The Gold Standard

The journal of The Gold Standard Institute

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

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The Long and Winding Editorial

Genuine progress alters or extends the boundaries of human thought. As such, it will be in automatic conflict with the two sides attendant to any sphere of knowledge.

The sides are composed of those who 'believe' and those who 'know better'. Each offers an interpretation of the fixed mind-set at the heart of the existing and accepted paradigm.

They debate details surrounding the paradigm, while unquestioningly accepting the paradigm itself.

It was the video of Keith Weiner's speech on Yield Purchasing Power to the American Institute for Economic Research that brought this to mind. An existing monetary paradigm is that more dollars equals higher prices – the Quantity Theory of Money. The two opposing sides, the Keynesian 'believers' and the Friedman 'know betters', debate how this 'fact' should be monitored and controlled. Neither side notices the elephant in the paradigm – even though it is mooning them.

The paradigm is wrong, and on more than one level. Only Gold is money, and the more Gold there is the more stable its value becomes (stock-to-flow ratio). How could an increase in money's stability of value lead to higher prices? Obviously it cannot. But even using the debt notes that masquerade as money (dollars, yen, euros, pounds etc.), it has been demonstrated in theory as well as practise, that their volume does not necessarily have any relationship with prices – certainly not an automatic one.

Progress is hard work. It unerringly brings forth critics from both sides, for each regards itself as the defender of sole truth. They seek not the truth, but the ability to ever-better present their argument demonstrating why they are already right. Needless to say, that is not how genuine 'rightness' is achieved.

Many are unable to contemplate or consider an intellectual construct that undermines the paradigm itself. It makes them wrong ('wrong' is the position that occupies the space beneath the backside of the mooning elephant).

'Believers' and 'know betters' earnestly debating around a wrong paradigm is not restricted to the monetary science. One of the few species on the planet that has insufficient predators is the red herring.

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For some time now, the Gold Standard Institute has been refocusing its efforts toward the place where our ideas are having the most impact – the US. For that, we have the estimable powerhouse Dr. Keith Weiner to thank. As mentioned in this space in a prior issue, for all its problems, the US is still the intellectual and innovation capital of the world. We have embarked upon a new approach that goes beyond making speeches and publishing articles that extoll the virtues of circulating Gold. The aim is to bring about circulating Gold in practice. Paying Gold interest on Gold begins that process. The unveiling of further plans will follow.

It is a hugely exciting challenge that gives the best chance of transitioning out of this dreadful monetary morass.

Gold paying interest in Gold has the advantage of being a new paradigm (in this era) and thus has few entrenched views to hinder it; no dogma to bog it down in endless and unfruitful discussions.

This month's edition of 'The Gold Standard' is the final issue.

To our long list of readers, many of whom have been with us since the first month of publications six year ago, thanks for your involvement, comments, feedback and support. It made a lot of hard work worthwhile.

To all our scribes over the years – you have performed admirably and diligently and you are hereby awarded Gold Stars. In the honours category are Rudy Fritsch and Thomas Allen for their years of unstinting scribing. Everyone has given of their knowledge in such a way that we could add to ours. To Bron Suchecki, who has formatted this journal every month for six years and provided sound advice from time to time, a stellar effort Bron and definitely a Gold Star performance.

It has been an honour and it has been fun and I have 'met' some wonderful people.

Scribes please note - the international website of the Gold Standard Institute will still welcome articles on the unadulterated Gold standard.

Readers please note – I will email out links for new articles from time to time and I will still enjoy receiving your emails.

The game is heating up.

Philip Barton
President, Gold Standard Institute
Times of Gold

News

Youtube: Keith Weiner speaks on the topic of Yield Purchasing Power at the American Institute for Economic Research.

The Hindu: Scramble for Gold in Gujarat after domonetisation

Scrap Register: Increasing Chinese Gold demand

The Most Important News: Where young people in the U.S. are at.

Kathimerini: Where they will end up in the not too distant future (thanks Jacq).

The Regularly-Scheduled War

It has not been an easy month. Here in the USA, despite the blessings of our somewhat free markets, we engage in a peculiar decision-making process which our social-studies teachers explain as 'the bloodless form of war.' Exactly. Instead of waiting for trouble to arise naturally, we hold ~~a war~~ elections on a regular schedule: two huge armies assemble for battle, issue blood-curdling cries, then count off. This has seldom resolved any significant dispute, but we do it anyway just to keep our skills at divisiveness, emotional excess, and skepticism in tip top shape. Like war, truth is the first victim, and the rule remains winners-take-all. In the final weeks, average brains like mine, are abused by a cacophony of noise with a steady drone of key information buried under subterfuge, innuendo, and propaganda. And I don't even vote! As you read this, half of my countrymen are in grief over the one that lost, and the rest are in denial of responsibility for whoever won. I will be still sorting the news items and revising the charts of who did what to whom. Like following Federal Reserve pronouncements, it is a sorry way to conduct business, even if one candidate is famous for deals and the other is infamous for them.

That's my excuse for an increased level of incoherence in this essay: it's sound-bite season! My bias-o-meter hasn't dipped below 'outrageous' all month. I apologize in advance for a dearth of hard facts[citation needed]. Here are the topics that got away this month, and one gold theme to bind them all together.

Last Resorts

Walter Bagehot articulated the operation of the (central) Bank of England as **lender of last resort** to the City and Country banks of the mid-nineteenth century United Kingdom. His description of BoE's dispassionate monopolizing of note-issuing banks inspired the authors of the US's Federal Reserve Act. Prior to 1913, US banks *did not suffer for lack of* such fallbacks; they used private organizations called clearing- or acceptance- houses which would rediscount their reserve of (gold) bills. The Fed was chartered to systematize this reaction during financial crises. Once nationalized, the private side of the bills industry gradually atrophied as the Fed also discounted government bonds and margin loans. **Last resort institutions are the tempting fruits of legal monopoly.**

In a crisis, you learn who your real friends are. In a crisis with a monopoly last resort, you learn whether you were friendly enough toward the resort owners. In 2008, the Fed's inner circle of friends was culled. I'd prefer to tell you that there were distinct operating differences between the companies that failed and those that survived. Except for Madoff and MF Global, it's a hair-splitting tale without a moral. Instead the sweeping success of the bailout merely confirmed that the limits to moral hazard had not yet been breached.

Superhuman Powers

More insidious than moral hazard and able to outbid entrepreneurial risk with quantitative ease, the world's central banks have been running our asset markets on painkillers of increasing addictiveness. The fact that markets continue to clear is encouraging, but that might only be a campaign promise. Gilder's equation (that capital growth = learning) means that much recent growth is crystallizing into learned helplessness.

Although recent elections have seemed more stridently anti-establishment, the principles behind the opposing positions remain rooted in the extraordinary powers given to states over individuals. I call these *superhuman* powers in the sense that we don't allow ourselves or our neighbors to regulate and tax each other, yet we think we can delegate such power to our government. Once vested in a legal authority, two things begin to happen with super human powers. The first is that a breed of magical thinking rises around what the collective can accomplish. The second is the commercial exploitation of coercive power, a critique made by the Public Choice school that especially applies to Mercantilists and regulators of all stripes. We have to respect that this 'corruption' in government is a natural adaptation in an unfree market. If the government legislates an economic discontinuity, the market will discover how to harness the power that is holding the economic spread unnaturally wide. That is the market's entropy-decreasing, energy-robbing, mission.

The Power of Persuasion

Scott Adams rebranded himself as an expert on persuasion by observing this election round—unless Dilbert has been waging psychological warfare all along. In the world of political trends there really is no substitute for persuasive powers. In the irrational ruckus of political speech, persuaders work to form islands of certainty about political values. I'd rather not consider Gold Standards as a *political* issue, but we probably should. Not because anyone needs force to keep a gold standard in effect, but because some force will undoubtedly be needed to remove (what we consider) unnatural impediments to the natural laws of gold money exchange. As Adams says, fear is the big persuader. Fear, uncertainty and doubt (FUD) about gold as money has been sown by numerous establishment authors. This month I found a nice recipe book of antidotes.

Back in August 2015, Philip Barton and Keith Weiner of GSI shared a panel session with Professor Lawrence White of George Mason University and the Cato Institute. His scholarship on the theory of gold standards and monetary history is enlightening, congenial, and devastatingly effective on the battlefield of refereed journals and graduate seminars. Here is (my paraphrasing of) the **myths debunked** in Professor White's excellent 2013 paper "Recent Arguments against the Gold Standard":

1. There's not enough gold.
2. It's just price fixing by government.
3. Too volatile!
4. Causes secular deflation.
5. Ties the government's hands.
6. Won't dampen business cycles
7. What Barry Eichengreen says in "Golden Fetters"
    a. Rehash 1930-32, then claim 'Managed Fiat is actively counter-cyclical.'
    b. The gold standard spread a US-based problem internationally.
8. An exchange rate peg is vulnerable to speculative attack (e.g. Soros vs BoE).
9. The lender of last resort must pull cash out of thin air, hence. . . Fiat.
10. **Too hard to set a new gold parity level for the dollar.**
11. Inflation is so low, we no longer need a gold standard.
12. **A gold standard has to be international and the rest of the world won't join.**

Parity and Polity

All I'll give you of White's paper are the sound bites you might have to answer. Sketch your answers first, then download and print his paper to see how well you did. The better we become as evangelists on this subject the sooner these silly biases and fears will fade away. In answering 10 and 12, I found myself taking a more optimistic view than White. We agree that fixing the weight of the dollar in gold has the general character of the central planners' calculation problem. White trusts that a market process can guide this choice, but he is wary of the **speculative noise** on the gold price signal. Funny that he should pine after some indicator that can discern gold's Fundamental value and cancel out the speculative over- and under- shoots that happen for weeks at a time. I'm more optimistic because this is just what Keith Weiner and Bron Sucheki are developing at Monetary Metals, Inc.

White is also of the opinion that nearly simultaneous, international, adoption of a gold standard is the only feasible way to resuscitate it. The counter-argument Antal Fekete has often made is that one chink in the fiat armor will be all it takes to bring it down. Indeed he has directly suggested to a few small nations to open a gold mint. 'Possible courses to gold standardization' makes a great debate topic. I think Fekete is right while White is more pragmatic and politically careful. My evidence that Fekete is right comes (as is only fitting) from the fringes of reliable sourcing: nations that have tried, Libya in particular, seem to have been targeted. Or maybe that's more of the fog of war talking. What's clear is that our issue is not without great moment on the world stage. Popular fears about gold come from the governments it might fetter not the free-exchange standard itself.

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.

Beyond Nuremberg

In my last article 'Remember Nuremberg' we examined the propensity of Humanity to look outside and 'up' the hierarchy for answers; and the devastation brought about by the abuse of this propensity by psychopathic power seekers.

We saw how, by looking to the 'elites' (better called leeches) for answers, we are misled again and again. We saw how the propensity to look to 'authority' leads to betrayal and disaster. The upshot is that we look outside for direction; "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."

Those who have follow Gold Standard writing will understand that Fiat currency, that is, the banksters' counterfeit money, is fundamental to the depredation of human society. The enormous, unpayable debts, the destruction of productive enterprise, the insane unbalances of payment, the constant wars and terrorism and bloodshed are all funded by Fiat.

None of this is possible under a Gold Standard. But this is just the economics of Fiat; the harm it causes goes much deeper than just economics, no matter how important economics is. Honest money underlies honest political and societal systems.

My father, may he rest in peace, was a practical man. He hated priests and religion, in the belief that most priests were simply parasites; and that religions were designed to control people, mainly for the benefit of the parasites. He had and often used what he called 'shoemaker logic'; that is, (un) common sense. He did not respect 'book learning'... and again, I see that he was right. Most 'book learning' today is simply indoctrination.

One of his astute observations was 'the fish starts to spoil from the head'... now just wrap your mind around this. What he was saying was 'society starts to spoil from the top'... and by golly, this is ever so true. When the leadership is corrupt, mendacious, selfish, criminal... then that is the direction of society as a whole.

Most governments in the Western world are out of touch with reality, and out of touch with the needs and desires of the great majority. Rules and laws are written for the benefit of the 0.01%... and damn the rest. Surveys show that Western leaders and parliaments are at historic lows as far as popular support. Most Western leaders, presidents and prime ministers have historically low approval ratings, many in single digits.

Coups and putsches, rebellion, terrorism and civil war are on the rise. Trust is rapidly fading. Once trust in leadership dissipates, the ramifications start; do we trust the mainstream media to tell us the truth? Haw. The same leeches that own governments own the media... no trust there. Do we trust the corporate world? Haw. The big 'money' that owns government and media come from big corporations... how could we possible trust them?

Do we trust what we see and hear on the Internet? Haw. The thousands of trolls spreading lies and half-truths are paid by the same 'big money'... so even here, we have no choice but to look inside ourselves for the truth. But surely, the leeches must trust each other... after all, they are after the same thing; our wealth... and yet even this 'trust between thieves' is fading.

The talking heads of mainstream media are constantly blathering about the Fed's latest moves... specifically raising/lowering/ holding interest rates. Zirp and Nirp are fodder for all the pundits, with even the 'alternative' media constantly examining, commenting, predicting... and all this is but 'sand in the eyes'. The really significant interest rate is hardly ever even mentioned.

Have you even heard the mainstream talk about LIBOR? Yet Libor is a key indicator of what is actually happening in the financial system. Libor stands for London Interbank Borrowing Rate; the interest rate charged by one bank to another, for short term loans, one or three month, mostly.

Other things being equal, this rate is set by the overall Fed rates, and Libor is really just a mechanism to net out short term noise in cash flows, as one bank may have a bit of cash surplus, while another a deficit. The noise or ripples tend to even out in the longer term...

Well, Libor has been soaring. In the last few months, it has risen by over 40%; and this in the face of no raises in interest rates by the Fed in a year, by more and more negative rates from ECB and BOJ and BOE et all. So, why this soaring Libor? The last time Libor soared with no apparent cause was... hold your breath... the 2008 GFC.

Clearly, the thing changing is trust... between banks. As the trust of one bank for another declines, the premium charged for borrowing goes up. This is called risk premium. And surely, with the stress being felt by Banca Monte dei Paschi, Italy's oldest bank, by Deutsche Bank, by Wells Fargo... the list is endless... this is only to be expected. Banks making loans to each other are pricing in perceived risk.

Now keep in mind that G'men all over the world have been and are bending over backwards to prop up the banking system; zero percent loans, TARP funds, bail outs, bail ins... and yet the banks, who know best what is going on, are still seeing increased risk, regardless.

The problem is that the derivatives exposure of banks is in the quadrillion dollar range; a quadrillion is a thousand Trillion! There is by far not enough 'money' in the world to cover this risk. No amount of bail in, bail out, wealth tax, or money creation (except for totally over the top hyper inflationary Zimbabwe style printing) can cover the 'notional risk'.

Libor is in reality the 'canary in the Gold mine'. The poor canary has tumbled from its perch, and is choking and flopping around in the poop at the bottom of the cage. It will soon die. Just as, with ever increasing risk, no amount of interest surcharge will do; once risk is over a tipping point, no promise of interest can cover the risk; only cash will be accepted. The world financial system is devolving to COD; that is a credit freeze and consequent financial collapse.

Once again we cut to the chase; to protect ourselves from the inevitable collapse, we must do several things; hold some cash out of the banking system. Hold assets off shore, out of reach of our grasping greedy desperate G'man... and mostly, own real money; Gold and Silver.

Rudy J. Fritsch

The purpose of a central bank is to make it possible for the government to borrow more than it otherwise could, at lower rates than it could otherwise get and so that it can spend more than its tax revenues and buy more votes.

Keith Weiner

Poor on Ricardo – Part II

"Convertibility of paper at all times into coin . . . [is] the only certain test of the propriety of its issues" (p. 224). Nevertheless, much more than convertibility is needed to ensure propriety of issue. Poor writes that "convertibility of issue may have no relation whatever to propriety of issue. A person may be able to pay a bill he has uttered; but by doing so be may strip himself of every dollar he possesses. The question, therefore, far in advance of convertibility, and which is the only one important to be considered, is the manner in, or cost at which, convertibility is sought to be secured" (p. 224). The solution to the propriety of issue is the real bills doctrine: "Where bills are discounted, obligations are mutually created; and, so long as such bills represent merchandise entering into consumption, their payment is certain to return to the Bank its obligations, without the withdrawal of any considerable portion of its means. So long as such rule is followed, so long as a currency is issued only in the discount of bills representing merchandise, there can be no inflation; nor is there any danger that the Bank issuing it will be called upon for any considerable amount of coin" (p. 225).

When a bank ceases discounting bills and uses its bank notes to buy government securities, the result is often bankruptcy and financial crisis. The only way to avoid this outcome is some provision to retire bank notes without any act of the issuer. With financial papers like government securities, no such mechanism exists. Poor states, "The only proper mode of issuing a currency is that which shall provide for its retirement automatically, by the operation of the laws of trade, — by the debtors of the Bank, instead of the Bank itself" (p. 225).

About government notes, Poor declares, "A government currency, which may at first have a value in coin nearly equal to its nominal value, may become wholly valueless; but its price at any given time is to be accepted as its value. In other words, money will no more be taken but at its value than any other kind of merchandise or property" (p. 225). Yet, Ricardo "held value to be no attribute of money; but that it was an instrument of commerce precisely in the same manner that scales or balances are instruments of commerce, the value of both depending upon their quantity" (p. 226). Poor responds, "If Ricardo be correct, then provided there be but one shilling in the world, and that a debased one, its value might be equal to all the money in it at the present time. If he be correct, then the debasement of a currency, provided its nominal amount be not increased, is the wisest possible policy both for princes and people" (p. 226). As shown, Poor strongly disagrees with Ricardo.

Ricardo preferred the government to issue the country's paper money if it would not abuse this power. However, governments are more likely to abuse this power than a banker. Redemption of notes to gold would limit the ability of banks to expand the money supply. Governments are more likely to suspend the redemption of government notes than they are of banker notes. Nevertheless, he saw no problem with an independent government commission issuing the country's currency as convertibility would not be suspended, so he believed (pp. 226-227) [Ricardo's logic is flawed. First, no government body is truly independent. Like all government agencies, politics control it. The legislature can withdraw independence as quickly as it grants it. Furthermore, the French made similar arguments before they introduced the assignat, and that turned out to be a disaster.]

Ricardo praised paper money and preferred not to see gold and silver coins circulate. Circulating coins were a waste of resources and much more expensive than paper. He restricted the conversion of paper to gold to large bars of gold. Redemption should be in bullion and not in coin (p. 230).

Poor writes, "Ricardo would maintain the value of paper money by having it represent gold, but would prevent a resort to gold by throwing inconveniences in the way of its use. He assumed, of course, that only a small amount of gold would be required to meet occasional calls; for nothing would be gained, provided the amount of gold to be held in reserve equaled the amount of notes issued. But, if it were optional with the public whether or not they would receive the notes of the Bank, they would not receive them, if they could get nothing for them but bullion" (pp. 281-282). Thus, Ricardo based his monetary argument on the assumption that the public wanted currency, a medium of exchange, instead of capital. Also, he believed that if people were free to choose between coin and paper, they would choose the more expensive (to manufacture) coin over paper. Therefore, they should be denied the choice of coin. According to Ricardo, "a perfect currency would be realized; costing nothing in itself, yet always at the standard of coin" (p. 232)!

Poor concludes his discussion of Ricardo with the following critique:

> *Ricardo possessed in an eminent degree the gift of money-making, and undoubtedly ranked high as a man of affairs. He, however, no sooner took up his pen than he seemed instantly discharged of all reasoning faculty. In the same sentence, he could affirm propositions exactly opposed the one to the other, without the least perception of their incongruity. Never was there a more striking instance of confident assumption on the one hand, and fatuity on the other. To add to the strangeness of the picture, he occupies the front rank among the Economists as an original and profound thinker, — one who exploded many of the radical errors, who placed on firm foundations some of the most important truths of Political Economy, and to whom it is more indebted than to any writer but Adam Smith. . . . From his example, it would seem that no mind is capable of discussing the subject of money, and of preserving, at the same time, its balance and integrity. (pp. 232-233).*

Poor adds that "in the matter of money, the most groundless and absurd theories are often found intimately associated with the greatest practical talent for its accumulation and administration. Life nowhere else presents an example of such complete disassociation between the practical and speculative sides of our nature" (p. 233).

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

Monetary Metals Builds Out Its Team of Professionals

New York, NY, October 20, 2016—Monetary Metals announces that it has hired three Relationship Managers. This team works to identify investors who can benefit from the Monetary Metals Gold Exponential Fund, the only fund that offers a yield on gold, paid in gold ounces. The company has set a goal of 60,000 ounces (about two tons) of gold under management in its Gold Exponential Fund by the end of 2017.

The company welcomes on board Daniel Rozzi, who was previously a financial advisor at Morgan Stanley, Dickson Buchanan and Addison Quale who were previously at Schiff Gold. This department is structured to collaborate closely.

"We have incorporated both conventional investment and gold subject matter experts. This team will drive growth of our unique offer of a yield on gold, paid in gold," said Keith Weiner, CEO of Monetary Metals.

Regulatory compliance for sales activity will be supervised by Monetary Metals partner Ashton Stewart & Co., a registered broker dealer, Member FINRA & SIPC.

The Monetary Metals Gold Exponential Fund is a managed, private investment created to meet the needs of sophisticated investors looking to put their gold to work. The Fund seeks to compound investors' physical gold, while vaulting it outside the banking system to avoid counterparty risk.