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

There is a rumour that Russia may be about to back its Ruble with Gold. On the assumption that it is true, what sort of 'backing' will it be?

1 A Ruble that is redeemable for Gold (or its surrogate silver) on demand at any time?

2 An irredeemable Ruble with a theoretical limit on the number that can be created based on the amount of Gold in reserves?

Option 1 is indeed a Gold standard and would be hugely significant. Option 2 would be neither.

If it is Option 2 that is being proposed, then legislation notwithstanding, and no matter how much Gold is in impenetrable government vaults, the paper and the Gold remain separate entities with zero practical connection. Would the ratio of Gold to paper be maintained, or would more and more un-backed paper be printed – as in all previous paper standards masquerading as 'Gold standards'?

Such a causal relationship could be just as easily legislatively reversed. The owners of the paper would still be in the untenable position of being dependent upon the trust that they are supposed to have in politicians.

Would Option 2 create a higher perception of value for the Ruble in terms of the paper of other nations? In the very short term, weeks or months, then maybe yes; in the longer term, probably not. Once people understand that the Gold in vaults has no real connection to the paper in their hands and bank accounts, then it will still be just paper.

Only paper that is exchangeable for money – fully redeemable – could ever be stable in value.

If it were made redeemable between sovereign states, then that would create some confidence (among states), but even then, all counter-parties would be aware that the paper (or digits) could be made irredeemable at any time.

If this were a genuine attempt at reintroducing honest money then Russia would open the mint, abolish all gold taxation and legal tender laws and allow gold (and silver) to circulate. Failure to do this would mean that in true government tradition they are trying to look honest while acting dishonestly.

Legislatively backing paper with Gold, without allowing it to be redeemable, would smack of a desperate PR stunt – a tacit admission that the value of the paper is going to fall and that the only hope of keeping it buoyant for a while longer is to cynically manipulate perceptions.

If the Russian government intends the Ruble to have a stable value then that is easily achieved – employ Option 1 and make it fully redeemable for money.

Philip Barton
President, Gold Standard Institute

News

Forbes: Whither the Gold Standard?

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Epoch Times: Chinese general busted for corruption owned a pure Gold statue of Mao Zedong

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BBC: Russian court sentences man for "illegal possession of a precious metal".

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Yahoo: 'Eccentric' Austrian taken into custody in Brazil for trying to carry his good luck charm onto a plane – a 23 ounce Gold bar.

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Times of India: The unworkability of the Permanent Account Number (PAN) required for all Gold jewellery transactions in India exceeding the value of INR1 Lakh (100,00 Rupees – about US$1,600) predicted to cause another rise in smuggling.

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Mining.com: Gold in sewerage worth 'mining'

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BBC: 25kg (55lb) bar of Gold stamped 'Central Bank of Paraguay 1824' – probably hidden during the extraordinary war of the Triple Alliance (1865 – 1870).

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Tribune: North Korean diplomat caught smuggling 27kg (59lb) Gold.

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Reuters: India's temples holding an estimated 3,000 tonnes, may deposit their gold with banks in return for interest payments.

Arizona Governor Ducey Vetoes Gold

This isn't yet another in a long series of articles lamenting the Federal Reserve, power, politicians, corruption, and the hopelessness of fighting the status quo. What's the marginal utility of the Nth plus one article reiterating these points? Nearly zero. No, this article is about something else.

It's about you.

What would you do, if you were governor, and a fringe issue turned into a bill came to your desk? To all appearances, there is little popular support. The benefits, if any, seem far removed from the practical business of governing. Few people even cared.

What's that, you say? Gold isn't like that? There are many people who want gold, the benefits are important, and what could be more practical than honest money? I can't hear you. I CAN'T HEAR YOU!

Neither could Governor Ducey.

Do you value honest money? Do you understand how and why the regime of the paper dollar is hurting us? If you care, please consider calling your legislators in Arizona or wherever you are. Please consider donating to the Gold Standard Institute. We can do a lot with a little, but we can't change the monetary system without your support.

Keith Weiner
President, Gold Standard Institute USA

Dawn of Gold: The Real Story of Money

Dawn of Gold: The Real Story of Money essentially lives up to the myriad of promises its rather grandiose title implies by charting the story of Gold from its original discovery and use in ancient cultures to its key role in being the standard on which all money was based. He then goes on to chart how its abandonment in modern societies and its replacement with paper money or so-called "fiat" currencies has led to a host of economic woes and may well lead to the economic collapse of Western society.

Whilst this may sound like a well-trodden path for some, the reality is that the Dawn of Gold takes a different view, going back further than others to trace the origins of Gold in ancient Egyptian, revealing that Gold's initial value was not financial but spiritual, being stored in temples to the Sun God by the early Pharaohs. (The link between a bright yellow shining sun and a bright yellowish shining metal is obvious and one can understand how the ancient Egyptians revered this remarkable metal for its considerably worthy properties.)

However Philip's first key assertion is that when Gold leapt out of these temples and into the marketplace and began to be used as money, society itself took a huge leap forward. This assertion continues throughout the book, forming the basis for the author's contention that it was only through using Gold as money that the vast civilisations and empires we know today were built and the economic benefits that came with them were released.

Along the way, Philip debunks the myth that money evolved out of the barter system and redefines many key economic terms such as money, goods, trade goods, medium of exchange and paper money. Some may argue he has redefined these words on his own terms, fitting them into the telling of the story of Gold that he wishes to tell, but they are all supported by very reasoned and sensible arguments, which are hard to dispute.

Far from being a polemic on paper money and modern economics, Mr Barton's work is more thoughtful and considered, bringing a quite balanced reason to many arguments that have long ensued.

At the heart of DOG is a viewpoint that not only defines, or redefines, money as a "known weight and fineness of Gold" but asserts that Gold's true worth is that it is the only known "store of stable value" and that this has been its key role throughout history.

Not surprisingly, Mr Barton addresses the issue of how a move away from the Gold Standard in Western Nations has brought about untold economic issues that led, and still lead, to things such as the GFC and other financial problems.

In the end, he proposes a return to using Gold, and its near sibling, Silver, as the only money to again rebalance the economic woes of the world.

Some may see this notion as romantic and naïve in this day of the cashless society and the constant use of credit, where money is never actually exchanged, but simply electronic digits are adjusted in various accounts to represent money.

However given the current precarious state of many nation's finances, overwhelming debt at all levels and increasing economic complexity, it is an idea that should not be dismissed lightly.

Thought-provoking and challenging throughout, Philip's book quite comprehensively busts several myths regarding money itself and reshapes the story of Gold in a new light. It will no doubt infuriate some, and inspire others.

While at times the author is prone to being a tad repetitive, restating the same point many times, from a variety of viewpoints, it is nonetheless a very well written work and an enlightening read.

Whilst the author does not claim to be an economist and has no formal training in the subject he is writing on, it does appear that he has done his homework and researched the subject quite comprehensively.

It is a laudable work for a first-time author and may yet send some very strong ripples through the world of gold, money and economics.

At the end the author summarises the key points of his argument, provides clear and simple definitions and goes on to pull apart many of the myths about gold in an addendum. That he choose to do so at the end of the book and outside the main story arc is unusual, but it does mean he does not have to keep pausing in his narrative to take a detour into busting these myths.

The book could certainly benefit from some illustrations, diagrams and photos to enable the reader to more easily visualise some of the concepts Philip addresses. These might also add weight to some of his arguments by providing visual proof of many of the claims made in this otherwise worthy tome.

Dawn of Gold: The Real Story of Money is one of those books that successfully bridges the gap between a scholarly work and one for the layman, meaning it will appeal to students of economic history, "gold bugs" and the man, or woman, in the street. It certainly carries some compelling thinking.

Once you read it you may never look at your bank balance again, in quite the same way.

Mark Farrelly
Advertising Executive

Fractional Reserve Debunking

Fractional reserve banking (FRB) has received much coverage over a long period, yet it remains a contentious area prone to misunderstandings. Probably because it is sometimes presented in overly complex terms. In reality the subject is simple.

FRB is when banks do not keep all their deposits on hand. They keep only a fraction of the funds that are deposited with them – hence fractional reserve.

This is sometimes presented as a scandalous practise, but if banks did not lend out a proportion of their funds then they would not be banks, they would be warehouses.

The first point to be understood is that the practise of fractional reserve banking is… banking. There is no other sort of banking. The prefix 'fractional reserve' is surplus to requirements.

The difference between a warehouse and a bank is that a warehouse charges people for storage, while a bank *pays* people for storage. How is it that a bank can offer payment for a service for which the warehouse has to charge?

If a bank takes a deposit of 10oz of gold and pays an interest rate of say 2%, and lends out the money at 2.5%, then the bank makes a profit. This is the essence of banking – a bank takes deposits and lends them out at a greater rate of interest than they are paying. The warehouse cannot lend out your furniture without there being a bit of an upset.

Traditional banks provide a very valuable service; savers gain a return on what would otherwise be an unproductive hoard, and entrepreneurs gain access to capital to begin new ventures, or expand existing ventures.

Bankers are brokers of money. They join together two parties who would otherwise find it extremely difficult to meet.

A bank by definition only has a fraction of its money on hand at any one time. That it only has a fraction is a given, it is the amount of the fraction and how it is calculated that is crucial to the story.

In an honest and traditional banking situation, the fraction maintained is a constantly changing figure that is determined on a moment-to-moment basis. It is dependent upon the periods for which the customers opt to deposit their money.

This can range from thirty days to ninety days, or from one year to five years or whatever. The whole process begins by a contract being established between the bank and each individual customer based on the customer's time preference.

The bank has to ensure that its reserves are sufficient to be able to pay out all these deposits as they become due. In other words, its reserves must match the time stipulations of their deposits. If money is deposited for 30 days, then the bank can lend that money out for up to 30 days, but not a day longer. Ensuring that these durations are always matched is the principal job of a bank.

This is all so obvious as to seem like it is not worth stating. It is worth stating though because this is not what has been happening. It is what has been happening that has given FRB its bogeyman status.

A very serious problem can occur when banks take money deposited for say 60 days and then lend it out for 90 days – when they take a deposit for one period and lend it out for a longer period. The problem is a mismatch of duration.

This is fraud, pure and simple.

Where is the money to pay the depositors when they return for their funds? The modus operandi of modern banking is to assume that customers will either redeposit their money, or that new money being deposited will make up the shortfall.

The whole modern banking system is built on mismatch of duration. Banks have been borrowing at short-term interest rates and then lending at higher long-term interest rates (borrowing short to lend long).

It is the glaring flaw inherent in this practise that has led to the damning of FRB, but it is not FRB that is the problem; it is solely the mismatch of duration.

It cannot be stressed enough that FRB is beneficial to all parties concerned; a healthy economy could not exist without this service.

Today's banks have profited from short-term interest rates being lower than long-term interest rates. They have profited from short-term greed trumping long-term wisdom and banking ethics. They did this and continue to do so because government regulations provide an incentive for it.

As things now stand, government regulators decide on a one-size-fits-all fraction of funds that is applicable to all banks. The durational needs of the depositors are wholly ignored. The necessity to 'recapitalise banks' and 'bail-ins' are beginning to demonstrate the scale of this error.

The fraction held as bank reserves can only honestly be determined by the needs of individual depositors, and by banks lending in accordance with those needs. Thus the percentage changes at each bank with every deposit made.

The government guarantees that are supposed to backstop the banking system are worthless. No government has the wherewithal to do this. Governments are financed solely by the taxation that they extract from their citizens. How is it possible for the people to guarantee their own money that the banks have already lost?

Any mismatch of duration will eventually lead to a problem of credibility and a run on the banks.

By the process of drawing money out of hoards with the lure of interest rates, banks facilitate saving and through their lending, greatly enhance the circulation of money. These are the lifeblood of an economy. To be anti-FRB, is to be anti-savings, anti-investment and anti-jobs.

That is it; the essence of the story in a nutshell. Once the core function of banking is understood, the fantastic claims about FRB and 'banks creating money' can be laid to rest. Bogeyman is entirely innocent of all charges. The real guilty party is government that steps into the middle of free market transactions with a legislated, one-size-fits-all 'we know best' attitude.

Needless to say they never do know best and one size never does fit all.

FRB is a red herring; a distraction that serves to hide the real culprit; the true bogeyman who lurks in the shadows. A truly free market will always produce banks, but its natural disciplines would never tolerate mismatch of duration.

Banks have much to answer for, but FRB should not be on the list of charges. As in all situations, unless there is clarity with regard to the problem, there can be no clarity with regard to the solution.

Philip Barton
President, Gold Standard Institute
Dawn of Gold

A spectre called cash transaction ban

For a number of years now – to be precise, since the euro introduction – the idea of a ban on cash transactions has been on the minds of politicians and the EU administration. Most people, however, have airily dismissed warnings of an impending ban and placed this scenario in the realm of science fiction.

Lately, though, plans of a ban have become ever more precise and deadlines increasingly shorter, thus tightening the noose on our precious freedoms. Mainstream media reports of the Brussels administration's plans are getting more frequent, so even the most guileless onlooker should have an inkling by now. Next to Italy, France and Sweden (with bans in place already – in the case of Italy all cash transaction exceeding 1,000 euro are forbidden) the rest of euroland looks bound to follow soon.

Fittingly on April 1, scary news reached the feel-good community. Banks were chosen as bearer of bad tidings to deflect from the real culprit. An analyst from the German Baader Bank announced he expected a complete ban on cash by 2018. The prohibitively high handling costs would leave no other alternative. After all, cash as a means of payment incurs costs to the tune of almost one billion euro per year – which, by the way, is 60 per cent less than the new ECB palazzo in Frankfurt has cost. „Furthermore, banks fear a bank run due to the current negative interest rates, which could be prevented by a ban on cash“, according to the Baader Bank chief analyst.

With the first shout having come from the banking community, politics now also bravely raises its voice: the EU Commissioner for Justice and Consumers let it be known that without cash no EU citizen would have to fear being mugged or burgled anymore! Hooray! This neatly skirts the fact that the measure would not eliminate the crime but rather substitute the state for the highway robber. After all, it would be possible to spy on people‘s entire spending and thus control them. To round out the argument, the usual bogeymen fight on drugs, illegal arms trade and tax evasion made an appearance.

Naturally, the sheer unenforceability of such a ban is lost on the central planners in Brussels. They underestimate the power of illegal structures and most of all the strong evasive tendencies such a ban would cause. Immediately, alternatives such as gold and silver, foreign exchange or some other, yet unimagined good would fill the void cash were to leave. The fiat-money critical website Rott & Meyer makes the following case for a probable failure of a cash ban:

1. All the large currency areas have no recent experience of a ban and its likely consequences and therefore wrong expectations.
2. The people would resent such a massive curtailing of their personal freedoms. Therefore, such a ban could only be introduced with brutal force causing a backlash of resistance and civil unrest.
3. A ban on cash opens the gates to unhampered money supply growth, which in conjunction with negative interest rates would probably cause the exact opposite of what was intended: in order to reduce their (negative) interest burden in the face of rapid money supply growth companies and consumers would reduce money transactions instead of increasing them.

Despicable as these machinations and the consequent limitations on personal liberties may be, they nevertheless have a positive side effect for supporters of real money. Ultimately, says Philip Barton, “any banning of fiat transactions will speed up the return of real cash - gold and silver.”

Or to put it differently, the road to monetary and fiscal freedom and happiness leads through the medieval limitation of civil liberties. This road is dark and narrow but mercifully short. Right behind follows the sun-drenched boulevard of freedom, self-determination and economic growth. In the meantime, however, everybody is well-advised to stock up on the only true money and to store it safely. Create your own personal gold standard!

The Gold Standard Institute Europe will keep you posted on developments concerning the planned ban on cash – so watch this space!

Thomas Bachheimer
President of the Gold Standard Institute Europe