



## 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

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A conservative estimate of the Gold held by Indian citizens is 20,000 tonnes. Out of that, a miniscule 400 grams was offered in support of the government's Gold 'monetisation' scheme in its first two weeks of operation. It is unlikely that the politicians who voted for the scheme contributed even one of those 400 grams.

From a population of just under 1.3 billion it is a very telling amount.

The result is that the government is leaning on the temples. Shame on any that violates their devotee's intentions by voluntarily handing over temple contributions. If devotees had wished their contributions to go to the government they could have so organised it, instead of the measly weight that was offered.

According to a Reuters report "*A finance ministry official said if banks fail to win over temples, the government could intervene directly...*". A confiscation of temple Gold would set the cat amongst the pigeons – not to mention Ganesh gnashing.

That people do not trust governments is not restricted to India. Trust is a wonderful thing in that it is possibly the strongest interpersonal instinct that we have. People have been hiding their Gold from governments for thousands of years. It's a good policy and an even better instinct.

Will the Indian government try to confiscate temple Gold? Only time will tell; but watch Modi's popularity plummet if they do.

India may be a bellwether in these increasingly desperate monetary times.

I just read that after one month of operation, participation in the scheme has leapt to 1 kilo. Of the endless procession of failed government schemes, spanning all time and all continents, I cannot recall one that was more ridiculously ill conceived.

## Philip Barton

President, Gold Standard Institute

[Dawn of Gold](#)

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## News

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[The Local](#): Millions in gold dug up in Bavarian garden

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[SNBCHE](#): Janet Yellen fights the tide of falling interest

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[Industry Week](#): New US Space Mining Law Sparks Interplanetary Gold Rush

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[New York Post](#): Gold Rush-era ghost town can be yours for \$1M

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[The Guardian](#): Man with Gold bars up his rectum seen walking ‘suspiciously’

[Materials Today](#): Gold nanoparticles line up for nanolensing effect

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[Business Standard](#): 8 ounces of Gold coins discovered in 2000-year-old Han Dynasty tomb

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[Keith Weiner Economics](#): Reflections Over 2015

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[SNBCHE](#): What is Money Printing?

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[SNBCHE](#): Falling Interest Causes Falling Profits

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[ABC](#): 10.7 kilo Gold nugget used for hallway cricket

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## Thomas Bachheimer interviews Epoch Times editors on China

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Yiyuan Zhou: editor for the Chinese edition of Epoch Times

Rosemarie Frühauf: editor for China News of Epoch Times Deutschland (the German edition of Epoch Times)

**TGSI**: With the “New Silk Road” Project that became known recently, China is trying to open up to the West once again. The project caused a sensation and the “Subproject AIIB” (Asian Infrastructure Investment Bank) aroused Europe’s interest. To what extent is this connected to the policy agenda of China’s president and Communist Party chief Xi Jinping?

**Yiyuan Zhou**: The “Silk Road” and the AIIB are Xi’s “children” and the practical implementation of his external strategy in economy.

At a UNESCO-conference in Paris Xi cited Napoleon who once said that China is a sleeping lion. “*The lion is waking up now but there is nothing to fear, China is a peaceful and friendly lion,*” said Xi. With these words he announced that China wants to play a leading role and take on more responsibility.

The AIIB and the “Silk Road” are putting this “lion” plan into action. Xi wants to have a win-win deal all the time. That’s why China is building infrastructure along the “Silk Road” in the less developed regions of Southeast Asia like Myanmar and Tajikistan but also in Africa.

A typical project of the “Silk Road“ is the Gwadar port in Pakistan that was built by China. It’s very important for Pakistan. Of course China built it not entirely selflessly, the access to the Arabian Sea is strategically important for oil transports. And that’s why China is also building a suitable railway to the Xinjiang province.

The port got opened in autumn and it includes residential areas, hospitals, schools, etc. China got the management rights for 43 years by contract. The port will be handed over to Pakistan completely after that. That’s a win-win deal for both countries and what is called a “strategic full-time partnership“ today.

Examples like that exist in every country along the “New Silk Road.“ As the biggest developing country, China supports other countries with assets, technology and management and gets the management rights in return.

And the AIIB is the tool to raise the capital. By the way, before the Maidan happened, there had also been a “Silk Road“ project in Crimea.

**TGSI:** It was impossible not to see the criticism on China’s leadership during our previous interviews but also of the editorial policy of Epoch Times. I could sense a certain friendly tendency towards the current government during our primarily talk. What makes you so hopeful? Do you really believe in the promised reformation, how is Xi Jinping different from his predecessors?

**Rosemarie Frühauf:** Xi has already deviated from some important items on the party’s policy line: He changed the one-child policy and often underlines the importance of the family (in contrary to the party’s policy line); he officially abolished labor camps (it’s the first step towards more human rights); he took the first steps towards rule of law; he reformed the military according to the US model and he talks openly about the revival of the Chinese culture that was destroyed by the Chinese Communist Party (CCP) systematically. Thus: he is the first one in 60 years that tries to do politics for the people’s benefit and not in the interest of the Party.

If you know the history of the CCP then you realize that he puts his life in danger and takes high risks. As long as the communist regime exists as such, Epoch Times will criticize it for sure!

**TGSI:** Could you explain Xi’s anti-corruption campaign to all the people who aren’t familiar with China, how does it work?

**Rosemarie Frühauf:** In principle, Xi’s anti-corruption fight is a campaign against some certain people: the network of China’s aged former leader Jiang Zemin. Even though he is 89 years old already, it doesn’t mean he has retired. Jiang had ruled China as the Party Secretary and President from 1989 till 2001, and he had been the chief of military till 2004.

During his reign he underhandedly put his followers in all kinds of key positions in the army, in economy, media and telecommunications. This network follows mafia-styled rules: You commit collective crimes, divide the spoil and protect each other. After Jiang’s retirement everything continued to run in a way he wanted, his people stuffed money from the economy into their own pockets, due to the persecution of the spiritual movement Falun Gong they established a lucrative organ trade, and hospitals and the military make a profit from imprisoned citizens who are being murdered. In short: many extremely rotten things are happening. The government of Hu Jintao and Wen Jiabao couldn’t do anything about it, it was a powerless “puppet“-government.

Apparently, Xi Jinping analyzed everything that happened and avoids the mistakes of his predecessors. He knows that the old Jiang-supporters must be removed, otherwise he wont be able to rule effectively. Thus the anti-corruption campaign. Due to his corruption hunt he hits two birds with one stone: He gains popularity among the people, who suffer enormously under the despotism of corrupt officials and he gets his enemies out of the picture. It all started shortly before he took up his duties.

China's CCP can be divided into two groups: the liberals, who are led by Xi right now and that Hu Jintao and Wen Jiabao belong to, and the hardliners of the Jiang faction.

The kickoff was February 2012. One of Bo Xilai's associates the "super cop of Chongqing" Wang Lijun fled to the US consulate in Chengdu, handed over top-secret files and asked for asylum. The situation turned serious for the Jiang faction from that moment on.

With Wang's betrayal the liberals were suddenly holding information in their hand that allowed them to start an internal retaliation campaign against Jiang's clique. Wang revealed nothing less than a planned coup d'état: Jiang's clique wanted to prevent Xi's coming to power at the end of 2012, or to remove him from his office shortly after and replace him with Bo Xilai. This plan didn't work out due to Wang's betrayal: Bo was taken to court and Xi got him sentenced for life.

With Bo Xilai's conviction one got access to details about Zhou Yongkang that were even more delicate. He had been the nearly almighty Stasi chief till 2012 and he was involved in the planned coup d'état as well. Xi had already put two men behind bars who had planned to overthrow him. But if he wants to enact his reforms in China he will need to shoot down more small and big "tigers." Jiang Zemin is his biggest enemy because he is the leader of the gang and of all the people who block all reforms.

**Yiyuan Zhou:** During the anti-corruption campaign Xi proceeded in a tactically intelligent manner. He eliminated the persons concerned one after the other; you could say he proceeded from the less influential to the more influential persons. After two and a half years he still firmly combats corruption, it shows that it wasn't a mere fancy but a serious plan to change something in China. The rest of the Jiang faction is panicking because of that and has committed many attacks on Xi or his future plans. The most prominent one was the explosion in Tianjin on 12. August 2015, which was far more than just an accident in a storage for chemicals ...

**TGSI:** You have also mentioned and welcomed that the new leader cannot give away his power anymore until his personal "cleansing" had been finished, or he and his people might lose their heads. Doesn't it intensify the brutality in the country?

**Rosemarie Frühauf:** That's right, the brutality has intensified and the atmosphere became clearly more restrictive after Xi came to power. But it just means that the power struggle that had been happening behind the scenes before has now come to the surface in a way that the average citizen can realize it.

In fact, the brutality has been massive for 16 years already and it became a permanent problem in China. You just need to look up the website about the persecution of Falun Gong - like faluninfo.net.

Beside the corruption in economy, this bloody torture and brainwash campaign is the second enormous problem Xi has to face: It was started by Jiang Zemin and is directed against 100 million citizens, the followers of a certain qigong-meditation. The persecution of Falun Gong is THE taboo topic par excellence that claimed an unknown, very large number of human lives since 1999 and made the corruption in the whole Chinese State apparatus worse than ever. These crimes against China's own population go on to this day.

**Yiyuan Zhou:** It's generally difficult to stop the persecution right now because the whole bureaucracy and all the internal security organizations were involved in it. If you open the prisons, let out and rehabilitate the Falun Gong practitioners the whole CCP system will collapse immediately. Just imagine what would happen if millions of citizens demanded compensations and the conviction of the people responsible, all at the same time and that nationwide!

That's what it boils down to. Xi has been quiet till now. But he takes measures: For example, the compensation regime for victims of officials' despotism. If he wants China to be a law-governed state he must stop the persecution first and bring the persons responsible to justice. Democracy isn't feasible before that.

**Rosemarie Frühauf:** You probably can now understand better why the Jiang faction is fighting against Xi so rigidly. Many of these people have not only money and privileges to lose, they have "blood on their hands" and are scared of the retaliation. What they face is the death penalty.

**TGSI:** It sounds like an extremely difficult and complex situation. Do you believe that Xi can manage to pull it through?

**Rosemarie Frühauf:** Xi believes that he can do it, he obviously has the support of all the people who desire a change and their number is surely great. Jiang's clique doesn't draw their influence from their superior number but from the fact that they hold or held key positions.

**TGSI:** And how does the power struggle look like in daily life?

**Rosemarie Frühauf:** An example from the economy: The Shanghai stock market crash in June was the job of Jiang's clique. The assets of small investors vanished through manipulation - the nation was taken hostage in order to put Xi under political pressure. Because Xi is the one who needs to explain to China and the world why the crash happened – especially at a time when he had encouraged people to invest in stocks! It was a very hard time for small investors and an unpleasant one for the Xi administration.

Some time later it became undeniable, that the Shanghai crash was an inside job: The chief of the exchange supervisory board was arrested for taking part. Until today, Xi also founded a super Financial Supervisory Authority in order to get a grip on this sector.

With his rescue operations Xi needs to be faster than Jiang and his people who proceed in trying to ruin China. Jiang and his clique hopes that the overall situation becomes unbearable for the citizens and Xi comes under public anger. Then they could get rid of him and seize power. Several similar conspiracies have happened, but only few democratic Chinese foreign media covered these stories.

**TGSI:** What are the reactions of other countries?

**Yiyuan Zhou:** Other countries react differently and haven't declared their support openly yet. Xi's increased travel activity comes due to the fact that he actively has to request support from other governments. Jiang's clique had also greased the palms of foreign diplomats in the past. An obvious example was Xi's visit to the US in September – it was overshadowed by unpleasant little provocations by the Americans.

**TGSI:** What does China's new way mean for the USA, Europe and Germany? Does Xi make a rapprochement between the West and China easier, and are Western powers supporting it?

**Rosemarie Frühauf:** I guess, you mean the USA ... Ultimately, the whole world will benefit from an open China. Just consider, China is still seen as the "bad guy" because of the CCP. Everyone does business with China because it's the economic power that you can't live without. But if China becomes a law-governed state then it would dramatically become more attractive, especially for businessmen and investors. Until now everyone had to put up with not only big chances but also with the unpredictability and corruption of the CCP-regime.

**Yiyuan Zhou:** I can imagine that some large cooperations from the US want to keep the status quo. They came to terms with the CCP just fine and showed that you can make profit without fair play. But maybe you should better ask a US-analyst about that ...

In principle, with a law-governed China the Western world would get a strong partner in the international society. It would be easier to cooperate on all big issues like the climate change and the fight against ISIL because you would face each other on equal footing and with the same rules.

**TGSI:** What would the fate of North Korea be if China opened up? Will it need to adapt, is even a reunification with South Korea possible or will the country be some kind of a communistic Switzerland amidst a big economic region?

**Yiyuan Zhou:** North Korea's fate is a mere by-product of China's development. The North Korean regime will most likely collapse without Beijing's support. Xi unambiguously showed that he doesn't like the Kim dictatorship, especially since he made his first official visit to South Korea and ignored North Korea completely. An affront to Kim Jong Un and a clear break with China's CCP-traditions. The whole CCP-system there will collapse and proceed to a state of liberalization.

**Rosemarie Frühauf:** There were actually some rumors about the reunification of North and South Korea in autumn 2014. It was stated at that time that a confederation might be possible, with the slogan "One Country, Two Systems," as to take the extreme development gap of both Korean states into account.

**TGSI:** The IMF has resisted for years to implement the long overdue monetary integration of the Chinese currency. Why does it work all of a sudden and why does the West even welcome it?

**Yiyuan Zhou:** Xi's talk with Obama in September has definitely been a big help. But the involvement of Xi and his premier Li Keqiang inside China was even more important. They turned all lights green for a smooth cooperation with the IMF and formal proceedings.

The Yuan as a reserve currency makes China more international and prepares the country for a financial system of Western standards. And that's also a preparation for a democratization: Xi specifically prepares the financial system for an opening right now by cleansing it radically on one hand (80 CEOs were brought down or quit in 2015, including many manager in the stock exchange and security sectors). He carries out a structural reorganization on the other hand. The Yuan in the IMF basket works as an engine for reforms.

In other sectors it looks similar. Let's take the media as an example: a global internet conference with IT giants like Apple, Microsoft or Alibaba already took place in China two years ago, all thanks to Xi's personal engagement. Xi sees a bright future for the new media, therefore he promotes internet and social media in China.

The fact, that the traditional media like newspaper and broadcast are still controlled by Jiang's loyal minister of propaganda Liu Yunshan is a secondary matter for Xi that he will take care of later on.

**TGSI:** Does the Yuan have what it takes to show the Chinese economy according to its real conditions worldwide or do you think that the currency needs an adjustment?

**Yiyuan Zhou:** The fact, that the Yuan is part of the IMF basket now, plus Xi's reforms in the financial sector will draw the Yuan closer and closer to its real market value... It will definitely become a free currency - exactly that is the goal of the five-year plan till 2020. Further adjustments will follow. And that is Xi's goal: he wants to have the freely convertible and freely tradable Yuan. However, China has to pay a painful price for it, because the Yuan has been in a free fall and China is suffering losses in export. Nevertheless, Xi adheres to the opening of the Yuan. It is possible that it'll become a free currency by 2020 or even sooner.

**TGSI:** What does the accumulation of gold by the Chinese government and the posting to the accounts of the Chinese central bank mean? Does China prepare for the Yuan to become an international currency or even a leading currency or world's reserve currency?

**Yiyuan Zhou:** I think that China's gold reserves won't cover the Yuan completely. It might be a backing, a reserve for the Yuan. When the Yuan becomes a freely tradable currency, it will be a world currency like the US-Dollar or the Euro, for this it needs certain gold reserves. My personal guess is that Xi will follow the "normal" rules of the West on this issue.

**TGSI:** What impact will these developments have on our corporate groups/companies?

**Yiyuan Zhou:** Well, it might become more difficult for them! That's why I already said that I'm not so sure that all the westerners will be happy about it... Especially international cooperations such as Deutsche Bank or Siemens, all of them had benefited from the economic development of the past decades, they adapted themselves and they know how to make profits in CCP-China without a fair play. Would they really like a fair play competing environment? It probably would be less convenient for them.

Just look at the VW emissions scandal: In China, VW could have given some bribes to the officials in charge and the problem would have been solved. Just because you can get everything for bribes there. VW is just one of the many companies that have their largest markets in China and earned enormous sums of money there. I can well imagine that VW got its benefits in China through trickery. The tricks are possible but only as long as the regime is corrupt. When it suddenly begins to go accordingly to rules and regulations everyone must work harder again... Hence, this change is inevitable!

**Thomas Bachheimer**

President of the Gold Standard Institute Europe

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## Dissociative Identity Disorder in Fiat Currencies

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Dissociative Identity Disorder (DID) is the 'politically correct' euphemism for split... or multiple... personality syndrome. Like all euphemisms, this one hides true meaning; just like bipolar disorder, the PC euphemism for manic/depressive syndrome, hides meaning. However, once we get past the label, we can consider the hidden meaning behind the bland words. If we dig in, we can see that there is a severe case of split personality affecting the world economic system, and it's getting worse day by day.

As of December 1, the IMF has accepted the Chinese Yuan as part of its 'basket' of currencies called SDR's... 'Special Drawing Rights'... SDR's were introduced to overcome the deficiencies of individual, national currencies... supposedly. No one currency should dominate world trade... supposedly... but in fact the US Dollar, the 'Petrodollar', has dominated world trade for decades.

The IMF story is that the Chinese economy has grown tremendously, as measured against the US economy, and consequently the Chinese currency should become part of the 'basket'... and this sounds good. However, if we apply the Trinity of Truth test, we see this story does not represent the whole truth; far from it.

The SDR had four components in the 'basket'; the USD at 41.9%, Euro at 37.4%, Pound Sterling at 11.3%, and Japanese Yen at 9.4%. These ratios supposedly represented the economic clout of the participant currencies, and if the US economy is biggest, then it makes sense that the USD is the largest component.

The new ratios are USD 41.7%, Euro 30.9%, Yuan 10.9%, Pound Sterling 8.9%, and Japanese Yen 8.3%. Surprise surprise; the USD ratio is virtually unchanged, and the Yuan is squeezed in by reducing the Euro's share significantly, and by reducing the shares of the other currencies. But the Eurozone actually represents a larger economy than the US; the GDP numbers for 2014 are Eurozone \$18.3 Trillion, and US \$17.4 Trillion.

Clearly the USD was over represented in the SDR 'basket' at 41.9% vs 37.45% for the Euro; it's even more over represented at 41.7% vs 30.9%. Are we shocked by this? Recall, the IMF is an American dominated institution, so

this should be no surprise. Thus the first symptom of split personality emerges; the SDR is not truly an international effort at producing an equitable credit system, but is just another tool used to further Washington's dream (or nightmare?) of 'Full Spectrum Dominance'.

Another symptom of DID is simple but damning; as all Fiat currencies are being devalued in a supposed effort to maintain 'export competitiveness', in a manic race to the bottom, how does a basket holding these manic currencies do any better? If all the currencies in the basket are shrinking, does not the SDR shrink in proportion, at the average of its components? Is this a hard-to-grasp mathematical challenge?

But the biggest symptom of DID lies in the area of real money, that is Gold. Until the collapse of the Bretton Woods agreement, the SDR was actually denominated in Gold... just as the USD was supposed to be. Once the Dollar was fully and officially disconnected from Gold by Nixon, so was the SDR.

But wait; if the SDR is detached from Gold and the currencies in the basket are detached from Gold... then why is the PBOC (Chinese central bank) openly buying 20-30 Tons of Gold every month? Why is the Chinese government encouraging Chinese citizens to buy Gold? Why is China, the number one Gold mining country in the world, not exporting Gold... but buying Gold on the world market? Surely this is a runaway case of DID.

Further, if SDR's are the hot item, why did President Putin embrace, practically hug that Gold bar? Why is the Russian CB buying even more Gold than the PBOC? Why is Putin encouraging the Russian central bank to buy and accumulate Gold? Putin is the world leader of the day; maybe he knows something about Gold that we should be thinking about.

Last but not least there is much ado on the Internet about a 'Gold Backed Yuan' and a 'Gold Backed Ruble'. Even a mention of Gold backed currencies would have been anathema just a few years ago; isn't the Gold Standard a 'Barbarous Relic'? Only after the Great Financial Crisis hit the world economy did such blasphemous talk come into vogue.

Of course, if we look closely we can see what 'Gold backed' means; literally nothing. Nevertheless, somehow, just the aura... or is it aroma... of Gold in the CB's vault seems to magically transform the CB's currency. Maybe people sense on a visceral level that when push comes to shove... and the push is ongoing... then Gold will bail out its holder. Germany tried to repatriate its Gold from the Fed... but the request was denied... could it be that Washington is relying on Golden aura to uphold the 'full faith and credit' of the USD?

In any case, I am looking forward to the next step backwards... backwards to a Gold based economy. When the words 'Yuan redeemable in Gold' and 'Ruble redeemable in Gold' start to circulate as freely as 'Gold backed Yuan and Gold backed Ruble' then we may see some action. The USD was redeemable in Gold (and Silver) at the turn of the twentieth century. Redeemability, Gold on demand to the bearer of the note in unlimited quantities, is the acid test of any currency that has pretensions to being money.

A fully Gold redeemable currency in circulation is pretty close to a true Gold standard; the only question is the ratio at which the currency is redeemable... that is, the price of the currency as measured in terms of Gold. To maintain full redeemability, the currency issuer must have enough cash Gold on hand to meet all calls. If there is more currency printed than Gold available, the currency must be devalued, else redeemability is a lie. If more currency without devaluation is desired, then more Gold must be mined.

If we reach that stage, that Gold and Gold redeemable currencies are in circulation, the world economy will start a serious recovery; free, unhindered circulation of Gold money is the only possible means of relieving the endless debt accumulated under the SDR Fiat regime.

Now what are you and I to do; should we believe Christine Lagarde, the IMF honcho, that SDR's are the solution to our currency woes... or do we believe Putin and Xi Jinping, and buy Gold as they advise their banks and citizens to do...? This is a no-brainer. At the very least we must hedge our bets, and trade some of our rapidly shrinking Fiat paper for Gold... while we can.

Rudy J. Fritsch

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## Enumerate this Right, please

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*A self-regulated Economy being necessary to the prosperity of a free Society, the right of the people to keep and bear Gold and Silver, shall not be infringed.*

This assertion isn't meant as a parody. It just mimics a key article of the Bill of Rights which we should all recognize as the Second Amendment—a hint at the import of this closely related topic. I hope you agree that the analogy between the corresponding terms: *Gold and Silver* for *Arms*, *Society* for *State*, and *prosperity* for *security* is obvious. The first substitution, *self-regulated Economy* for *well-regulated Militia*, may seem less obvious at first. It is meant to remind us of Congress's duty to regulate (i.e. standardize) gold and silver coins by chartering a mint. And conversely, to remind Congress that commerce makes its own equity via the common laws of free trade. I've even used Enlightenment-era capitalization to emphasize the signal concepts. (*Note to editors: rewind your style manuals to the XVIII<sup>th</sup> century or just print this as submitted*).

If this level of pompous presumption is too sudden or jarring, please suspend judgment briefly as you would for a TV series episode that opens with the hero in some non-sequitur of a situation. Let's cut to the next scene with title text saying EARLIER THAT DAY. How *did* we get here?

### A tale of two mindsets

Arguments about money are really about control. In major social crises, the daily political disputes over resource distribution tend to escalate into disputes over the very definition of money. Populist blogger Charles Hugh Smith's recent headline reads *"If we don't change the way money is created and distributed, we change nothing; the only real solution in my view is to create and distribute money at the base of the pyramid rather than to those in the top of the pyramid."* Populists and neo-Marxists are always eager to sell us an easy solution on their terms. Their [observations of income and wealth inequality](#) are based in fact, though they misread the causes, as [Keith Weiner discussed last year](#). However, the argument about whether it's better to use "primary dealers" vs "helicopters" to distribute new cash is a *divisive distraction* from the real issue which is the unnatural assumption that money is something a rule or a ruler can "create". Excuse the pun, but such an idea lacked currency even 145 years ago.

As President Lincoln's Treasury Secretary, Salmon Chase had lobbied for the Legal Tender Act of 1862. He is shown in this Currier & Ives cartoon grumpily inflating away for the war effort. In a rare triumph of wisdom rejecting experience, just eight years later while serving as Chief Justice of the Supreme Court, he found the 1862 act unconstitutional in the 4-3 decision of [Hepburn v. Griswold](#) (1870). Tellingly, *on the day* that decision was handed down, President Grant stuffed the court with two new judges. Their votes in subsequent 5-4 decisions quickly overturned *Hepburn v. Griswold* and restored Grant's power to print in what became known as [The Legal Tender Cases](#). The [dissenting opinions](#) to these decisions could not be more eloquent in defense of the limited extent of the power to coin gold and silver money. The arguments in favor of paper money were certainly influenced by its expeditious uses in prosecuting the war. The supporters at the margin clearly owed their posts to the winning general, a man who'd acquiesced to practices now described as *total war*, the sitting president: Ulysses Grant. Though still upheld by Progressives, the assenting opinions ring hollow; the effect of irredeemable paper systems has been to eventually consume, for state purposes, great swathes of the nation's wealth.

The collectivist, socially-expedient mindset will be with us always. Keeping it in check is a political endeavor; not even the best philosophizing can heckle the hope for a free lunch out of men's dreams. One common ground on which we *can* base tighter constraints is the concept of human rights—Mr. Griswold's contractual rights or as we'll see next, our individual and collective right to economic self-defense.

## Four score and seven years ago in another Depression

Seeking a magical *lender of last resort* to help them through market panics, in 1913, banks on the legal tender gold standard won a congressional franchise to form the Federal Reserve system. Its charter enumerates as reserves (to redeem as few as 40% of the issued Federal Reserve Notes) only gold, gold deposit certificates, and gold bills of (commercial) exchange acceptable to any commercial bank of the day. By 1917, Harvard-based Austrian economist Benjamin Anderson Jr. noted two disturbing alternate trends: 1) New York investment banks had found *callable margin loans* drawn against portfolios of capital stock to be just as liquid as gold bills, and 2) due to the collapse of international trade and the supply chain militarization of WWI, there were no more commercial bills on the Fed's balance sheet—just gold, certificates for gold, and lots of sovereign war bonds.

The Peace of Versailles continued the war in the form of sustained trade sanctions. Gold that had fled Europe to the US during the war was recalled or loaned out to finance reparation payments and recovery efforts. With margin loans and government bonds dominating its bank balance sheets, the US economy boomed and bubbled. In October, 1929 as Congress negotiated significant new [international tariffs](#), the US stock market panicked again. Margin loans had to be called in. The decline persisted—steadily wiping out marginal businesses and the balance sheets of banks that had financed them.

The Federal Reserve system had balkanized banks to serve small undiversified regions. By 1933, lacking collateral against which to borrow from the Fed they were failing catastrophically. Bank runs (i.e. withdrawals of cash and gold) were widely reported. President Roosevelt declared a bank holiday to suspend the panic. **In a series of Executive Orders, culminating in the [Gold Reserve Act of 1934](#), Roosevelt ordered US citizens to sell all their gold into the Federal Reserve system at \$20.67/ounce, where it would henceforth be valued for foreign exchange at \$35/ounce.** (Note: \$20.67 was the \$20 tale plus the \$0.67 "gold point", the official asking price for gold.)

By 1936, seven years of unrelieved economic contraction stood as an embarrassing counter-example to the efficacy of economic planning. One key planner, economist John Maynard Keynes, sought to redirect this skepticism against the classical liberal tradition. His landmark book *The General Theory of Employment, Interest and Money* being theoretical, does not mention Roosevelt's edicts, but he quietly nullifies the very idea that outlawing gold could even have had an economic impact. Keynes's aggregate, macro analyses try to discredit *asset hoarding* as an effective action—it's just “an optical illusion.” In [chapter 6](#), his definitions simply omit it:

“Income = value of output = consumption + investment.  
Saving = income - consumption.  
Therefore saving = investment.”

*The General Theory* is not a consistent framework to explain the New Deal; for instance Keynes [says](#) “digging holes in the ground (gold-mining) not only adds nothing whatever to the real wealth of the world but involves the disutility of labour.” So why write an emergency order to transfer all gold into Federal Reserve bank vaults? How can the author of this slur on gold miners go on to support government-run make-work projects for the sake of pumping up aggregate demand? Why do Keynesians today blame the gold standard for the Great Depression if no "real wealth" was ever in play? It wasn't until reading Keynes that I appreciated why his opponents in the Austrian School are so admired for their comprehension of the evolving structure of capital. While the

"confiscation" itself left the citizens just as *liquid* as before, it altered their capital *structure*—swapping the Federal Reserve's risk profile for theirs—which dollar devaluation then exploited.

Hoarding is the act of neither consuming nor investing a part of one's income. It is the singular act which expresses the limits of one's counter-party risk tolerance. And it only works if the hoarded asset is a good store of value. As Antal Fekete explains, the marginal propensity to save is not delimited by a choice to consume, but to hoard (i.e., to save, literally risk-free, at zero percent interest). It is this choice, made by the marginal investor, who by quantifying his risk-premium draws there the lower bound on the interest rate within a gold standard. The best Keynes can offer is a weaker notion of [liquidity preference](#).

Footnote: Fans of Professor Fekete's [new Austrian theory of interest](#) should, however, examine [Keynes' quite similar reconciliation](#) of time preference vs productivity of capital. Here the same terms are argued in support of a conclusion both share. Side-by-side they are a textbook example of the difference in methodology. Which do you find to be more humane?

## When marginalized, act on the margins

It took [the dedicated political theater and civil disobedience of James Blanchard III](#) to finally re-legalize gold on December 31, 1974. But it was also a matter of good timing and catching the opponent with his guard down. The August 15, 1971 "closing of the gold window" (to foreign bank redemption of dollars for gold) had by then gone beyond being a temporary measure. In the new monetary landscape Keynes and Milton Friedman had triumphed and the powers-that-be felt certain that gold was no longer special—just pointlessly inert capital structure.

So savvy, then, of Mr. Blanchard to call their bluff! With the price of gold gyrating up and away from \$35, where it had been pegged by the post-WWII Bretton Woods agreement, there were now profits to be made brokering gold trades. It was intolerable to the large banks to have an antebellum executive order deprive them of a rich US market. Doing *good* politically involves more than just being *right*. One must look harmless but have a powerful constituency on whose gratitude politicians can count.

The gold standard's constituency is on the rise—even emerging [on the fringes of the Republican presidential primary field](#). Sound money is not likely to arise from a presidential election. Strictly speaking it cannot be instituted by executive or legislative dictat. But candidates are free to pick their target and their opponent on this issue to maximum effect. I will just suggest that reinstalling the gold standard might not be the most credible pledge. A high-minded, but theoretically harmless, human right could garner all the same support with none of the doubting or sneering opposition.

Executive orders, acts of Congress, and even Supreme Court rulings come and go. In so doing they've established a precedent which grants the government broad discretion to control what gold's standard-bearers say ought be an article of natural law or certainly of the common law. Could seizing that high ground be in sight?

## Freedom would suffice

Many analyses of the Second Amendment exist, but I'm persuaded that its essence is to reserve to the people the ultimate coercive *political* power—to re-revolt. Its real meaning is metaconstitutional. Likewise, citizens in command of gold act as the ultimate *economic* power—hoarding, coining, melting, or exporting it as a veto over monetary foolishness. If our opponents are right, *keeping* gold is just a harmless perversion, they lose nothing by tolerating it, which they have since 1975. *Bearing* gold (into commerce) is a more direct challenge to the Legal Tender Acts, but here they must, like President Grant, actually brandish weapons. That is politically unappealing. No force (except the inalienable right to hoard) is being exercised on our part. If gold is as economically useless as they say, they have nothing to fear. We need not overturn their right to print, only their authority to extinguish gold debts with paper credits.

Legal Tender advocates must oppose hundreds of articulate already-written opinions wherein the Founding Fathers et al. forswear the kinds of paper money that bankrupted the Continental Congress. For instance, in Federalist #44, James Madison explained why the United States Constitution requires its states to surrender the power to coin money in the form of bills of credit: *“The loss which America has sustained since the peace, from the pestilent effects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industry and morals of the people, and on the character of republican government, constitutes . . . an accumulation of guilt, which can be expiated no otherwise than by a voluntary sacrifice on the altar of justice, of the power which has been the instrument of it.”* There is enough bluster on record to keep a candidate looking patriotic right through the election. Who'll step up from the field and give it a try?

Perhaps someday a guarantee of the liberty to hoard and circulate monetary metals will be ratified alongside its fellow inalienable rights on the hallowed parchments that try to constrain governments of the people, by the people, and for the people.

## Greg Jaxon

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## Is the Gold Standard Antiquated?

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Opponents of the gold standard use the events of the 1920s when the leading countries of the world returned to a pseudo gold standard. They use these events to prove that the gold standard is antiquated, a barbaric relic, and unworkable and needs to be abandoned for a managed currency, i.e., fiat money.

Like most major wars, World War I was fought with credit money. Withdrawal of this credit money led to the depression of 1920-21. Again, banks expanded credit money during the 1920s, which caused the Roaring Twenties. When they withdrew the credit money, the Great Depression followed. However, the gold standard received the blame.

By 1928 most countries had returned to the gold standard or more correctly, a bastardized gold-exchange standard. (The United States had maintained their gold-coin gold standard except about two years at the end of World War I when exportation of gold was prohibited. Domestically, paper money remained redeemable in gold until 1933.) Beginning in 1931, countries began abandoning the gold standard. By the end of the year, most countries were off the gold standard. In 1933, the United States finally left it.

Many things contributed to the failure to maintain the gold standard after World War I. They include:

1. interference with or not facilitating the movement of gold;
2. war debts and reparations and how they were paid (large payments had to be paid at specified times to specific countries despite exchange rates among other problems);
3. interference with the natural movement of goods, such as tariffs;
4. imprudent foreign lending, which allowed foreign countries, especially Germany, to buy goods on credit and enable Germany to pay its reparations;
5. inflexibility in prices caused by international cartels and governmental price fixing and inflexibility in the system of wages (strong resistance by workers to a reduction in pay);
6. abandonment of the real bills doctrine so that international trade could be controlled; and
7. a lack of confidence that caused large sums of money to be transferred from place to place based on emotions rather than economic factors.

The problems that lead to the fall of the gold standard had nothing to do with the gold standard itself. Defects in the gold standard did not cause it to fall. Defects in the political situation did.

The gold standard only functions under proper conditions. As the above list illustrates, the belligerent powers refused to allow the conditions under which the gold standard flourishes that exist before the War to return. About the demise of the gold standard, Frederick Bradford comments, *“The gold standard itself is no more a failure than an automobile which refuses to run smoothly because there is dirt in the carburetor and the front wheels have been detached from the steering gear. The really surprising thing is that the gold standard was able to function at all under the circumstances.”*<sup>1</sup>

A real problem with the gold standard is that paper money and other credit money promising to pay in specie soon accompanies it. Before long the government becomes involved in the name of protecting the people from counterfeiting and failure to redeem notes. Such protection is a legitimate function. However, the government does not stop here unless the people remain vigilant. The next step is to require bank notes to be secured by government debt — thus, ending their issuance for economic needs. At this point, if the government has not usurped the authority to issue notes or granted a bank such a monopoly, it soon will. Fiat money adherents like this attribute because they can now get the government to end convertibility and change the paper money into a fiat currency.

After governments, i.e. had tasted the power and wealth that fiat paper money brought them, they were reluctant to relinquish such a monetary system. Being unable to bend the gold standard to their will, they abandoned it. To them it was an antiquated system.

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<sup>1</sup> Dr. Frederick A. Bradford, *Money and Banking* (New York: Longmans, Green and Co., 1938), p. 681.