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

It would be premature to announce the death of the political old guard, but remiss to fail to note (again) that it is a work in progress. This is not just a Greek phenomenon.

Alberta, Canada has just elected a new provincial government. The Progressive Conservatives who had ruled the province for 44 years shocked commentators by coming in third behind two relatively new parties. A poll in Iceland has announced that the Pirate Party is now the preferred party (23.9%). That would have been unthinkable before the Icelandic crisis of a few years back. That crisis alerted Icelanders to the fact that the political establishment had been acting in a manner contemptuous of the people that they had been claiming to represent.

I have no idea what the Pirate Party's stands for, or even whether it has a common platform that spans the sixty countries that it now purports to have a presence in, but that is beside the point. The takeaway from this is that when a crisis comes, it will be the political establishment that carries the can, and rightfully so. Any politician who is too closely tied to that establishment will be toast.

Up to the present time it has been almost impossible to get people to vote for new parties; established parties have been followed much in the manner of a football team – supported just because they have always been supported. That situation is on the cusp of reversing, to the degree that having been a part of the power structure over the last fifty years is going to be an electoral liability. The perception will be that they are a part of the problem, not the solution.

A political party that openly and eagerly espouses the virtues of circulating Gold will probably not garner many votes – not until the monetary crisis announces itself openly that is.

Surely then there could be hope that a party representing honest money and trade could get more votes than a party campaigning under the banner of piracy? Have we not had enough of that?

Philip Barton
President, Gold Standard Institute
Dawn of Gold

News

YouTube: Arizona Representative Mark Finchem and GSI Chairman Keith Weiner give testimony before the Texas Senate Business and Commerce Committee. Written version of testimony here.

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Moneychanger: Keith's interview with the Moneychanger. More here.

SNBCHF Association: Prohibition: Gold Is Like Marijuana

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YouTube: An interview with Thomas Bachheimer

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Sputnik News: Galactic Gold rush. Maybe Garrett P. Serviss' proposal to mine asteroids is finally to become reality. Serviss was one of the first (1898) sci-fi writers.

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YouTube: A Gold Apple watch for $400 – 2 million views!

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Reuters: Thus will disappear all government Gold in the desperate effort to maintain the status quo. Then what?

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Digital Journal: Gold nanoparticles used for unique energy storage.

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Nation: Greek government rejects mining Gold

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Forbes: Sultan of Brunei - A Gold wedding!

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Financial Express: Strong opposition to Indian government's plan to confiscate temple Gold.

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Reuters: Robbers steal 7,000 ounces of Gold

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BBC: Tens of tonnes of silver coins recovered

Poor on the Velocity of Money

Henry Varnum Poor (1812-1905) was a financial analyst and founder of a company that evolved into Standard & Poor's. He was a proponent of the real bills doctrine. Like Anton Fekete, he saw the Quantity Theory of Money as a highly flawed theory. (In *Money and Its Laws,* he discusses flaws in the Quantity Theory of Money.)

The velocity of money is the rate at which a given amount of money changes hand during a specific time. It measures how fast people are spending.

Poor contends that the velocity of money, which was gold when he wrote, has no effect on its value. Even when representative money (bank notes) is included, velocity has no effect on money's value. Thus, the number of times that money changes hands during a day, a week, or a month neither increases nor decreases its value.

Money only changes hands when goods and services are being sold. As the selling of goods and services increases, the velocity of money increases. Poor wrote, "The relationship of one to the other, both in quantity and activity, must be uniform."

Poor considers money to be capital and the representation of capital. If it were not capital or its representation, it is a scale of valuation — "an instrument of commerce like a set of weights."

The Bullion Committee[1], which was a proponent of the Quantity Theory of Money, contended that "the effective currency of a country depends upon the quickness of circulation and the number of exchanges performed in a given time, as well as upon its numerical amount." Poor strongly objects to this assertion. He illustrates the absurdity of the Bullion Committee's statement with a barrel of flour. If the Bullion Committee's conclusion were true, then "one barrel of flour, by the rapidity of its circulation, may serve the purpose of three barrels." Poor concluded, "The quantity of money must always be in ratio to the exchanges that are made."

Thomas Allen

Thomas Allen is a published author, who also writes on a wide variety of subjects at his website http:tcallenco.weebly.com

"I tell people that they are sure to find something that I have posted that will offend them. If they don't, just wait a while; then they will find one that will offend them."

[1]The Bullion Committee was set up after the Napoleonic Wars to provide recommendations for stabilizing British finances and returning Great Britain to the gold standard.

The Illusion of Reserves

In my last article I discussed the power of illusion; the power of illusion is real power, but the power exists only as long as the illusion remains intact. If the illusion is shattered, the power of the illusion shatters. In contrast, real power cannot shatter or disappear with a simple change of mind or belief.

Physical power... or better, physical force... must be dealt with physically; a runaway bulldozer will not stop even if the operator changes beliefs. On the other hand, a main battle tank under operator control can be stopped by a naked human being... by changing the beliefs and intentions of the tank operator. See the Tiananmen Square tank column incident for a historical example.

The battle tank represents real power... but the chain of command is an illusion; the power of command depends on mindset and belief. If the illusion of command shatters, the (illusionary) power of the commander disappears. The naked man stopped the real, physical power of the tank by changing the mindset of the operator.

One of the illusory items on the agenda today is so called 'reserves'... bank reserves, or currency reserves. Indeed, we hear almost constantly that the USD is the world's 'reserve currency'... and how this status is being threatened by other 'currencies'... like the Yuan (Renminbi) the Chinese currency... or by SDR's; 'Special Drawing Rights', another Fiat currency supposedly based on a 'basket' of other currencies.

To understand why this is all illusion, consider what 'reserve' really means; if you are heading into the desert, you will probably carry reserve water. If you intend to drive your car into inhospitable, sparsely occupied territories, you will want to carry a can or two of reserve gasoline.

Now suppose you are well into the desert, and you start getting thirsty. You reach for your reserve water canteen, open it... and instead of life saving water, you get an IOU... an IOU promising you water at 'Jane's Sporting Goods Store'. Or, your car runs out of fuel in the jungle... and you find your Jerry can stuffed with IOU's... promising gasoline at 'Joe's Jungle Supplies'...!

Clearly you were duped; IOU's are not reserves, they are simply IOU's... promises of something... And this is the very definition of all Fiat currencies; Fiat currencies are promises... of something; not clear what they are promises of, unless the 'full faith and credit' of government means anything tangible.

So it is with currency reserves; whether USD or Euro, whether SDR, currencies are promises and nothing else. Reserves enumerated in these currencies are also promises, nothing else. So the game plays on in the fake money arena. The fake debate on how much reserves are required by Central Bank regulation, what are the 'reserve ratios'... and on ad infinitum. All this debate is misleading and a useless waste of attention. When Fiat collapses, Fiat 'reserves' collapse; period, full stop.

Rather than play the reserves game, a game with Mephisto rules, let's break out of the arena... and consider real reserves. After all, not many years ago there were indeed real reserves; namely, Gold in the vault 'backing' paper currency. In the times of redeemable currencies, when paper could be redeemed on demand for money; Gold or Silver coin... the fractional reserve debate did hold some meaning.

Of course, today's CB's still hold Gold... as a reserve? Hmm, why would they hold such a 'barbarous relic' unless they knew something they would rather not have us know? Remember J. P. Morgan's historic quote; "Gold is money, all else is credit". Now Mr. Morgan certainly knew something about money. We should note his wisdom as well; only Gold is money... Fiat currencies, whether 'reserves' or not, are just credit.

Let's not allow ourselves to be fooled by the false debate, and let's get down to the nitty-gritty; accumulating money, Gold that is... while we still can. With the push for a 'cashless society' gaining momentum, how long before Gold purchases are forbidden?

If Gold is too expensive in Fiat terms for your budget, then go for silver, the best alternative to Gold money. Don't wait till you must use Visa to buy your own reserves, it will be far too late.

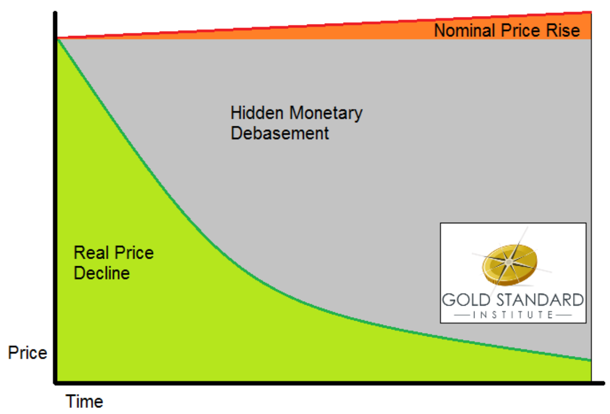
Rudy J. Fritsch

Think Different About Purchasing Power

Philip Barton: Though this article has received saturation exposure for more than a week, it is important enough to also warrant a space in The Gold Standard. The always original Keith Weiner has introduced another very important idea.

The dollar is always losing value. To measure the decline, people turn to the Consumer Price Index (CPI), or various alternative measures such as Shadow Stats or Billion Prices Project. They measure a basket of goods, and we can see how it changes every year.

However, companies are constantly cutting costs. If we see nominal—i.e. dollar—prices rising, it's despite this relentless increase in efficiency. This graphic illustrates the disparity (I credit Tom Selgas for a brilliant visualization, which I recreated from memory).



CPI measures only the orange zone, the tip of the iceberg. Most people don't see the gray zone, and that's a result of the greatest sleight of hand ever.

We need an accurate way to measure monetary debasement. For example, in retirement planning it's tempting to divide your net worth by the cost of consumer goods. This seems to show your purchasing power. For example, if you have $200,000 and the cost of groceries for a year is $20,000 then you can eat for ten years.

However, this approach is flawed. To see why, let's briefly consider primitive times when there was no lending or banking. People had to set aside some of their income, to buy a durable good like salt or silver—*hoarding*. When they could no longer work, they sold a little bit every week to buy food—*dishoarding*. People accumulated wealth while working, and dissipated it in retirement.

Life got a lot better with the advent of lending, because interest enables people to live on the income generated by their savings. People no longer consumed their principal, worrying about outliving their savings.

Don't think of capital assets as something to sell in order to eat. An old expression says, if you give a man a fish then he eats for a day, but if you teach a man to fish then he eats for a lifetime. Think of a productive asset like a fishery. It should produce for a lifetime. It should not be consumed as a mere fish.

Capital assets should be valued in terms of how many groceries they can buy, not by **liquidation**, but by **production**. Unfortunately, monetary policy is making this increasingly difficult. Interest rates have been falling for over three decades, and now there's scant yield to be had anywhere. We are regressing to the dark ages of paying for retirement by dishoarding.

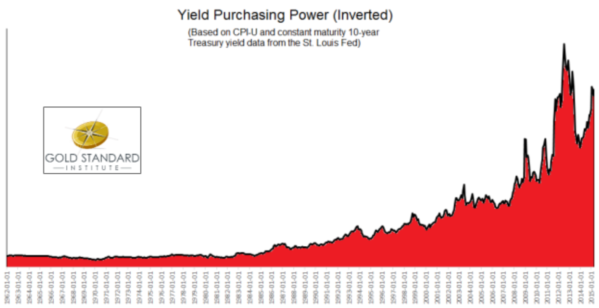
CPI understates monetary debasement, because companies are constantly becoming more efficient. Dividing wealth by CPI compounds the error, because asset prices are rising.

We need a different way of looking at monetary debasement. I propose *Yield Purchasing Power (YPP)*. YPP is the yield on assets divided by the Consumer Price Index (or other index). The idea is to look at the productivity of assets to see what you can really afford.

Let me explain YPP with a simple example. If hamburgers sell for $5 and interest is 10%, then $50 of capital lets you eat one burger per year. Suppose the price of the burger doesn't change, but the interest rate falls to 0.1%. You now need $5,000 in capital to earn that burger. Unfortunately, if you still only have $50, then you only get one burger every 100 years.

CPI doesn't show this collapse in purchasing power, but YPP does.

Let's take a look at YPP since 1962. The graph is inverted, to make the trend easier to see.



It's interesting that the drop in purchasing power (rising in this inverted graph) begins around 1984, when the conventional view said *inflation* was tamed. CPI may have slowed down, but interest was falling too.

YPP shows us a staggering monetary devaluation—a classic parabola. The problem isn't skyrocketing prices, but collapsing yields.

You need more and more assets to afford the same lifestyle. If your assets don't keep up, then you have to liquidate your capital.

I have moved my weekly column from Forbes to the Swiss National Bank and Swiss Franc blog.

Keith Weiner
President, Gold Standard Institute USA

The straw that broke the camel's back?

As already described in the last edition, the cash situation in Europe is coming to a head. France is toughening the rules on cash transactions as of summer and also Sweden and Greece are getting serious: cash payments will be limited to EUR 70 (i.e. USD 79).

Alarm bells sound as the ECB announces a conference on cash in London. Both the event‘s title „Solution in case of emergency“ as well as the speaker and participants list bode ill. Representatives from the Fed, the Swiss and Danish central banks as well as other Eurozone regulators will hang on the lips of such infamous cash adversaries as Kenneth Rogoff (Harvard) and Willem Buiter (Citigroup). Citizens will have to suffer should these fantasies come true.

A while ago the fight against terror and drugs served as bogeyman, now officials are getting closer to the truth. Mainstream media such as the renowned Neue Zürcher Zeitung (NZZ) cite fears of bank runs as the main driver for the current intensification of the cash ban debate.

According to NZZ, a negative interest rate can only be effective from 5 per cent upwards. This of course would drive people to withdraw massive amounts of cash from their accounts which can only be forestalled by a ban. So it's official now: the nasty citizens are not the reason for this “regrettable but necessary measure“. Rather, it is a direct result of previous interventions.

Et tu Helvetiae!

It is no surprise that the NZZ should find itself at the forefront of the debate, since the bizarre blossoms of the interventionist policies with regard to the Swiss Franc exchange rate can be clearly seen in Switzerland. That negative interest rates drive people to hoard cash is obvious for everyone. In the meantime, however, even institutional investors such as pension funds attempt to evade penalty rates by storing cash in secure storage once reserved for art and precious metals.

„We receive many requests from Swiss institutional investors. Mostly pension funds and insurers are very interested in storing cash.“ According to Ludwig Karl from Swiss Gold, this is a profitable proposition: „The costs for storing large amounts of cash run to about a third of the negative interest rate“, he told NZZ. Just imagine the James Bond-like scene of huge stacks of cash deep under Swiss soil. And still the lords over our money are pretending all is well.

There are alternatives

However, especially in central Europe it should prove much harder to enforce a cash ban than governments envisage. Well-informed individuals have easy access to real money – STILL! A ban on cash without a parallel ban on real money, that is, gold, would be doomed to fail. And there is one more thing making life hard for interventionists. Many agglomerations in the Eurozone – such as Vienna, Munich, Nuremberg, Berlin – are dangerously close to the Euro's borders.

Local currencies such as the Hungarian Forint, the Czech Crown and the Polish Zloty could easily help out as ersatz cash. Especially the citizen of Vienna and Berlin are still mentally close to these countries, after all this is where many of them originally hail from. After a few weeks there would be enough cash for a fairly normal run of life. This would not be a first in Europe's turbulent history.

When rock DOES beat paper!

Conclusion

Negative interest rates, cash ban, gold ban, private cash hoarding, cash hoards under Swiss soil – these are all concepts we would have considered figments of a sci-fi writer's imagination not long ago. Come what may, it will not be easy: neither for the interventionists and control freaks trying to keep a lid on the consequences of their own doings, nor for the people trying to lead a normal economic life without massive restrictions.

A Europe-wide crisis – brought about by a misconstrued artificial currency – seems inevitable and will cause serious setbacks to our quality of life. Too bad, that even Switzerland, former home of self-determination and real democracy, will not be spared.

Thomas Bachheimer
President of the Gold Standard Institute Europe