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

Various sources of Gold news are scanned each month to locate interesting items for the monthly journal. Recently they have been chock-a-block with warnings of doom.

That is why the news section of this journal is so sparse; the media currently remains in a state of near hysteria and their diagnostics and prognostics are generally not worthy of inclusion.

It has been gloomy for a while, but this last month has been a doozy. 'Gold no longer safe haven' probably suffices to sum up the tone, though 'Gold has lost its glitter' rears its hoary old head.

Gold, like all else in this wondrous universe, is remarkably simple. Those who understand Gold accumulate it and use it to measure value, including the value of the circulating debt notes.

Those who don't understand Gold measure its value using paper debt notes. The first group understands that Gold is money; they are a part of the solution. The second does not; they are a part of the problem. Gold is money; fiat debt notes are not – legal tender laws notwithstanding. When Gold is understood, then all else becomes clear. To measure Gold's value with fiat debt notes is neither sensible nor informative.

The most valid question at the moment is: why is the perception of value of the US$ so high and rising?

Philip Barton
President, Gold Standard Institute
Dawn of Gold

News

SNBCHF.com: Yield Purchasing Power: $100M Today Matches $100K in 1979

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Business Standard: Ancient Oceans Were Rich in Gold

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American Principles Project: Jackson Hole Summit

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Euro News: Too little too late

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Business Times: Gold Used to Hide Black Money in India – quelle surprise!

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Sofia News Agency: Bulgarian Archaeologists Find Rare Byzantine Gold Coin in Perperikon

Constitutional Money

The April issue of *The Gold Standard* had an article about the governor of Arizona vetoing a bill that would have treated gold as money. When the governor vetoed this bill, he violated his oath of office to uphold and defend the U.S. Constitution. Likewise, all State and federal officeholders who stand in the way of gold being money have violated their oath of office. The Constitution recognizes only two things as money: gold and silver.

Article I, Section 10, Clause 1 of the Constitution prohibits the States from making anything except gold and silver a tender for payment of debt. Therefore, States cannot constitutionally make federal reserve notes legal payment for debt. That any State has to consider making gold money is absurd and ridiculous and shows how far that the United States have degenerated.

Moreover, for Congress to declare federal reserve notes to be legal tender money is also unconstitutional. In spite of what judges who base their rulings on political expediency instead of the Constitution may declare, Congress has no authority to issue paper money. Moreover, Congress has no authority declare anything legal tender; it can only declare what it will accept in payment of taxes. Under the Constitution, only States may declare an item to be legal tender. Thus, as the States may only make gold and silver legal tender, only gold and silver can be legal tender.

Furthermore, Congress may not constitutionally delegate powers that it does not have. Thus, it may not authorize the federal reserve banks to issue legal tender notes. (Also, the Constitution grants Congress no power to create a bank. Therefore, it has no constitutional authority to create the Federal Reserve System.)

The original draft of the Constitution contained a clause that allowed Congress to emit bills of credit (to issue paper money). The Constitutional Convention removed this clause and it was not part of the Constitution adopted by the States. When the Convention removed this clause, it was convinced that it had denied Congress the power to issue paper money and making paper money legal tender.

Some argue that the prohibition against States making anything except gold and silver legal tender does not apply to the U.S. government. However, based on a Supreme Court ruling involving the Fourteenth Amendment, the restrictions that the Constitution places on the States are also placed on the U.S. government[1]. Therefore, since the Constitution prohibits the States from making anything gold and silver a tender for payment of debt, it also prohibits the U.S. government for making anything but gold and silver a tender for payment of debt.

The Constitution mentions three units of measure: the dollar, mile, and year. Article I, Section 8, Clause 5 grants Congress the power to coin money and regulate the value thereof. When the Constitution was adopted, people understood that the dollar meant the weight of silver in a Spanish milled dollar. Thus, when Congress regulates the value of money, it finds the weight of silver in a Spanish milled dollar and declares the U.S. dollar to be a monetary unit that contains this weight of silver. If Congress may change the well-understood definition of the dollar on a whim, it may likewise change the well-understood definition of a year from being one revolution around the sun to be 100 revolutions — and in effect give its members life terms.

From the adoption of the Constitution until President Roosevelt suspended the gold standard, bank notes, which is what Federal Reserve notes are, were never legal tender. Only after the gold standard was abandoned did Federal Reserve notes become legal tender. The 1934 series of Federal Reserve notes was made legal tender for all debts, but it promised redemption in lawful money. The previous series, the 1928 series, was not legal tender and promised redemption in gold. The 1963 series declared itself to be legal tender with no promise of redemption in anything.

Whenever, a State considers anything, including Federal Reserve notes, other than gold or silver to be

[1] Martin A. Larson, *The Federal Reserve and Our Manipulated Dollar*, p. 269. Paul Bakewell, *13 Curious Errors About Money*, pp. 92-93

legal tender for the payment of debt, it is acting unconstitutionally. (A more detailed argument on the unconstitutionality of paper legal tender money is found in *Reconstruction of America's Monetary and Banking System: A Return to Constitutional Money* by Thomas Allen.)

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

The Economy is in Liquidation Mode

If you're an American over a certain age, you remember roller skating rinks. This industry boomed in the 1970's disco era. However, by the mid 1980's, the fad was fading. Imagine running a rink company at the end of the craze. You know it is not going to survive for long. How do you operate your business?

You milk it.

You spend nothing on capital improvements, slash maintenance, and reduce operating expenses. There's no return on investment, so you cut to the bone and wring out as much cash as possible. When a business has no future, you operate in liquidation mode.

Your rink generates cash flow, but this is no profit. It's simply the conversion of accumulated capital into present income. You are consuming capital, almost literally eating the business.

I have used a family farm as an example to paint a clear picture of capital consumption. Imagine using your farm, not to grow food, but to swap for it. You tear down the barn to sell the oak beams for flooring, auction off the back 40 (acres), put the tractor on Craigslist, then finally sell the farm and house. All to buy the produce you can no longer harvest.

Let this sink in. The farm's falling crop yield can't feed you any longer, but you still need to eat. You're liquidating the farm merely to buy groceries.

The conventional view encourages you to be grateful that the purchasing power of the farm is high, that it trades for a big stash of food. While it may be true that you can eat for years on the proceeds, it's small consolation for the loss of what had been an evergreen income.

Roller skating was just a minor entertainment trend. Only rink owners were harmed when it ended. By contrast, we would all be in big trouble if the same phenomenon happened to farming. And unfortunately it did. Not to farms—but across the whole economy, a decent return on capital is disappearing. Interest has gone the way of big hair and disco music.

Businesses borrow to expand production. The additional production increases profits. A portion of this profit is what pays interest. The problem is that fewer and fewer businesses can find decent opportunities to expand. If they could, they would be borrowing aggressively at today's dirt-cheap interest rate. Their borrowing would push interest up. They're not, and the proof is the fact that interest has been falling for three-decades.

The Federal Reserve is now pumping mass quantities of credit into the market, while productive demand for credit is lethargic. Borrowing—much of it for financial purposes such as share buybacks and acquisitions—now depends on the Fed and its artificially low administered interest rate.

The Fed operates on the theory that lowering interest stimulates the economy, at the cost of causing prices to rise. This is dubious, at best. However, so long as purchasing power holds steady, the Fed feels it has latitude to keep doing it. In its vain attempt to stimulate the economy, the Fed is actually suffocating it.

For centuries, people living in Western Civilization have been accumulating capital. They have not simply subsisted, and left the world the same as when they entered it. They have been creating more than they consume, passing on new wealth to their children.

The Fed's falling interest rate has slammed this process into reverse. It has put the entire economy into liquidation mode. It has forced people to consume their capital.

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First published: http://snbchf.com/gold-standard/the-economy-is-in-liquidation-mode/

Has the euro failed? The demise of a peace dove or mission completed?

Allegedly the euro has been installed as a kind of eternal peace maker: by mending the differences between former World War II opponents and making possible Germany's reunification (Mitterrand's and Thatcher's condition) – which would be a complete misuse of a currency. Furthermore, the euro was meant as a European counterweight to the then dominant dollar.

Thus, the euro was supposed to fulfil these tasks:

classical "official" tasks of a currency
+ the hidden role of servant of politics and money oligarchy
+ peacemaker
+ redistributor of wealth (half covert)
+ breaker of dollar hegemony
= Superman amongst currencies with kryptonite power

Obviously, no currency can meet these expectations and so the euro is doomed to fail. And this coming demise we are awaiting with trepidation – especially after the Greek crisis. Greece, an economically insignificant country, is the talk of the town. It might be that Greece will have to serve as a scapegoat for the euro failure, even though everybody in their right mind knows that this would be nothing but propaganda to keep the real reasons for creating the euro in shrouds.

One of the proposed tasks, the breaking of the dollar hegemony, we might easily discard. This cannot really have been the intention:

The strong US-American support speaks a clear language. Just remember, until the end of the 80s the US had to fight Japan to keep their global monetary hegemony. After 30 years of fighting, the Japanese committed economic suicide and left America as the last man standing. Then Europe comes along and suggests the creation of a new global reserve currency. If the threat had been real, Washington's reaction would have been much colder.

Paul Krugman and others have backed the euro. Naturally, there have been critics such as Milton Friedman but they did not get the necessary media coverage at the time.

US banks have helped cook the books of euro wannabees – more about this later.

We know that America did not stand in the way of the new currency, which would have been very easy. Rather, they lent their support. Goldman Sachs, for instance, was one of the eager helpers. This US bank helped euro candidate countries in faking their numbers, so they could sneak into the euro as quickly as possible. This had the pleasant side effect of additional credit business. Wobbly credit ratings due to false numbers were not a worry. After all, it was clear from early on that the euro would be nothing but a debt and transfer union. This made for high risks for the countries, their tax payers and savers – but not for the lenders. Germany's savers are perfect, if unwitting, underwriters.

Germany: the sacrificial lamb at the currency altar

Especially from 2008 onwards, when the euro should have been left to die, there was loud cheerleading from abroad, mostly the US. Germany became more and more the centre of the currency – first as driver for growth and innovation and then, first covertly, and then more and more openly, as Europe's cash machine. Germany was made paymaster, underwriter and lender. As a willing pawn of Brussels, the ECB and the US, German politicians did everything to support the ailing euro. The reason for the dilemma was identified as Germany's whopping trade surplus, engineering prowess and innovation. The very reasons that had once been used to enlist Germany as a leading partner in the creation of this artificial currency. The German finance minister led the crisis meeting – at least officially. In reality, other players were in charge. Of growing importance are the unelected bodies ECB, BIS and IWF as well as the specially founded ESM whose sole purpose is to rob the Germans blind.

Since the non-solving of the Greek crisis on July 14, 2015 the wind has turned quite a bit. Now, a "solution" has been found where various investors may get their paws on Greek assets – which incidentally might also have been a reason for creating the euro. Was the talk of 17.5 billion euro in the beginning? The number had mushroomed to 86 billion on the day of the "solution". This magic mushrooming alone shows the Greek crisis for the farce it really is. Germany and the IMF guaranteed the new payments.

The wind is turning

Even before this "solution" Larry Summers lectured the Germans that they were naïve in believing that growth by austerity is possible. They should leave the euro sooner rather than later. Next came the French who also challenged the Germans to leave the euro. They were joined by a phalanx of American economists who always have plenty of good advice for others. This begs the question why Europe should listen to suggestions from across the pond when America in not exactly the economic star pupil these days.

The Germans have paid their dues – they may now take their leave

Opinion in some parts holds that Germany should leave the euro because otherwise complete economic chaos would ensue. German tax money was seemingly good enough to bail out sundry international speculators, but after having done the bidding of the eurocrats the country should now gracefully bow out.

The icing on the cake was delivered by the IMF. Only two weeks ago they staunched the Greek bleeding side-by-side with the Germans, now they are back-pedalling. The well-respected German news website Deutsche Wirtschafts Nachrichten reports: *"Chancellor Angela Merkel picked them as watchdog for the Greek reform process, but now the IMF has increased the pressure on Europe to forgive some of the Greek debt. The IMF would only be part of a third aid package should the Europeans agree to a haircut and the Greeks make discernible progress on the demanded reforms, Washington says."*

This threat further isolates Germany. In my opinion, this development bears out another motivation for founding the euro: to expropriate and to weaken Germany. Any means will serve towards this end and breaking one's word is not even a loss of face.

This turns the euro into history. The trust that is the essential foundation of a currency has been broken. It is only a matter of time until all countries return to their own national currencies that hopefully will be covered. The peace dove of yore has been turned into a plucked chicken. Mission completed.

Thomas Bachheimer
President of the Gold Standard Institute Europe

Open Letter to Alexis Tsipras

Dear Prime Minister Alexis Tsipras,

First, congratulations for mustering the popular support to say "no" to the troika. The euro has long offered Greece a perverse incentive to borrow, and now your country is trapped in debt. By any conventional means, Greece cannot repay (I propose an unconventional way, below). The sooner everyone acknowledges this simple fact the better.

While I don't claim to know why you agreed to a bailout deal this weekend, I can guess. The troika threatened to maximize the costs of leaving the euro. They can shut off access to further credit; including the Emergency Liquidity Assistance, the European Stability Mechanism (ESM) loans, liability transfers via TARGET2, and bond buying programs. They could do more, such as refuse to clear payments to and from Greece.

Greece cannot avoid a default.

That would utterly destroy the Greek banking system. In turn, that will wipe out all Greek savers and employers who haven't already transferred their bank balances out of the country. Defaults of all euro denominated liabilities will cascade throughout Greece, including insurance, annuities, corporate bonds, business credit lines, personal loans, and mortgages. Every liability is someone else's asset, and few creditors would survive. The government will collapse when no one can pay taxes. Greece will end, a failed state.

The troika wants you to accept another bailout deal, to service Greek debts a while longer. Since bailouts mean borrowing more, you cannot avoid default in the end. Going deeper into debt is no good for anyone.

Greece has no future, so long as it clings to the euro.

Should you choose to default instead, you will not be able to continue using the euro. Even if the troika doesn't immediately act, the threat is real. No one would lend to the Greek government, or even businesses, with that Sword of Damocles hanging over you. However, you need outside capital to restart production and trade. Otherwise, your industries will be shuttered, even including exports.

Some economists advise you to create a currency board. This is a new monetary authority that maintains a fixed exchange rate, by holding euros and issuing Greek currency. It's nothing more than using the euro, though indirectly. It has all of the flaws and risks I just described. Greece has no future, so long as it clings to the euro.

Adopting the dollar might seem less bad. At least, the Federal Reserve isn't likely to stop you. Greek businesses and banks could even attract some dollar-based credit. Once you leave the euro, Greeks will probably end up using the dollar, with or without legal tender law. What a wasted opportunity.

You could create a new drachma and redenominate all debts in the currency. Lamentably, even Nigel Farage offered you this advice at the European Parliament. It's tempting to think that Greece can just print its way out of debt, but it's a trap. Don't do it.

It's obvious that the purpose of a new drachma is to fall. No one outside Greece will hold it. Few Greeks will hold it either, so the drachma will not find a bid. It may get you out of debt, but at the cost of the further destruction of businesses and jobs. Greece will become the next Zimbabwe.

Adopt gold as money!

You can't stay with the euro. Switching to the dollar isn't much of a move forward. Imposing a new drachma will only harm the long-suffering Greek people. By the logic of Aristotle, that leaves one other option. **Adopt gold as money!**

You have an historic opportunity to create another golden age for Greece.

Begin by allowing the Greek people to use gold, free from legal tender laws and taxes on gold. Your people will begin accumulating savings again, which they desperately need to rebuild businesses.

And speaking of building businesses, if you want to attract capital from the rest of the world, gold will do it like nothing else. Dollar denominated bonds will attract tepid investment, at best. With gold bonds, Greece can raise unlimited amounts. At least it can get as much honest credit as it needs.

Honest means that the borrower has the means and intent to repay. It means credit is financing productive enterprise that generates income to amortize the debt.

I said that no conventional approach will let Greece get out of debt. Let me briefly outline an approach to use gold to get out of debt without default or hyperinflation (I refer you to my paper, an entry to the 2012 Wolfson Prize, for the full explanation).

Greece should issue gold bonds.

These are not conventional bonds backed or collateralized with gold, but bonds that have the principal and interest denominated and paid in gold.

There is one twist. Buyers don't pay in euros, or any paper currency. Instead, they pay by redeeming outstanding Greek bonds. For example, to buy a 1000oz gold bond, a bidder might be willing to bring you €500,000 worth of existing Greek government bonds.

This is the only mechanism that lets Greece get out of debt cleanly.

Greece will exploit a rising euro to gold exchange rate (i.e. gold price). With each new tranche issued, the price of gold will be higher. It will take less gold to retire more debt. And believe me, the gold price will begin rising once the markets realize that gold is being remonetized. Greece will be the first country, the leader, in using gold bonds to avert financial Armageddon. Many others will follow.

With each new tranche, the paper bond to gold bond exchange rate will also be rising. As buyers realize that the value of gold does not erode, they will prefer a future gold payment to one in a paper currency. Gold bonds will sell for a premium over the gold price, compared to paper bonds. This premium will rise.

A stable gold-backed currency will attract investors

You will find that the market will happily buy long term bonds, giving you the opportunity to pay off your debt without having to constantly roll short-term liabilities.

If you can buy the time to let this strategy play out, you will get out of debt completely, avoid default, and end with the best credit rating. You will immediately attract capital, and then industry, and jobs to Greece.

At this point, Mr. Tsipras, you have nothing to lose. Why not win the future?

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