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

President	Philip Barton
www.goldstandardinstitute.net	
President – Europe	Thomas Bachheimer
www.goldstandardinstitut.eu	
President – USA	Keith Weiner
www.goldstandardinstitute.us	
President – Australia	Sebastian Younan
President – Singapore	Ville Oehman
www.goldstandardinstitute.asia	
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

Central banks are in trouble. The belief that a committee of academics can manage an economy is wilting as more and more question their role. The trillion euro quantitative easing and absurdly low and falling interest rates smack of desperate times and desperation.

The vast injection of make-believe money will act as a great boost to the make-believe economy noted in official statistics. The one-per cent will certainly add to their paper wealth. It will not help the real economy though – the one where businesses employ people to produce goods in the hope of making a profit. Quite the opposite.

According to ECB president Mario Draghi, the aim of the Euro QE is to create yearly price rises of 2% - central bank Nirvana. More money equals higher prices – just like what wasn't achieved in the US and Japan.

It is not that individual central bankers are incompetent; it is that the very idea of central planning any aspect of an economy, particularly money supply and interest rates, is deeply flawed. Laissez faire.

Since 1913, the Federal Reserve Bank of the US has held sway over the world's money, not only practically, but also intellectually. Its pronouncements have held the world's bankers and media in thrall.

It has been broadly understood and accepted that it is through their central banks that governments manage 'their' economies. It is the principal source of the legitimacy of today's hyper-regulatory governments.

The simultaneous dawn of central banking and total control governments was no coincidence.

What happens when it becomes obvious that central planning of the whole sphere of money can be no more successful than the central planning of any other aspect of the marketplace?

What happens when the real problem, which is the debt, becomes too obvious to ignore and when people realise who created the debt?

What happens when the debt money system that the central banks birthed and guided and that now envelops the world collapses? Who can really be so giddily optimistic as to imagine that the answer will be just a depression?

It seems reasonable to surmise that not only central banks, but also the whole concept of governments managing economies will be discredited to a degree that is difficult to fathom right now. Oh, and Gold will be circulating again.

Note: the Dawn of Gold has finally been published http://www.echobooks.com.au/dawn_of_gold_hardcover - apologies for the delay to those who enquired.

Philip Barton
President, Gold Standard Institute

News

Keith Weiner on Forbes:

- The Gold standard for Libertarians. This is a 'must read'
- A penny in the fuse box economy
- Swiss National Bank Throws Banks, Self Under Bus
- The Gold standard for the 1%

≈≈≈

GSI: The Swiss Franc Will Collapse

≈≈≈

Science Mag: Commercial quantities of Gold in sewerage

≈≈≈

WZZM 13: Confederate Gold may be at the bottom of Lake Michigan

≈≈≈

NASDAQ: Gold nuggets stolen from Wells Fargo museum in San Fran

BBC: Venezuelan police have arrested a supermarket owner. He stands accused of deliberately irritating his customers by creating long queues outside his shop. Ahem.

≈≈≈

24hGold: Greece – bail ins, bank runs and Grexit

≈≈≈

All Africa: Only Party Members allowed to dig for Gold in Zimbabwe's cemeteries.

≈≈≈

"Companies constantly cut the cost out of everything they produce. So real costs and prices are falling, falling... falling.

Imagine a sinister government-looting scheme to suck the value out of the dollar. To hide their crime, they match the rate of currency devaluation ... to the rate that real prices are falling.

Most people would say, "there is no inflation", and let the government get away with it!" - Keith Weiner

America's Adulteration of the Gold Standard

Between 1879, when the United States returned to the gold standard, and 1914, when World War I began, was the peak of the gold-coin standard. However, a pure gold-coin standard did not exist. Perhaps the United States had the most adulterated gold standard among the major countries. The United States adulterated the gold standard with various forms of fiat money.

In 1789, Congress adopted a silver standard with a bimetallic silver-gold system. It defined the dollar as 371.25 grains of fine silver. It fixed the silver-to-gold exchange rate at 15 to 1 (the value of 15 ounces of silver equalled the value of 1 ounce of gold). This ratio overvalued silver relative to gold. Thus, gold coins did not circulate.

To encourage the circulation of gold coins, Congress changed the silver-to-gold ratio from 15 to 1 to 16 to 1 in 1834. It did so by reducing the weight of gold in a dollar to 23.20 grains of fine gold from 24.75 grains. Three years later it changed the weight of gold in the dollar to 23.22 grains of fine gold. (Thus, a $10 gold coin with 232.2 grains of fine gold was equivalent as legal tender to 10 silver-dollar coins with a total of 3721.5 grains of fine silver.) These changes placed the United States on a de facto gold standard. As the dollar continued to be defined as 371.25 grains of silver, the United States remained on a de jure silver standard. (They remained of a de jure silver standard until 1900 when Congress changed the definition of the dollar to 23.22 grains of fine gold.)

In 1863, Congress enacted the National Banking Act. A key part of the Act was requiring banks charted under the Act to secure their bank notes with U.S. government bonds. (Later bank notes of State chartered banks were taxed out of existence.) Thus, the Act guaranteed a market for U.S. government bonds. As a result, bank notes represented U.S. government bonds instead of the gold value of goods on which real bills of exchange were drawn — the real bills doctrine. Bank notes did not increase or decrease in response to the market demand for them pursuant to the real bills doctrine. They increased and decreased in response to the expansion and contraction of U.S. government debt. (As hard as it is now to believe, there were times when the U.S. government's debt actually decreased.)

The first major adulteration came in 1862 when Congress authorized the issue of legal-tender government notes, called U.S. notes and nicknamed greenbacks. These notes immediately became undervalued relative to gold. Thus, the United States quickly converted to the U.S. note standard. (The west coast remained on the gold-coin standard. In the East, gold traded at a premium to U.S. notes. In the west, U.S. notes were discounted against gold.)

After reducing the quantity of U.S. notes during the late 1860s and early 1870s, Congress fixed the quantity of U.S. notes at $346,681,000. It required the Secretary of the Treasury to maintain this level.

Pursuant to an 1875 law, U.S. notes became redeemable at par with gold on January 1, 1979. In anticipation of redemption, the U.S. government acquired enough gold to back about a third of the U.S. notes.

After U.S. notes became redeemable in gold, U.S. notes remained a fiat currency for two reasons. First, the government instead of the markets determined the quantity issued. Second, they were never fully backed by gold.

The next major adulteration came in the form of the silver dollar. With the Coinage Act of 1873, Congress ended the free coinage of silver. (This Act became known as the Crime of '73.) Ending the free coinage of silver ended bimetallism in the United States. However, under the Act, silver dollars continued to be full legal tender in unlimited amounts. (No rational person would have used silver dollars to pay a debt when this law was enacted. Then the silver content of a silver dollar was worth more than a dollar in gold, which was worth more than a U.S. note dollar.)

Soon after the enactment of this law, the value of silver began to fall relative to gold. Thus, if the free coinage of silver had remained, the United States had returned to the silver standard.

Because of the fall in the value of silver, the silver mining interest, greenbackers (people who wanted the country to remain on the irredeemable U.S. note standard), populists (most of whom came out of the greenbackers), and debtors agitated for the free coinage of silver at the 16 to 1 ratio. In response Congress passed the Bland-Allison Act in 1878.

The Bland-Allison Act ordered the Secretary of the Treasury to buy silver bullion and coin it into silver dollars. It declared the silver dollars legal tender. Moreover, they were not directly redeemable in gold. It required the Secretary to buy between $2 million and $4 million of silver bullion each month for coinage.

Although each of these silver dollars contained 371.25 grains of silver, they were fiat money — albeit expensive fiat money. Instead of the markets deciding the quantity of silver dollars to issue, Congress and the Secretary of the Treasury decided. Furthermore, the monetary value of a silver dollar exceeded the value of its silver content. Unlike silver dollars coined under free coinage, these silver dollars were the property of the U.S. government. (Silver dollars coined under free coinage were the property of the person presenting the silver bullion for coinage.)

In 1890, Congress revised the Bland-Allison Act with the Sherman Act, also called the Silver Purchasing Act of 1890. The Sherman Act created a new fiat money: legal-tender Treasury notes of 1890. It ordered the Secretary of the Treasury to buy 4.5 million ounces of silver bullion each month at the market price with Treasury notes until silver reached $1.29 per ounce. This was the price at which 16 ounces of silver had the same value as 1 ounce of gold, i.e., the 16 to 1 ratio. The purchased bullion was coined into silver dollars as necessary to redeem the Treasury notes. However, the Secretary had the discretion to redeem them in gold. In 1893, Congress repealed the silver purchasing provision of the Sherman Act and by that the issue of Treasury notes.

With the enactment of the Gold Standard Act in 1900, Congress placed the United States formally and clearly on the gold standard. It defined the dollar as 23.22 grains of gold. It required the redemption of U.S. notes and Treasury notes of 1890 in gold only. Thus, it converted Treasury notes into government notes redeemable in gold. Treasury notes were to be replaced gradually with silver certificates. As silver dollars became convertible in gold on demand, the Act made the silver dollar a subsidiary coin like dimes, quarters, and half-dollars. However, silver dollars remained full legal tender. However, even with the enactment of the Gold Standard Act, the silver dollar because of its legal-tender status remained a fiat currency along with the U.S. note.

The monetary system of the United States began as a bimetallic silver-gold system with the dollar defined as 371.25 grains of silver. Between 1862 and 1879, the United States were on the fiat U.S. note monetary standard. As long as the United States remained on the gold standard, the U.S. note and the silver dollar adulterated the gold standard. The United States never did operate on a pure gold-coin standard.

Thomas Allen
http://tcallenco.blogspot.com.au/

Quack Economic Doctors

Suppose you go to a doctor. You are in pain and you tell him that you feel like you are going to die. He takes your temperature, and sees that it is a perfectly normal 98.6F. He tells you to go home, you must be fine. He does not seem to be aware of any problem that can cause pain but not a fever (e.g. a broken vertebra, cancer, or bleeding). He is a quack.

It's a good thing that real doctors have many diagnostics and indicators. They are not limited to just body temperature.

Let's turn our attention to the monetary system. The quacks focus their attention on prices. The rate of change of prices—which they improperly define as inflation—is the monetary equivalent of body temperature in medicine. In some cases, it's an important part of making a diagnosis.

And it is far from the only indicator.

If prices are like temperature, then what is analogous to the patient's pulse? Interest rates. And interest rates have been falling for 34 years.

Is there a doctor in the house? Should we be worried?

Keith Weiner
President, Gold Standard Institute USA

This article was originally published on Keith Weiner Economics, the official site of the economics work of Keith Weiner PhD, in January 2015.

Pig in the Open

"A group of hunters were after a wild boar in the forest. Some of them surrounded the area of the forest the boar was believed to reside in, while the rest hid behind bushes surrounding a clearing (open) close to the boar's area. The ones surrounding the boar were slowly and noisy closing the loop, thus forcing the beast to enter the clearing. Once inside, the hunters at ambush had a clear, unobstructed by the forest trees, target. That was the boar's end."

I was told this story by a close friend I knew well for his liberal – anti statist beliefs. He confessed to my surprise that during the recent elections he voted for "SY.RI.ZA", the radical leftists, taking into account the fact that pre election polls showed a victory dynamic for them. He added his vote to the dynamic. To my consequent question about his way of thinking he replied: To kill the pig you must drive it to the open. As I still could not understand, being unfamiliar with hunting techniques, he narrated the above story. He simply wanted to join the hunters driving the pig into the open.

Till today I keep thinking of his contrarian approach, looking at the same time for signs of the beast approaching the clearing. Here are some I have spotted already.

1. Consistent with pre election promises the new minister announced that one of the very first legislations the new government will initiate, is the minimum wage to be raised to 751 Euros monthly as opposed to 550 presently. A friend from Spain was wondering of the oxymoron that Greece, being in worst shape that Spain, will impose by law a higher minimum wage. I doubt that anyone from the elite members of government can answer the question. If by legislating the minimum wage your intention is to elevate the living standards, why not make it 2500 Euros so that people can live better than the Swiss? An empirical view on this issue concludes that imposing by law the minimum wage increases unemployment and feeds the black labor market.

2. Consistent with pre-election declarations, the new minister of development declared the end of any previously decided privatization. That was a prerequisite set by our lending partners to keep lending us. This is a major break away from agreements duly signed before. It is by the way noteworthy that they are lending Greece at a rate of 1.5%, something SY.RI.ZA was calling usurious rate.

3. Immediately after the meeting between the Eurogroup president and the Greek minister of finance a common press conference was given. That was abruptly finished, when the Eurogroup president was kind of shocked by the statements of his counterparty. At once, the yield on market traded Greek bonds climbed to 19% from previous 16%.

I could go on, but it's prudent to wait and give the new masters breathing time.

Yesterday I had a strange dream, being obviously affected by the "pig in the open" story.

I dreamed of the "fiat in the open". Only in this case there were no hunters. Fiat money was inexorably marching out of the woods and finally into the clearing where it was exposed to Go(l)d's direct bright light. It self-exploded leaving bare land and few survivors.

What a dream!!

Orpheus

50th Issue

The February issue of The Gold Standard represents our 50th birthday – in months. To commemorate this milestone I have selected some of my favourites from the last few years.

A Cashless Society Looms, Publius, June 2012

This thoughtful essay points out some uninspected virtues of paper money. While (obviously) not as good as real money, Publius shows why it is nevertheless better than purely electronic digits. There is more to this than you may initially think.

Returning to the Gold Standard, Thomas Allen, Dec 2012

How do we get from here to there? Keith Weiner offers a detailed explanation of that here. In this article Thomas Allen offers his thoughts on the subject.

Orphans of the Sky, Publius, Dec 2012

This article is based around the novel 'Orphans of the Sky' – a classic Robert Heinlein. It explores the similarities between the occupants of a multi-generational space voyage and the world today. Read the article and read the book. They are both great.

The Golden Future, John Butler, Mar 2013

Mr Butler propounds a theory on the manner in which Gold will return to circulation. Very interesting and plausible.

How do They Force People to Participate in the Dollar Scheme?, Keith Weiner, Jul 2013

This essay precisely answers the question posed by the title. It is sometimes stated by apologists of the paper debt system that we are free to use Gold and silver if we want. That is not true, but the means used to restrict Gold and silver's circulation to almost zero is not obvious.

We're Building Stasi 2.0, Keith Weiner, Nov 2013

Keith Weiner makes the important point in this essay that at the Gold Standard Institute, we have a fight even more important than Gold. At root we are fighting for freedom on all fronts – not just the monetary front.

Nucleosynthesis of Gold, Anton Wallner, Dec 2013

"Gold and the other heavier elements are produced in nature by nuclear reactions." The fascinating story of the formation of Gold by a nuclear astronomer from the Australian National University

The National Debt Cannot be Paid Off, Keith Weiner, Feb 2014

The consequences of using debt as money are now becoming clear. This is a good summation of why. "… exponentially rising debt is not sustainable because the capacity to service the debt is finite."

Teething Problems, Sebastian Younan, Apr 2014

More on the technical impossibility of inflating away the debt by printing money. As Sebastian Younan points out, the currency is borrowed into existence. New money brought into existence means more debt.

Gold Standard… In a Sound Bite?, Rudy Fritsch, Apr 2014

A really simple explanation of the mechanism for the creation of paper 'money'

The Remarkable Metamorphosis of the Yuan, Thomas Bachheimer, May 2014

Herr Bachheimer discusses the rise of the Yuan as a global currency.

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

At long last a pure left government…

The victory of the political party "SY.RI.ZA" (Coalition of Radical Leftists) in yesterday's elections is the icing on the cake of the post junta 41-year period (1974-2015). A leftist government, after five years of actual but not formal bankruptcy, makes the ideal epilogue for the post junta period, during which a suffocating leftist ideological dominance prevailed.

The re-establishment of democracy in 1974 was inaugurated with the nationalization of healthy and dynamic corporations by the then prime minister Mr. Konstantinos Karamanlis (leader of the Greek Republican party "Nea Dimokratia") and continued unabated with the nationalization of bankrupt and semi crippled private sector companies by Mr. Andreas Papandreou (leader of the Greek socialist party "PASOK").

Eventually, the post WW2 productive engine of Greece, was decimated during the post junta period either by outright closing doors or through nationalization of large corporations such as shipyards, mines etc. At a time when most of the developed countries were privatizing state monopolies and opening their markets to competition (during the 80s), Greek politicians nationalized every bankrupt or near collapse private company, preventing the reformation of the postwar economic model through the process of creative destruction, within the frame of international competition and incipient globalization.

The Greek socialists and communists, living in a virtual world of their own making, believe that the state-parasitic model adopted by the Greek aforementioned leaders is a consequence of neoliberal philosophy as it lacks typical Soviet structures.

According to commonly accepted principles, the classification of an economy as liberal or statist has to do with the degree of economic freedom. Greece, out of a total of 180 countries, ranks at position 119. Well below all European countries and just below Bhutan and Djibouti. This is the only "Soviet" type regime in Europe.

The administration of large state monopolies such as DEH (Public Company of Electricity), ports etc. was handed over to the party affiliated syndicalism and only survived thanks to their monopolistic position at the expense of society and the private sector. The official administrations appointed by the government du jour, were actually under the tutelage of the party unionism.

The two dominant power centers during the post junta period were a) state supported private corporate oligopolies and b) state supported unionism at the broader utilities sector acting as a the key provider of customers to their parental political parties.

The main pillar of the adopted economic model during the last 41 years was the State, which was borrowing from the markets to pay wages, pensions and advance public projects mostly of the pork barrel variety to be sure. Work and income was given to those participating and to the majority of the private sector. This model would have collapsed without the EU subsidies after the 1980s and low interest rates due to joining the Euro since 2000.

In post junta Greece, the ones that thrived were not the creative, innovative and adventurous private sector entrepreneurs but those with intertwined relations within the public and private sectors. The easiest way for someone to obtain a high income was through party mechanisms, just as was happening in Soviet times.

Some of the consequences of the ideological domination of the leftists during the post junta period were:

a) The consolidation of hostility from society towards entrepreneurship, the unique mechanism of creating sustainable prosperity; the word entrepreneurship has become a synonym for fraud and the word profit a synonym for sin. The annihilation of honest businessmen from the established corrupt mechanism and the rewarding of rogues, confirms the causes of this hostility.

b) The dissolution of educational standards and specifically the spirit of excellence for the sake of euphemistically called equalitarianism, at the surface of course. Typical examples are the replacement of hard tests by random selection of students for admittance to elite public schools and the dissolution of universities through the allowance of union gangs to actually take over their administration.

c) The dissolution of governmental administration, through the transformation of its structure into one serving mainly party patronage criteria and upgrading of syndicalism into a key management tool. The elimination of all forms of employee evaluation and according remuneration based on it is just another "conquest" of the leftist prevailing mentality.

d) The delegation of nationalized enterprises management to inept party lackeys extended the losses and led to official bankruptcy in a few years. Those that survived were the ones sold in time, to private interests. State initiatives to create public enterprises such as "Alumina", failed miserably after several billions were swallowed and burdened the taxpayers.

Considering all the above, one might conclude that the results of the recent elections might be the painful but effective catalyst to end the statist rigidities and leftist illusions of the post junta period in the sense that a left-wing government, the most statist in recent years, is called upon to manage the final stage of state bankruptcy.

The recent governments of "PASOK" and "Nea Dimokratia", unable to borrow from the markets after 2009, navigated far from what they considered "red" lines; namely the reconstruction and serious slimming of the wider public sector, the root cause of Greece's bankruptcy, and demonstrated the complete absence of a national reconstruction plan.

"SY.RI.ZA" on the other hand, won the elections promising everyone everything, literally. To deliver to their promises and be able to serve the humongous loans from the IMF and the EU they should have presented a national plan for the reconstruction of the economy. Instead, what they proposed was neither convincing nor realistic. Where will the money come from to pay the piper(s)?

In contrast with the previous governments, "SY.RI.ZA" will be called upon to implement 90% of those structural reforms, promised to our lending partners, but not implemented in the course of the last five years, and all that within three to six months from now to safeguard the country in the Euro premises.

In the spirit of all the above, we finally and thankfully have as a nation democratically elected a purely leftist government which will either terminate its offspring, the rigidities of the last 41 years and the post-WW2 ghosts, or else… a veritable Greek tragedy?

As Karl Marx famously noted, history repeats initially as a tragedy and then as a farce.

The table below is quite telling. It clearly shows that the reestablished Democracy in 1974 inherited a debt / GDP ratio below 20% and nourished it to the stratospheric 190%. It would have never happened under a Gold Standard.

The numbers tell the story. Readers may derive their conclusions.

Public deficit , inflation , GDP and relative debt - GDP (1970-2015)
From the English Wikipedia article , Sources: Eurostat and European Commission

Financial:	1970	1980	1990	1995	1996	1997	1998	1999	2000	2001 [1]	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 [2]	2013 [2]	2014 [2]	2015 [3]
Government revenue (% of GDP)	-	-	31.0	37.0	37.8	39.3	40.9	41.7	43.4	41.2	40.6	39.4	38.4	39.0	39.2	40.7	40.7	38.3	40.6	42.3	43.9	44.1	43.5	-
Public expenses [4] (% of GDP)	-	-	45.2	46.2	44.5	45.3	44.7	44.8	47.1	45.7	45.4	45.1	46.0	44.4	45.0	47.2	50.5	54.0	51.3	51.7	50.7	49.6	48.1	-
Deficit budget [4] (% of GDP)	-	-	**14.2**	**9.1**	**6.7**	**5.9**	**3.9**	**3.1**	**3.7**	**4.5**	**4.8**	**5.7**	**7.6**	**5.5**	**5.7**	**6.5**	**9.8**	**15.6**	**10.7**	**9.4**	**6.8**	**5.5**	**4.6**	-
Inflation (annual%)	-	-	-	8.9	7.9	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5	3.3	3.0	4.2	1.3	4.7	3.1	1.1	-0.8	-0.4	-
Increase in GDP (%)	**8.9**	**0.7**	**0.0**	**2.1**	**2.4**	**3.6**	**3.4**	**3.4**	**4.5**	**4.2**	**3.4**	**5.9**	**4.4**	**2.3**	**5.5**	**3.5**	**-0.2**	**-3.1**	**-4.9**	**-7.1**	**-6.0**	**-4.2**	**0.6**	-
Public debt (billion €)	0.2	1.5	31.1	86.9	97.8	105.2	111.9	118.6	141.0	151.9	159.2	168.0	183.2	195.4	224.2	239.3	263.3	299.7	329.5	355.7	344.6	347.6	349.3	-
Nominal GDP (billion €)	1.1	6.8	43.4	88.7	97.5	107.9	117.3	125.0	135.0	145.1	155.2	170.9	183.6	193.0	208.6	223.2	233.2	231.1	222.2	208.5	195.0	184.5	185.0	-
Debt Ratio to GDP (%)	**17.9**	**22.5**	**71.7**	**97.9**	**100.3**	**97.5**	**95.4**	**94.9**	**104.4**	**104.7**	**102.6**	**98.3**	**99.8**	**101.2**	**107.5**	**107.2**	**112.9**	**129.7**	**148.3**	**170.6**	**176.7**	**188.4**	**188.9**	-

Notes: [1] Year of introduction into the Eurozone . [2] Forecasts European Commission October 19, 2012. [3] is planned in November. 2012 [4] Calculated by the EDP method