



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

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From The Editor

The new Journal attracted a lot of attention and brought much positive feedback. Thank you all.

Within a week of the launch we had a huge increase in the number of subscribers. [GATA](#) sent out the Journal's link to the GATA email list which certainly helped... thanks Chris. Hugo Salinas-Price sent in an article inspired by Philip T's illuminating piece on Malaysia. It can be found in this edition.

As over the previous twelve months there is much happening behind the scenes, but little that we can say... to anyone, let alone publicly. Those 'on high' are certainly exploring their options. The Board's decision to create an international, online focus, rather than a fixed physical location focus is continuing to show good results.

Professor Fekete will again be conducting a seminar in March, this time in Szombathely, Hungary. See the promo piece in this Journal. Both Sandeep Jaitly and our President Rudy Fritsch will be lecturing and will give any of our subscribers who turn up a big welcome. I would urge you most strongly to book a place. It is not only educational, it is great fun and will hook you up with some very bright and interesting people.

Please continue to send me in any Gold Standard news that you come across from anywhere in the world.

Email: pb@monetarymetals.org

Gold News From Around the World

[Reuters](#): Could the US central bank go broke?

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[Nashua Telegraph](#): "A dollar should be worth more than an idea."

That's what state Rep. Norman Tregenza says when he explains why he submitted a House bill that, if approved, would encourage the state's federal delegation to work on getting the country back on the gold standard.

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[The New American](#): "With the value of the U.S. dollar exponentially declining since the establishment of the Federal Reserve Bank in 1913, it comes as no surprise that many world leaders and international economists have expressed their desire for a new world reserve currency. In light of the global financial crisis, Russia may be moving toward a sound economic solution — gold."

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January 6th 2011: Referring to the Prime Minister of Japan Naoto Kan's call for a national debate about raising the 5% sales tax, Chief Cabinet Secretary Yoshito Sengoku told reporters in Tokyo:

“The supporting fiscal conditions don't allow for any delays, it's finally approaching the edge of a cliff.”



[Le Monde](#) 16th January, 2011:

According to French Intelligence when President Zine El Abidine Ben Ali fled Tunisia with his family he took along 1.5 tons of Tunisia's gold. He popped into the Central Bank just before he left to get some more, but was turned away by the army. Le ex-President is obviously aware of the true value of paper money. Ben Ali is unlikely to be the last head of state chased out of town by an angry mob.



“And it's worth further asking—as more and more people are beginning to ask—whether a modernized international gold standard, which anchors currencies to a standard outside government manipulation, wouldn't better serve the interests of free and limited government both at home and abroad. After all, it's the dollar's status as a reserve currency that has allowed the U.S. government to amass huge debts, debts which the legislatively imposed debt ceiling has been unsuccessful in limiting. Fiat currency seems to be related to bloated and unlimited government, and to speculative bubbles, and to international instability. Do we just have to live with this, or simply hope for better Fed chairmen?”

And...

“... get ready for an interesting and important debate over the next months and years on international monetary policy—which, I predict, we'll increasingly see as something that needs to be reformed in the direction of a modernized international gold standard, as part of the broader project of re-limiting government, re-establishing sound money and a sound international financial system, and restoring stable and strong economic growth.”

William Kristol – American political analyst and commentator and Founder and Editor of The Weekly Standard



Odd Spot: From the UK Financial Times (page 7) Wednesday January 26th 2011:

“By some estimates, if India's financial system captured just half of the household savings used for gold purchases and channelled them into more productive areas, more than \$7bn could be added to gross domestic product. But during its research, Boston Consulting found widespread ignorance, even mistrust, of finance. Mr Sinha said landless labourers in the eastern state of Orissa had mistaken banks for police stations and steered clear of them”.

It occurred to me on reading this that the gentlemen of Orissa state are considerably more sophisticated at spotting fraud and bad investment advice than their western counterparts.

Addendum to Rudy's Article

Quoting from the last issue of The Journal:

“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 the Gold coin is set at 15 oz of silver, it suddenly makes economic sense to make payments with the 'bad' or relatively undervalued silver coins, and to hoard the more valuable 'good Money'... in this case, Gold.”

Some people have expressed a bit of a problem with this statement; my explanation was less than crystal clear. Indeed, if Silver is 'undervalued' by the market, or what is the same, it is artificially over valued by Fiat, verses Gold, then Gold could migrate to where it buys more Silver and the newly bought Silver may be used to make further legal tender payments.

In effect, there is a potential arbitrage between official and real value.

The artificially overvalued Silver would be used to make 'legal tender' payments and the 'good money', or the money valued higher by the market, would be hoarded. The incentive is to take the 'good money' out of general circulation: this is an example of Gresham's law in action.

I hope this explanation makes the situation clear; and remember, if the market were to evaluate silver at 14 ounces per one ounce of Gold, the situation would reverse; then silver would be valued by the market higher than by Fiat. In such a case, silver would be hoarded, and Gold used to make payments. One ounce of Gold would serve to buy 15 legal tender silver coins, and the market would offer one ounce Gold for only 14 ounces of silver.

In any case, the setting of a fixed ratio is the cause of monetary instability, and this instability eventually leads to the failure of the bimetallic 'standard'.

Preamble to Hugo's Article

It is important to note that Hugo Salinas Price regards his proposal to remonetise silver as a major step in the right direction, not as the ultimate solution.

We have two prospects in front of us; either an overnight collapse, or a transition to a new monetary system. This article speaks to the latter. Anything that can get the monetary metals into people's hands will soften the eventual blow and is to be lauded.

The right of people to freely choose their money is the ultimate expression of everything that The Gold Standard Institute stands for, but that should not mean that we are unable to support transition measures. - Editor

Why the Gold Dinar and Silver Dirham have failed to take off in Malaysia

Hugo Salinas Price follows up on Philip T's report on the Dinar

The well-intentioned efforts of Malaysia's former Prime Minister Mahathir to introduce the gold dinar and the silver dirham into monetary use in Malaysia failed for various reasons.

The gold dinar

Physical gold cannot be used as money except under conditions where there are no money-substitutes in existence, such as legal tender fiat money or paper notes redeemable in gold or silver issued by a fractional-reserve banking system. People will retain the gold coin and pay with any alternative money if it is at all possible for them to do so.

However, gold and silver can both be used as money by weight in a bimetallic monetary system where payments in either gold or silver, and only in these two metals, can be made, but under the condition that a free market price sets the ratio between gold and silver (no fixed legal ratio between gold and silver for payments) and that no other monetary means of making payment are available.

Malaysia uses a fiat monetary unit called the ringgit. No Malaysian in his right mind is going to use a gold dinar or a silver dirham to make any payment, if he can make the payment in ringgits.

So much for the attempt to introduce the gold dinar and the silver dirham into circulation in Malaysia.

The silver dirham

Much of the reasoning which applies to the gold dinar also applies to the silver dirham. But silver is different from gold.

Unlike gold, a silver dirham can be granted a monetary value by the monetary authority and thus, the silver dirham can become money alongside of the fiat monetary system. (Gold is valued exclusively

by weight and purity, whatever its physical form. Silver, on the other hand, is more useful in the form of coinage than as bullion. Thus, it is possible to mint silver coinage whose intrinsic silver value is lower than its monetary value. This cannot be done with gold.)

Silver coins are no longer minted for use as money, because silver is rising in price and thus a dirham with an engraved monetary value would soon be worth more melted down into silver bullion, that as a coin.

This problem can be overcome by the simple expedient of not engraving a monetary value upon a silver dirham, but simply giving it a quote by the monetary authority. When the price of silver rises, the quoted monetary value of the silver coin is also raised

The creation of the silver dirham monetized in ringgits will be an important step in breaking the monopoly of fiat money.

by the monetary authority. The silver dirham will remain a part of the mass of ringgit currency indefinitely. The ringgit will continue to be the monetary unit of Malaysia; the silver dirham will be a part of the monetary mass of ringgits.

There is one condition to this form of creating a silver dirham with a monetary value.

The engraved coins which were formerly in existence had a fixed value, which did not fluctuate when the price of silver fell, and the same condition must apply to the quoted value of the monetized silver dirham: its quoted monetary value in ringgits, taking the place of an engraved value, must not be reduced when the price of silver falls.

All the silver coins in existence in the world up to the middle of the last century, had a monetary value superior to the value of the silver which they contained, and falls in the

value of silver did not affect these coins at all.

The initial quoted monetary value of the silver dirham can be superior to the content of silver in the coin by about 15% and the quote will be raised to maintain this margin as the price of silver rises. This will give the monetary authority a profit or seigniorage on the minting of the coin and allow small rises in the value of silver to be disregarded.

This silver dirham will have a known monetary value, but because of Gresham's Law, it will not be used as money by Malaysians except in cases of dire necessity. It will be possible to use it as money, but it will not circulate. People will save it. Saving a silver dirham will no longer be a commodity speculation regarding the price of silver. It will be an investment in silver as money, and its attraction as an investment will be vastly enhanced.

The main use of this silver dirham will be to attract savings and protect them from devaluation. The silver dirham will be a bulwark protecting family savings. That will be its main function.

These savings will take place outside the banking system. It will not be necessary to pay interest to attract these popular savings, nor to raise the interest rate to promote savings. Owning silver dirhams which are no longer simply a commodity, but actually a currency with a known monetary value will be such an attractive proposition, that Malaysians will save up an enormous amount of silver dirhams though they pay no interest.

When this has taken place, the monetary authority will be in a position to reduce the creation of additional fiat money ringgits. This will reduce monetary inflation. Eventually, the expansion of the money supply can be drastically reduced and at that point, the

Malaysian population will face the demand for money with their saved silver dirhams. The dirhams will come out of hiding and circulate, because they must.

The creation of the silver dirham monetized in ringgits will be an important step in breaking the monopoly of fiat money issued by the banking system, a monopoly which has placed bankers in the position of being able to demand constant rescues by their respective governments. These rescues are paid, one way or another, by the people. This has to stop. Real money permanently in possession of the people is a function of the State which must be recovered from the bankers which have usurped it. The silver dirham, with a monetary value quoted by the monetary authority, is an important first step.

More Malaysian States To Use Gold Dinars

An on the ground update from **Philip T**

Following the official launch of gold dinar coins by the opposition ruled Kelantan State in 2006 (the campaign to use gold dinar for daily transactions was launched in August 2010 by the Chief Minister of Kelantan), the Perak State Government plans to launch their own gold dinar and silver dirham coins on 28 February 2011.

Goldnet International

The gold dinar coins of Perak will be produced by Goldnet International Sdn Bhd, a wholly-owned subsidiary of the Perak State Development Corporation, in collaboration with the Kuwait Finance House.

According to a televised interview on the 3rd. of February, 2011, the executive chairman of Goldnet International Dato' Rais Hussin said their gold dinar coins will be 24 carat gold (9999) as compared to the gold dinar coins of the Kelantan State Government which are 22 carat (916), as per traditional Islamic specifications.

The Perak State Government is now under the rule of the National Front (Barisan Nasional), the same coalition controlling the Federal Government, whereas the Opposition Islamic Party of Malaysia (PAS) controls the Kelantan State. The Perak State is situated just north of Kuala Lumpur.

Beside the executive chairman Dato' Rais Hussin, others on the board of Goldnet include Dato' Samsudin Hashim, Abdul Aziz Wok Ghazali, both from the Perak State Development Corporation, and Professor Dr. Ahamed Kameel Mydin Meera who is the Dean of the Institute of Islamic Banking and Finance in the International Islamic University Malaysia.

Professor Ahamed is one of the prime proponents of gold dinar payment system here. He believes *"the people must be given the freedom to choose the medium of exchange, and to use all modern infrastructures including electronic payment system in implementing gold as money."*

He prefers the use of gold as a measure of value and not as a medium of exchange, with all goods and services to be priced in gold, and he believes that given free choice, without legal tender law, gold will always dominate as the ultimate money. He recommends the government should provide free coin minting services.

Distribution of Gold Dinar Coins

The Goldnet International CEO mentioned that the buying and selling of gold dinar coins will be through the 67 YAPEIM outlets throughout Malaysia. YAPEIM is the Foundation of Islamic Economic Development of Malaysia, an institution set up by the Federal Government. Traditionally, the YAPEIM outlets have been pawnshops based on Islamic principles (no interest charged, but there is a charge for storage).

These 67 YAPEIM outlets will be enhanced with a metal scanner/analyzer to verify the purity of gold.

Why 24 Carat Gold?

According to the information given during the interview, Goldnet International does not view their gold dinar as currency. Rather they are marketing them to the public for the following reasons:

- 1) An investment instrument to preserve the purchasing power
- 2) Zakat (tithe) contribution
- 3) A token for award/recognition for company staff performance
- 4) Dowry payment
- 5) Charity donations
- 6) As a saving instrument to be used for the Hajj pilgrimage

Goldnet's intention is not to circulate the coins, rather they are for hoarding, hence they use 24 carat gold to reduce the premium of the coins, so as to compete with other competitors such as the Kelantan dinar coins.

Gold Debit Cards

Goldnet director Dr Ahamed Kameel Mydin Meera mentioned that customers of their dinar coins have the options of using "dinar cards" whereby the card acts like a debit card but the unit is in dinar and not Ringgit. If one buys 10 dinar coins, the dinar card account will be credited with 10 dinars, conversely, that card can be used to pay zakat, and the account will be debited in dinar units. Hence, customers can choose not to carry the coins around, and Goldnet will act as a de facto dinar bank.

From the experience of the Kelantan State and in Indonesia, the dinar coins are likely to be used only by the public as savings and not as a currency.

Indonesia's Experience

In Indonesia, the gold dinar and silver dirham have been minted since the year 2000. An Islamic Mint was

established to provide dinar and dirham coins according the World Islamic Trading Organisation (WITO). The actual minting is done by Logam Mulia, a state-owned company, commissioned by the Islamic Mint.

The dinar and Dirham coins are sold through a network of outlets called Wakalas, which operate in several cities, namely Jakarta, Bogor, Bandung, Jogjakarta, Tanjung Pinang and Batam. According to a study done by Zaim Zaidi (2009) of Indonesia, there are currently 13 Wakalas in operation in Indonesia. In the centre of the network is the Master or Grand Wakala called WAKALA ADINA, based in Jakarta. The spread for the coins are as follows:

Gold Dinar	6%
Silver Dirham	8%

These spreads are high, even though they are lower than the spread of gold jewellery of 15-20% on average in Indonesia, according to Zaim Saidi's study.

Ten years after the introduction of gold dinar coins, the growth of the dinar has been slow and insignificant in Indonesia. They are mainly used by customers to:

- 1) store the value of their savings
- 2) pay zakat (tithe)

Those smart savers in Indonesia who bought dinars as an instrument for their saving for the Hajj pilgrimage trip to Mecca, have been richly rewarded.

In Indonesia, most of the pilgrims saved their money, bit by bit, for years to pay for the Hajj trip. Over the past ten year the Indonesian Rupiah has been depreciating against the USD and in turn losing purchasing power against gold

The cost of the Hajj trip in Rupiah has increased substantially in the past ten years, but when priced in gold dinar units, the trip cost has decreased as follows:

2000 – 68 dinar
2001 – 70 dinar
2002 – 64 dinar
2003 – 56 dinar
2004 – 46 dinar
2005 – 46 dinar
2006 – 32 dinar

Source: Zaim Zaidi (2009)

Preserving Purchasing Power in Malaysia

Similarly in Malaysia, the empirical data shows that those savers in local gold coins have managed to preserve the purchasing power of their savings.

Mansor H. Ibrahim and Raditya Sukmana (2009) showed decisively that the savers in gold have a "complete hedge" against local inflation (as measured by local CPI). The data used covers the period from July 2001 to May 2007. They used 2001 as the starting point, as this is the year local minted gold coins, the Kijang Emas (by Bank Negara Malaysia) were available to local savers.

There were other coins available in the 1990s, such as the Maple Leaf and Kangaroo Nuggets, but they were not popular.

Bank Negara Malaysia introduced the Kijang Emas in 2001 and its price is published daily on the BNM website and local newspapers. The coins are available from Malayan Banking Berhad (Maybank) outlets, although often there has been no stock available during the last few years. Other coins were also hard to come by in the past five years.

Mansor and Raditya demonstrated that savings in local gold coins provided a complete hedge against local inflation. Their results suggest a permanent increase in local gold prices following inflation shock.

By contrast, in their study, there is no evidence that inflation exerts positive and significant increases in stock returns (using the Kuala Lumpur Composite Index).

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2. Mansor Ibrahim and, Raditya Sukmana (2009) "Gold Investment as an Inflationary Hedge: The Malaysian Evidence." In Ahamed Kameel Mydin Meera (2009) Ed. "Real Money – Money and Payment Systems from an Islamic Perspective." International Islamic University Malaysia Press, Kuala Lumpur.

The Cheviot Hard Money Conference (London) 27th January

This was without a doubt the most sumptuous conference that I have attended. The organizers did a wonderful job of not only providing a great array of expert speakers (Sandeep Jaitly, Hugo Salinas Price, James Turk and Chris Powell amongst others), but setting it in the historic Guildhall. Excellent job, Cheviot Asset Management.

I noted that a lot of very professional looking filming was taking place so I imagine that the speeches will be up on the website at some point: <http://www.cheviot.co.uk/>

Sandeep was rushed off by Max Kaiser to the studio for a filmed interview following his speech with another to follow.

Ned Naylor-Leyland who organized the event hoped that it would become a regular event with people encouraged to bring along 'new people'. Let us hope that it is a struggle to locate people who still don't know the gold story in 12 months. - Editor.

From London

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

The gold and silver markets have been fairly lacklustre when looking at their progression against a basket of fiat currencies. However, when comparing gold's performance to silver - bypassing the interference of governments and capital flows in currency pairs - a different picture can be seen. The gold/silver ratio is approaching a multiyear low of 46. This is not something new or surprising to our patrons.

The COMEX silver futures market has moved into an unprecedented state whereby no contract has a positive carry. This is remarkable and has been forewarned by Prof. Fekete. We are observing history being made...



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

Over the last month there has been a number of gold disinformation articles emanating from the [Roosevelt Institute](#). The articles are cobbled together pastiches from every erroneous conclusion that the author could source. - Editor

Governor Hoenig and the Gold Standard

Rudy Fritsch talks about Central Bankers talking about the Gold Standard

Governor Hoenig recently stated:

"The gold standard is a very legitimate monetary system... We're not going to have fewer crises necessarily. You will have a longer 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."

With all due respect, while Mr. Hoenig rightfully agrees that the Gold Standard is a "very legitimate monetary system", it is clear from his statement that he knows little about it. Mr. Hoenig is unfamiliar with the way the Gold Standard was practiced during the nineteenth century, nor does he yet grasp how a new, unadulterated Gold Standard needs to be structured.

He should study the historical facts before making such off hand comments. After all, as he is President of the Kansas City Reserve Bank, people take his words seriously. For a clear perspective of a NEW Gold standard, he should start by reviewing the work of The Gold Standard Institute.

The old, imperfect 'classical' gold standard kept financial 'crises' down to short, moderate levels. The major, prolonged crisis of the Great Depression only came about after the Classical Gold Standard was eviscerated in the aftermath of WWI. A modern, unadulterated Gold standard would indeed prevent such 'crises'. It would also allow full employment, without inflation of the money supply.

The cause of financial 'crises' was loosening and subsequent tightening of credit through 'monetary policy'... using the fiduciary or 'printed money' component of the old Gold standard. Fiduciary means trust; that is, to trust the promises to pay. The Gold standard as practiced in the nineteenth century in fact allowed bank notes in circulation to be

backed by as little as 25% physical Gold.

In other words, under the 'classical' Gold standard, up to 75% of circulating medium was actually paper bank notes (promises of Gold). These liabilities on the balance sheet of the issuing bank were offset or 'backed' by government bonds, -more promises to pay- on the asset side, not by physical Gold.

Promises to pay Gold are not Gold... they are just promises... that is, promises are future goods. Physical Gold, in contrast, is a present good. When people start to lose trust in the future good, the promise, they ask for their present good, their Gold... NOW... and if it is not fore coming, a run on the bank ensues. The idea is to 'get my Gold before they run out' or to 'get my Gold before the next guy gets his'. This type of financial instability has been mislabelled the 'business cycle'.

A new, unadulterated Gold standard must have a zero fiduciary or 'printed promises' component; all bank notes in circulation -present goods- must be balanced (backed) by present goods, either in the form of physical Gold in the vault, or by Real Bills maturing into Gold coin in not more than 91 days. Thus expansion and contraction of credit 'money' supply becomes impossible.

Furthermore, there is no temporal distortion; demand deposits are backed by liquid assets, and longer term loans, such as various term bonds, are balanced by long term deposits... like Certificates of Deposit. Future goods, or promises, are NOT used as 'backing' for present goods.

This avoids the dangerous and illicit practice of borrowing short to lend long, that is, taking depositor's money and lending it out at long term to capture profits by playing the interest rate yield curve.

The practice of borrowing short to lend long is illicit because there is no way to ensure that the short term borrowing can be rolled over... or what the new short term rate will be at roll over time. If the short term funds are no longer available, the bank doing the speculation in effect goes bankrupt.; insolvent, not simply illiquid.

If the short term rates increase, the bank will be operating at a loss... as the long term lending is locked up at a fixed (lower) rate. This is the very situation currently facing the world's banking system. Again, prevention is the only cure; more borrowing from the central bank to avoid 'illiquidity' is simply 'kicking the can' down the road, making the crisis worse.

The only possible cure for 'crises' is prevention. Once a crisis starts, the only question is how soon it is terminated; the sooner, the less powerful the consequent correction. The longer the crisis is avoided, or 'kicked down the road' by issuing evermore promises, the more distortion accumulates and the more severe the eventual correction must be.

Mr. Hoenig mentions a stable price structure under Gold, but he does not talk about a stable interest rate structure, which is far more important and desirable than stable prices. Stable interest rates are the key to ongoing prosperity through capital accumulation. Stable interest rates are the true 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 is not profitable and therefore it dies a natural death. The root has been excised... the cure for the growing derivatives tower, the 'weapons of financial destruction' is the same as the cure for 'monetary crises'; adopt the Unadulterated Gold Standard as

the basis for the world's financial system.

With Gold as money, with Gold as the numeraire, with all currencies tied to Gold, there is no profitability in forex speculation either. If speculation dies out, then there is no need for derivatives to insure or 'hedge' leveraged speculative positions; there is no longer anything to 'regulate', so the platoons of parasitical 'officials' who are paid to oversee 'speculation' become redundant.

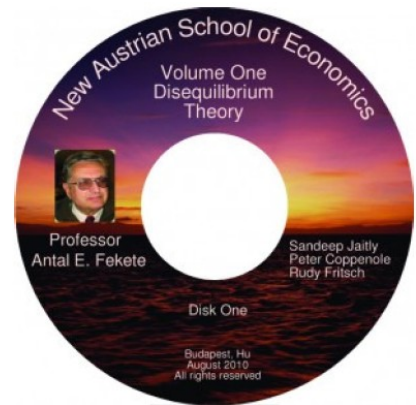
Once again human energy and ingenuity will be channeled into truly productive avenues, not into creating ever more devious and ever more dangerous derivative paper instruments. The creation of real wealth clearly means the creation of real jobs as well. The circulation of Real Bills provides the wage fund, and also provides the lowest cost, most efficient possible way to finance the flow of urgently needed consumer goods. Full employment is the result.

In the nineteenth century, under the influence of the imperfect Gold standard then in effect, there was no such thing as structural unemployment. Neither was there inflation... in fact, there was not even an entry for inflation in nineteenth century dictionaries; but there was an entry for inflationist! An inflationist is one who endorses and promotes inflation to further his agenda. Under Gold inflation is precluded; thus inflationists work to get rid of Gold... so that they could implement inflationary policies.



Rudy Fritsch

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



The videos of the first session of The School of New Austrian Economics, presented by Professor Antal Fekete in Budapest, are now available.

The 18 DVD set is a complete record of the August school session, and features Sandeep Jaitly from the UK, Peter Coppenole from Belgium and Rudolph Fritsch from Canada as guest presenters... as well as Professor Fekete, who needs no introduction.

Mr. Jaitly is Head of Monetary Research at The Gold Standard Institute, Mr. Peter Coppenole is an international tax expert, and Mr. Rudolph Fritsch is a student of Austrian Economics and President of The Gold Standard Institute.

The videos are full of amazing new insights from the Professor, as well as more earthy explanations and examples by the assistants. If you are interested in keeping up to speed with the latest developments in Austrian economics theory, this video set is for you.

The cost of attending the Budapest session was \$1,000 Euros plus travel expense, accommodations, etc. The videos retail for only \$500 Euros - a bargain. If you are an attendee of any of the GSI events, the GSU events, or a member in good standing of The Gold Standard Institute, you are entitled to a substantial discount; your cost will be only \$300 Euros.

For more information, please visit <http://www.goldstandardinstitute.org> and <http://monetarydebasement.com>

False Belief #1: Money Is Wealth

Louis Boulanger explains why money isn't wealth or a measure of value.

"The reigning error of mankind is that we are not content with the conditions on which the goods of life are granted."
(Samuel Johnson)

Money today; what a mindjob! We work hard for it, we covet it, and we never seem to have enough of it. Yet, we generally haven't got the slightest idea of how money originally came into existence, nor do we fully realise that what is considered to be 'money' today is a fraud, a pale reflection of its true self. Such ignorance is the root cause of our predicament today: debt and delusion.

After all, if you know the truth about money, which must include its origins and true nature, you can no longer be fooled by the deceitful words and actions of a secretive banking cabal. The money in circulation today is a trick of the mind, an illusion made possible only because of our ignorance. The monetary delusion humanity suffers from is not new. But its scale is. Never before has the monetary delusion been global.

Anyone can break free from this insanity and more and more people are doing so. All that is required is to realise that money is no good anymore because there is no limit to the amount that can be made, and no standard to maintain its value. What I mean by money here is circulating currencies, none of which have any measure and all of which are money only because they are declared by a sovereign government to be legal tender.

How does one break one's addiction to the quiet assumption that money is still sound and that the system still works? Simple, but not easy: take the red pill. Only then, will you see that you have been a slave to the money illusionists, as a useful unit, a cog in this system of ever greater gearing of the human society. Where can you find the red pill? Right here, right now. Realise that you are a

sovereign individual and act accordingly.

Make the decision to know the truth and resist accepting what is presented as such until you find for yourself that it is so. To lift the veil of ignorance that shields the banking cabal from the consequences of their actions is the first step. Once on that less travelled path, you quickly begin to realise the total confusion that prevails, even among so-called experts, in the usage of words like capital, money and wealth.

There can be no reasonable conversation or debate if there is total confusion about the very meaning of those words in society. Yet, here we are. We have confused ourselves beyond belief! We must walk away from this modern day Tower of Babel and purge ourselves of all the nonsense we learned there and reconnect with the true nature and essence of things. Only then can we begin to see clearly again.

In his 1849 essay on money ('Maudit Argent!' or, translated in English, 'What Is Money?'), Frédéric Bastiat uses dialogue to good effect to argue that our mistaking money for wealth is the root cause of all economic errors. Not so much because any individual would make this error of judgment as such, but because it is a widely held (false) belief encouraged and reinforced by the State's influence over our education.

The true function of money is to facilitate exchange. In order that economic activity may be multiplied, and accomplished independently of time and place amongst persons unknown to each other, and repeatedly so, an intermediate agent has been found over time to be necessary for exchanges – this is money. Money, whether gold or paper, is but a means to an end: wealth. For the means to be taken for the end is an error of the mind.

Sound money (e.g. gold) must also be a good store of value and unit of

measure. But the value of money (sound or unsound) itself can vary. This seems to be where much of the confusion lies. Money is not the measure of value. Value is a measurement of human desire. Each person's scale of values is graded upon a different measure and no common standard exists between these various scales.

This aspect of human nature clearly presents the need for the establishment of an accurate and reliable standard of measure, for exchanges to be fairly valued for both parties. This is the role of a numéraire in a monetary system. Unfortunately, this has been removed from our system since 1971, when the United States government defaulted on its international gold obligations under the Bretton Woods Agreement.

It is important to realise that what is considered to be money today (currencies) is highly unreliable and has no absolute standard of measure. An abundance of information is made available to us (e.g. currency exchange rates and the price of things in different currencies), but this is all in relative terms; there is no reference point. If we don't know what money is worth, what does that imply for wealth?

Wealth is not money. Wealth arises from the interaction of human ingenuity, labour and natural resources and is basically any such product that gratifies human desire. To 'create wealth' is not accomplished by simply printing more money or issuing more credit, as is too often portrayed. The monetary value of one's wealth may well vary. But the wealth itself will not change. Keep this in mind as our fiat money dies!

With this column, I aim to dispel false beliefs and propagate what I believe to be the truth about this phenomenon called money and I hope that, armed with that knowledge, you will not only know

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what to do to protect your wealth, but also decide to act accordingly with the necessary courage it will take. Because what we do, individually, matters a lot. Nothing less than human progress depends on it.

“What we think, or what we know, or what we believe, is in the end, of little consequence. The only thing of consequence is what we do.” (John Ruskin)



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.

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Gold is Money and Nothing Else. Why?

Keith Weiner on what makes gold specially suited to the role of money.

The title of this essay is a quote from JP Morgan. Despite being officially vanquished from the financial system, people have not treated it as a barbarous relic or a commodity like frozen pork bellies. My goal in this essay is to explain why.

Gold is a physical good, a commodity. Unlike fiat paper money, gold cannot be debased, requiring through all of history about one gold ounce worth of effort to extract from the ground.

More importantly: gold is what it is. It is not dependant on a counterparty to perform, a government regime to remain in power, or any other future events. If one has an ounce of gold, then one has an ounce of gold, full stop.

And it is an extinguisher of debt. If one borrows real value from someone else, it is important that the debt can be repaid. If one hands to one's creditor an amount of gold equal to one's debt, then one has eliminated the debt. If one pays in paper, one transfers the debt to a bank or perhaps the central bank. But the debt is not extinguished, and system-wide debt grows exponentially until its crashes.

There are many physical commodities that cannot be debased, do not depend on a counterparty's future performance, and which would extinguish debt if used in payment. Why was gold selected?

There are several properties that are desirable for a monetary commodity. While people have used rice or even cattle as money, both are foodstuffs which can rot or degrade over time. Iron would have this problem also.

As the commodity itself is the value, and not some regime's imprint on it, it must be dividable into the smallest pieces to fit any transaction. It would be highly convenient to be able to recombine these pieces to prevent the entire money supply being turned into sand. A related characteristic is

that any piece is equivalent to any other of equal weight.

Only a metal can meet these requirements. And in particular gold does not tarnish, even slowly. When the next physical requirement is added, gold emerges the clear winner. The monetary commodity should have enough value that one can carry considerable value on one's person, even over great distances, without the necessity of trusting others.

The last physical requirement is that there must be enough of it that the people can have some. An exotic, unobtainable item is not suitable for use as money.

In fact, gold is the most abundant commodity known to man. One does not measure abundance in terms of absolute mass or volume, but in terms of stocks to flows (inventory to annual production). There is around 80 years of current mine production in human hands. No other commodity (except silver) comes even remotely close, having stocks to flows ratios less than one year.

Economists use the concept of marginal utility. How much less does one want the next unit of a good compared to the current unit. For example, if one is walking through a desert, one wants the first liter of water. And maybe one wants a second and third. But before one gets to 100 liters, one wants no more. Economists say that the marginal utility of water declines rapidly to zero.

What does it say that people have kept 80 years of gold mine production in inventory? The marginal utility of gold does not decline (or if it does, it declines so slowly as not to resemble the decline of any other good). In fact, the marginal utility of gold—the value one places on the next unit—is no lower than the utility of the highest good that one might buy with the gold. Gold's marginal utility may be

higher because one can save gold to buy something next year that is not even available this year.

There is another property, not a physical property, but an economic property that is essential to the monetary commodity. This property is a requirement for the commodity to be actually used in trade. To understand, look at the evolution of money in ancient times.

Before money, there was the problem of “coincidence of wants”. The chicken farmer wants to buy a pair of shoes so he goes to the cobbler. But the cobbler does not want chickens. No direct trade is possible. Most trade is only possible indirectly, i.e. if both parties adopt the use of money. In order for this to occur, one commodity must emerge which is more marketable than all others. Economists define marketability as the efficiency of buying and selling it, i.e. the bid-offer spread. The spread for gold, even today, is the narrowest (around half of the S&P 500).

Two related concepts are liquidity and hoardability. As someone attempts to buy a larger quantity of a good, he lifts the offer. The larger the quantity, the more the offer is lifted. The net effect is that the bid-offer spread widens as the quantity increases (similarly, if one tries to sell a large quantity, the bid is depressed). Liquidity refers to the commodity’s resistance to this spread widening. Gold has the greatest liquidity.

If someone tries to buy or sell a really small quantity, the spread also widens. There are real costs to breaking a commercial-sized lot, and handling costs are almost the same whether one is dealing with a full lot or a tiny quantity. Small quantities are essential to one kind of important economic activity: savings kept by wage earners. Over an entire working career, a wage earner may keep 1% or 5% of his weekly wage. If the spread is wide, then he loses value coming and going. Hoardability refers to a commodity’s

resistance to the spread widening as the quantity gets smaller. Nothing has better hoardability than gold, except silver.

In summary, civilization requires money because direct barter trade is too inefficient. Money must be a commodity because only a tangible good can extinguish a debt. Gold was selected over a period of thousands of years as being the commodity which best fit the need for money. If governments repealed the laws that forcibly keep people from using it, then gold will resume its role as money par excellence. There is nothing else like it.



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The 'Moneyiness' Nature of Government Debt

Justin Downie discusses the thoughts of Doug Noland.

I will express a view here that is, as far as I can tell, being laid out by few others. I can't claim the idea as my own, rather I have put this together based on the thoughts of Doug Noland, my favourite economic analyst by a country mile, who publishes the [Credit Bubble Bulletin](#). I have taken the liberty of lifting quotes directly from his articles, they are in *italics* throughout my article, though I may have changed his wording a little to fit in with the flow.

Readers of the Gold Standard Institute know that money is what extinguishes all debt, nevertheless, credit⁽¹⁾ can be considered a monetary equivalent or 'money good', take for example, Real Bills that mature into gold. Inextinguishable debt, as in irredeemable dollars and dollar denominated debt, are not money since they are, well... inextinguishable debt. Despite this contemporary irredeemability, credit is still considered to be in a dynamic state of 'moneyiness', *driven by the marketplace's perception of safety and liquidity, and any meaningful definition of contemporary 'money' must include government debt instruments.*

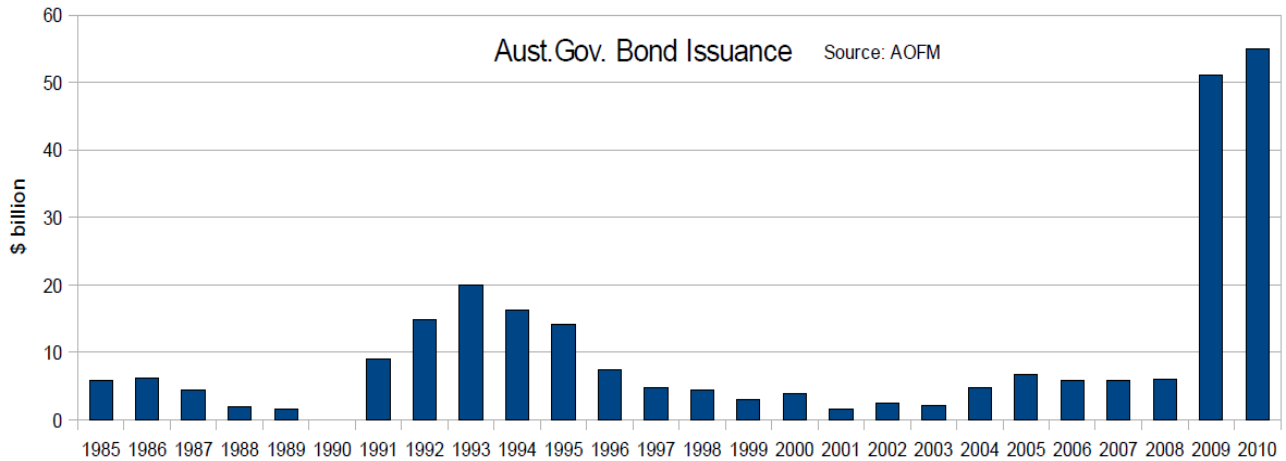
The situation prevailing today is that *key developed economies are locked into a perilous cycle of massive non-productive government debt*

expansion. Rather than the global money markets being composed of Real Bills, generated through the drawing of short term bills against consumer goods actually required by consumers, we have money markets where *for nine quarters now, government finance has completely dominated system credit creation.* These 'marketable' debt securities *now absolutely dominate the world.*

Just how massive has this increase in government debt issuance been? I draw your attention to the two charts on the following page.

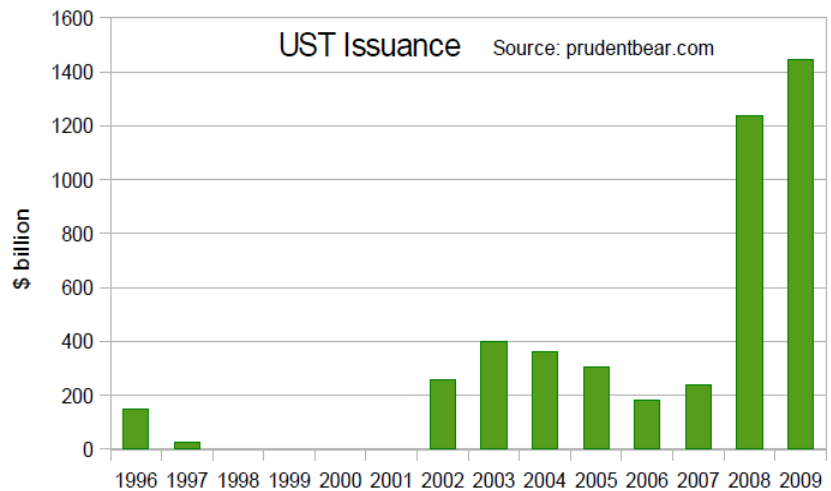
As you can see, government debt issuance has reached levels never heretofore imagined, UST issuance reached almost \$1.5 trillion in 2009. While the dollar amount of Australian government debt issuance is small in comparison to the US, the pattern of expansion is the same. I have included Australian government debt issuance back to 1985 to give some perspective of historical issuance. I don't have figures pre 1996 for UST's, nor 2010. Nevertheless, you get the picture.

Why the fuss? Because *it is the 'moneyiness' nature of government obligations that they enjoy special treatment in the marketplace.* Readers of the Gold Standard Institute also know that when it comes to the 'moneyiness' of credit it's



not just quantity but **quality** that counts. I think it's safe to say that government debt has not improved in quality since 2008, yet issuance has exploded with little perception that *government debt is being mispriced, over-issued, and misdirected*. There is an ever expanding *gulf between market perceptions of 'moneyness' and the true underlying state of government credit*.

In simpler terms, government credit is a bubble, a *precarious Credit Bubble at the heart of our monetary system*. Just as the US financial system doubled total mortgage debt in just over six years during the mortgage/Wall Street finance bubble with little perception of the *underlying quality of U.S. mortgage credit*, the financial system is now on track to double federal debt in about four years. The situation is no different in Australia and I doubt it would be different in most other 'developed' countries.



There is only one true arbiter of the value of government debt, its only extinguisher... gold. Irredeemable dollars, being the obligation of the central bank - not money, cannot extinguish government debt. Is gold reflecting the expanding gulf between perceptions of moneyness and the true quality of government credit? I think not. And we all know what happens to bubbles.

Note 1: Remember, one persons debt is another's credit. I use the terms interchangeably.