The Gold Standard

The journal of The Gold Standard Institute

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

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Editorial

Research just out in Australia from the Lowry Institute shows that a rising number voters have become disillusioned with the political establishment.

In 2007, 68% of those polled thought that it made a difference which party was in power. Eight years later that figure has dropped to just 43%. This situation is not restricted to Australia.

Lunatic fringe parties are in the ascendency in Europe. The post WW2 tolerance of dominant, long-established, political parties is collapsing. The Establishment is being disestablished.

So what's wrong? What changed?

The answer of course is the economy. Running a small business keeps me in good communication with Joe Blow (the equivalent of Joe Six Pack). The financial pain they are feeling increasingly disturbs Australians, male and female.

I live in a town that is normally almost empty at this time of year. Just before Christmas the roads are jammed with cars heading for the coast. Not this year – many people are spending their holidays at home. Even those who still have a job cannot afford to go away.

They can see and feel the rising costs of everything associated with the government. They believe that taxation is the problem; the enormous burden of regulations is still not on their radar – though I try to place it there in every conversation.

Now that the running of the economy by all the established parties is being called into question, we are that much closer to bringing their monopoly of money into focus. To say that this is close would be an exaggeration, but it is no longer the giant leap that it seemed a few years back.

It is the clammy hand of governments and their dodgy system of debt 'money' that has brought the world's economies to the brink. Watch out when the opinion polls show a rising awareness of that.

Philip Barton
President, Gold Standard Institute

News

Recent Keith Weiner Forbes articles:

- The Gold Standard for Democrats
- Twelve days of the Federal Reserve
- What happens when credit is mispriced?
- A Gold man in monetarist territory

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Thomas Bachheimer from Europe:

- Goldstandard-Präsident: „Nationalbanker haben Österreicher für dumm verkauft!" (Gold Standard President: "National bankers take Austrians for a ride")
- Goldstandard-Präsident: „Verlierer beim Euro sind Freiheit, Demokratie und Privateigentum“ (Gold Standard President: "losers at EUR are freedom, democracy and private property")
- Thomas Bachheimer auf der Metallwoche: Die Maßstäbe sind heute aus Gummi (Thomas Bachheimer on the metal Week: The scales are now made of rubber)
- Gold-Referendum: Bachheimer - "Schweizer haben die Chance vertan" (Gold referendum: Bachheimer - "Swiss have missed the opportunity")

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Financial Express: Gold fourth major item of household expenditure in India

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Reuters: “Since December I've been hunting for toilet paper because in my house we don't have any." Central planning causes problems with paper everywhere.

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Daily Sabah: Getting Gold out from under Turkish mattresses

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BBC: Central planners ensure that world’s most famous ice cream shop is closed

Financial Post: Chinese military officer gave away luxury cars filled with Gold as gifts.

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India Times: Three Kerala companies have more Gold than Sweden, Singapore, Australia or Mexico

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GoldChat: India gets serious about anti-Gold policy

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BBC: Anglo Saxon Gold hoard found: at least 5 kilos

Sound Money and the Ring of Truth

We Americans no longer carry gold and silver money in our pockets and purses as our grandparents did during their lives. But we still carry the history, legacy and spirit of those gold and silver coins in our language – *with more meaning than you might imagine.*

“Sound money” has a clear message recognized for centuries around the world. It describes the musical, metallic ring of a gold, silver, or copper coin dropped on any hard surface of glass, stone, wood, or metal. Sound money literally refers to real wealth, with a natural, unmistakable signature of honesty and integrity, as opposed to the swishy paper and plastic debt used almost exclusively today.

The term “sound money” is believed to come from Ancient Rome, where small silver coins were standard in everyday commerce, for paying Roman soldiers to buying exotic goods from all corners of the known world. As Rome squandered its wealth, it found what seemed an easy shortcut to shore up the treasury. It gradually debased those silver coins with common metals, ultimately cutting the silver content to just 5 percent.

But that didn't fool anyone for long, most of all disciplined Roman soldiers, who did not appreciate being paid with worthless mystery metal in return for risking their lives on Rome's bloody battlefields.

Do You Want True Money or a Debased Dud?

Not every Roman soldier had room in his gear for a touchstone, usually fieldstone or slate, also used to test the purity of metals. But they quickly discovered the difference in the sound of *true money* and a *debased dud*.

They recognized that real silver had a distinctive melodious ring when bounced on a hard surface, such as the blade of a handy sword, a bronze breastplate, or an ornate marble floor. Sound money carried the 'ring of truth,' while debased coinage landed with a dull, disappointing thud.

The debasement of Rome's silver currency unmasked the deceit of a bankrupt empire, which ended with the fall of Rome, a pattern repeated many times. Sound money's "ring of truth" had found its place in the history of money and of nations.

As the United States grew westward to the Pacific Coast and north to Alaska, gold, silver and copper coins of all nations were legal tender in the young United States until the 1850's, and were in use even long after that.

Americans with no formal education in reading, writing and arithmetic relied on the sight, sound, and feel of the only money they knew. Learning the different musical ringing sounds of those coins could easily qualify even a prairie settler fresh off the wagon train as an economic expert.

In the Old West of the range roving American cowboy, the ring from that silver dollar tossed on the bar of polished oak told the saloon keeper he was pouring whiskey for sound money, and not for a counterfeit forgery.

The sound money test unmasked one of the most famous counterfeiting schemes in American coinage history. The Liberty Nickel (1883-1913) was originally struck without the words "Five Cents," bearing instead only the Roman numeral "V." Gold plated Liberty Nickels were passed off as a newly designed $5 gold piece, but the sound money test quickly identified the scandal. Within six months of issuing the first "V" nickels, the U.S. Mint added the words "Five Cents." But for the next many years, every Liberty $5 Half Eagle in town was tested for its ring of truth.

<u>Sound money means simplicity, honesty, and trustworthy recognition. It stands for strength and durability which were also characteristics of those pioneering Americans who built our nation</u>.

The ring of sound money for centuries has transcended borders and nationalities by singing its own melodic language. No matter what words were stamped into a precious metal coin, that ring of sound money certified its value, or exposed the deception.

Governments Have Distorted the Meaning of Money

"Sound money" carries such a powerful message there's little wonder that governments issuing paper fiat currency have attempted to corrupt its meaning, with help from unimaginative and lazy educators and journalists.

"Hard currency" first referred to metal coins, not paper money, but the term over the years has come to mean that flimsy, paper, folding cash is more trustworthy than a handwritten check or IOU.

"Good as gold" is another aberration of "sound money," usually referring to credit worthiness, even though there is no credit as good as gold.

When Washington and Wall Street began pushing plastic credit cards, which are nothing more than debt disguised as wealth, Americans were introduced to the ***gold card*** along with the credit rating and FICO score as a false measure of one's financial worth.

Today, the newest edition of the $100 Federal Reserve note carries a golden inkwell and feather pen, as if to sarcastically say money itself is a masquerade of paper script and not precious metal.

Americans today have no memory of those times when gold, silver, and copper coins were tossed across a store counter, or counted out by hand, to pay for everything from penny candies to Ford Model-T automobiles. That era began ending when President Roosevelt in 1933 outlawed the use of gold coins in everyday American commerce.

The separation of Americans from their Constitutional heritage to true money continued through 1964, with the end of small coinage containing 90% silver. The deception was complete by 1982 when copper quietly disappeared from the Lincoln penny.

But no government could remove the ringing echo of sound money from history, or from us. And government cannot camouflage its counterfeits with gold colored paint. You can experience sound money's evident ring of truth for yourself. Toss any gold or silver coin on your kitchen table and you will hear the history of honest money ringing down through the centuries.

And perhaps, thanks to grassroots projects like the Sound Money Defense League, you will hear the trumpeting of better days to come.

Guy Christopher

Money Metals columnist Guy Christopher is a veteran writer living on the Gulf Coast. A retired investigative journalist, published author, and former stockbroker, Christopher has taught college as an adjunct professor and is a veteran of the 101st Airborne in Vietnam.

I, Basis Point - We Need Stabilising Interest Rates For Stabilising Prices

The astute readers of this journal will most likely be familiar with Leonard Read's 'I, Pencil". For those who are not, I, Pencil, is a short and concise detail of the extreme complication and complexity required for the creation and assembly of a simple everyday item like a pencil. The great achievement of Read's essay is his ability to illustrate the paramount significance that prices have over all of our lives. Whether it is the purchase of your everyday coffee or the manufacturing of a high by-pass jet engine, Read's essay provides the reader with an ever increasing awareness and appreciation of the importance of the price mechanism.

Behind every minute price that one sees, there are literally hundreds of thousands of people interacting vigorously to coordinate the production process, delivering goods and services at a small but advanced number. It is such coordination which is often the catalyst for peace amongst man and the driver of wealth creation. The comforts of our advanced society are a result of this process.

Free marketeers of many persuasions often cite Read's essay as a significant contribution to economic literature and on that point they are correct. Yet in doing so many commentators often overlook a subtle point which Read is making, that prices are inherently unstable. That what appears as a stable price is in fact a highly volatile, violent, creative destructive process. This point is often overlooked as free marketeers become obsessed with price equilibrium theory (or even unintentionally fall trap to it).

Price is simply the ratio of money to a particular good or services. Notable commentators in the Gold Standard Institute often claim that "we need stable interest rates not stable prices". Though broadly true, it is technically not correct. The nature of economics does never bear witness to stability. Interest rates are, in effect, the price of money. Like all prices, interest rates must not, and never are, 'stable" (Leonard Read would vouch for that).

Moving forward GSI followers should reconsider their wording, instead of "we need stable interest rates not stable prices", the GSI's position should be "we need **stabilising** interest rates for stabilising prices". This point may seem like a redundancy, but the control of language should be with surgical precision. It would be unfortunate if the use of the word "stable" was ever to be interpreted as "fixing".

Sebastian Younan
President, Gold Standard Institute Australia

Did the Secretary of the U.S. Treasury Confirm that the Dollar is Make-Believe Money?

After the Bank of the United States, a large New York regional bank, closed on December 10, 1930, for about 2½ years U.S. banks began failing in ever-increasing numbers. This was before so-called Federal Deposit Insurance, which is not insurance but a subsidy to the banking system, had been enacted.

Thus, when banks failed, savings were lost. As a result, to be safe people began withdrawing their savings from banks. At that time, Federal Reserve Notes were redeemable on demand for gold. Just in case, many began asking for their gold, as they were entitled to do.

Because there were many more Federal Reserve Notes outstanding than for which the banking system had gold, it became clear that there could be a systemic default. Indeed, *". . . by March 3, 1933, the gold drain at the Federal Reserve Bank of New York reduced its gold reserve ratio to 24 percent."*[1] At that time, the law required a reserve ratio of 40 percent.

By Monday, March 6th, 1933, roughly 90% of U.S. banks had either gone out of business or had closed on account of various state-initiated bank holidays. It was inconceivable that the remaining 10%, which consisted primarily of the very largest and soundest banks, would close.

[1] "Why Did FDR's Bank Holiday Succeed?" by William L. Silber, *FRBNY Policy Review*/July 2009; pp23.

On that day, his first day in office at 1:00am, President Franklin Roosevelt, some say improperly, relying on the authority of an obscure and mostly thought expired section 5(b) of the *"Act of October 6, 1917,"* called the *Trading With the Enemy Act of 1917*, issued Proclamation 2039 closing for four days the remaining open banks, a.k.a. the Bank Holiday of 1933.[2] At the same time, as a prelude to seizing all privately held monetary gold, he also froze all gold transactions.

Because almost no one conceived that these very large and sound banks would close, many were left short of day-to-day currency. What to do?

The Federal Reserve Bank of Boston tells the story:

> "At one point, Treasury officials seriously considered issuing large amounts of government scrip (an emergency substitute to take the place of scarce cash). They even went so far as to print more than $10 million worth. But on Tuesday, March 7, Treasury Secretary Woodin decided against the plan, primarily out of concern that the public would not accept scrip at face value. 'Where would we be,' Woodin wondered aloud, 'if we had I.O.U.'s, scrip, and certificates floating all around the country?'
>
> Instead he decided to 'issue currency against the sound assets of the banks. [As opposed to issuing currency against gold.] **The Federal Reserve Act lets us print all we'll need. And it won't frighten the people. It won't look like stage money. It'll be money that looks like real money**.'"[3] [Emphasis added.]

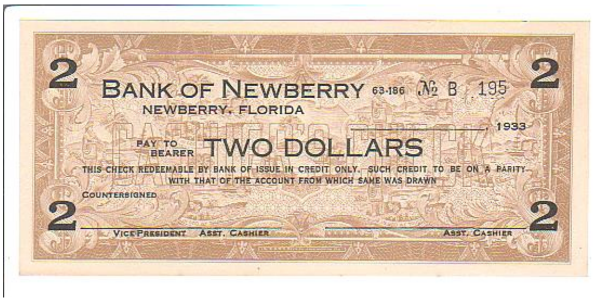
So here we have the Secretary of the Treasury declaring that the money henceforth issued was in fact "stage money" that looks like real money." Stage money is the stuff actors pass around during a performance instead of real money. President Roosevelt soon got rid of Secretary Woodin, replacing him with Henry Morgenthau, Jr. who had the good sense never to suggest that our money had

[2] Proclamation 2039 - Declaring Bank Holiday March 6, 1933; http://www.presidency.ucsb.edu/ws/?pid=14661
[3] "Closed for the Holiday, The Bank Holiday of 1933"; Federal Reserve Bank of Boston pp20

been transmogrified into “stage money,” a.k.a. make-believe money.

While the federal scrip never circulated, there are many examples of banks, merchants and local governments issuing their own scrip.

Here is an example from the Bank of Newberry in Newberry Florida:



On Sunday, March 12, 1933, President Roosevelt gave his first Fireside Chat. He explained:

> “Remember that the essential accomplishment of the new legislation [The Emergency Banking Act of 1933] is that it makes it possible for banks more readily to convert their assets into cash than was the case before. More liberal provision has been made for banks to borrow on these assets at the Reserve Banks and more liberal provision has also been made for issuing currency on the security of those good assets. **This currency is not fiat currency**.” [Emphasis added.]

Did people grasp the importance of this statement? Do they fathom it now?

There’s a lesson to be learned from this. Rather than referring to our money as “fiat,” although technically and linguistically correct, because almost everyone thinks the word “fiat” refers to a little Italian car, better to use the more understandable term: “make-believe money.”

In this way, people will have a better chance of comprehending what has happened to our money so that they may seek to protect themselves.

Larry Parks

Larry Parks is the Executive Director of the Foundation for the Advancement of Monetary Education, and the author of What Does Mr. Greenspan Really Think?

Gold & Civilisations

Articles on the unadulterated Gold standard tend toward the technical, as in how it would work and why that would better serve the purpose of stability and widespread prosperity.

Though these are vital to the broadening of general understanding, there is more to the story than that, far more. One of these ‘far more’ needs to be highlighted.

The rise and fall of civilizations has been the subject of vast tomes. The rise is generally attributed to chance – from the reliable flooding of the Nile, to the innovative military tactics of the Roman Legions, the geographical centrality of the Habsburgs and the ruling of the waves by the English navy. The causes of the fall range from moral turpitude, the loss of a ‘sense of duty’ and military overreach. All are wrong.

The great civilizations have but one founding and one ending factor. It is the introduction of Gold that forms civilizations, and its removal (or extreme debasement, which is the same thing) that ends them. The collapse of the Indus Valley (A.K.A. Harappa/Mohenjo Daro) may be the exception. While that society was built on Gold, the cause of the collapse is unknown.

The Gold standard is a naturally occurring phenomenon that arises spontaneously amongst free people who trade and want to store value. It should no more be described as a monetary system than laughing between a people who are free to share a joke should be described as a mirth system. Why that is so is described here; all schools of economics hold erroneous views on the origins, and even the primary use of money.

In the same manner that humour would not long survive coming under the supervision of a government regulatory agency, so thousands of years of monetary debasement have proved conclusively that the Gold standard cannot long last in the presence of government intrusions into the monetary sphere.

For the Gold standard to produce its miracles, all stages of the monetary process must be free of regulation and taxation.

In the 21st century this seems slightly surreal, but only because we have forgotten the almost two thousand year intellectual struggle of our forebears. From Aristotle in the 4th century BC, to Nicola d'Oresme in the 14th century AD, it was argued that money belonged to the people, not to the State. State monopolies became accepted as a fait accompli only because governments began to punish private minting by the separation of head from torso.

Governments have dependably removed Gold and silver from circulation and by doing so destroyed the productive endeavours of their people. Just as a free people naturally and easily create prosperity, so just as automatically does government monopolisation of money destroy it.

Thus it has been since Croesus of Lydia and Cyrus the Persian in the 6th century BC, right up to Obama the American in the present day. In our own time, the creation of new wealth is all but finished and we are witnessing the central planners of the debt notes that are circulated as money performing the coup de grâce to existing wealth.

We really do live in 'interesting times'. Civilizations don't collapse everyday, especially those that span almost the entire world.

Who knows the heights that humanity could have reached without the pernicious monopolisation of money by governments – or how long ago? Who can say or describe with certainty the extraordinary achievements that we could be witnessing and enjoying today?

History's lesson is quite clear; no governing body of any political persuasion can long keep from debasing the coin (adulterating Gold or silver with base metals), or even more cynically, replacing it with pieces of paper. Money is far too important to be left in the hands of governments.

As it is undeniable to those that understand the virtues of free markets that people should be free to choose the goods that they do or do not wish to purchase and the price that they are willing to pay, so it is even more valid that they be allowed the freedom to use and contract in their natural money.

The freedom to mine, refine, mint, hold, bank, hoard, save, exchange, invest and transport Gold and silver, unimpeded at any step of the way is the most fundamental requirement of a free society. All other rights and freedoms can exist only with monetary freedom intact.

Those who seek a new Gold standard run by government central planners should know that this has been tried ad infinitum over the millennia. Over the longer term it has never worked and we can reasonably assume from this that it never will. Any government role in the area of money will be abused, expanded upon and eventually used to justify the negation of money itself.

The saying that insanity can be defined as doing the same thing over and over and expecting a different result is poignantly apt in this area. Stuck-in-the-mud thinking that seeks the future by dredging the past will not get us out of our current predicament.

The height of western civilization was achieved under the classical Gold standard of the nineteenth century. Out of that stunning success, governments managed to once again seize failure. Gold was withdrawn, debt notes were introduced and the volatile and self-destructive modern era of fiat paper was born.

Government has no legitimate role to play in money. Central planning of our money can work no better than central planning of any other facet of the marketplace, but worse, it will prove always to be even more damaging, for it inflicts itself upon every transaction other than barter.

On the current path so doggedly pursued by our monetary central planners, barter will be all that is left to us.

A State dependent for money on the volition of a free people will always be a saner and more moral situation than a people dependent upon the honesty of the State for its money.

The fight of the Gold Standard Institute is not a small battle in the area of technical minutiae; it is the fight of the ages – the fight for civilization. The Institute seeks to win, must win, the fight begun by our forebears. As Church and State were separated, so must be money and State.

We either win, or a New Age beckons that will be primitively unpleasant. Unless the present monetary course is altered, it will arrive within the lifetime of most reading this today. That makes it your fight also.

What does the Gold Standard Institute need to win this fight? More paper money. In a grim sort of way it's a funny world. Maybe governments have been put in charge of humour.

Philip Barton
http://www.echobooks.com.au/dawn_of_gold_hardcover

Correction

I need to point out an inconsistency in the November issue of the journal. Ken Griffith's piece on the free market Gold standard was originally announced as a seven part series. This became reduced to six parts, which I failed to communicate. I compounded the error by leaving the final part headed 'Part VII'. A very attentive reader pointed out that he was missing Part VI. Part VII should have read 'Part VI' and yes, it was the final piece.

Philip Barton