



## The Gold Standard

The journal of The Gold Standard Institute

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## The Gold Standard Institute

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

[www.goldstandardinstitute.net](http://www.goldstandardinstitute.net)

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## Editorial

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### The Next Balloon to Burst

It is ironic how things work in this world. If you read my bio on the about people page on the GSI web site, you know that I am of Hungarian descent... my parents left as refugees when the Hungarian border was open for a few days during the Hungarian Revolution of 1956.

And the latest hot news is from Hungary; Hungary is in big financial trouble. Perhaps it is the next Greece... or maybe it will beat Greece to default. In a nutshell, the Hungarians are in the same type of trouble as the Greeks; way too much debt, inability to pay, imposed austerity, IMF pressure, EU pressure, the whole enchilada.

The most sensible thing I have heard regarding all this was a statement by a wise Hungarian; 'The Hungarian Revolution is not over yet.... It's merely on hold'. How true! Hungarians have not yet managed to shake off the statist, bankster yoke... but perhaps they are as close to doing this as any other nation in the world.

Remember that back in the 1980's Hungary pricked the USSR's balloon; before the fall of the Berlin wall, the Hungarians decided to allow East Germans to escape to the West through Hungary. Mr. Gorbachev chose not to risk starting WWII by sending in the Red Army tanks to stop this; unlike in 1956, when the Russian tanks indeed rolled, and overran newly liberated Hungary... while the rest of the world including the UN and the USA watched.

If Hungary chooses to default rather than cave to the onerous austerity and surrender of sovereignty demanded by the EU and the IMF, they will be well on the way to not only liberating Hungary from oppression, but to pricking the bankster balloon... mainly by setting an example for Greece and Portugal and Ireland (Portugal is probably next to collapse)... and all the other debt enslaved peoples of the world.

Of course, Iceland already did this... default... and notice that news of Iceland is not on the agenda; Iceland may as well have sunk into the North Atlantic. The mistake made in Iceland by TPTB was

allowing a referendum to be held regarding paying back debts; Icelanders wisely said no way Jose... and the banksters had to swallow the losses.

This mistake was not repeated. When the Greeks tried to hold a referendum, a new prime minister was installed post haste... can't have the people vote on their own enslavement, now can we? Why, they may just wake up in time to say NO!

If the Hungarians work up the courage to break out, others will follow... and the whole house of cards will collapse... or as they say, Hungary will become the first domino to fall... to be followed by many more falling dominoes in quick succession.

So, what does all this have to do with Gold or the Gold Standard? Simply everything.

First, under Gold, things could never have gotten this far out of whack. The huge debts and massive imbalances are a direct result of debt backed instead of Gold backed 'money'. To create 'money' under this system requires ever more debt and repaying debt destroys 'money'. Not a sustainable situation by any means.

Second, the solution to the problem of too much debt cannot be more debt; this is simply insane. Instead of ever more debt, needed to create more debt backed money, the world must resume using real money, money of positive value. The world must separate credit and money. In other words, there must be put back into use an ultimate extinguisher of debt.

Debt money has the exact opposite effect; instead of extinguishing debt, more money means more debt. The world needs real money and LESS debt! This can only happen if money of positive value is restored and the destructive burden of excess debt is lifted.

And what is the best money of positive value? What is the 'ultimate extinguisher of debt? Certainly not crude oil or platinum, or a so called 'basket' of commodities. These things are not and cannot ever be money nor be used to back money. The ultimate extinguisher of debt is... hold your breath... Gold. Not to say that Silver cannot play an important role,

but Gold is money. Silver may again be money only if the market so chooses.

In addition to thousands of years of history as money, Gold has by far the largest stock to flow ratio of any substance on the planet (only Silver comes close). A high stock to flow ratio is the sine qua non of money. Gold has a large stock to flow ratio because it is money... and it is money because it has large stock to flow. History will not be denied. No more can debt get away with pretending to be money than the US can get away with pretending to be the richest country in the world.

Ironically, Greece has a pretty nice stash of Gold; by putting their Gold to use, (but not by any means trading it for paper 'money') instead of letting it gather dust in the vault, they could start resolving their financial crisis. They certainly will not resolve their crisis by borrowing more Euros... or by starting to print un-backed Drachmas again.

As an old Hungarian, I am rooting for Hungary; go Hunkies, prick the balloon! Someone has to... it may as well be Hungarians. Hungary has a petty wild history, starting with Attila the Hun, through Turkish invasions, through the Austro-Hungarian empire and WWI, through Hitler and WWII, through Stalin, Khrushchev... and it managed to survive in spite of all this. It will surely survive the destruction of the Euro as well.

More rationally, it is clear that the current system must collapse; all we can do is hurry the process, and make sure the result is the establishment of an Unadulterated Gold Standard as the foundation of the world economy. If this does not happen, history will eventually repeat, and all the chaos and pain we are now going through will have been in vain.

Onward to the Unadulterated Gold Standard. Onward to a Golden future.

## **Rudy J. Fritsch-Editor in Chief**

Keith Weiner has provided an ingenious roadmap for how we transition from here to 'there'. For those who still have not read the full [document](#) I strongly urge you to do so.

If you have not already booked there are still some spaces for the Munich seminar. See details within.

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## News

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[YouTube](#): Professor Antal E. Fekete – interviewed in Paris (thanks Jarrod).

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[Business Week](#): Ron Paul building a strong negotiating hand.

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[CNN](#): Richard Fisher, president of the Dallas Fed, owns more than \$1 million in SPDR's Gold Trust (GLD).

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[Bloomberg](#): Venezuela Receives Last Shipment of Repatriated Gold Bars.

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[GoldChat](#): An excellent commentary on the movement to gold.

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[Henry Makow](#): Nutty website of the month. Good for a laugh, but you have to wonder who is really behind such nonsense.

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[24hGold](#): Spring festival sparks a gold rush in China.

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[Bloomberg](#): Sovereign gold reserves continue to increase.

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[NY Sun](#): Gingrich calls for a commission to discuss a return to the gold standard.

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[ZeroHedge](#): F.B.I. profiling: "The extremists may refuse to pay taxes, defy government environmental regulations and believe the United States went bankrupt by going off the gold standard."

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[Bloomberg](#): The new member of the Reserve Bank of Australia airs her thoughts and provides good reasons for Australians to continue swapping their paper for gold (thanks Justin D.)

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## The Rise of the Gold Bugs

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The gold bugs are rising. Even US states, nervous about the failing economy and heavily laden with debt, are jumping on the band wagon.

More and more states are looking at the Utah model of allowing citizens to pay their debts and trade using gold as an alternative to fiat money.

When Governor Gary Herbert signed a bill into law in March 2010, Utah became the first state to stick its neck out and introduce its own alternative currency recognizing gold and silver coins issued by the U.S. Mint as a legal form of payment. Under the law, gold and silver coins, including American Gold and Silver Eagles, are now treated the same as U.S. dollars for tax purposes, eliminating capital gains taxes.

However, as the face value of some U.S.-minted gold and silver coins is less than the metal value (one ounce of gold is now worth more than \$1,700), the new law allows the coins to be exchanged at their market value, based on weight and fineness.

13 states lawmakers including Minnesota, Tennessee, Iowa, South Carolina and Georgia, are looking to follow suit by currently seeking approval from their state governments to issue their own gold based currency.

"In the event of hyperinflation, depression, or other economic calamity related to the breakdown of the Federal Reserve System ... the State's governmental finances and private economy will be thrown into chaos," said North Carolina Republican Representative Glen Bradley in a currency bill he introduced last year.

The US Constitution bans the states from printing their own paper money or issuing their own currency, but does allow states to make "gold and silver Coin a Tender in Payment of Debts."

"To the state legislators who are proposing state-issued currencies, that means gold and silver are fair game", said Edwin Vieira, an alternative currency proponent and attorney specializing in Constitutional law.

"A Utah citizen, for example, could contract with another to sell his car for 10 one-ounce gold coins (approximately \$17,000), or an independent contractor could arrange to be compensated in gold coins," Rich Danker, a project director at the American Principles Project and conservative public policy group in Washington, D.C stated.

And while we are on the conservative trolley Newt Gingrich has announced that he will institute a study of returning to the gold standard if he is elected.

South Carolina Republican Representative Mike Pitts has a bill proposing a currency system allowing people to use any kind of silver or gold coin, "whether it's a Philippine Peso or a South African Krugerrand " based on weight and fineness. Pitts said in the bill, which currently has 12 co-sponsors, that the state is facing "an economic crisis of severe magnitude."

It seems the tide is turning. People will accept just so much waste paper for a currency that is digging a deeper and deeper hole of debt before they say enough!

Gingrich stated in a speech recently, "Hard money is a discipline. It is very important for us to understand in finance that the entire contraption that has been built up over the last thirty or forty years has so much paper in it, so much debt, so much leverage, that we probably have a fifteen or twenty year period of working our way out of it. And yet, the alternative is to get sicker and sicker and sicker."

Mr. Gingrich sent a signal that his commission would be different indicating the co-chairmen would be Lewis Lehrman, and James Grant, the editor of Grant's Interest Rate Observer.

"The fundamental conclusions of a Lehrman-Grant commission to consider a gold standard may be foregone: We're for it," Mr. Grant wrote in the latest issue the Interest Rate Observer.

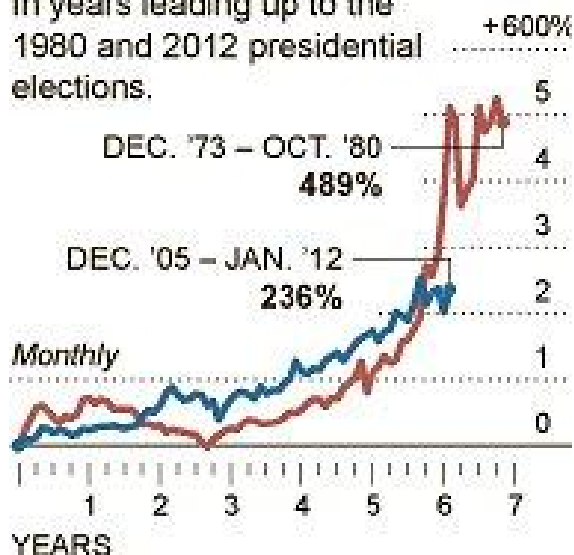
The various states' proposals have also been gaining attention among Tea Partyers and Republicans, many of whom are also endorsing a nationwide return to the gold standard, requiring the U.S. dollar to be backed by gold reserves.

And the Tea Party "father" Ron Paul is sponsoring the "Free Competition in Currency Act," which would allow states to introduce their own currencies.

It seems a gold standard is not that far away after all.

## CHANGE IN PRICE OF GOLD

In years leading up to the 1980 and 2012 presidential elections.



Source: *The New York Times*

## Michael Moore

Michael Moore is the author of "All About Gold". He writes prolifically on precious metals and gems. His website is: <http://authorservices.org>

## Book Review: *Gold Warriors*

*Gold Warriors* (latest edition 2005), Sterling and Peggy Seagrave

I have just finished one of the most absorbing books that I have ever read. Note that I did not say 'enjoyable', for no sane person could enjoy being immersed in so much bloody violence by so many psychotically greedy and power mad people. This is not a book for the faint of heart.

The depth and quality of the research is quite extraordinary and is almost as much a feature of the book as the story of intrigue that the research uncovers. Does the book have to do with the Gold Standard? Not directly. Yet there is more to gold as money than historical facts and sterile economic and monetary theories. Gold is a multi-faceted instrument that touches all aspects of life. It brings

out not only the very best of humanity, but, in this case, the absolute worst.

The main body of the story begins in Korea in 1895 and continues up to 2003 when the first edition of the book was published. It is the detailed story of Hirohito's plunder of Asia, mostly gold, and of what happened to that gold before, during and after WW2. This background on the depredations of the 20th century is of immense value to any scholar of gold. As a side issue, for it is not the focus, the book scythes through the myth that there is only 170,000 tonnes of gold in the world.

I found one small part of the book (transfer of gold to China by Nixon) a little hard to swallow, as it assumed a naivety on the part of both the president and the American intelligence services. Inept at times definitely, but naive – I don't think so. Doubtless some deal was done, but I am hesitant to accept that it was entirely in the manner described. However, it was by no means an integral part of the story and not worth dwelling on. The Seagraves' sources are as varied and numerous as they are impeccable – those not mentioned in the story are acknowledged at the end.

In 274 grim pages, Ferdinand Marcos, ex-president of the Philippines, provided the only chuckle. He ruthlessly accumulated hundreds of thousands of tonnes of gold. Lacking Statements of Origin he became frustrated at his inability to sell the gold for paper money so that he could become rich.

This is a book about the dark side of humanity's need for gold; the story of what can happen when gold is forced from circulation to lie dormant in vast hoards. It is a story of political, banking and intelligence agency corruption on an historically unparalleled scale. Anyone interested in a broader understanding of gold would gain from reading it – as would anybody with their gold currently stored in a bank. Kudos to the Seagraves for the time, effort, sacrifice and courage that went into '[Gold Warriors](#)'.

**Philip Barton**

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## Bullion vs. Bullshit

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*"One of the most salient features of our culture is that there is so much bullshit. Each of us contributes his share. But we tend to take the situation for granted. Most people are rather confident of their ability to recognize bullshit and to avoid being taken in by it. So the phenomenon has not aroused much deliberate concern, nor attracted much sustained inquiry.*

*In consequence, we have no clear understanding of what bullshit is, why there is so much of it, or what functions it serves. We lack a conscientiously developed appreciation of what it means to us. In other words, we have no theory."*

~ Harry G. Frankfurt, Professor of Philosophy Emeritus at Princeton University, in the introduction to his book, [On Bullshit](#), published by Princeton University Press in 2005.

That's right: bullshit! There is so much of it these days that I agree with Professor Frankfurt: the subject merits a more serious consideration than the name itself would suggest. In fact, I would like to argue that there is an existential link between our relationship with money and bullshit. The more dishonest the money we use is, the more bullshit we must inevitably engage in as a society. To do so, I will be using Professor Frankfurt's development of a theoretical understanding of bullshit, as laid out in his book.

In fact, I also find it interesting how one of the world's most influential moral philosophers came to influence my own thinking about money production. Back in 2005, as I was browsing through the Harvard Book Store for books about money, my attention was captured by this little book 'On Bullshit'. Somehow, it connected with my state of mind as I was looking for answers concerning money, how it came into being and how we got to where we are today.

Well, it's only recently that I connected the dots! I realised that bullshit is all about deception and this reminded me of what I wrote in the very first issue of my eNewsletter 'Prosper!' back in 2006:

*"We seem to be caught in an epidemic of dysfunctionality within much of society. How did this happen? Well, I would argue that the root cause is deceit. What we see today is the manifestation of its cumulative effects over*

*time. Would you not agree that there is too much deception and not enough authenticity in the world?"*

*'Prosper!' is about the paradox of prudence and our relationship with money today. It's about first of all realising that what was once real money has subtly been replaced by an illusion; a highly deceptive and persistent illusion."*

Here's the link with money: like bullshit, the essence of fiat money is not that it is false, but that it is phony. Professor Frankfurt helps us to appreciate this distinction, although he of course does not consciously relate it to money as such:

*"One must recognize that a fake or a phony need not be in any respect (apart from authenticity itself) inferior to the real thing. What is not genuine need not also be defective in some other way. It may be, after all, an exact copy. What is wrong with a counterfeit is not what it is like, but how it was made."*

Reread the above quote and tell me, if you can, you don't see a parallel with the subtle replacement over time of redeemable currency (under a gold standard) with irredeemable currency (as we have today with fiat only money)! That deception has worked for a century. But for the belief in what seemed at first to be an innocent enough counterfeit to prevail, the truth had to be endlessly covered up by phony economic theories; fiat money bullshitting its way through, if you will.

In other words, the aim of keeping gold outside the monetary system has involved **a whole program** of producing bullshit to whatever extent the circumstances required over time. That's because, as Professor Frankfurt points out, a person who undertakes to bullshit his way through has much more freedom than a liar: *"he does not limit himself to inserting a certain falsehood at a specific point... he is prepared, so far as required, to fake the context as well."*

Ain't that the truth! Just think of how they stopped teaching what money is or don't teach how money is created anymore; or how much monetary history has been falsified over the years or just erased from academic curriculum; or how little if any funding is allocated to independent research on sound monetary economics. It's all part of an ongoing elaborate program of endless bullshit to suit the

purpose of the main beneficiaries of endless fiat money production.

Professor Frankfurt points out that what bullshit essentially misrepresents is neither the state of affairs to which it refers nor the beliefs of the speaker concerning that state of affairs. Those are what lies misrepresent, by virtue of being false. Since bullshit need not be false, it differs from lies in its misrepresentational **intent**. This is the crux of the distinction between the bullshitter and the liar.

*"The bullshitter may not deceive us, or even intend to do so, either about the facts or about what he takes the facts to be. What he does necessarily attempt to deceive us about is his **enterprise**. His only indispensably distinctive characteristic is that in a certain way he misrepresents **what he is up to**."*

Think about this. When an honest man speaks, he says only what he believes to be true; for the liar, it is correspondingly indispensable that he considers his statements to be false. For the bullshitter, however, all these bets are off: he is neither on the side of the true nor on the side of the false. And this is where Professor Frankfurt's theory on bullshit became most useful to me in my theoretical understanding of why fiat money has been accepted for so long:

*"His eye is not on the facts at all, as the eyes of the honest man and the liar are, **except insofar as they may be pertinent to his interest in getting away with what he says**. He does not care whether the things he says describe reality correctly. He just picks them out, or makes them up, **to suit his purpose**."*

The whole enterprise of dishonest money or irredeemable currencies has generated all sorts of claims from central bankers, economists and others who all have a huge vested interest in maintaining the status quo. Many of those assertions, I expect, will have been made not because those who made the claims believed them to be true, but because they were pertinent at the time to maintain the belief in endless fiat money.

For most people, the fact that a statement is false constitutes in itself sufficient reason not to make the statement. For the liar it is, on the contrary, a reason in favour of making it. Both respond to the facts as they understand them to be: one is guided by the

authority of the truth, while the other refuses to meet its demands. The bullshitter, on the other hand, ignores these demands altogether.

Frankfurt concludes that although bullshit can take many innocent forms, excessive indulgence in it can eventually undermine the practitioner's capacity to tell the truth in a way that lying does not. Liars at least acknowledge that it matters what is true. By virtue of this, Frankfurt argues (and I agree) that bullshit is a greater enemy of the truth than lies are. And so it has come to pass that the greatest enemy of gold as money is... bullshit!

It becomes so obvious when you think about it. Bullshit is unavoidable whenever circumstances require someone to talk without knowing what he is talking about. Nowhere is this more apparent than when it comes to the subject of money itself. How else could it be, when there is so much ignorance about why gold is money? What we accept as money today simply reflects the level of ignorance that prevails in our society.

Money, after all, is at the very core of our daily human interactions. Whether we like it or not, we use money all the time in our exchanges with each other. It's like a language, if you like. If what we use when we interact economically with each other is dishonest, whether we are aware of it or not, how must that affect our society over time? I believe it must attenuate our natural ability to attend to things the way they actually are.

Indeed, through our excessive indulgence in either proffering bullshit or willingly participating in this game even if only passively, we cease to pay attention to what matters and lose our ability to think for ourselves. That is how deception works. Similarly, by accepting dishonest money, we lose touch with the medium we use in our exchanges and become victims of debt and delusion.

Those who have come to accept fiat money as honest money are simply victims of an elaborate ongoing program of deceit to suit the monetary status quo. As a result, dishonest money has over time pushed honest money into hiding. This is not a healthy state of affairs, as gold should instead be allowed to freely circulate as money or at least serve as a numéraire. But it does mean that for the time

being society is split: those who are hoarding bullion and those who are not.

Our relationship with fellow human beings matters. Our relationship with money is part of that. Resistance to the status quo, when it comes to our monetary system, is not futile. It is in fact our duty to do so and there is no better way than to hoard gold bullion. But it is also our responsibility as honest men to lift the veil of ignorance out there about the monetary disorder and debunk the bullshit that prevails.

The more widespread gold hoarding becomes in society, the greater the number of people who will be better prepared for what is coming. The whole enterprise of dishonest money or irredeemable currencies will come to an end one way or another. By taking action now and hoarding bullion, we may even collectively enable a faster return to honest money. Fight bullshit head on with bullion!



**Louis Boulanger**

Louis holds a B.Sc. from Laval University in Canada; is a Fellow of the Canadian Institute of Actuaries and the New Zealand Society of Actuaries; and is a Chartered Financial Analyst.

Prior to coming to New Zealand in 1986, Louis worked for nine years with a global consulting firm based in Montreal, Canada. In New Zealand, Louis worked for another global consulting firm for 18 years, including as Chief Executive of New Zealand operations for five years. In 2006, he launched his private practice.

Louis is also Founder & Director of LB Now Ltd, which provides independent investment advice to private and institutional clients, facilitates the purchase of bullion for private and institutional clients as an authorized dealer for BMG BullionBars and also helps firms comply with GIPS.

For more information of LB Now's services or to subscribed to Louis' e-letter 'Prosper!' see the contact details below.

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## ***Currency Wars – A Bridge Between Worlds?***

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James Rickards' *Currency Wars* is the right book at the right time for the hard money movement. While the work contains some thoughts and implications with which I take issue, its overall impact on public awareness must ultimately prove extremely positive. And due to its comprehensiveness and brevity, its sales should increase as markets worsen.

Most investors, whether amateur or professional, lack familiarity with gold's role in the monetary system. However, when they seek enlightenment, they face a difficult and unsatisfying choice.

Many gold advocates focus on the (undeniably) critical nature of the current crisis. Unfortunately this saturates their writing with alarmist claims, or at least alarming to gold neophytes. While understandable to our fellow travelers, such pieces give new readers little help in crossing the psychological gulf.

Other essayists delve into complex sub-issues. Their material covers everything from the special analysis needed to predict gold's next short-term dollar-price movements to the nature of current / imminently expected government tactics to keep fiat currency alive for the next quarter. The readers' basic familiarity with gold is taken for granted.

This is not meant as a direct criticism of such pieces. I enjoy reading these commentaries to expand my understanding of end-game possibilities. And these authors' general approach is also hard to fault. Individuals with valuable insights bear no moral obligation to educate others, although such attempts can be rewarding on more than one level. However, regardless of whether a person is taught in a careful, systematic manner, perhaps only those independently determined to gain knowledge are capable of grasping gold's relevance.

Fortunately for the uninformed, Rickards doesn't appear to agree with that last idea. And as a comparatively new arrival in the gold community he may be better suited to brief the heretofore skeptical majority.

*Currency Wars* brings together recent developments with events of the past century in order to illuminate

gold to a non-expert audience. The book opens with a compelling account of just how unprepared the US government is for an attack against its fiat dollar as part of a wider geo-political offensive.

Rickards then delivers a good history lesson on how currency divorced from a strict gold standard has been used as a weapon by governments. Focusing on the two previous currency wars (1921-1936 and 1967-1987), he shows the causes and consequences of this little understood mode of global conflict.

But readers should note especially the book's later sections. Rickards ties in the events of the last few years with the applicable leading-edge scientific thinking. He explains precisely why financial analysts were underestimating risk. It was not necessarily willful blindness to reality in order to secure big annual bonuses – their conventional models were also deeply flawed. The evolution of financial instruments, and the predictable cancerous growth of the relevant markets, laid bare those flaws with increasing impact as the crisis progressed.

An important insight is the avalanche / fire in a crowded theatre analogy. Using the concept of staggered critical thresholds, Rickards shows how such events begin and progress. That is to say, how that final snowflake starts the avalanche, or how that first trickle of people decamping from an imperiled movie house sets off the panicked rush for the exits.

While it may be impossible to model precisely, the theory is nonetheless extremely valuable for understanding the processes at work. This analysis answers, or at least gives a viable framework for answering, that perennial, maddening question from skeptics: "So, just when exactly is this great gold event supposed to happen – and why is it taking so long if things are as bad as you claim?"

To paraphrase, in any dynamic complex system, change will manifest itself as successively larger waves of early adopters until a tipping point is reached and the remaining majority converts rapidly thereafter. We may not successfully derive a mathematical formula, but the attempt might lead us down worthwhile avenues of inquiry.

Tracking the number of first-time bullion purchasers could yield clues to the dollar's life expectancy. Gold

coin sales might be a proxy, perhaps, when combined with the customer ID registration data of metals dealers. A targeted survey could lead to good application of statistical methods.

There is some important *qualitative* analysis that can be done, too. We should ask what sort of events act to lower the successive thresholds for the “avalanche triggers”. New dollar-price highs for gold? A decrease of average hold periods for equity mutual funds (or a decrease in client loyalty to the investment advisors who recommend them)? An increase in mentions of the gold standard by Presidential nominees? Strong sales of books like *Currency Wars*? Any of these might help the avalanche along.

In his final section, Rickards provides a short-list of dollar-replacement scenarios. In increasing order of likelihood, he suggests:

- a) a basket of currencies as a single reserve, or openly competing reserve currencies
- b) SDRs as the new global reserve currency, gaining widespread use in commerce
- c) a gold standard imposed in an orderly way at a time of governments’ choosing (with the US dollar price of an ounce of gold likely set somewhere between \$3,000 and \$12,000, based on the size of present monetary aggregates)
- d) a gold standard imposed in the chaotic environment of a total collapse of the fiat system, possibly unsuccessful due to sheer societal breakdown

His discussion of these is also useful to our cause, even if only by further encouraging the widespread dispersion of private bullion ownership throughout the world.

The knowledge gap between gold experts and the uninformed but otherwise intelligent majority must be bridged if real money is to become sufficiently widely distributed among citizens. To mix the metaphors, when the avalanche comes we’ll have lost our chance at an orderly exit from the theatre. And this phrasing may unfortunately describe the intellectual / political climate as much as the state of people’s purchasing power.

**Publius**

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## An Economic Superstructure Built on a Golden Foundation

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In my last articles I talked about the ‘Golden Triangle’; about how basing the economy on the stable three legged foundation of an Unadulterated Gold Standard leads to ‘economic nirvana’.

The primary ‘leg’ of this foundation is money; money being that which extinguishes all debt. Historically and for many good reasons Gold (and Silver) have served as money for thousands of years. Without sound money, a secure economic foundation cannot be built.

Once we are clear on what money is, we can go on to study credit in its different forms. I showed in the last article how credit through borrowing must be differentiated from credit, better called terms, through clearing; and how the Gold Standard cannot survive without its clearing mechanism, that is Real Bills circulation.

There is a very definite, clear distinction between money and credit... money being a thing of positive value, a ‘present good’... and credit being a thing of negative value, a ‘future good’ or the promise of a present good... to be delivered sometime in the future. In a similar fashion, there is a clear and distinctive line or ‘tipping point’ between Real Bills (credit through clearing) and bonds (credit through borrowing).

The difference between bills and bonds is clear; Real Bills circulate in the free market on their own merits; bonds and all other forms of credit do not. But what exactly does ‘circulate’ mean? Simply that Real Bills acquire monetary aspects that bonds never acquire.

In more detail, Real Bills are used to make payments directly; bonds are never so used. Bonds do represent value, but their value is variable and depends on many things... such as time to maturity, interest rates, perceived risk etc. In order to use the value of a bond to make payment, the bond must first be sold, that is traded for money.

The money redeemed through the sale of the bond is then used to make payment. This not how Real Bills work. Bills are not sold or bought like bonds are. Instead, the bill itself is the vehicle used to clear

debt. The bill need not be traded for money before performing this duty.

Real Bills assume a monetary aspect, the ability to directly clear debts, an aspect denied to bonds. The very definition of Real Bills is based on this fact. Any paper that does NOT circulate (does not assume a monetary aspect) on its own merit is not a Real Bill.

Real Bills are not sold or bought; they are drawn (written and accepted against real goods on their way to the paying customer); they are paid on maturity (by the acceptor) and in between, they are often re-discounted... that is assigned to another entity... but are not 'sold' or traded for money to make payment; the bill itself makes payment.

This is not semantics, it is a key concept. Just as money must extinguish all debt, or it is not money... so Real Bills must circulate, or assume the monetary role of making payments. If a bill does not circulate then it is not a Real Bill. Only those bills that do circulate, that do assume a monetary role, qualify as Real Bills. Of course, the monetary aspect disappears along with the bill itself once the bill matures into Gold.

So where does this leave us? The Golden Triangle has three legs, and they are all distinct... but it is possible to look at these legs in a linear fashion; the first leg is Money, the second leg is Real Bills, closest to Money... and the third leg is Bonds, farthest from money.

Money does not have to be Gold; but money must be something of positive value. The closest things to money are Real Bills... bills do assume a monetary role. As we move further from money, we then get to bonds. Bonds are too far from being money to circulate as a surrogate for money.

There is an old saying, 'between cup and lip there is many a slip'; Real Bills are of such low risk, they are like the cup is already at the lip... and to drink one must simply slurp. Bonds are further away, and subject to 'spillage'. This is the reason Bonds do not assume a monetary role... they are seen as being too risky, both through possible default and through variations in value. The fact that their market value can vary significantly prevents them from being used

as money, and forces their sale to determine their true current value.

In the category of Real Bills, an enormous number and variety of bills circulate. They circulate between local suppliers and buyers, between different countries and domiciles, and in endless denominations drawn against a staggering variety of goods. They all, however, obey one rule; they circulate on their own merit.

Bonds, representing credit through borrowing, are similarly diverse; many maturities, many denominations, many risk levels, many forms of collateral... but no bond ever circulates and no bond assumes a monetary aspect. This is the key to understanding the credit markets... and failure to understand this crucial difference between bills and bonds is the second grave error committed in our current economy.

The first grave error of course is confusing Money and Credit.

Many things have to be set right before the world economy is set right; things such as damaged property rights, temporal distortions of credit or 'borrowing short to lend long', etc. Before any of this can happen, we must have a clear understanding of the three legs. We must be able to clearly distinguish between money, clearing, and borrowing, without doubts or uncertainty. Once we do understand, the path to 'economic nirvana' will be clearly illuminated.



**Rudy Fritsch**

Rudy's book *Beyond Mises* was written to make Professor Fekete's work and Austrian economics accessible. It can be ordered directly from <http://www.beyondmises.com/>

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## Stocks vs. Flows

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Today, people who believe that gold is money think that one should hoard gold. They seek to take possession personally. Or when they have it stored professionally, they look for a private vault outside the banking system where they can (hopefully) trust their warehouse receipt. And why shouldn't they avoid the banking system?

Its corruption was always inevitable. The advent of the central banks before World War I ensured it. The theft (in the US) of the gold of the people in 1933 cemented it, along with the dollar devaluation. The treaty at Bretton Woods in 1944, in which the world agreed to treat the US dollar as if it were gold nailed it in place. The default on the US government's gold obligations in 1971 by President Nixon set it in stone. Today, we have a corrupt central bank that centrally plans money, credit, discount, and interest.

The regime of irredeemable paper money is going to collapse. Anyone who understands it should want to get out of it, and not be a creditor to insolvent banks. This is a rational personal response to an irrational system.

But it is not necessarily a vision for how the world ought to be run, or banking system be designed. Today, it is necessary to hunker down, trust no one, hide one's gold, and take no unavoidable or unnecessary risk. Today, one is concerned with one's **stocks** of gold. One has what one has, one tries to get a little more while one can, and then one hopes that after "it" happens, one will have enough.

But let's assume we had the Rule of Law once again, reasonable expectation of enforcement of contracts, and the absolute right of property. What kind of financial system would we have? Would it be the product of fear and distrust wherein gold does not move, but is hidden and buried in vaults?

Many today propose that banks must back their reserves with 100% gold. They envision a vaulting and payment processing system only. But without realizing it (or in some cases deliberately), this policy rules out credit. Perhaps it is based on this view, that detractors of the gold standard say that there is not enough gold for modern production and trade.

And they would be right! Most businesses make a small margin. They buy their inputs such as raw materials, labor, tooling and other consumables, and they sell their product for a little more. In any competitive market, margins are thin. Therefore most companies will never have the capital to buy their inputs for cash (and even for those few who could, this would be an inefficient use of capital). And then what happens when technological change allows a new business to insert itself into the supply chain? The supply of gold coins would have to expand, which is clearly not feasible. Or else a new business could not be added to the supply chain. This problem is intractable. It does not go away when the economy grows larger, technology improves, production becomes more sophisticated, or markets interconnect globally.

The point is that if we are to have a dynamic economy with production, trade, global markets, invention, innovation, and growing efficiency then there must be a financial system in which gold **flows**.

One gold coin can do a lot of work in the economy if it is unshackled and thereby allowed to move to where it's needed to pay creditors and extinguish debts. Then it can move to the next and the next. In a free market, both Real Bills and bonds (and probably other credit instruments) will arise. The structure of credit, who owes whom and when each obligation is due, the amount of total credit, the terms and conditions of credit, and the business models of those who deal in credit will evolve based on the needs of the participants in the markets.

Credit will be limited only by the creativity of the entrepreneur, the inventor, the innovator, and others. That is, gold will flow and men will prosper if there is no draconian rule that bank reserves must be 100% backed by static stocks of gold, no onerous restrictions on who may deal in trade credit, and no reactionary rules against lending based on ancient hatred of "usury".

As we begin the earnest discussion of how best to go back to a gold standard, and what that gold standard should look like, I think it is important to keep in mind that gold must be free to move.

**Keith Weiner**

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## Is the RBD Another John Law Scheme

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Opponents of the real bills doctrine cite John Law's monetary scheme and claim that it is what the supporters of the real bills doctrine seek. Law wrote ". . . trade depends on money: a greater quantity employs more people than a lesser than a lesser . . . nor can more people be set to work without money to circulate so as to pay wages of a greater number. . . ." Law sought to increase trade, production, and employment by increasing the money supply. Under Law's system, money growth precedes production growth. New money enters the economy before new goods do.

Under the real bills doctrine, the opposite is true. Production growth precedes money growth. Real bills can come into existence only after newly produced goods are being shipped to be sold. Only after production has occurred does commercial money, real bills of exchange, come into existence. Bills can only be converted into bank money after they exist. Consequently, new goods enter the economy before new money does.

Law's system rests on the premise that increasing the quantity of money makes a country wealthy. Furthermore, to make a country wealthy, increasing the quantity of money is necessary.

The real bills doctrine rejects this premise. Under the real bills doctrine, increasing productivity, not money, leads to increase wealth. Real bills merely facilitate the movement of goods produced. It allows more goods to be produced because it paves the way for the movement of goods without tying up savings needed for production. Production creates wealth.

With Law's system, bank money come first. Thus, it can become a highly inflationary system. Bank money under his system had no direct relationship with production.

With the real bills doctrine, the opposite is true. Production growth precedes money growth. A direct relationship exists between production and the

growth of money. Bank money can never grow faster than new goods entering the markets.

Moreover, under the real bills doctrine, credit money is continuously being converted into gold. With Law's system, conversion was infrequent.

Real bills are self-liquidating within 91 days. Therefore, bank money into which they have been converted liquidates at the same time. Any bank money that is not cancelled is now representing the gold used to pay the bill. That is, any bank notes or checkbook money not used to pay a bill becomes fully backed by gold when the bill is paid. Law's system lacked this feature. His credit money was not self-liquidating.

The above discussion assumes the true gold-coin standard accompanied by a decentralized competitive banking system without special privileges.

### Thomas Allen

Thomas Allen has been a student and adherent supporter of the gold standard and the real bills doctrine since 1972. In 2009, he wrote and published *Reconstruction of America's Monetary and Banking System: A Return to Constitutional Money*. Many of his writings on money and other subjects can be found at <http://tcallenco.blogspot.com/> and an index to these blogs is at <http://tcallenco.weebly.com/>

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