, no remorse, no empathy... but lots of greed, power hunger, and cunning. Most 'leaders' today are psychopaths, pathological liars who repeatedly bring on wars, mayhem, genocide, whatever it takes to achieve their power hungry goals... most 'leaders' today are candidates for a new Nuremberg trial.

The remaining five percent are fully human, and awake and aware; cognizant of the masses of 'sheeple' being led to the slaughterhouse. This small percentage recognizes the lies and false flags invoked by the 'leaders'; and they are working hard to wake up the befuddled, zombified majority. Hopefully the readers of TGSI are among this truly elite five percent!

The key to resolving the Human problem of eternal war and destruction is simple, but not easy. Even in holy books, presenting religion's concept of 'higher morality', we can find answers. The Bible says 'the Kingdom of Heaven is within you'... in plain words, stop looking for morality and truth outside; you will only find false narratives, spread by lying psychopaths determined to enslave you.

Look inside, where truth is to be found. As the Buddha said, believe only that which you understand and know to be true. Humanity has the tools it needs to figure things out, if it but uses the tools. Don't ask the 'Boss' what to do; see what needs to be done and do it. Don't ask the 'Guru' what to think, think for yourself. Don't ask the 'Sergeant' who to shoot... or not to shoot. Decide for yourself.

Finally, don't ask the 'Bankster' what money is; figure it out. Ten thousand years of Human history prove without any doubt that Gold is money. Repeated collapse of Fiat paper throughout history proves without any doubt that Paper promises are NOT money.

For over two thousand years, humanity has preoccupied itself with seeking answers... outside themselves. History shows this has been and continues to be a dismal, horrific failure; hundreds of millions of innocent humans have been most cruelly sacrificed, often to the 'Greater Glory of God'... but which God?

Every religion claims the only true path... to an external, all powerful God. But there is no need to search and fight to find the 'right' God; a divine spark is always within us, we just have to recognize this spark of creativity and start creating heaven on earth, rather than hell. Begin by ignoring the external programming and manipulation, and start paying attention to self-derived truth.

The truth of Gold money will disallow the power grab, the eternal wars, mass destruction and genocide. No more empire! Gold is the great economic equalizer; in circulation, Gold limits debt, limits speculative gambling, pulls power concentrated in a few immoral hands and distributes it amongst the majority of decent, fully human people... the ninety five percent.

With Gold in the people's hands, there will be no insane Zirp and Nirp 'policies'... no Deutchbank derivatives crash, no twenty trillion Dollar and growing unpayable US debt. No insane military answers to dissent, no 'might makes right'. No destructive 'military industrial complex'. No more 'bombing back to the stone age'.

Gold does not finance major military spending; this is only possible with Fiat issues and Fiat debt. WWI was financed by paper. Indeed; the Gold standard was sabotaged so WWI could be financed. Every destructive war of annihilation is financed by ever more Fiat debt. Buy Gold now; not only for your own protection, but for the liberation of humankind.

Rudy J. Fritsch