The Gold Standard

The journal of The Gold Standard Institute

Editor	Philip Barton
Regular contributors	Rudy Fritsch
	Keith Weiner
	Sebastian Younan
Occasional contributors	Thomas Bachheimer
	Ronald Stoeferle
	Publius
	John Butler
	Charles Vollum

The Gold Standard Institute

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

www.goldstandardinstitute.net

President	Philip Barton
President – Europe	Thomas Bachheimer
President – USA	Keith Weiner
President – Australia	Sebastian Younan
Editor-in-Chief	Rudy Fritsch

Membership Levels

Annual Member	US$100 per year
Lifetime Member	US$3,500
Gold Member	US$15,000
Gold Knight	US$350,000
Annual Corporate Member	US$2,000

Contents

Editorial

I am spending a few days in a small town on the edge of the Kosciuszko National Park in southeast Australia. Like many other outback towns it came into existence during and because of the gold rush that began in the eastern states in 1851.

Other than some paraphernalia in one corner of a volunteer run museum (open only on Sundays) including some dusty gold scales from the now defunct Bank of NSW, the town's lustrous heritage is almost completely forgotten. The same situation applies to other gold towns in the area.

Despite all these towns that would not exist without the gold that was gained from their ground and the grand civilizations that fell because of its loss, gold now has the image of something that is not spoken about in polite company.

Lips are pursed, eyes perceptibly narrow and breaths are sucked in at an indiscreet mention of the word. For a metal that has formed the backbone of every advanced society the world has ever known, gold in the 21st century has the social acceptability of the vicar's daughter who became a lady of the night.

The reason for that does not spring easily to my mind. Yes, gold has been denigrated for almost one hundred years, but so have ladies of the night and they are still quite popular and rumour has it that they are far less virtuous than gold.

While those with a vested interest understandably maintain the position that paper can act as credible money; those who frugally set aside for their retirement years, only to see the proceeds of a lifetime's work degraded to the point of worthlessness, are often also surprising defenders.

Like it or not, polite conversation or not, a day of change is headed our way. The world will be back on the right path when a digital version of those old gold scales reappears in 21st century banks – and the vicar's errant daughter demands payment in gold.

Philip Barton

News

Forbes: What makes Gold different?

≈≈≈

Mining.com: Iraq central bank buys 36 tons of gold.

≈≈≈

Youtube: This has received a lot of coverage, but just in case you missed it - Chris Hedges speaks on moral courage. And here is a great example of moral courage.

≈≈≈

Times of Oman: South Korea opens spot market for gold.

≈≈≈

Youtube: Danny Hillis: The Internet could crash. We need a Plan B.

≈≈≈

Mineweb: Ancient river of gold created gold reef in Bendigo, Australia.

≈≈≈

Arab News: "…citizens have 'no social security other than gold,' said Haresh Soni, chairman of the Mumbai-based All India Gems & Jewellery Trade Federation." A timeless truth.

≈≈≈

Reuters: 42k of go.ld found in home of Ukraine's ex energy minister

≈≈≈

Mining.com: Central banks agreement capping gold sales may not be renewed.

≈≈≈

Zero Hedge: A great summation of the Indian gold situation – thanks Jacq.

≈≈≈

Forbes: Inflation is a weak argument for the gold standard

Teething Problems

The global financial crisis was not a recent occurrence. For manufacturers and producers alike, it started August 15th 1971 though some can argue the case that its origins rest with the US Federal Reserve's inception over a century ago. What has certainly been a recent occurrence though has been the growth in conferences and seminars aimed at educating the rather slumbering masses on issues relating to the monetary system. This is a largely positive sign, which may in future years release a political dividend akin to the American Revolution (the Tea Party is a trial example of this process yet still needs a greater degree of philosophical enlightenment aimed at protecting individual autonomy). In light of the infancy of this movement, it's important to address the common-misconceptions regarding the monetary system in the hope of persuading our adversaries and strengthening the sound money movement.

The term "fiat" is often used to describe the monetary system. This expression is problematic as it implies two false premises:

First False Premise – The government determines the value of "money" at its own discretion.

> This is incorrect on theoretical and practical economic grounds. Undoubtedly government can influence the value of currency yet that is entirely different from arbitrarily determining its value. It is only via the free exchange of goods that value can be determined. The value of a currency is derived entirely from market forces despite what governments say or do.

Second False Premise – The government backs the currency via taxation

> Once it is recognised that governments do not and cannot create a currency's value, and that the value is derived from the marketplace, the next question is; how does the market back the currency? The answer is gold. Gold is the ultimate form of payment chosen by the market place. It is gold which ultimately backs the currency or more specifically, it is the relationship between gold and the US dollar which supports

> all currencies worldwide. Since the USD still has the ability to bid on gold, the markets support is via this relationship. It is because of this stated relationship that the monetary system cannot strictly be described as fiat.

The best description of the current monetary system is 'irredeemable currency' as termed by Professor Antal Fekete. The term 'irredeemable' exemplifies the flaw of the monetary system, which brings us to another mistake commonly promoted by sound money advocates.

Regularly the sound money movement calls out the US Fed and its European counterpart for "printing money". It is then asserted that the monetary officials intend to "inflate away" the debt by printing money. This is a technical impossibility. It is certainly true that inflating the monetary system with counterfeit credit does afford some individuals and companies the ability to reduce and extinguish their debts on an individual and limited basis. Yet this cannot reduce the aggregate level of debt within the monetary system. An irredeemable monetary system means that there is no final extinguisher of debt. To "print money" doesn't properly describe the process. The currency is borrowed into existence. The money that is created, with the intent of "inflating away" the debt burden, only amasses greater debt into the present system. Federal Reserve Notes are drawn upon newly created liabilities at the US Treasury. This process compounds the problem.

This is an important distinction to make, as without it, many sound money advocates become sound policy advocates of the US Fed, placing their central planners hat on, believing that higher interest rates and/or a reduction (or expansion) of the monetary base is the solution. Tampering with the price mechanism, regardless of ones degree of enlightenment, can only have disastrous consequences for all.

Remarkably a great many sound money advocates favour the consequences of these actions. US dollar prices for gold are often quoted into the stratosphere; often $50,000 to $100,000 per ounce price tags dazzle the audience. Such price guidance isn't constructive to the sound money movement. Ignoring the inaccuracy of the expression (one should say $1 equals 1/50,000th an ounce of gold as an example) the consequences, if they were to eventuate of such a depreciated dollar, would have a devastating social cost. One that many will be unable to pay. The world would be changed and the pain unavoidable, even for those who hold gold. Moving forward the sound money movement should focus less on what the price of gold is, and focus more upon the consequences of the deteriorating relationships of gold to the US dollar (known as backwardation which will not be addressed here).

As stated previously, it is positive that the sound money movement is growing. Yet now more than ever, leadership must be shown within the movement to plead the significance of our argument. With world events changing rapidly, our efforts must be renewed and strengthened to present a sound and logical solution. If the movement fails it will be a result of our inability to articulate our argument, with everyone suffering as a result.

Sebastian Younan
President the Gold Standard Institute Australia

Gold Standard... In a Sound Bite?

As Editor-in-Chief of the Gold Standard Institute, I have written many articles explaining and expounding on the Unadulterated Gold Standard, on how the world economy is doomed to collapse unless an ultimate extinguisher of debt... Gold... is re-introduced into the system.

I have written about its technical, moral and historical aspects. Yet people still resist, still don't want to know. They hope that hope alone will keep them out of trouble and at best, most want a quick and easy explanation of why we should bother with Gold; in effect, they ask for a sound bite.

Well, that is easy enough... here is the sound bite; **"Gold, the Real Thing!"**... end of sound bite.

Of course, without the megabuck ad campaign to spread and hammer it home worldwide, like the better known 'It's the Real Thing' sound bite, the 'Gold, the Real Thing!' sound bite is of little use. People will have to figure out the need for honest money for themselves; no economic or monetary revolution will be started from above; changes must start from grass roots.

Only a widespread understanding of money and credit will change the system. Only popular, overwhelming demand for Gold (and Silver) money can save the world from economic chaos. Instead of fiddling with sound bites, let's look at the core issues; why is Gold essential for economic survival.

Some people, in good faith, suggest that 'Gold should be money... look at how it's kept its purchasing power for thousands of years'. This is a good sentiment, but it has cause and effect mixed up; Gold should not 'be money' because it has kept purchasing power... rather, Gold has kept purchasing power because it IS money.

We must understand this both intellectually and viscerally. That 'Gold IS money' is not just another sound bite but a hard fact. We must understand what money actually is and why Gold is money. As J. P. Morgan famously stated, 'Gold is money... everything else is credit'. To put it bluntly, bank notes, Dollar bills, all forms of Fiat currency are IOU's; that is, credit (debt) and circulating debt notes cannot extinguish debt, they simply shuffle debt around.

Money and debt are polar opposites, like water and fire. Just as water extinguishes fire, so money extinguishes debt... real money that is, not debt notes masquerading as money. Bank notes are assets in the hands of the holder... that is, a Dollar bill is an asset in the wallet of the consumer... but the very same Dollar bill is a liability of the Bank of Issue, called the Central Bank.

The liabilities of the Bank of Issue... that is, bank notes... Dollar bills... are balanced by assets. This is the very definition of a balance sheet; liabilities and assets must balance. And what assets does the Bank keep on the asset side of its balance sheet? Why, Treasury bonds... and Treasury bonds are also IOU's. Indeed, the very same bonds that are assets of the Bank are liabilities of the Treasury.

It is crucial to understand how Fiat currency is created. The creation of paper currency is not simply a question of 'printing' more and more; that is not how the system works. Currency is borrowed into existence. More specifically, the Treasury prints a bond, a promise of future payment with interest, and the Bank of Issue buys this bond, with freshly created bank notes. The Bank indeed 'prints' new currency but only as a match for the bond it purchases... no more, no less... or its books would no longer balance.

So you say, what does all this mean? Why is this method of creating Fiat currency a problem? Well, there are several problems, any one of which is lethal by itself. First, don't just blame 'profligate politicians' for our daunting debt tower... rather blame the system. Remember, every Dollar bill in existence has to be balanced by a Dollar of bonded debt; so, as more currency is created more debt is created simultaneously.

There is a one to one correspondence between currency in circulation, and debt. For example, if there are one hundred monetary units of Dollars... say each monetary unit is a trillion... then there must be one hundred monetary units (trillions) of debt. If the 'profligate politicians' were to actually pay down the debt, say reduce debt by half; from one hundred monetary units to fifty... then bank notes would also be reduced by half. A devastating deflation would result from the disappearance of half the circulating currency... the disappearance of fifty trillion Dollars.

Just as new bank notes are created by the bank of issue to buy new treasure bonds, if any existing bonds were repaid, the bank notes balanced by the bonds would go back to cyberspace, where they come from. Such a drastic reduction of the money supply would cause a devastating economic collapse... a Greater Great Depression.

Under our Fiat system no debt can ever be retired. Any talk to the contrary is but a smoke screen. Unfortunately it gets worse: bonds command interest either in the form of periodic payments, or in the form of a discounted purchase price and a higher pay back at maturity.

For example, if there are one hundred units of currency that is balanced by one hundred units of bonded debt, and the rate of interest is five percent, then the borrower (treasury) needs to pay five monetary units of interest yearly... or something like fifty monetary units at maturity. But wait... where exactly will notes to make this payment come from? Remember, the currency in circulation is exactly equal to the sum of the bonds in the balance sheet... new currency must be created to pay interest due.

To create new currency under the Fiat system, bonds need to be written... new currency must be borrowed into existence. The debt must grow year by year to avoid interest payment default. This is the real reason that banks of issue like the Federal Reserve are fighting desperately to keep interest rates low, regardless of damage done to the economy. A low interest rate reduces... but does not eliminate... the need for new money/debt creation. The debt tower must continue to grow, without limit, or face default.

The pundits will suggest fine, then let's just 'inflate the debt away'... by 'printing' money to reduce the real value of debt outstanding. Of course, if you understand the need for every new dollar in circulation to be borrowed into existence, you see that this is impossible. By the flawed and over simplistic quantity of money theory, if we double the currency in circulation then we reduce purchasing power by half; twice as much 'money' chasing the same quantity of goods.

Clearly, even if we ignore the flaws of the quantity theory, a theory that ignores velocity of circulation, this scenario cannot work. If we wish to double the currency in circulation from one hundred units to two hundred... hopefully reducing the purchasing power of currency by half... then we must also simultaneously double the debt. Debt grows with the growth in currency. Halving purchasing power is matched by doubling of debt. We are stymied.

No payback of debt is possible, growth of the debt tower is built into the system, and inflating the debt away cannot work. The Fiat system has no escape; the world economy is doomed to ever growing debt and is doomed to destruction. The only viable alternative is to change the system. Replace debt 'money' by real money, money that will actually extinguish debt.

Then the question may arise, why Gold? Why not platinum, or some other valuable commodity... perhaps even commodities that are consumed, like grains or crude? Why indeed... aside from the historical fact that God has been and is money, the reality is that Gold is the most plentiful substance on earth... measured by its stock to flow ratio. That is, the stock of Gold officially known to exist above ground in refined form represents at least eighty years of mine supply. To double the existing Gold stock would take, at the current rate of extraction, at least eighty years.

This is crucial, and is the heart of why Gold is money; platinum for example has a few months of supply on hand; same for crude, grains, copper... indeed all other commodities except Silver; and Silver is the only monetary metal on Earth other than Gold. The enormous, order of magnitude greater stocks of Gold and Silver on hand ensure that any fluctuation in supply... like a mine closure, or the discovery of a new 'bonanza' will have negligible effect on the quantity and value (purchasing power) of existing stocks.

In contrast, all other commodities are subject to extreme volatility due to growth/decline in consumption and in supplies. Gold and Silver are immune to such effects; this is why Gold has held its purchasing power for over two thousand years. We need bother with no other commodity: Gold and Silver are money, nothing else is.

This is the bottom line; Fiat cannot continue indefinitely, Gold and Silver are the only monetary metals that can rescue the economy from collapse. How do we get from here to there? This is the key question, and unless we have a reasonable method of transition, we will inevitably go through the wringer. Chaos will arrive either in the form of an enormous deflationary collapse, the 'Greater Great Depression', or in the form of runaway hyperinflation like Weimar on steroids... or both!

If the transition is planned and done systematically, most of the pain can be avoided. We must start by rescinding the legal tender laws that force Fiat currency into its monetary role. Gold and Silver must be allowed free circulation, as an alternative to existing Fiat paper. Gold and Silver in circulation must be in the form of physical coins with only a mass and fineness embossed on the coins; no 'face value' denominated in Fiat. It is ludicrous that one ounce Gold coins have an embossed face value of fifty or a hundred Dollars... while an ounce of Gold trades for over one thousand dollars.

Once Gold and Silver are again understood to be money, the real job can begin: the reduction of the enormous debt tower, without a devastating debt collapse. This will be accomplished by the introduction of Gold Bonds. Bonds denominated in Gold units, bonds that mature into physical Gold and pay interest in physical Gold... Gold Bonds that can be exchanged over time for existing Fiat bonds, Fiat bonds that otherwise can never be repaid.

Once a Gold bond matures, it is paid in full; the debt represented by the Gold bond is finally, fully extinguished. The value of Fiat bonds will indubitably decrease (in Gold terms) once real bonds are available as an alternative. The value of Fiat currency will indubitably decrease (in Gold terms) once real money is in circulation once again. Thus can the transition from Fiat to honest money be accomplished with minimum pain and without economic disaster.

The availability of God bonds requires an income (by the issuer, the treasury) in Gold; a country like Australia, as well as other countries with a Gold mining industry appear to have an inside track here; a natural supply of Gold is at hand. In reality, mine supply is unnecessary. It is easy enough for any country to obtain Gold, by trading for it.

Trading value for value is the fundamental reality of world trade; Gold is simply the guarantor of honest dealing. The discipline of Gold overcomes any temptation to run a trade deficit. Gold focuses attention on the real economy, on wealth creation rather than on speculation.

Time is running out; how much longer can we continue to 'kick the can' into the future, passing our self-created problems on to our children and grandchildren? I suggest not much longer. The fuse is lit, and the economy is well on its way to blowing up. I suggest we start the transition now, before it's too late.

Rudy J. Fritsch
Editor in Chief

Bitcoin: The Monetary Touchstone

Created in 2008 by the mysterious 'Satoshi Nakamoto', in the past few months bitcoin has gone from a fringe financial technology topic to a mainstream media phenomenon. The debate is now raging as to whether bitcoin is, or is not, a sound form of alternative money. In this article I offer some of my thoughts. In brief, I believe that bitcoin's 'blockchain' technology enables a low-cost payments system capable of disintermediating elements of the banking industry, but I do not believe bitcoin presents a viable, alternative store of value on par with gold. In any case, bitcoin serves as a monetary 'touchstone' of sorts, distinguishing those who lean toward economic and monetary authoritarianism from those who favour market-based organisation instead.

Why Bitcoin? And Why Now?

Bitcoin's recent rise from obscurity to alternative monetary stardom may seem curious at first glance, but consider: The desire for an alternative money is entirely natural when economic agents become uncertain as to the future purchasing power of any legally-mandated tender. The context is key, and the current, unprecedented global uncertainly as to the future purchasing power of dollars or other fiat currencies is the ideal environment in which an upstart alternative money can have a disproportionate impact. When combined with the perennial technological innovations of modern times, resulting in all but the oldest individuals now being comfortable with digital commerce for all manner of goods and services, why not a truly digital currency, created by computational power itself, to serve as the 21st century alternative medium of exchange?

The Monetary Touchstone

How one feels about bitcoin tells us much of how one feels about money itself, making bitcoin a monetary 'touchstone' of sorts. Those who embrace it likely do so out of some combination of uncertainty around existing legal tender and embrace of technological solutions to problems. Those who disparage bitcoin, by contrast, most probably do so either because they trust the legal tender, obviating any perceived need for an alternative currency, and/or because they are distrustful of technology as a solution. This could be due to a general distrust of technology, say in the case of Luddites who would prefer a simpler world absent of much if not all modern technology, or perhaps a distrust of market-based solutions, technological or otherwise.

For example, there are some who oppose the US Federal Reserve on the (entirely justifiable) grounds that its actions appear to favour large financial institutions over other economic actors, including most households; yet rather than replace the Fed with a market-based solution to money creation and interest rate determination, they think that the Fed, a federal agency, should be replaced by another agency instead, say the US Treasury for example.

Several prominent commentators have recently weighed in on this bitcoin debate, spanning the entire range of approval to disapproval. Before we review a broad, representative set of examples, let's start with the mysterious 'Satoshi Nakamoto', whoever he or she or they might be.

Satoshi Nakamoto was not the first to propose a so-called cryptocurrency, an idea that has been occasionally discussed in tech forms for years. However, s/he was the first to publish a practical solution to a problem: that of proof of ownership. The bitcoin algorithm includes a 'blockchain' linking bitcoins back to their origin, so that as bitcoins pass from person to person, their ownership remains certain and prevents the possibility of what could be termed 'crypto-counterfeiting' in which an individual would fraudulently exchange the same bitcoin with two or more other individuals simultaneously.

The blockchain is thus an objective way to verify ownership comparable in principle to when a physical coin passes from one person's hand to another in exchange settlement. However, there is an important and controversial difference: When a coin passes between individuals, they can identify one another. When bitcoins pass between individuals, they need never know one another. Indeed, some argue that with a sufficient degree of encryption, bitcoin commerce can be 100% anonymous.

This potential for anonymity became a hot topic of debate around the controversial website 'Silk Road', an online marketplace for controlled substances, including various drugs, that transacted in bitcoins. For supporters of anonymity, it was disturbing to learn of the website's demise when its alleged founder was arrested on various criminal charges. If bitcoin guarantees anonymity, how did the authorities find the perpetrator? More recently, a prominent bitcoin advocate known in the community as 'Bitcoin Jesus' has gone into hiding, claiming to be on the run from the US government for some unspecified, presumably bitcoin-related crime.

On the other hand, for those non-Libertarians embracing activist government regulation as an essential form of social protection, the more recent demise of prominent bitcoin exchange Mt Gox has led to the opposite concern, that bitcoin's anonymous nature enables wholesale fraud without possibility of compensation for victims. It is in this social aspect of the bitcoin debate that it becomes more than just a monetary touchstone: It becomes a social touchstone for how you feel about societal organisation itself, not just the role of money within it. Thus it should be no surprise that Libertarian and non-Libertarian types tend to have quite different views on bitcoin.

Bitcoin vs Gold

In my opinion, when one directly evaluates bitcoin and gold as potential monetary rivals, a free society, absent legal tender laws or other restrictions on money, would favour gold (or silver) over bitcoin and cryptocurrencies generally. I see three fundamental reasons for this:

First, I think it is important to distinguish clearly between the medium-of-exchange and store-of-value roles of money. Indeed, this was one of the first topics I covered in the Amphora Report back in 2010[1]. There can be no doubt that bitcoin is an innovative medium-of-exchange that, in principle, can bypass the existing payments system. In this sense, **bitcoin is a disruptive technology**

[1] Please see IS MONEY A STORE OF VALUE? Amphora Report vol. 1 (March 2010). The link is here.

that, if so allowed by regulators, would render a huge portion of transactional banking unprofitable, ranging from credit cards to bank transfers. Unless your bank charges you for making deposits and withdrawals, how could it make money from your future transactions if you first withdraw funds, purchase bitcoins and transfer them instead? And if the counterparty, on receipt of the bitcoins, sells them and deposits the currency proceeds in the bank, then their bank can't earn any transactional fees either.

It is highly likely that some smart people working in strategic planning at banks are already aware of this danger. They are probably also aware that, if banks can't make money from processing transactions, they will have to make more money from idle deposits. But with interest rates on most types of accounts already near zero, how are banks going to do that, absent charging depositors to keep their money? And if banks start charging depositors, what are depositors going to do? Why, they will look for alternatives to traditional banking, such as using bitcoins or other cryptocurrencies instead!

Do you see the vicious circle here? Absent regulatory action to impede or prohibit cryptocurrency use, or to somehow subsidise the banks, cryptocurrency-based payments services are going to disintermediate the existing, bank-centric payments system. And it doesn't really matter which services gain market share. Indeed, the fact that bitcoin has invited as much competition as it has, as fast as it has, is strong evidence that **those entrepreneurs familiar with the economics of disruptive technologies are now behaving like sharks that smell blood (profit).**

For all their promise as highly efficient means of payment, however, I am unconvinced of cryptocurrencies' collective role as a store of value. In fact, it is precisely their suitability for use as an inexpensive, alternative payments system that, in my opinion, undermines their ability to provide a store of value.

Why should that be? Although bitcoin and other cryptocurrencies are based on entirely transparent algorithms that strictly regulate their supply, there is nothing that regulates their replication. There might be only one blockchain for each currency, but there is no limit on the number of blockchains that can be created at will to satisfy growing demand. As one blockchain is preferred and gains market share, speculators may enter and drive the price higher. But beyond a certain point, around the speculative margins that exist in all markets, substitution effects will kick in and some will switch into a rival cryptocurrency, programmed into existence at minimal cost, then another, then another… in a process that need never end.

This process, if market-driven, can be entirely self-regulating, providing for an endlessly growing supply of nearly costless-to-create, competing media of exchange, based on replicate algorithms, each with its own blockchain. But do you now see the problem? **A dynamic aggregate of replicate, competing blockchains would have a highly ELASTIC supply, not one strictly limited. In fact, the supply is theoretically infinite, more infinite than grains of sand, drops of water, molecules of oxygen or, indeed, any other substance on earth** or, for those who think even more broadly, in the entire universe. The cyber 'universe' is, by its very nature as a creation of the human mind rather than a naturally occurring substance, infinitely larger than the physical universe, vast as it is.

Gold or silver, by contrast, are strictly limited in supply, regardless of price, and cannot be replicated. Sure, they can be exchanged for one another and also for other substances, such as copper or nickel, to use two real-world coinage examples. But regardless of which of these are used, note what they all have in common: They have a production cost. Indeed, they are expensive to locate, pull out of the ground, refine and cast. Only when their market prices are sufficiently high does their production expand and, as supply rises to meet demand, their prices then stabilise. In other words, metallic monetary systems are also self-regulating, but in a context of real-world physical supply constraints and associated costs, rather than a cyber-world of no theoretical supply constraints and the minimal costs associated with a few strokes on a keyboard and the imagination to conceive a new crypto 'brand'[2].

A second theoretical problem I have with cryptocurrencies as stores of value is that of physical security. I'm not talking here about the potential for fraud and abuse, which exists and will always exist where human exchanges take place. Rather, **I'm talking about the ability of an authority of some sort, say one with the ability to operate entirely in secret, to trace blockchains as desired, from place to place, and to hack in to systems as required to effectively confiscate these in the event that the authority deems their use to be criminal or politically undesirable**. While I don't in any way condone criminal behaviour, I appreciate why criminals prefer physical over electronic cash, or physical gold or silver for that matter, as these exchanges are anonymous vis-à-vis third parties, even if not at all anonymous between the two parties involved in the transaction.

Some claim that encrypted bitcoin ensures complete anonymity vis-à-vis not only the parties to a transaction but also third parties. In my opinion the opposite is true. The blockchain, if traced by sufficient computing power, provides a complete record of all transactions that can then be used or abused as desired by the authorities, who most probably could also covertly confiscate bitcoins or render them effectively unusable.

However, if the authorities want to confiscate your gold, for whatever reason, they are going to have to make a rather public matter out of it. If you keep some gold in a safe at home, they are going to have to break into your house. If you have it buried in your garden, they are going to have to trespass on your property in order to dig it up. **Physical gold stored in a neutral jurisdiction, such as Singapore or Switzerland, will not be released to foreign authorities without extensive, public evidence of criminal wrongdoing.** And even then, it might only be released following public trials in public courts. In this sense, **gold is a sort of monetary habeus corpus: There is no easy way for authorities to confiscate physical gold short of extensive, public legal action, including a presentation of the specific charges. Bitcoins, however, can be electronically 'reassigned'.**

Finally, I believe that there is a third important reason why gold and silver are likely to win out over bitcoin in the marketplace for money, namely culture and religion. Cultures don't change overnight, they evolve through the generations. The same could be said of major religions, each of which has a core canon of beliefs but one that, around the edges, can change over long spans of time. **As Hugo Salinas-Price observes correctly, you don't just convince people overnight to use something new as money.** Referring to Austrian School economist Ludwig von Mises, he writes that:

> *[N]o fiat currency has ever been successfully introduced into circulation without a monetary value ultimately derived from when that currency was gold or silver money. Bitcoin does not fill the bill; it cannot circulate along with the established fiat currencies of the world because it has no history, no ancestry reaching back to its parent, gold or silver.*

The late Roy Jastram, who's magnum opus THE GOLDEN CONSTANT is regarded as a modern classic amongst the gold investment community, opined that the reason why of all substances gold came to be money went beyond any purely rational explanation as to gold's unique physical properties.

I believe that Jastram was on to something. And I believe that Hugo Salinas-Price and Austrian School economists generally are on to something too. That something is human nature. **As Lord Acton observed, power tends to corrupt; absolute power corrupts absolutely. By corollary, monetary power tends to corrupt; absolute monetary power corrupts absolutely. So now I lay my monetary cards on the table: As I write in THE GOLDEN REVOLUTION, no form of money "can possibly replace that which transcends all government, all laws, and, indeed, all things created by man."**

[2] For those familiar with the concept of elasticity in economics, gold and silver supply are demonstrably highly price inelastic, whereas theoretical blockchain supply is highly price elastic. As stability of supply is an essential feature of sound money, this factor alone argues strongly in favour of precious metals generally vis-à-vis blockchain technology as an alternative store of value.

Conclusion: Towards a Crypto-Golden Synthesis

While I fully acknowledge bitcoin's vast potential as an alternative payments system to disintermediate much of the increasingly archaic, dysfunctional, 'too-big-to-fail' banking system, I have also described several reasons why I do not believe that it will displace gold or precious metals generally as the preferred alternative stores of value, at least not on a relevant time horizon. This raises the question, therefore, of whether it might be possible to somehow combine the two in a way that instantaneously 'sweeps' cryptocurrency proceeds directly into allocated gold, at some market-determined exchange rate. That is, if you would like to transact in bitcoin but save in physical gold, is there a way in which to do so without using a fiat currency as an intermediate step?

While the technology to provide for some form of 'gold-backed' bitcoin almost certainly already exists—or if it does not, a patent application is probably pending—the question is whether the legal-tender authorities would ever allow this. After all, payments systems compete with banks but don't compete with purely monetary power, at least not directly. Gold does. It will be interesting to see what happens when the first 'crypto-gold' service is launched, perhaps in a friendly monetary jurisdiction such as Singapore or Switzerland. If the local authorities allow it to go ahead, will residents of other countries adopt the service? If they do, will their domestic authorities try to prevent them in some way?

From the perspective of the state, the power to inflate is the power to tax. States do not take kindly to a reduction in their power to tax. Arguably, blockchain technology, if employed as state-mandated legal tender, would in fact *increase* the power of the state to tax, as taxes could be automatically withheld from the blockchain for each and every transaction according to some algorithm; or alternatively the blockchain authority could earn seignorage income as the supply grew.

Aspiring totalitarian regimes (and science fiction writers) take note: Use of physical cash or any unauthorised form of electronic exchange can simply be criminalised with severe penalties and replaced by 'PatriotCoin'. The PatriotCoin withholding algorithm can be modified so as to exempt favoured individuals or qualifying transactions. State employees can share out any seignorage income, as befits their privileged status. Children can be assigned personalised PatriotCoin serial numbers at birth and retain these until death, when they pass to their children...

Is this where we are going? Who knows? As is the case with gold and silver on the one hand, and debasement and fiat on the other, the war between economic liberty and authoritarianism never ends. And it certainly won't end with bitcoin..

John Butler

John Butler, a former managing director at Deutsche Bank and Lehman Brothers, has advised many of the world's largest institutional investors, sovereign wealth funds and central banks on macroeconomic investment and portfolio strategy. He is the founder and managing partner of Amphora Capital, a boutique investment and advisory firm. He has 20 years' experience in the global financial industry, having worked in London, New York and Germany and has been a #1 ranked research analyst in the annual Institutional Investor research survey. He is the author of The Golden Revolution (John Wiley and Sons, 2012), and his research has been cited by the Financial Times, Wall Street Journal, Frankfurter Allgemeine Zeitung, De Telegraaf, Milano Finanza and the Nikkei Shimbun. He is a regular contributor to various financial publications and websites and also an occasional speaker at investment conferences around the world.