The Gold Standard

The journal of The Gold Standard Institute

The Gold Standard Institute

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

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Editorial

TGSI has been pounding the table in favor of the Unadulterated Gold Standard for lo these many years... is it time for a tighter focus, is it time to start pounding the table for the Unadulterated Gold "Coin" standard?

The Unadulterated Gold Standard is different from the Classical Gold Standard as practiced in the nineteenth century in that it excludes 'Fiduciary media'... that is, bank notes in circulation backed by loose promises vs. bank notes backed by physical Gold in the vault, and by Gold Bills of Exchange that mature into Gold in less than 91 days in the portfolio.

Fiduciary media open the floodgates of manipulation; indeed, monetization of government debt is the classic example. Treasury bonds on the asset side of the Central Bank's balance sheet match bank notes (Dollars, Euros, etc.) on the liability side. This process is unlimited; Governments can and do and have issued bonds to the sky... and the CB's can and do and have created ('printed') Dollars to the sky.

So, is eliminating unlimited Fiat currency printing the main thrust of the Unadulterated Gold Standard... and does it accomplish this aim? Well, the answer is a clear no... and yes. In fact, eliminating unlimited printing is treating a symptom, not curing the disease.

The disease of our monetary system lies in the concentration of power in a (very) few hands; a few hands that can be corrupt, can be misguided, can be coerced... and can act contrary to the best interest of the real economy, and contrary to the best interest of the average wage earner. These 'few hands' act in their own self-interest... while ever pretending that they act 'for the common good'.

Let us remember the Golden Rule; he who has the Gold makes the rules. If Gold lies in a (very) few hands, then rules are written by those hands. If Gold lies in millions of hands throughout the land, then many diverse hands will write the rules.

It is vital to differentiate a 'Gold Bullion' standard, whether unadulterated or not, from a Gold Coin standard. Bullion in the form of bars is mainly for the very rich; a Kilo bar of Gold today buys around $40,000 USD... a figure much too big for every day trade. A hundred ounce bar is valued at around $120,000. Guess what a Comex 'good delivery' 400 Oz bar costs?

On the other hand, the Gold Sovereign coin, the Gold Franc, the Gold Napoleon all weigh in at 7.98 g, around 0.2566 Troy oz... at a current cost of about $400. These coins in circulation were the heart of the Classical Gold standard. A $400 coin is much more amenable to being held and circulated by the masses; especially if accompanied by Silver coins that evaluate at around $25; about 1/15 th value of the same mass of Gold.

Only the Unadulterated Gold Coin Standard ensures not only that money is honest, but most importantly ensures that this honest money stays in the hands of ordinary people, not in the hands of powerful (pseudo) elites. One Sovereign coin represents one Sovereign vote. A true democracy; where sovereign power lies in the hands of the people.

Let's start pounding the table for the Unadulterated Gold Coin Standard.

Rudy J. Fritsch

News

Forbes: Inflation is Counterfeiting.

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Forbes: Super clear article by Keith Weiner on the destruction of capital caused by falling interest rates. Recommended reading.

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Two interviews in German with Thomas Bachheimer: Wirtschafts Blatt and Epoch Times.

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Merced Sun-Star: 1849 Mormon Gold coin sold at auction. Made from Gold from the California Gold rush and one of only 46 minted.

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Peninsula Qatar: Dubai plans huge new Gold refinery.

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Gulf Today: Turkey contributed to paper's strength in March.

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Mineweb: Referendum in Switzerland to decide 20% Gold rule.

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India Times: The Kerala Temple, famous for its vast Gold hoard amongst other treasures, was placed in the safekeeping of the State government of Kerala – for security reasons! You'll never guess what happened.

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NPR: Gold obsession pays dividend for Indian women.

The remarkable metamorphosis of the Yuan

China's Yuan has until recently been a heavily controlled currency, and pegged tightly to the US dollar. This makes the changes that have been taking place since 2009 all the more remarkable:

1. In a first step of opening the currency system towards the West, the government allowed the 400 largest corporations to make intra-Asian deals without having to report individual transactions to Beijing.
2. The increase in gold reserves by approx. 500 to now 1000 tons is as such not exceptional. These 1,000 tons represent approx. 1.6% of Chinese US Dollar reserves, which in 2009 was a relatively small gold stock by international standards. However, one should not disregard the fact that China never engages in haphazard actions but rather pursues long-term economic policies. This allows the conclusion that the biggest country on earth is on track to amass a large stock of gold reserves.

But back to the present: the Chinese government has consistently followed through on the measures it began in 2009. The economic opening towards the West and steadily growing exports culminating in its rise to the world's biggest trading nation brought about the necessity of liberalising the currency to the same extent as the economy. Now the Peoples Bank of China (PBoC) and the German Bundesbank agreed to install a clearing bank in Frankfurt to handle transactions denominated in Yuan. This is a first in modern Chinese trade history.

This groundbreaking agreement will lead to two major improvements:

- Trade between China and Europe will be much easier;
- Chinese companies will have better access to European capital markets.

Both issues "are also of major importance to German companies – especially export-oriented small and medium-sized ones – as it makes their life much easier", says Michael Kemmer, President of the German banking association (Bankenverband).

But also on a global scale the importance of this agreement should not be underestimated, since trade between China and Europe need not be handled via the US Dollar anymore. The direct convertibility of Yuan and Euro saves European trading partners approx. EUR 5bn per year and their Chinese counterparts benefit as well.

At the same time, the fluctuation margin of Yuan versus Dollar has been increased which makes the currency more flexible and also should help Chinese exporters via depreciation.

Gold backing and economic opening in conjunction pose a major threat to the global US Dollar hegemony. These measures work towards "China's strategy of counterbalancing the Dollar's dominant position", according to a Chinese economist. They form a part of the Russo-Asian strategy of putting a massive dent in the US pre-eminence. The days of the Dollar as the world's sole reserve currency seem to be drawing to a close. Furthermore, the China Morning Post recently reported that approx. 40 central banks are significantly invested in Yuan while reducing their US Dollar exposure, despite the hitherto close Dollar peg of the Yuan.

Watch this space, as this shift in the global currency system will affect us all in no small measure!

Thomas Bachheimer
President the Gold Standard Institute Europe

Retiring

The Australian political arena is currently in the midst of a long and drawn out debate consuming newspaper headlines and television commentary. The debate concerns the proposed changes to the national retirement age. Australia's Treasurer Joe Hockey has indicated that the retirement age, to be handed down in next month's budget, will be raised from 67 years old to 70 years old – starting in 2023. The proposal has created both friend and foe as all sides of the political landscape opine. Interestingly though, for all the talk that has been going on – and there has been an earful – it can all be summarised as largely non-speak as all sides seem to be agreeing with each other on principle.

Though this move is being spun as a requirement of a population which is living longer, the more economically savvy would probably realise that the Treasurer is representing a treasury which in fact has no treasure (so they will most likely mortgage the unborn with greater and greater deficits). The tragedy of this debate is not what is being said, but rather what is not being asked. This publication will ask, what will not, and answer, what should be:

1. Should there be a government supported retirement pension?

No. A government cannot guarantee a pension any more than it can guarantee the weather. In providing pension support, the government must expropriate the resources of those who are still working to support those who don't. This is a fact, as a government is incapable of producing. By expropriating the resources of another, the government invariably violates property rights. This is a contradictory function of government. How can the government defend individual rights and simultaneously violate property rights? The answer is it cannot. One destroys the other.

2. But how do you provide a pension for those during senescence?

Like any other material good, an individual must be freely able to pursue the value they require. Retirement like any other good must be earned. No one can guarantee a lifestyle. Retirement requires one to forgo immediate consumption for the future.

3. But is it right to force those who are currently receiving a pension back out of retirement?

No. For those who are currently in a government supported retirement the government should continue to support those individuals. This is because they have been taxed in the past under the pretence that they will be able to access this support in the future. The government must uphold its obligation to those dependent upon the system (and those close to being so) but allow younger generations to leave the system.

4. Leave the system? What does this mean practically?

This means allowing individuals to be able to support themselves by their own effort. This would entail reducing government taxes and services whilst repealing most forms of regulation and government control.

5. That would be revolutionary and cause great distress, would there be anything else?

It is true that this would cause great change as individual autonomy is respected, but it would transform the society from one of dependence to one of mutually beneficial cooperation. The real distress will occur is the current trend of further control and deteriorating liberty continues.

The final requirement would require freely circulating gold and silver coinage, which is to abandon legal tender laws. This is no small or easy task. Yet the monetary system is in terrible treat of implosion under its tower of irredeemable paper. The rediscovery of a gold standard must take place with an introduction of gold bonds trading side by side with government bonds. That should allow private pension funds an opportunity to bring solvency to their funds.

6. Why are gold bonds necessary?

They are necessary as, besides those dependent upon government retirement, many individuals, believing that they were being responsible for themselves, have invested their retirement savings into funds which are themselves heavily dependent upon government bonds (consider the 30 year T bond with its declining yield as pension funds today rush in for whatever yield they can find, further flattening the yield). By allowing gold bonds to trade side by side with government bonds, these funds will be given the opportunity to rebalance their portfolios.

7. Why can't the government merely balance the budget like it has done in the past and still continue providing pension support?

The ability to balance the budget, especially for the US government, is almost impossible as the irredeemable monetary system is predicated upon the expansion of greater and greater debt. Balancing the budget will not solve the medium to long term instability of the monetary system.

8. So without having a revolution, what can the concerned individual do to prepare for their twilight years?

Owning gold and silver as part of one's money holding is wise. The less debt one accumulates is optimal especially as the economy slides towards deflation.

Yet one should actively inform friends and colleagues about the merit of a free society. Consider writing to your Member of Parliament or congressman expressing you concerning with the tyranny of the state. It is never too late to do the right thing.

It is most likely that the retirement pension age will be raised to 70 years old. You will hear both political sides cry wolf but you will not hear any defend the individual. In a free society the government would have no interest in the private affairs of its citizen's retirement. To observe how far one has drifted, consider how both sides of politics believes that you are their property to dispose of.

Sebastian Younan
President the Gold Standard Institute Australia

The Lazy 1970's vs. the Frenetic 2000's

Many people today see the Fed's Quantitative Easing as money printing. They remember what happened in the 1970's, and they instantly jump to conclusions. However, we live in a different world. To illustrate this, consider the following story about Joe, a promising and eager young manager in a struggling manufacturing company.

Joe excitedly walks into the boardroom and pitches his idea. "Let's borrow a billion dollars. We can use it to build a massive warehouse and to buy massive quantities of our raw materials!"

The senior management team stares at him. The CEO demands, "Why?"

"We need to have a stockpile at every level. We should start with 3 months of raw materials, and a three-month buffer of work-in-progress in between every one of the 27 steps of our manufacturing line. And even better, we need to warehouse finished product. We shouldn't ship anything that hasn't been sitting for at least 4 months. Ideally six, but we can start with four." Joe has the bit in his teeth now.

He rushes on. "Bernanke has printed so much money, and Yellen is going to continue. We already have massive inflation and it's going to get worse! By borrowing to buy stuff that is only going up in price, we can make extra profits and protect ourselves from supply shocks as the cost of commodities rises out of sight!"

The CFO leans over to whisper in the ear of a young assistant, Bill. Bill does a quick Google search and finds the price of copper, which is one of the most important raw materials the company buys. Bill puts the copper chart up on the screen. It has fallen a third over the past few years.

Joe will be lucky to remain employed when he leaves the room. To be fair to him, his mistake is simply to try to implement a business strategy around what most casual observers and many economists believe.

Sometimes, the best way to debunk an idea is to take it seriously.

Though it makes no sense today, holding inventory was not the crazy idea of a young fool back in the 1970's. It was how many businesses conducted business. In that era, the game was to accumulate inventories. The more, the better. First people were trading excess cash for inventories. I can recall my parents stockpiling things like canned tuna fish. It was better to keep one's wealth stored in a durable food product than in a bank account. Consumer prices were rising about 20 percent per year.

Next, companies began selling bonds to finance inventory growth. This pushes down the bond price, which is the same thing as pushing up the interest rate. And of course it pushes up prices.

In the 1970's, cash was trash. Inventories rose relentlessly in value, at least as measured in terms of the dollar. This, by the way, is a great example of how irredeemable money distorts the economy. You aren't producing any more, or creating any kind of new wealth, and yet, you are rewarded with a profit.

Now we have the opposite condition. Since the interest rate began falling in the early 1980's, companies have been finding ways to reduce inventory accumulation. The Lean manufacturing movement began to gain acceptance at this time. Lean, also known as the Toyota Way, defines inventory—such as work-in-progress sitting on a shelf—as waste. Lean is all about eliminating waste.

Today, cash is king. Excess inventory quickly becomes obsolete.

Companies are not borrowing to hold inventory, but to expand production when they can make a profit above the cost of capital. Since the interest rate keeps falling, the hurdle to get over for minimum acceptable profit keeps going lower.

Think of it this way, if you manufactured handheld electronic devices, would you want to keep inventory a minute longer than you had to? Of course not, because your competitor is about to release a new model that will make your product less desirable, or even unsalable. How about clothing? Cars?

In the 1970's, the interest rate was rising. When a worn-out plant needed replacing, it may not have been feasible to borrow to replace it. That's because the new interest rate was much higher than at the time when the plant was first acquired, a decade or more earlier.

This is the connection between the rate of interest and the rate of profit. It's impossible to borrow at a higher rate than the profit one hopes to earn. A rising rate will therefore lead to rising margins, and a falling rate to falling margins.

Other than the problem of financing plant replacement, business was easy. Sleepy conglomerates had travel policies that allowed managers and executives to fly first class, even for domestic travel. With the cost of borrowing rising all the time, profit margins were expanding. And there was the kicker, holding inventory before selling it fattened margins further.

Business had a lazy pace to it, as I look at it today (though business managers at the time might not have agreed with that characterization).

In comparison, today it is the opposite. Limitless oceans of dirt-cheap credit issue forth, like effluent from the world's central banks. The problem is not replacing worn-out plant when the cost of capital is higher. The problem is that every competitor has ever-cheaper cost of capital. The challenge is that rapid product cycles are driving rapid obsolescence. It is harder and harder to recoup design and tooling expenses. Inventory that sits for a week may have to be liquidated at a massive discount. Profit margins are under constant pressure.

Business executives routinely fly coach, even for international travel.

If the word for the 1970's business environment was *lazy*, the word for today's climate is *frenetic*.

Neither is the ideal behavior for a rational enterprise. They are the direct fault of the regime of irredeemable paper money.

Everyone's attention is misdirected towards prices. Is the Consumer Price Index rising? Is it rising more than expected? How about the producer price index? Is that dropping into the dread D-word—*deflation*?

It's the greatest economic sleight of hand ever perpetrated.

Instead of zeroing in on prices, we should be looking at the enormous distortions of our centrally banked irredeemable currency. We have bubbles, malinvestment, insolvencies, volatility, with exponentially rising debt and derivatives outstanding.

Keith Weiner
President of the Gold Standard Institute USA

New Austrian Economics

Unless you have been following my writing in this journal from the beginning, you may not know how I came to be involved with TGSI in the first place... and my story is pertinent to this article, so bear with me for a short recap.

It all began in 1956, and the Hungarian revolution. My dad was a true Hungarian patriot, and when the Soviet tanks rolled to suppress Hungarian freedom, he had little choice; stay in Hungary and face the music... or run for it.

Well, he chose to run and took his family with him... my Mom and me. We ended up in Canada, starting a new life with nothing but the shirts on our backs. My father spoke neither French nor English, but he was a tool and die maker, could read the language of engineering drawings, and soon had a machinist's job... indeed two jobs, the second one at night repairing outboard motors.

My dad also had a simple philosophy; better to be your own boss in a small business than to work for a boss in a big job. As soon as he accumulated a bit of capital (no borrowing for him) he bought a piece of land, built a small work shop, and installed a multi spindle automatic screw machine.

He quit the second job, and started to do contract work on his machine; Ferro Products Co. Ltd. was born. Soon my Mom was working there as well, and once the company was up and running, Dad quit his first job and ran the company full time. Soon enough I also started to work there, as a teenager... and have been at this my whole life.

Where it got 'interesting' was about ten years ago; Ferro Products had developed the Allsteel line of metal forming machinery (still around, but no longer manufactured in Canada) and prospered... but then the wheels came off.

Manufacturing in North America collapsed, and as you are no doubt aware, headed offshore... mainly to China. I wanted to understand why a company that had been successful and profitable for decades suddenly produced losses and had to be shut down. I figured that the answers lay in economics, the underpinning of investments. Well, I was wrong... at least as far as 'mainstream' economics is concerned.

Ideas such as the 'efficient market' hypothesis, such as 'supply and demand' curves and other bits seemed absurd, with no relationship to the real business world I came from. Then I discovered Austrian Economics, grounded in Human Action... and felt I had found the answers to my many questions.

Indeed, I became a bit of a Von Mises disciple, having absorbed his tome 'Human Action'. I thought I had all the answers... until I read some criticism of Mises and his work by, of all people, some Hungarian called Fekete. Well, I was determined to debunk his stuff... how dare anyone criticize the work of the great Mises.

Fekete claimed that on 'page 436' of Human Action, Mises states that 'a fully mature claim against Gold is as good as Gold itself'. Well, I certainly know better than this; we escaped Hungary by presenting the border guards Gold watches... not paper claims, not Forint, not Dollars... claims against Gold are NOT Gold itself. Did Mises really say this?

I pulled Human Action off my shelf, opened it to 'page 436' and sure enough, there it was in black and white; Mises has conflated claims against Gold with Gold itself. So much for my hero worship of Mises, and a new respect for Professor Fekete. I started my search for economic answers all over again. I downloaded and read every page I could find of Professor Fekete's work, and after months of study things started to fall into place.

I started to understand the Classical Gold Standard, its benefits, its failings, and what it would take to return the world to honest money... and the disastrous consequences of trying to carry on with the current Fiat system. I was disappointed when I finished reading all the Fekete articles and stories... economics 101, The Second Greatest Story Ever Told, The Ten Pillars of Sound Money, economics 102... because there was no more. I was eager to study more of the Professor's work, but I had run out of material.

Imagine my delight when I heard that the Professor was starting "Gold Standard University Live"! I could actually meet the Professor, and hear him talk in person. I booked a flight to Hungary in a flash.

By the second session of GSU Live, I knew that this was a really important happening. Professor Fekete has knowledge that is vital to the world economy, knowledge nearly lost. Perhaps he was the last person left on Earth who had experience and knowledge of how the Classical Gold Standard actually worked, and of how it was sabotaged and replace by the current Fiat disaster... certainly he is the only monetary scientist with this knowledge.

I corralled the Professor while we were relaxing in a local Hungarian spa, and pledged my personal commitment to 'do whatever I could' to preserve and disseminate his knowledge of Gold and the Gold Standard. The die was cast.

Interestingly, at this same session I met a lanky, friendly Australian chap by the name of Philip Barton... who I first thought was the editor of the Australian newsletter The Privateer... but who turned out to be a restaurateur from Melbourne. Now if you are curious as to what an Australian restaurant owner was doing at a session of Gold Standard University Live in Hungary, so was I.

Turns out that Philip was not so sure himself. Philip was a rooky at economics, and somewhat lost. In fact, he kept asking me 'what did the Professor mean when he said ____ '? Fill in the blank. I explained things, and so our friendship started. It continued after he returned to Australia... and for months, I kept getting e-mails from Philip with 'what did the Professor mean when he said ____ '... and I kept answering.

Eventually, Philip suggested I should write a book, as he was not the only person who did not quite get what the Professor was talking about... and so I did... write a book, that is. In fact, the spark that ignited Beyond Mises as well as TGSI was struck at this session. Indeed, once I understood that Philip was serious, that he and TGSI would work to 'preserve and disseminate' the Professor's invaluable knowledge, I extended my commitment to 'do whatever I could' to support the Gold Standard Institute.

Well, Philip went back to Australia, and meanwhile European friends of the Professor took up his cause as well. Soon Fekete Research was announced, then the New Austrian School of Economics. The key difference is that NASoE is committed not only to preserve and disseminate the Professor's work... but to carry it further. I am tickled pink that my commitment has come full circle.

The last bit of this story is that a young, energetic, erudite... and passionate... Professor joined NASoE. He is extremely well read in economics history, understands the Professor's work, and is committed to the cause of honest money, to Gold, to the Unadulterated Gold Coin Standard... and is now director of NASoE. His name is Professor Juan Ramón Rallo.

NASoE held a conference in Madrid, Spain a few weeks ago. I was one of the speakers... and so was Professor Rallo. As usual, my knowledge expanded, I gained new insights... and this time, one of the new insight came from Professor Rallo's closing talk.

He walked up to the whiteboard and drew a couple of vertical lines, dividing the board into three sections. On the left he wrote the name of classical economist David Ricardo. On the right he wrote the notorious name of John Law. In the middle went the name of famous natural philosopher Adam Smith.

Under the David Ricardo column went names like Von Mises, Murray Rothbard, Milton Friedman, the Chicago School... and he called this column the 'monetarists'... those who believe that only money can perform as a medium of exchange... that credit cannot. Now this is patently wrong; in world trade, credit does the heavy lifting. If there is a balance of trade between two nations, only goods and credit change hands... money stays in the vault.

Money only moves if there is a trade unbalance. With balanced trade, the credits net out; if I owe you $10, and you owe me $10, we need not exchange notes; we merely net out the credit. This is simple enough for a child to understand... but not, apparently, for 'highly educated economists'.

The right column, under John Law of Assignats fame... whose nutty ideas ruined the French economy, brought about the French revolution and Napoleon Bonaparte... Had amongst others the name of John Maynard Keynes. Professor Rallo called this column the monetary cranks; those who believe that credit and money are interchangeable.

What happened to France under the Assignat is now happening to the US under the Dollar, and to Europe under the Euro, for the very same reason; credit and money are conflated. So called 'credit money' is being borrowed into existence, without limit. Just as John Law's Assignats were printed without limit.

In reality, credit and money are poles apart. Money extinguishes debt (credit) just as water extinguishes fire. No wonder Professor Rallo calls those who refuse to see this, including 'highly educated economists', monetary cranks.

In the center column under Adam Smith went Carl Menger, the father of Austrian economics, several others, ending with Antal Fekete. The center column is reserved for those economic thinkers who recognize that money and credit are very different, but recognize also that both serve a vital role in the economy. Not seeing the role of credit in clearing trade is just as big a sin as not recognizing the differences between credit and money.

Most interesting; Von Mises, arguably the 'greatest Austrian economist' of the twentieth century is in the same category as Ricardo, Friedman, et all... in the monetarist camp... while Professor Fekete, a 'monetary crank' according to many pundits, is in the lineage of Adam Smith, originator of the Real Bills Doctrine, and Carl Menger, the father of Austrian economics. Maybe the New Austrian School of Economics should be called the True Austrian School of Economics.

I place Professor Juan Rallo into the center column, directly in the lineage of Adam Smith, Carl Menger, and Professor Fekete..

Rudy J. Fritsch
Editor in Chief