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

The present cannot be understood without knowledge of the past, any more than the part can be understood without knowledge of the whole. As with most aspects of our societies, money is more complex than a brief contemplation of the immediate and obvious.

After 3,500 years in circulation, the origins of money still reverberate strongly, yet, over the millennia, the light of understanding has grown ever dimmer. In the 21st century, the concept of money has been reduced to an object of faith; a religion with genuflecting true believers and High Priests.

Those who lack historical context claim that Gold is no longer money. It is true that control of money has returned to the temples (now called central banks) from which it originally emerged, but only the pseudo variety. Real money, honest money, cannot be returned in toto to the temples, any more than a concept which has been liberated by the formation of a word that effectively communicates it, can be then withdrawn from circulation. The word may be banned or frowned upon, but the concept will never again be unknown to human consciousness.

Thus it is with those who understand and hold Gold.

Until people come to see that unrestrained governments are the problem, not the solution, they will continue to demand more and more central planning. Gold is one of our final grips on freedom; the most valuable remnant of our pre-collective past. The situation is not though as tenuous as it seems.

When the tower of debt collapses, along with that will go the chimera that debt notes can perform the role of money. The temple priests will be chased through the streets by a pitchfork wielding mob (editor's wishful thinking).

Central banking is the progenitor of much other central planning; all will be severely weakened (at least) by the collapse of the Temple of the Dollar – maybe all those other odious central planners will be also on the run (surfeit of wishful thinking).

Anyway, money will be embraced as the only option still standing, and finally societies will begin to rebuild.

The only question is: at what level will the rebuilding have to start? We need to understand the origins of money; we do not want to return there.

Philip Barton
President, Gold Standard Institute
Times of Gold

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Costs of Compliance

I really don't like to get too technical in these articles, rather want to make sure people are made aware of the lethal flaw plaguing our Fiat based currency system and how this flaw must be overcome. Nevertheless, it's important to understand the why and the how; else we are just parroting someone else's opinion and that's not the way to go.

To paraphrase the Buddha, *'Don't believe anything to be true just because authority insists it's true. Don't believe anything to be true just because tradition asserts it to be true. Don't believe anything to be true just because I tell you it's true.'* At this last, the Buddha's disciples were aghast; Oh Guru, then what can we believe to be true? Most calmly, the Buddha answered; 'believe only that which you understand, and that which your own thinking shows to be true'.

Well, in this spirit, let's look at the issue of compliance costs. When my friend Philip Barton asked me what I thought his biggest overhead expense running his resto was, I guessed taxes; and he says no way, it's compliance costs that make it difficult and expensive to run a business today. Typically governments are short sighted, and strive to justify their existence by passing laws that supposedly 'solve problems'.

As Frederic Bastiat observed almost two hundred years ago, the unintended consequences of government economic laws, while eventually devastating, are rarely seen; rarely seen because the unintended consequences are diffuse, and rarely seen because the unintended consequences are pushed into the future. To better understand this we need to take a closer look at the ideas of Carl Menger, father of Austrian economics.

One of Menger's key insights was the use of the concept of 'marginality' in his analysis of economics. Now the concept of a margin is pretty clear; for example, the margin of a lake is the line that divides water from dry land... and of course the margin moves if more or less water is in the lake.

An even better example is the legal age of alcohol consumption; this margin is arbitrary, being different in different countries... and individuals pass through the margin as they grow older. Thus, the sub marginal person, not legally entitled to consume alcohol, will one day become marginal... pass through the margin... and become hypo marginal. Or, the margin may be legislated up or down... and those who were marginal will become sub marginal or hypo marginal, depending on the direction the margin was moved.

In Austrian economics the concept of marginal utility is well understood; the margin between wanting more of something and wanting something else. For example, as you drive along and your gas gage reads lower and lower, the utility of refilling your gas tank becomes highest in your value scale; or, in effect, the utility of gasoline becomes hypo marginal for you at that moment. Once you start to fill the tank, the marginal utility of ever more gasoline declines.

Once you have pumped enough gas to get you to the next station, you may drive on... although most people simply fill the tank, to avoid having to make another stop soon. Once the tank is full, the marginal utility of gasoline drops off your value scale altogether, unless you are heading into the wilderness, and have Gerry cans to fill as well, but clearly at some point more gasoline has no further utility for you; the need for gasoline has become sub marginal.

We can apply the concept of 'margin' to other economic factors, like the productivity of labor or the productivity of capital. Let's examine the concept of 'the marginal productivity of labor'. This is the margin between profit and loss. Sub marginal means loss making, and hypo marginal means profitable.

Take the simple case of a potato farmer and his hired potato pickers. Assume one picker digs out $20 worth of potatoes an hour, and the farmer has overhead costs (such as energy costs, taxes, etc.) of $5 per hour; then if the farmer pays $15 to the picker, the farmer breaks even; the picker is marginal. This is the margin... break even. If a picker produces $21 per hour, and the farmer pays $15, then the farmer's profit on the work of this picker would be $1 per hour... this picker would be hypo marginal.

If the picker can only pick $19 per hour, and expenses are still $5, then if the farmer were to pay $15 he would lose $1 per hour; this picker is sub marginal. Clearly the farmer could not keep this up, or he would go bankrupt. He has several potential remedies; find a more productive picker, reduce the payments to the picker... try to sell his potatoes for a higher price... or try to reduce his overhead.

This is the concept of the marginal productivity of labor. The margin can change... and the productivity can change. If the farmer can invest in a better tool for his picker, a tool that increases the picker's productivity... say a more effective spade that promises higher productivity of $30 per hour... then the pickers may become hypo marginal... but then we need to consider the cost of the new spade as well. Paying for the spade will increase costs. The overhead will grow.

If the cost of the spade vs the improvement in productivity is positive, that is the gain in productivity is greater than the increase in costs, then the farmer will buy the spade and everyone benefits. But let's not get too technical; we focus on labor, and on how rising compliance costs raise the marginal productivity of labor... and put more people out of work by forcing them to become sub marginal.

Just as an improved tool can move a laborer from sub marginal to hypo marginal, so an increase in the farmer's overhead costs will move more and more laborers to sub marginal. If the farmer is subject to compliance requirements that cost more to fulfill, then the margin moves up.

Suppose there is new regulation that requires the farmer to fill in more paperwork, follow more onerous rules... that lead to his overhead growing from $5 to $10 per hour... now the marginal productivity of labor, the break-even point for the potato picker, rises to $25 per hour.

The picker who only manages $20 per hour is laid off... and the more efficient picker who manages to pick $25 becomes marginal. The bar has been raised. So it goes... every new regulation, every new rule raises the bar ever higher... not only for potato pickers, but for anyone who works for a living. For a real world example, we need look no farther than the issue of minimum wages. If the G'man in his oh so empathetic efforts to 'help the poor' decides to raise the minimum wage, then the bar is raised... the margin moves up. Now only those who manage to produce more than the minimum wage will be hired.

There is a current effort to raise the minimum wage for McDonald's workers to $15.00 per hour; and surprise, surprise... instead of hiring at this level, McDonalds is investing in robotic equipment. The cost of the automated system will be amortized quickly, the marginal productivity of this capital is positive... and instead of hiring youngsters and part timers, there will be layoffs.

Far from protecting the poor, our G'man is adding fuel to the unemployment fire. Young men with no jobs, no family, and no hope are a problem to themselves and to society. Riots and revolution are not far away... look at Greece, or France, or the USA.

So how does all this relate to the Gold Standard? Simple; the intrusive warfare/welfare state is financed by counterfeiting; by the borrowing of currency from thin air (quantitative easing). Such destructive practice is impossible under the discipline of Gold.

Indeed, the very existence of Fiat currency is a perversion of economics... Fiat is itself a usurpation of power from the people to the select few, the 0. 1% who control the creation and destruction of currency... and thereby control the creation and destruction of our lives.

Just as Bastiat saw, the benefits of Fiat (to the 0.1%) are immediate; while the costs are spread to the 99.9%. The benefits (to the 0.1%) are immediate, while destruction is pushed into the future. The typical lifetime of a Fiat currency is, historically, about 45 years.

The natural trend of the economy under an unadulterated Gold standard is for the marginal productivity of labor to decrease and for productivity to increase through enhanced technology. These factors lead to less and less unemployment, and more and more wealth generation... wealth for the people, for the 99.9%, not just for the upper 0.1%. This natural trend is destroyed by monetary debasement and by ever rising compliance costs.

Until this truth is understood by the majority, the perverse effect of more and more unemployment, less and less wealth generation, and an ever growing discrepancy between the wealth of the average individual and the 0.1% will prevail; and unless the system is changed, will end with blood in the streets.

Rudy J. Fritsch

Money Supply Arguments Are Flawed

It goes without question, among economists of the central planning mindset, that if a central bank can just set the right quantity of dollars[1], then the price level, GDP, unemployment, and everything else will be right at the *Goldilocks Optimum*. One such approach that has become popular in recent years is nominal GDP targeting.

How does a central bank affect the quantity of dollars? In discussing a nominal income targeting, Wikipedia gives the usual laundry list of how to do their magic: *"…interest rate targeting or open market operations, unconventional tools such as quantitative easing or interest rates on excess reserves and expectations management…"*

[1] Most commonly this is called money supply. However, there are two problems with this. One, the dollar is credit not money. Two, it is not a supply in the sense of flows—e.g. corn supply or oil supply. It is a measure of stocks, Unlike corn or oil, dollars are not consumed in a transaction.

Other than *expectations management*—which is just telling the market "blah blah blah"—managing an income aggregate is about manipulating one interest rate or another.

In the real economy, people don't factor the quantity of dollars into their economic calculations. If you are in the grocery store to buy apples, you do not think about M0 money supply. Whether you are a farmer or miner, whether you operate a factory or trucking company, or even a bank or insurer, the money supply is irrelevant to you.

By contrast, the interest rate figures in every economic calculation in the economy. How much to borrow, how much to save, and how to assess the tradeoff between consumption and investment are all dependent on interest. The rate of interest is a factor in every price and the relationship between all prices in the economy.

For example, to grow apples you need land and you must plant trees. Then you have to wait for the trees to mature before they bear fruit. This requires an investment up front, in expectation of earning a return in the future. How high does this return need to be? It depends on the interest rate.

This decision, made by thousands of current and potential apple farmers, determines the price of apples in the grocery store. And this, in turn, determines the decisions of consumers to buy apples, to buy something else, or to do without fruit if they cannot afford it.

Whether the interest rate is manipulated upwards, whether it is forced downwards, or whether it is artificially locked in stasis, every price in the economy is affected and everyone's decisions are altered by the rate of interest. I have written a lot on the perverse incentives caused by interest rate manipulation, but today I want to focus on a different aspect of the problem.

So, let's perform a little thought experiment. Suppose a business must pay 20% interest on its capital. If it somehow manages to eke out a 21% rate of profit, it forks over 95 percent of what it earns to its lenders. If it can't earn at least 20 percent, then it ends up feeding its capital to its creditors.

Now consider a perverse world where enterprises can borrow at -5 percent. They literally repay investors less capital than they borrow. This case is the opposite of the one above; Lenders feed their capital to enterprises.

If interest is too high, the Fed is sacrificing entrepreneurs to investors. If interest is too low, then investors are sacrificed to entrepreneurs. Either way, our monetary planners pervert lending into a win-lose deal.

So what's the *right* rate of interest?

Only a market to determine that. Central planners have never gotten it right, are not right now, and will never get it right. They do, however, inflict collateral damage.

Market Monetarism—the idea of central planning of credit based on a GDP target—promises improved outcomes over what would happen in a free market. However, it's no better than conventional Keynesianism or Monetarism.

We should not be debating different approaches to central planning. We should be rediscovering the idea of a free market in money and credit.

Keith Weiner
President, Gold Standard Institute USA

Report on the Conference for Monetary Reform

Held in Stift Seitenstetten (Abbey) Austria, 27th to 29th May 2016

For the second time a conference on the subject of monetary reform under the title "Initiative Neue Geldordnung – Initiative for a new monetary system" was held in the St Benedikt Educational Centre of the Abbey of Seitenstetten, Lower Austria. This year`s conference was organized by the Austrian NGO "Initiative Zivilgesellschaft – Civil Society Initiative" founded and led by Alfred Strigl and the Network "Christians for a just world" represented by Josefa Maurer.

Despite the location of the conference, Austrian political and economic theory in terms of Mises and Fekete was scarcely represented at conference. Almost all of the participants approached the problem from a statist perspective. Nevertheless, the conference offered a valuable insight into the state of the debate on monetary reform in central Europe.

The first conference in May 2015 was remarkable for its ability to overcome sectarian thinking. The monetary reform movement in Germany and Austria is intellectually very active, well informed and has produced a large number of functioning complementary currencies organized on a private basis, some of which have been working for several years, such as the Chiemgauer in Germany and the Waldviertler in Northern Austria.

One feature of the alternative money scene in central Europe that has hindered its expansion beyond local and regional initiatives is encapsulated in this famous scene from the film The Life of Brian, in which John Cleese of rails against the People`s Front of Judea and other splinter groups.

There is a tendency for monetary theorists who believed they have attained a unique insight into the philosophy of money and also for those who have created a practical alternative on a small scale to believe that their solution is the only true solution. Converting the heretics becomes a more pressing problem than campaigning against the distant and untouchable Leviathan of the money power. Monetary reform is in many cases a moral crusade against a multitude of perceived sins such as the iniquity of charging interest, the immorality of saving, the exploitation permitted by free market price setting, the unfairness of using specialized knowledge and instinct to earn a living through speculating on future price moves, the parasitic nature of the rentier class.... The list could be extended for some length of time. Thus many proponents of monetary reform are convinced that social justice can only be achieved through the abolition of their pet hate. And in this context let us not forget the Gold Standard, whose proponents are regarded by monetary reformers as digital luddites, clinging to an outdated technology in this modern age.

Q: Whatever happened to the Popular Front, then?
A: (sigh).... he´s over there.

I leave it to the readers´ imagination to decide in which "front" the gold standard supporters are to be found at monetary reform conferences in central Europe.

Last year`s conference deliberately brought together monetary reformers from many different schools of thought. Indeed, there were even some thinkers present who advocated retaining the present system and who perceived the problem to be a lack of political will to impose regulations that will ensure a more equitable distribution of wealth, both regionally and globally. Rather than concentrating on the theoretical divisions within the monetary reform movement, last year´s conference set out to identify those matters upon which all reformers could agree. This change of approach proved very effective, disarming the purists and revealing a high level of agreement over the negative characteristics of the present system. A similar phenomenon can be seen in the present US presidential campaign, in which Trump and Sanders (and their supporters) find themselves in wide agreement over the problems besetting the USA, while disagreeing strongly about the solutions required to solve these problems.

As a result, it was possible to establish a high level of unity amongst conference participants over negative features of the present system, such as the Cantillon effect, the lack of democratic control over central banks, the exponential growth in debt, the political power exercised by investment banks as a result of their influence in the debt markets, the ability of private banks to create money out of thin air which can be used to buy resources and political influence, the ability of the banking system to privatize gain and socialize losses, the ability of private investment banks to influence the pricing mechanism, and the inability of civil society to control money flows whose effects undermine the legitimate and publicly stated aims of that same society.

This unification in the face of a common set of problems struck me in 2015 as a significant first step towards giving monetary reform movement more cohesion and focus. I was therefore intrigued to see whether the theoretical and practical protagonists of monetary reform had been able to build on this base in the past year.

Generalizations are by definition inaccurate, but I will permit myself to make two before considering the discussions of the 2016 conference.

Firstly, the protagonists are generally speaking on the centre left. Although it remains the standard tool of political analysis I do not find the left-right paradigm very helpful in general, particularly in Europe, where it is used, inappropriately in my opinion, to distinguish between those who believe in national sovereignty and those who believe in global governance. I use the term to distinguish between those who believe in state control and those who believe in private control. From this perspective, Maoists and Stalinists are left wing, Rothbard and Hoppe are right wing. Most monetary reformers in central Europe are middle class academics, who believe, as do most Europeans, that the state is both necessary and a force for good, but who also wish the framework defined by the state to permit a significant level of private economic and social freedom. There is an increasing level of concern shared by monetary reformers that the democratic state is increasingly falling under the influence of forces hostile to privacy and individualism.

Secondly, monetary reformers fall into two main categories: Schwundgeld (depreciative money) and Vollgeld (100% Money, Democratic Money or Positive Money).

Most complementary monetary systems in central Europe that survive the start-up phase are based on the depreciative money concept, pioneered by Wörgl in the 1930s. The aim is clear: to increase the velocity of money by coupon clipping, which means that those with a dispensation to save will eventually end up with a pile of paper whose "buy-by" date has expired. There is a practical reason for this method, which is that if you are starting a new currency, you want to get it moving as fast as possible. But the advocates of Schwundgeld also have an ideological motivation, which is to penalize hoarders.

Most depreciative currency systems are content to be complementary to the euro currency, (the participants have a legal obligation to pay their taxes in euros) and to function on a local or regional basis.

Vollgeld is politically more ambitious. It aims to deprive commercial banks of their ability to create new money by ending fractional reserve banking. The only bank which can create money in the Vollgeld system is the central bank, which is run by a politically independent directorate, nominated by the government or parliament. This central bank will be termed a "Monetative" to emphasize the important political role it plays in the democratic and constitutional order of the state, a 4th power instituted alongside the other three powers: the executive, the legislature and the judiciary. This "Monetative" will be given the mandate to pursue a countercyclical monetary policy. Vollgeld advocates believe that in the current debt money system, monetary creation is pro-cyclical and consequently exacerbates systemic imbalances. The name positive money is derived from the fact that the connection between money and debt is broken. Individuals can lend and borrow money from each other, but the bank serves only as a financial intermediary, it can no longer leverage deposits. Commercial banks remain private enterprises, but in the unlikely event that a commercial bank was to go bust, the Central bank would simply reimburse the depositors with newly created money.

It was no surprise to me to find that at the 2016 conference the proponents of Vollgeld had taken control of the proceedings. Schwundgeld is problematic for a number of economic reasons, as readers of this article are well aware, but it also has one serious political handicap. Almost always it is a private currency whose rules of engagement are defined by the ideology of its founders. Schwundgeld is usually conceived and implemented as an instrument to promote the economic and social ideology of its founders. This makes it difficult to expand the system beyond the ideological boundaries of the founding movement.

Vollgeld is by contrast simple to understand, is politically neutral in terms of its mechanism, is supported by a large international movement spread across the globe (www.internationalmoneyreform.org) and claims it can be implemented using existing financial institutions.

I had an interesting conversation with Dr Raimund Dietz, one of the leading theoreticians behind the move to create an Austrian Monetative. Their sights are set high and it would be unwise to dismiss this movement as a group of romantic dreamers. On the contrary I met a number of highly competent political operators at the conference.

Their aim is to create a movement across the European Union, which will be strong enough to change the European Treaties in such a way as to abolish fractional reserve banking and transform the ECB into a European Monetative. I put a few questions to Dr Dietz on this matter, and he had a number of interesting replies. I would not like to put words into his mouth, so the following remarks should be considered my understanding of the hopes and expectations of the Vollgeld movement.

1) A great transformation of the system would not be required, it would essentially by a matter of denying the commercial banks any means by which they could create money by leveraging deposits and collateral.
2) The central bank would be independent in the same way the ECB is today, its directors will be appointed by democratically elected governments.
3) It might well be necessary for the central bank to make it illegal to use alternative currencies like Bitcoin or Gold and as a power with democratic legitimacy it would be entitled to take such a decision.
4) The policies of the central bank will follow generally accepted economic theory.
5) Money is too important to be left to the free market, it must be regulated by the state in the interests of the people.
6) The ECB and the EU will be prepared to embrace Vollgeld, if they believe it will help the currency and the process of political integration.

Vollgeld is not a purely European phenomenon. There is also an active democratic money movement in the USA. Ellen Brown (Web of Debt) and Bill Still (The Money Masters) are among the best known proponents of this school of thought. The following short video by Bill Still gives an interesting perspective on the connection between Vollgeld, National Sovereignty and Debt in the US context.

Advocates of a return to a gold standard would do well to keep an eye on the Vollgeld/Positive Money movement. Western Society has not lost confidence in the state. On the contrary there remains a general expectation that whatever crises develop, whether economic, environmental or social, state power guided by expert advice will find the best solution possible under the circumstances. Vollgeld/Positive Money falls into this category and appears to address the deficit in democratic legitimacy plaguing the EU, to guarantee transparency, offer protection against the excesses of the free market and provide access for all to free money. In short it promises to provide a medium of exchange for a society in which each can give according to his abilities and receive according to his needs.

Gold Standard advocates may be sceptical that state controlled money will bring prosperity. Nevertheless in a serious monetary crisis the population may very well be prepared to give total control over the money supply and over money flows to the state in return for a promise that public money will be distributed like manna from heaven though a policy of quantitative easing for the people.

It struck me this year once again, just how marginalized hard money advocates are in the public consciousness. Commodity money appears to have been eradicated from the popular imagination and advocates of the Gold Standard have a lot of work to do if they wish to play a role in discussions about monetary reform. In as far as Gold is even discussed as money at such conferences, it is criticized for being elitist, on account of the fact that a few people can own a high proportion of the available stock. Gold Standard advocates should not dismiss such criticisms out of hand, but engage in dialogue with other monetary reformers. Undoubtedly there is a parallel movement at work to re-monetize gold, but it seems to take place in a different universe to the one occupied by the democratic money movement and address itself mainly to high net worth individuals and sovereign governments. This political and social split may not be in the best interests of gold owners and is most certainly no assistance to those wishing to see gold and silver once again established as Western society´s common denominator.

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Was born in Great Britain. Following a degree in Political Science at the University of Bristol, where the focus of his studies was on the political systems of Eastern and Western Europe in the post war period, he studied at the University of Music, Vienna. For 25 years he has been active as a musician and cultural manager in Europe, working for institutions such as the Vienna State Opera, Vienna Volksoper, Bayreuth Festival and Salzburg Festival. He is currently a lecturer at the University of Arts and Music, Vienna. He has written and lectured on British Common Law, constitutional Law and comparative European legal systems as well as the influence of history on contemporary political developments in Europe. He has been a member since its inception of the Vienna Institute for Wertewirtschaft, an institute devoted to promoting and developing the philosophical tradition emanating from Carl Menger and Ludwig von Mises.