



## The Gold Standard

The journal of The Gold Standard Institute

### Editor

Philip Barton

### Layout

Bron Suchecki

### Regular contributors

Rudy Fritsch  
Sandeep Jaitly  
Louis Boulanger

### Occasional contributors

Philip T  
Publius

## The Gold Standard Institute

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

<http://goldstandardinstitute.org>

### Patron

Professor Antal E. Fekete

### President and Senior Editor

Rudy Fritsch

### Treasurer and Website

Petar Brekalo

### Director

Thomas Bachheimer

### Head of Monetary Research

Sandeep Jaitly

## Membership Levels

Annual Member	€75 per year
Lifetime Member	€2,500
Gold Member	€25,000
Gold Knight	€250,000

## Table of Contents

From The Editor.....	1
Gold News From Around the World.....	1
TGSI in the News.....	2
Should We Welcome or Mistrust a Surrender by Monetary Authorities?.....	3
Myth Buster: The Gold Standard is only for the rich.....	4
False Beliefs.....	5
The Gold Dinar as Money in Malaysia.....	6
From London.....	6
New Austrian School of Economics - Course II - Adam Smith's Real Bill Doctrine.....	9

### From The Editor

We hope that you enjoy the new format for the newsletter of The Gold Standard Institute.

News on the Gold Standard is, whilst still scarce on the ground, noticeably increasing in the world's media. It is hard to gather it all from one spot, so if you come across anything in your part of the world that may appeal to our readers then please submit it.

You are all hereby appointed as news gatherers for 'The Gold Standard'.

Email: [pb@monetarymetals.org](mailto:pb@monetarymetals.org)



The refusal by governments and mainstream economists to inspect the problems associated with irredeemable paper money ensures that the situation will continue to deteriorate until the day the system collapses. That is not a gloomy prediction, it is a mathematical certainty. The debts grow ever larger and ever more un-payable.

Our job at The Gold Standard, and your job, is to disseminate the virtues of an unadulterated Gold Standard.

The Gold Standard is coming, whether people like it or not. There are many forms of a Gold Standard that won't work, and no shortage of people who would love to see that happen. An unadulterated Gold Standard is a model that will work. That, and only that, is why The Gold Standard Institute promotes it.

### Gold News From Around the World

The Federal Reserve's Thomas Hoenig says gold standard is a "legitimate" system, reports Reuters on Jan. 5, 2011:

*A gold standard that forces countries to back their currency reserves with bullion is a "legitimate" monetary system, though it would not prevent financial crises, Kansas City Federal Reserve President Thomas Hoenig said on Wednesday.*

*"The gold standard is a very legitimate monetary system," Hoenig said, adding: "We're not going to have fewer crises necessarily. You will have a longer of period of price stability or price level stability, but I don't know that you'll have lower unemployment, I don't know that you'll have fewer bank failures."*

Comment from Rudy Fritsch:

Even the old, imperfect gold standard kept the 'crises' to short, moderate levels. A modern, unadulterated Gold standard would indeed prevent 'crises'.

Remember, the cause of these crises was loosening and subsequent tightening of credit or 'monetary policy' through the fiduciary or 'printed money' component of the old Gold Standard.

The New, unadulterated Gold Standard would have zero fiduciary or 'printed promises' component; thus expansion and contraction of credit 'money' is impossible. This would

pre-empt periodic inflation and contraction.

He mentions stable price structure but not stable interest rates and stable, moderate interest rates are the key to ongoing prosperity through capital accumulation. Steady interest rates are the real benefit of the Gold Standard, in particular of the Unadulterated Gold Standard as proposed by The Gold Standard Institute.

Wild swings in interest rates lie at the root of ongoing capital destruction, rampant speculation and the growing derivatives tower. With steady interest rates, speculation does not pay... therefore it dies out. If speculation dies out, then there is no need for derivatives to insure or 'hedge' leveraged speculative positions; and finally, human energy and ingenuity will be channelled into truly productive avenues, not into creating ever more devious and ever more dangerous derivative paper instruments.



Malaysia's former Prime Minister and elder statesman Mahathir Mohammed addressed the 5th International Shariah Scholars Forum in Kuala Lumpur in October 2010. It was held in conjunction with the Global Islamic Finance Forum (GIFF). In an outspoken attack he warned that:

*"(the) collapse of conventional banking, finance and the monetary system has exposed their weakness and the ease with which they can be abused."*

He also recommended a return to a Gold Standard, but only for use in international trade between nations. Not for the use of the people of course, that would involve governments losing their power.

Philip T discussed the Malaysian Gold Dinar on page 6.



It has been confirmed that Ron Paul will assume the chairmanship of the Domestic Monetary Policy Subcommittee of the House Committee on Financial Services when the US Congress resumes in January 2011.

Ron Paul has maintained a consistent line that the Federal Reserve Bank should be abolished and that a gold standard should be re-adopted.

*Most people recognize that the dollar reserve standard... there's nothing permanent about it. Even the international bankers are talking about a new currency or using gold even. The big question is should we move further away from national sovereignty and our constitution and give it to an international body and try some crazy Bretton Woods standard again, which is doomed to fail. Or should we look to our traditions and have sound money.*

Ron Paul in an interview with the Wall Street Journal.



It is not only the 2 trillion US\$ debt crisis that threatens dozens of US cities. European cities such as Madrid, Barcelona, Venice and Florence are also in big trouble.

The [Guardian](#) reports that:

*Since 1937, 619 local US government bodies, mostly small utilities or districts, have filed for bankruptcy, Bloomberg News recently reported. US cities tend to default more than European municipalities as they usually rely on bonds issued to investors, which enter into a default if the creditor misses payments. European towns, by contrast, traditionally depend on bank loans and government bailouts.*

[The New York Times](#) reports:

*This struggling small city on the outskirts of Mobile was warned for years that if it did nothing, its pension fund would run out of money by 2009. Right on schedule, its fund ran dry.*

*Then Prichard did something that pension experts say they have never seen before: it stopped sending monthly pension checks to its 150 retired workers, breaking a state law requiring it to pay its promised retirement benefits in full.*

*The situation in Prichard is extremely unusual - the city has sought bankruptcy protection twice - but it proves that the unthinkable can, in fact, sometimes happen. And it stands as a warning to cities like Philadelphia and states like Illinois, whose pension funds are under great strain: if nothing changes, the money eventually does run out, and when that happens, misery and turmoil follow.*



A [new DVD](#) has been put out by Mike Maloney explaining the simple virtues of the Gold Standard.

Understanding Money:

- [Intro](#)
- [Part 1](#)
- [Part 2](#)
- [Part 3](#)
- [Part 4](#)

## TGSI in the News

TGSI director Thomas Bachheimer has been busy writing articles and plugging The Gold Standard Institute in Europe. Recent examples (in German) are in the paper Lexpress:

- Lexpress Nr. 62 August 2010
- Lexpress Nr. 64 October 2010
- Lexpress Nr. 65 November 2010

Thomas also gave a CNBC interview on 14th Oct, 2010.

## Should We Welcome or Mistrust a Surrender by Monetary Authorities?

Publius discusses America's Plan B

As many citizens struggle to re-learn gold's importance, what are the monetary experts - who never forgot gold's power - doing to preserve and maximize their advantage? I am referring, without intended irony, to central bankers. Can we predict their next moves?

Short-term fluctuations in the dollar/gold exchange rate are of little interest to holders of the physical metal itself. And I take it for granted that the expected long-term exchange rate is a meaningless number, as the fiat dollar will eventually cease to exist. By contrast, if the course of the dollar/gold exchange rate over the medium term (1-3 years) can be projected, this is valuable to investors and crusaders alike.

Monetary science cannot determine a demonstrably correct exchange rate value. We can, however, take a central banker's perspective, and see where the thought experiment leads. After limiting gold convertibility in 1933, abandoning full convertibility in 1934, and from any convertibility in 1971, is there anywhere left for governments to run? Their unconditional surrender, and a return to gold and silver as the sole constitutional money, would appear the only logical next step. Or is it?

The dollar/gold exchange rate was re-valued in gold's favor after '33 and '71. Whether the full extent of the debasement of the dollar in each case was properly reflected is not immediately relevant. Both times, the amount of the revaluation was sufficient to avoid the need to return to gold and silver as circulating currency. Would a third dollar devaluation, combined with some sort of formal re-linking to gold, do the trick again?

I used to assign a low probability to this as a central bank strategy, as it seems the process would be too difficult for authorities to neatly manage. A recent Jim Rickards interview altered my estimates. He explained how, despite appearances,

America was essentially the only nation with a Plan B for coping with the monetary crisis. The rest of the world is at the mercy of the US.

Rickards was referring to other nations' gold reserves stored on US soil. It would be easy for Washington to declare a global monetary emergency, "temporarily" take ownership of foreign governments' metal, and thereby double America's de facto gold holdings overnight. If reported figures are accurate, the total amount would be over 16,000 tons, or roughly 10% of all above ground gold, including jewelry. It might then be possible for the US Treasury / Fed to defend a new dollar/gold exchange rate.

America could thus stabilize the dollar domestically with some sort of convertibility, and dictate to the world how foreign-held dollars or dollar-denominated debts would be valued in gold ounces. Alternately, America could neglect its own middle class and hand pick a new set of international allies with selective, favorable restructuring of its foreign debts, payable in gold.

The dollar/gold exchange rate required, whether \$5,000 per ounce or \$50,000, would be determined by an estimate of how much dollar debasement must be recognized and admitted in order to stabilize the financial system. If domestic and/or foreign individuals are denied the convertibility privilege, either formally or by setting a 400oz bar as the minimum amount redeemable, the exchange rate could probably be set lower than otherwise necessary.

We can't know whether dollar devaluation might buy global monetary stability for 10 years or 10 weeks. Would returning to the sort of foreign government-only dollar / gold convertibility prevailing from 1933 to 1971 roll back uncertainty sufficiently to allow the required global economic growth? If economic catastrophe could be postponed by the half-measure of a partial

surrender / ceasefire in governments' war on gold, should citizens rejoice?

For the cause of freedom and individual rights, the side effects would be mixed at best. Gold's image as a critical part of the financial system can only be improved if its dollar exchange rate were to increase dramatically. It would also help the reputation of gold's intellectual advocates, and hard money promotional efforts should find better financing. Finally, depending on how other asset class valuation levels adjust to gold's new prominence, there might arise a whole class of suddenly wealthy investors. Many of these individuals, no matter how boastful or modest, would become implicit ambassadors for gold.

On the negative side there may be a loss of interest in how the monetary system should operate. People might think government had already admitted defeat and "returned to the gold standard". That the official re-introduction of gold into the financial system gave a mere figurehead role to the metal would likely escape notice. And, as Robert Landis noted, if the fiat system collapsed totally a few years later, people may again be under the false impression that gold deserved the blame.

A worse aspect comes to mind: silver might not benefit from dollar devaluation. The Fed would likely prefer if silver lost ground on both an absolute and relative basis. This would keep the idea of bimetallism out of the public imagination. If bankers fear recognizing gold as money, they must really dread letting silver join it. Silver coin circulating alongside gold, and once again becoming working wages, would recall a time when banks were unnecessary to a healthy, growing economy.

Overall, it saddens me to conclude, a partial surrender by central banks in their war with gold could be a step backwards for gold money advocates.

**Myth Buster: The Gold Standard is only for the rich**

The gold standard protects the weak, writes TGS's President **Rudy Fritsch**

This myth goes back at least to William Jennings Bryan's 'The Cross of Gold' speech given at the Democratic National Convention in Chicago on July 8, 1896. He ends his famous speech with this paragraph:

*"Having behind us the commercial interests and the laboring interests and all the toiling masses, we shall answer their demands for a gold standard by saying to them, you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold."*

William Jennings Bryan was railing against the 'Crime of 1873'. This was the year Congress passed the Coinage Act of 1873, which demonetized Silver and put the US on a de facto Gold Standard. Bryan represented Western interests, including many Silver mining states; the demonetization of silver was fought as the price of Silver was on the decline.

What Bryan forgot, or did not understand, was that the system of 'bimetallism' that was in effect until 1873 was deeply, indeed fatally flawed. The flaw was simple: Congress had set the value of the Gold/Silver spread, instead of allowing market forces to do so. In effect, an arbitrary value was set for the Gold/Silver ratio: the coinage act of 1792 had set the Gold/Silver ratio at fifteen to one.

This number was set by legislature; it was a 'Fiat' decree and as the real value of Gold vs Silver fluctuated, Gresham's law kicked in. Gresham's law is best stated as *"Bad money drives out good if their exchange rate is set by law."*

What this means is that if for example one ounce of Gold trades in the markets at a value of 16 oz of Silver, but the Fiat (face) value of Gold coin is set at 15 oz of Silver, it suddenly makes economic sense to make payment with the 'bad' or relatively undervalued Silver coins,

and to hoard the more valuable 'Good money'... in this case Gold.

If the market value of Gold vs Silver were to change to one oz Gold equals 14 Oz of Silver, the opposite would occur: the now undervalued Gold coin would be used to make payments, and the more valuable Silver coins would be hoarded.

In effect, Bryan was clamoring for a defective, unstable monetary system. A workable Bimetallic system is just fine only if the claim made for the Gold and Silver coins were their mass of pure Gold or Silver and the exchange rate between the purchasing power (value) of the two coins was left to the markets to determine, on a day by day basis. This way both coins would circulate at their full current value, and

are referenced to Gold... including prices of paper instruments, equities, bonds, etc and including the price of Silver. This does not mean that Silver cannot be used to make payments... just that the ultimate numeraire is Gold, and Silver becomes a subsidiary - but still valuable - adjunct to Gold. It certainly does NOT mean that the Gold Standard is for the rich!

Gresham's law is very much in effect today. Both Gold and Silver are out of circulation, while the inferior currencies - all Legal Tender paper - are in circulation. Only a fool would spend a \$50 face value Gold coin to make a payment when the market value of the Gold money from which the coin was struck is priced over \$1,300!

So, after we get past this myth, that a gold standard is only for the rich, where do we go? Perhaps here:

**The true burden of Fiat falls squarely on the shoulders of those least equipped to deal with it.**

*"Of all the contrivances of mankind for cheating the laboring classes, none has been more effective than that which deludes them with paper money."*  
Daniel Webster

Gresham's law would not come into play.

Of course, Bryan did have a point, and Silver has historically been considered 'poor man's Gold'. Its lower intrinsic value made Silver more suitable for smaller day to day transactions, buying groceries for example. Gold with its higher specific value was used for larger transactions, say buying property or similar items of great value. This sharing of monetary roles makes Gold and Silver a great monetary partnership.

Where the myth comes in, is the belief that the Gold Standard is for the rich whereas the reality is that Gold Money is (more suited) for the 'rich' but the two statements are utterly different. Gold Standard means one thing, Gold Money another.

For example, if Gold is used as the basis for a standard, then all prices

The reality is that the Gold Standard is NOT for the rich... just the opposite. Under Gold, a wage earner gets a true value for his work, either in Gold coins, or Silver. These coins do not depreciate, they are never defaulted on, indeed history shows that they tend to increase their buying power over the years.

By contrast, paper 'legal tender' is constantly losing value... the only question being how quickly; over decades, years, or a la Zimbabwe and Weimar Germany, days! Holders of paper money always lose, the only question being how quickly; over decades, years, or days.

The rich among us have pretty good ways of dealing with this problem; with the help of financial advisors, tax experts, etc., they ride out the

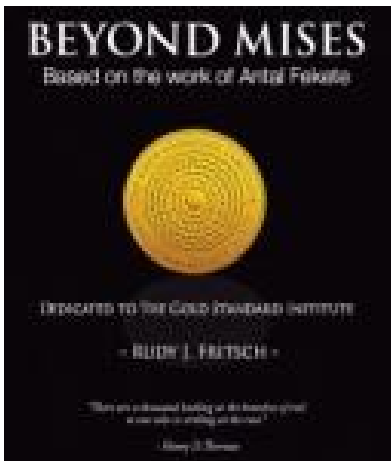
depreciation of paper with few losses. The Super rich profit from debasement; indeed they are the ones who create the very debasement itself, through the insidious work of Government (which they control) and Banks, including Central Banks... which they OWN.

The true burden of Fiat falls squarely on the shoulders of those least equipped to deal with it. The Gold Standard protects the weakest among us and motivates the strongest to put their energy into productive enterprise, not into creating ever more complex and sophisticated financial legerdemain. The Biblical admonition that the 'Hottest part of Hades is reserved for tormentors of Widows and Orphans' comes into play here. Enemies of Gold beware.



Rudy Fritsch

Order Beyond Mises now from:  
<http://www.beyondmises.com/>



*“Human stupidity manifests itself sometimes as a one off act and at other times as an enduring strategy. The experiment with fiat currency falls into the latter category.”*

Peter Souleles

## False Beliefs

Ignorance is not bliss no matter how appealing it seems, says **Louis Boulanger**

*“It is usually some quiet assumption taken for granted by men of every degree that blocks the road to the great advancements to which mankind is capable. These false beliefs, if they persist too long, are very dangerous to human progress.”*

Leon MacLaren, (1910 – 1994), Founder of the London School of Economic Science.

Time was when all men believed that the earth was flat. It would be difficult now to trace, as Leon MacLaren suggested in his essay ‘Nature of Society’, all the errors into which this assumption led the thinking of those days, or to ascertain how many practical comforts and advantages which we now enjoy would have been missed had not this conceit been exploded...

One can also easily imagine the storm of abuse that the first serious challenge to that theory raised! It came not merely from the common man and the superstitious but also from the leaders of society. Indeed, it must have been a great shock to human vanity to be told that the natural universe did not revolve around man; mostly, I suspect, for the ruling elite of the time.

Such is the fate of false beliefs. Ultimately, inevitably, the truth is revealed for what it is and we all then have a choice to make: consider the new evidence presented for what it is or choose to ignore it. That most fundamental choice is an essential personal mental activity for our collective progress. Unfortunately, too many seem to have abdicated their duty to act as such.

As a result, beliefs will tend to be largely governed by what the ruling elite chooses for us to believe. This is where ignorance can seem so appealing. Yet, ignorance is not bliss, as is often suggested. As I see it, ignorance is like a veil that has been placed before our eyes and distorts our perception of the natural order of things. It’s like a drug

we’ve become addicted to. Lifting that veil is our challenge.

Sadly, ignorance can actually operate quite powerfully under the guise of education. Our ignorance can even get stronger with ever more institutionalised education. This sad state of affairs ensures our servitude to a ‘system’ which places debt at the very centre. Debt passes for money now and so, debts are the shackles of our slavery today. But true knowledge can set us free from this delusion.

This self-perpetuating and unnatural social, economic and political system will be very hard for us to challenge. But challenge it, we must. Indeed, the Gold Standard Institute has set itself a formidable task: to educate the world about the true role of gold and disseminate the virtues of the Gold Standard so that they become widely understood and appreciated and never again forgotten.

My personal contribution to this noble task will be to write about prevailing and pervasive false beliefs in the monetary realm. I will tackle some of what I consider to be today’s quiet, yet harmful, assumptions that continue to be made even by those who should know better; assumptions that effectively block the road to humanity’s natural progress and keep us on the road to serfdom.

I will attempt to trace some of the errors into which these assumptions have led us when it comes to financial decisions. But I will also endeavour to ascertain how many advantages we could all now enjoy if these conceited false beliefs about money matters were shattered once and for all...



Louis Boulanger

Louis holds a B.Sc. from Laval University in Canada; is a Fellow of both 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 come into compliance with GIPS.

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

**louisboulanger** <sup>now</sup>  
Freethinking Investment Strategies

P.O. Box 25 676, St Heliers  
Auckland 1740, New Zealand  
Ph: +64 9 528 3586  
Mob: +64 275 665 095

[louis@lbnw.co.nz](mailto:louis@lbnw.co.nz)    [www.lbnw.co.nz](http://www.lbnw.co.nz)

## From London

Keeping in touch with the physical markets with **Sandeep Jaitly**

The gold market quoted against fiat currencies has had another record year. With the first full year of basis calculations now on record, expectations about what might occur in 2011 can now be made.

In the common gold press, 2010 was dominated by the usual talk of banking conspiracies and, towards the end of the year, the potential for a default on COMEX Silver. This did not come to pass. Patrons of the 'Gold Basis Service' are one step ahead of such ignorant ruminations.

Default, by its very nature, will be preceded by a sharp lurch towards backwardation. Throughout 2010, this did not occur in any noticeable measure. An often talked about backdrop to the silver default is the low stockpile of 'known' silver. This has been a theme for a number of years. However, most surprisingly to the promoters of this idea, it has not yet presaged a default. This shows that the majority of standard analysis about the dynamics of physical and futures markets in gold and silver are completely misunderstood.

What for 2011? The essential mechanism that will propel gold and silver forward indefinitely against fiat currencies is the acquisition of

physical metal by the general public. Are we getting any closer to this, as observed by basis observations? We most certainly are: the recent movements in the February 2011 bases are already signalling as such. However, the United States Dollar price of gold and silver may perform the least well...



Sandeep Jaitly

*The 'Gold Basis Service' is a monthly subscription newsletter that describes movements in the gold and silver bases. The service offers forewarning of potential exchange default - as well as of significant changes likely in the gold price and gold-silver ratio from movements in the bases. Along with the monthly gold basis service is the quarterly 'Course of the Exchange' economic commentary. This commentary relates to general observations from a Mengerian perspective on the current market place for global equities; government paper and other goods.*

*Sandeep Jaitly's Gold Basis Service can be subscribed to by emailing: [sandeepjaitly@hotmail.com](mailto:sandeepjaitly@hotmail.com)*

## The Gold Dinar as Money in Malaysia

Philip T gives a first hand view of the Gold Dinar

### Introduction

In recent years there were two official attempts to use gold as currency for trade in Malaysia. The first was the proposal by the then prime minister Tun Dr. Mahathir Mohamad in 2002 to use the Gold Dinar for international trade (but not for daily transactions in the country). The second official announcement was August 2010 by the Kelantan State Government, which is under the rule of the opposition party, the Islamic Party of Malaysia (PAS). The Chief Minister of Kelantan State in August 2010 launched a campaign to use the gold dinar and silver dirham in daily

transactions, including payment of salaries to civil servants.

Are these two schemes anywhere near a gold standard? What happened to these two attempts to use gold as payment for goods and services?

### Malaysia

Malaysia is a small country with a population of about 26 million people comprising three major races of Malay, Chinese and Indians. It is located in South East Asia, and is just north of Singapore.

There are 13 states in Malaysia. The country has a "constitutional

monarchy" system, with the King (The Agung) as the constitutional head of state, and the federal and state governments are elected by the people every 5 years.

The official religion is Islam, but other religions such as Buddhism, Hinduism, Taoism and Christianity are freely worshipped by the people.

Like the other countries in the world, Malaysia is using a fiat currency system (irredeemable currency). It has a central bank called Bank Negara Malaysia, and the official currency is Ringgit Malaysia (RM).

## *Asian Currency Crisis*

In 2002, the then Prime Minister of Malaysia Dr. Mahathir (Prime Minister of Malaysia from 1981 to 2003) proposed to the world the use of the gold dinar for payment of international trade. His proposal was in response to the Asian currency crisis of 1997/98 which damaged many South East Asian Economies.

In 1997, the Asian currencies were under attack by currency traders / speculators and many of these currencies dropped in value (against the USD) by 50% or more within a few months. Dr. Mahathir blamed the currency traders, in particular George Soros, for the crisis. He countered the attacks with capital controls and pegged the Ringgit at RM3.80 to one USD in 1998. The economy stabilized following the tough measures, but it took many years for it to recover.

## *What are Gold Dinars and Silver Dirhams?*

Dinars are coins minted using gold and dirhams are minted with silver. They were the currencies used in the old days in the Muslim communities in the Middle East. According to Islamic Specifications, a Dinar is the weight of one mithqal gold which is equivalent to 4.25grams of 22 carat gold (916). The Dirham is 2.975grams of pure silver (999).

By using the Gold Dinar system, Dr. Mahathir aimed to prevent a repeat of the currency crisis: *"Paper money has no intrinsic value, making the exchange rate arbitrary and subject to manipulation as we saw during the Asian financial crisis. In comparison, the gold dinar has a definite value based on world demand for gold and any fluctuations were minimal."*

*"The proposal is to make this dinar a currency for international trade only. It is not meant to replace the currency of any country",* he said when launching a two-day conference on Islamic Capital

markets in March 2002 in Kuala Lumpur. *"The risk of speculation can be reduced to almost nothing. World trade can actually expand because the cost of business will be much reduced as the need to hedge will practically disappear,"* asserted Dr. Mahathir.

Dr. Mahathir, who was also the finance minister that time, said local gold prices would determine the exchange rate for the local currency against the Gold Dinar.

According to Dr. Mahathir, participating countries did not have to pay for everything using the Gold Dinar. It would suffice for a nation to only pay the difference between its imports /exports to the other country.

If a country exports 100 million Gold Dinars worth of goods to another country, and that second country exports to the first one goods worth

party president. His successor (Tun) Abdullah Badawi did not follow on with his proposal. Abdullah retired in 2009 and was succeeded by (Datuk Seri) Najib Tun Razak as the sixth Malaysian Prime Minister. It is unusual for a head of a government of a fiat currency system to propose a gold payment system and intend to link the local currency to local gold prices. It would restrict the ability of the government to print money.

What went through Mahathir's mind when he proposed that system? We do not know, we can only guess. Dr. Mahathir has been known for his excellent lateral thinking skill (a term coined by Edward de Bono). Many times in his political career he encountered crisis, and with "out of the box" ideas, he emerged stronger each time.

## *His enemy's enemy is Gold*

## **His enemy in that crisis was the paper aristocracy ... and the enemy of these irredeemable money people is obviously the Gold Standard.**

110 million Gold Dinars, then the balance needed to be paid by the first country's central bank is only 10 million Gold Dinars. If there are no Gold Dinars available, then the first country will pay later with exports worth 10 million Gold Dinars.

He said that while there would be many teething problems, he was confident that the experts would find ways to solve or overcome them. He also said the Central Bank (BNM) could negotiate with another country on the use of the Gold Dinar payment system.

## *Sudden Resignation in 2003*

Dr. Mahathir announced that Malaysia was to start using the dinar in mid 2003, and many local "gold bugs" were looking forward to the "gold payment system", but alas, come 2003, Dr. Mahathir shocked the whole nation with his sudden resignation as the Prime Minister and

It is possible that during the 1997/98 financial crisis which nearly toppled him politically, he realized that a solution had to be found to prevent a repeat of attacks by the currency traders, whom he considered his enemies. Using the lateral thinking method and working backward, he possibly looked for his enemy's enemy. His enemy in that crisis was the paper aristocracy (as defined by the one-handed economist Howard Katz), and the enemy of these irredeemable money people is obviously the Gold Standard.

As the saying goes, his enemy's enemy could be his friend. Hence he used gold as one of the starting points for his solution. Was this inside his mind? We don't know. Just like his sudden resignation in 2003, we don't know the real reason.

## *Kelantan State's Campaign To Use Gold Dinar For Daily Transactions*

In August 2010, the State Government of the Kelantan State of Malaysia launched a campaign to use the Gold Dinar and Silver Dirham as an alternative payment method in

daily transactions, including the payment of salaries to civil servants in the state.

The Kelantan State is in the North East of Peninsular Malaysia, and borders Thailand to the North. Kelantan is under the rule of opposition party - The Islamic Party of Malaysia (PAS) - whereas the Federal Government is controlled by the National Front (Barisan Nasional).

The use of Dinar/Dirham in Kelantan raises a controversy between Kelantan state and federal government. Prime Minister Najib Tun Razak instructed Bank Negara Malaysia to review the legal terms regarding the Kelantan State Government's move.

In Kelantan, Dinar and Dirham are issued by Kelantan Golden Trade Sdn. Bhd. a subsidiary of the State Government's Perbadanan Menteri Besar Kelantan (PMBK). The coins are minted in a Middle East mint. There are several other local companies supplying the Dinar and Dirham in Malaysia and some of them mint the coins locally.

The state government of Kelantan argued that they were not breaking the law. The brochure of the Kelantan Golden Trade states that "Syariah (Ed - Shariah in west) currencies Dinar and Dirham duly represents only one of the commodities which are used for exchanges in any transactions only.

They claimed that the use of Dinar and Dirham coinage did not contravene any laws of Malaysia because it is not an enforced 'legal tender' like the Ringgit. The use of coins is similar to exchanging goods with goods i.e. barter trade, and the use of Dinar and Dirham represents merely a choice for payments in transaction.

### *Bank Negara Malaysia's response*

When asked about the Dinar, one Central Bank officer said the official currency of Malaysia is Ringgit, and

the use of Dinar in exchange for goods in a barter deal is a contract between two parties. Hence there is no issue as far as the law is concerned. It is similar to person A exchanging a turkey for 2 ducks with another person B.

### *Public Response*

There are 28 shops/outlets in Kelantan participating in using Dinar/Dirham in daily transactions. These shops trade in items such as cloths, food, travel, taxi fare, jewellery, medicine and books etc.

From the feedback by some Kuala Lumpur visitors to the state, the use Dinars in transaction is not widespread. Gold Dinars and Silver Dirhams are used by Muslims to pay zakat (tithes), dowry, and as savings (traditional Islamic practices).

In the capital city Kuala Lumpur, the writer has not seen or heard of any use of Dinars to pay for goods and services so far.

### *Conclusions*

Dr. Mahathir's proposal did not take off because he resigned in 2003, but his gold dinar payment system for international trade, and linking the Ringgit to local gold price, is an interesting proposal.

Assuming his proposal would allow unrestricted ownership and the minting of gold dinar coins by the people, and the government guarantees no price control on local gold dinar prices, then his proposal would have clearly been a step away from the irredeemable currency system and moving closer to a type of Gold Standard.

The Kelantan State's move to use Dinar and Dirham for daily transaction is carried out under the banner of barter trade, as federal law allows only the Ringgit a "legal tender". It is kind of guerrilla tactic to use gold as payment to avoid direct confrontation with the federal government and its money law.

The following are some possible reasons for the slow adoption of the Gold Dinar in daily transactions by the Malaysian public:

1. The Federal Government's reluctance to support the opposition party's proposal.
2. Most Malaysians are not aware of the importance of the Gold Standard to their society, with most not quite understanding how the current fiat monetary system works.
3. Many Non-Muslims perceive the Kelantan's Dinar and Dirham coins as religions items.
4. Due to the effect of Gresham's law: "bad money drives out good". In 2010, with the Ringgit price of gold went up 30% and silver up 80%, many people with these gold and silver coins prefer to hoard them, and use paper money to pay for goods and services.
5. The Dinar and Dirham coins sold by local dealers carry a high premium and spread, hence they are very costly to buy and liquidate.

For example, on the 5th January with spot gold trading at USD 1382.40 the Kelantan Gold Dinar (minted overseas) was selling at RM658 and buy back at RM573. This is a high premium of 22% and spread of 13%. In Kuala Lumpur, a locally minted Gold Dinar had a premium 21% and a lower spread of 6%. These are still far too high. The premium and spread for Silver Dirham are even higher by many times.

To make the gold and silver coins affordable and functioning for commercial transactions, the Government would need to provide minting services to minimize the coin premiums and to achieve a zero spread for buying and selling coins at the official mint.

But will any Government of a fiat money system do that?

Philip T. - Malaysia

## NEW AUSTRIAN SCHOOL OF ECONOMICS



Announcing:

**Course II**  
at the  
**Martineum Academy**  
**Szombathely, Hungary**



### **ADAM SMITH'S REAL BILLS DOCTRINE AND THE SOCIAL CIRCULATING CAPITAL**

**March 5-13, 2011**

**Lecturer: Prof. Antal E. Fekete**

**Guest Lecturers: Sandeep Jaitly (United Kingdom), Darryl Schoon (United States)  
Rudy Fritsch (Canada)**

This is the second in a four-course series on Austrian Economics, a branch of economic science based on the work of Carl Menger (1840-1921). The school is meant for those (incl. beginners) interested in the Austrian theory of money, credit, and banking, with special emphasis on the present financial and economic crisis. The complete program consists of four courses (10 days, 20 lectures each). Completion of each of the four courses will earn one credit. Participants who have accumulated four credits will earn a diploma signed by Professor Fekete.

The four courses are:

Course I: Disorder and Coordination in Economics

Course II: Adam Smith's Real Bill Doctrine

Course III: The Austrian Theory of Interest and Discount

Course IV: The Austrian Theory of Money, Credit, and Banking

Course I was given in Budapest in August, 2010, and is available on DVD's.

### **Registration Information:**

The fee for participation in Course II of NASE is EUR 1200. This includes tuition, plus accommodation for ten nights (from Friday, March 4, through Sunday, March 13), breakfast and lunch every day for the nine days. In addition to this, a closing banquet is also included in the fee. The participation fee *does not* include travel costs, nor the evening meals, but dinner is available on the premises at approx. EUR 7 for those who order it in advance. Also there are restaurants outside Martineum where you can sample traditional Hungarian cuisine.

There is a **EUR 200 non-refundable pre-registration fee** that will be credited toward the tuition fee.

Scholarships in the value of EUR 500 and EUR 1000 are available for students, provided that they have paid the pre-registration fee.

