The Gold Standard

The journal of The Gold Standard Institute

The purpose of The Gold Standard Institute is to promote an unadulterated Gold Standard.

Contents

Editorial - Extremism

Societies create a natural balance. Free from social engineering, they tend to muddle around the middle. If an area does head out to an extreme, then a move to the opposite extreme will also develop; it must for the balance to be maintained.

A topical and highly visible example of 'out to an extreme' is the unrestrained migration that has brought about cultural problems in Europe. The balancing factor has been the creation of what has become known as the 'Far Right' – people protesting the damage to their culture.

Another example, more pertinent to readers of The Gold Standard, is the area of money.

The slow-motion collapse of the extremist debt based pseudo money system has created havoc in the real economy of production, wealth creation and jobs. To balance this, extremist solutions have been implemented – including more regulations, more debt and negative interest rates. Nuttiness exists at the extremes. Even if it's a balanced nuttiness, it's still not the sort of society that you would wish to take your mother to.

The move toward Gold is the natural response of people who have been mercilessly impacted by the extremist actions of central bankers and government economists. People are being nudged back toward reality. The monetary middle ground is slowly coming back into focus.

The rule is: If you don't want extreme reactions, then don't take extreme actions. What a whimsically delightful world we inhabit. Were it not so end-of-the-worldish, we could all have a good chuckle.

Philip Barton
President, Gold Standard Institute
Times of Gold

News

SNBCHF: Another Serious Real Interest Rate Fallacy

≈≈≈

Monetary Metals: Swiss Customs Data Indicates Gold Flowing East to West

≈≈≈

Goldchat: Central Bank Non-Transparency

≈≈≈

Mining.com: If this is true, then a good portion of the 300 tonnes of Gold that is used each year in electronic circuitry has become more easily recoverable. This means that Gold's stock-to-flow ratio will increase even faster.

≈≈≈

Breaking News: Sony's new gold-plated Walkman

≈≈≈

The Standard: "I couldn't believe my eyes"

≈≈≈

Mining.com: Microscopic Gold ball could be Alzheimer's long-sought remedy

Bloomberg: Venezuela has sold off 25% of its Gold in the first six months of 2016

≈≈≈

Youtube: How Olympic Gold medals are made (1.2% Gold!)

≈≈≈

Monetary Metals: Interview with BullionStar on intricacies between the physical and paper gold market

≈≈≈

CBS News: The estimable Judy Shelton is the latest addition to Donald Trump's economic advisory council. She is a good speaker and thinker and a strong proponent for Gold.

≈≈≈

Channel News Asia: Oldest Gold artefact yet found

≈≈≈

Takimag: An off topic, but great article that I am slipping in.

≈≈≈

"You may know society is doomed when you see that in order to produce, you need to obtain permission from men who produce nothing; when you see that money is flowing to those who deal, not in goods, but in favors; when you see that men get richer by graft and by pull than by work, and your laws don't protect you against them, but protect them against you; [and] when you see corruption being rewarded and honesty becoming a self-sacrifice."
Ayn Rand, "Atlas Shrugged", 1957

I hadn't read this wonderful and oh so pertinent quote for decades. It was brought to my attention by one of our readers who spotted it at Zero Hedge.

Arizona Considers Issuing a Gold Bond

The Arizona House of Representatives has convened an Ad Hoc Committee on Gold Bonds. The purpose is to explore if and how the state could sell a gold bond.

This is an exciting development, as the issuance of a gold bond would be a major step towards a working gold standard.

Keith, our USA President, is a member of the committee. At the first meeting, he presented the concept of Gold bonds and gave a proposal for how a gold bond could work to the benefit of the state and the people.

Here is video of the committee meeting. Dr. Weiner's presentation begins around 18:18.

The sound quality is not great in parts, but most problems are fixed by the time that Dr. Weiner makes his presentation. It's quite long, but well worth the listening.

What's Up, Doctrine?

A "values clarification" regarding the so-called Real Bills Doctrine

"[N]o matter how invalid the real bills doctrine is in its role as a basis for creating the 'right' quantity of money, the system's higher ranking commitment to an operational gold standard completely overrides any weaknesses in that doctrine."
(Schumpeter 1954, 721-722; A. Piatt Andrew 1905, 114-115)

I never write about gold standard money without singing the praises of gold bills. At GSI, this 'preaching to the choir' has included remarking on bills' humane origins, their low entropy, and their elasticity as the first layer above base money in the capital reserve structure of a free economy. Since first grasping their significance in 2005, I've been aware how deeply unloved these instruments are; and I've begun confronting how legally and practically difficult it is to circulate such securities in legal-tender-driven, regulated, economies. I think that since both views - loving and hating the Real Bills Doctrine - have become fashionably anti-establishment conceits, the topic needs more clarity.

It was the 2005 flame war greeting Prof. Antal Fekete's attempt to move Austrian economics beyond Mises which reignited the long dormant issue of the Real Bills Doctrine and began my current inquiry into the nature of money. It surfaced again as I was examining Scott Sumner's case that 'the' gold standard caused the Great Depression. Economics professor Richard Timberlake Jr., the eminent University of Chicago economist, seemed to join the 2005 fray when he wrote about "the role of the Real Bills Doctrine in Federal Reserve policy as the primary cause of the Great Contraction of 1929-1933." His paper has now been cited and reprinted often enough that it seems worth revisiting. Page references below are to the version at Econ Journal Watch Vol 2, No 2, Aug 2005, pp 196-233. His opening sections on gold standards are excellent! The historical facts recited throughout are all apt and accurate.

Gold bills found at the scene of the crime?

AN ACT
To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish more effective supervision of banking in the United States, and for other purposes.
(Preamble to Federal Reserve Act: Public Law 63-43, 63d Congress, H.R. 7837)

"Nothing in this act . . . shall be considered to repeal the parity provisions contained in an act approved March 14, 190"
The Gold Currency Act.

It's true that gold bills, cast as 'commercial paper' along the lines of Adam Smith's 'social circulating credit', were a powerful tool of persuasion in the establishment of the U.S.'s Federal Reserve banking system. At the start of 1914, Charles Hamlin, protégé of President Grover Cleveland and soon-to-be first chairman of the F.R. board, summarized the official motives for adoption when speaking to the NY Chamber of Commerce. But there were also ulterior motives: the goals of establishing the legal framework for a banking cartel, and furnishing an 'elastic currency' took higher precedence. Bill-acceptance was only offered next as a carrot dangling from the stick of 'effective supervision' of the cartel's participants.

[A] Reserve Bank was supposed to discount only ***'eligible paper,'*** *which the Federal Reserve Act defined as* ***"notes, drafts, and bills of exchange arising out of actual commercial transactions … issued or drawn for agricultural, industrial, or commercial purposes"*** *(1961, 43). 'Eligible' also meant* ***short-term*** *and* ***self-liquidating***. (Timberlake 2005)

That's a roughly accurate description of so-called 'real' bills, and it's directly quoting from the 1913 Act. So what doctrine do we find here? Could it be the devilish details? The act made distinctions between forms of credit and their eligibility for:

1. Posting as collateral when ordering the U.S. Treasury to issue new Federal Reserve Notes,
2. Supporting the gold-convertibility of said notes, or for
3. Holding as assets on the balance sheet of a Reserve bank.

The categories are couched in early twentieth century legalese which, while clear enough about the monetizing purposes, leave the precise definition of real bills a bit vague. Vague enough that it took nearly a year of internal debate by the ~~foxes guarding the hen house~~ bankers to settle on a working policy. When the dust settled, the definition looked a bit 'unreal': it then included 'single-name paper', unendorsed by any counter-parties, promising only that the proceeds may be utilized for some commercial purpose.

A bill does not get to be a gold bill just by being denominated in gold. The other necessary property is that it circulate with a liquidity rivaling gold.

Is it Real, or is it Doctrine?

Timberlake's characterization of this issue is problematic, but ultimately revealing:

A gold standard monetizes gold on fixed legal terms, i.e., so many dollars for so many ounces of fine gold, no matter what the season, the state of business, the needs of the government, the direction of international trade, or any other real life variables. Significantly, no one has ever had to define 'real gold' or decide which 'real gold' was 'eligible' to be monetized. Bank monetization of real bills, however, cannot be done on fixed terms. (Timberlake 2005, 206)

Calling gold real or fine makes little difference, the effort to physically refine monetary gold is comparable to the due diligence required to select clearing instruments worthy of being social-circulating capital. In each case, the solvency of the miner/refiner or of the bill-monger/acceptance-house depends on the quality of their work. Each is selling a key service (physical assay or fundamental analysis) which a buyer could probably repeat but which she won't, if the seller's reputation counterbalances the risk of buying the wrong metal content or credit liquidity.

The doctrinal problem arises when one tries to *fix* the terms of monetization formally so that a government monopoly's minions can do the due diligence. The 'real' problem is that a malleable legal doctrine distorts the incentive structure around the actors (federal reserve agents). The effect of legal tender laws and monetization doctrines is to socialize the cost of a real default. Once monopolized and socialized, any product's quality always diminishes. Circulation of securities is an emergent property in free markets. It can be observed and exploited, but not commanded into existence.

Despite President Woodrow Wilson's campaign promise to stay out of a European war, Congress knew this would soon bring along immense operational debt, an influx of refugee gold, and a more-intense than usual desire for monetary expansion. The US stayed nominally neutral long enough to collect the fleeing gold. So when Congress committed to war in 1917, the Federal Reserve ~~death star~~ was fully operational: FRN base money swiftly quadrupled from $300M to $1,350M. From the day war was declared, the gold reserve ratio dropped from 95%, with no eligible commercial paper posted as collateral, to 59% at year end with collateral now able to include US government war bonds. The doctrine then was expansionary monetary policy, **and bills were not especially**

implicated in its realization. In fact, Timberlake admits that re-discounting was considered only as an adjunct to the Fed's role as lender of last resort; he cites A. Barton Hepburn:

Fed Banks were to keep their re-discount rates higher than general market rates, so that they would become financially active ***only in a liquidity pinch*** (Hepburn 1924, 531-534).

Standardization of the money markets seems to have given the over-stimulated economy a swift transition to its wartime stance. Real bills may have underpinned further leverage at the commercial banks, but they never were a significant support for the supply of Federal Reserve Notes. Bills themselves didn't cause that inflation, however much they baited the hook of the 1913 Act.

Timberlake's critique of activist RBD hardly resembles what we learned about gold bills from Prof. Fekete.

[Some in the 63rd Congress] believed that commercial banks' and, especially, Reserve Banks' faithful adherence to the real bills doctrine would make the monetary system self-regulating, with or without the gold standard. . . . Although supporters of the Federal Reserve Act who subscribed to the real bills doctrine did not acknowledge it, their stated beliefs made the gold standard appear superfluous. (Timberlake 2005, 206)

Discarding the gold standard may indeed have been tempting to the 1913 Congressmen or their paymasters, but it is abhorrent to genuine believers in the self-regulating properties of a volunteered supply of circulating, self-liquidating, gold bills. Timberlake is right to target any saboteurs of the gold standard, but New Austrian school ideals should not be the collateral damage. In any case, the U.S. remained on its faux-bills, gold-exchange, standard until 1934, despite what anyone in 1913 intended.

Let's endeavor to keep the terminology clear. Gold bills are not produced by legislating a real bills doctrine. Doctrine does not make selected bills more real; only voluntary circulation confers that status. Bad doctrines arise from trying to monopolize or freeze inherently competitive business practices, including even the issuing of banknotes.

So who dunnit?

Clearly, the open-market operations and other activist policies that the Fed Banks and Board undertook between 1923 and 1928 had little to do with maintaining an elastic currency or serving as a lender of last resort. They confirm that the Fed had become a constant force in financial markets—manipulating gold flows, and negotiating with foreign central banks to control gold movements, while conducting open market operations to keep prices stable. (Timberlake 2005, 211)

Sumner, Timberlake, Fekete and dozens of other authors agree that NY Fed Chair Benjamin Strong dominated Fed policy in this era and diverted it to the benefit of price stability, Wall Street margin speculators, and a creeping wealth effect we now call the Roaring Twenties. Also that his demise in 1928 brought to the fore many of the original demagogues.

This shift in control was decisive. In accordance with the precedent Strong had set in promoting a stable price level policy without heed to any golden fetters, real bills proponents could proceed equally unconstrained in implementing their policy ideal. System policy in 1928-29 consequently shifted from price level stabilization to passive real bills. (Timberlake 2005, 214)

But the keyword here is 'passive'. The doctrine of the day was that **no real bills would be re-discounted into the Fed until all the speculative margin loans had been called**. Ironically, the allegedly inflation-prone Real Bills Doctrine is here being shot down for being … too contractionist! Hamlin speaking in June, 1929 confesses to it all, even quoting the Manchester (U.K.) Guardian Commercial of March 28, 1929 to say:

There appeared at least some slender hope that the Federal Reserve authorities were meditating action drastic enough to precipitate the crisis in Wall Street which, in the opinion of most monetary students, must come sooner or later. (quoted in Hamlin 1929)

There once were Fed officials who proudly popped bubbles! According to Scott Sumner, passivity might even have seen them through it all had President Roosevelt not thrown the kitchen sink of government programs at the Depression. Does this make gold bills the villain? They don't even get a speaking part. To synchronize such investment errors into a bubble takes a central bank's *authority*.

The relative certainty of death vs taxes

The idea that money should exist in quantities that suffice to clear the most-certain core transactions which ensure the survival of the human race, and should vary its volume and velocity with the seasonal rhythm of the earth's economy, seems like an ideally Good arrangement. Perhaps its immediate appeal to mid-west agrarian business concerns made it yet another regional dispute in U.S. monetary history. But to anyone convinced that free markets can identify these most urgent core exchanges the prospect of doing so seems much more reliable, not to mention life-affirming than the currently favored alternative.

Which alternative? The one where the government's power to tax is leveraged beyond credibility to pay interest on bonds which fund a collectively authorized Progressive shopping list of future benefits, interventions, hot and cold wars and lots of speculative make-work programs disingenuously peddled as job-creation. Sure government bonds are safe havens. Any bond seems safe when every central bank in the world is pledging to keep buying them until things improve.

The question is which would you rather see end: that taxation, or the economy that sustains human life?

[R]eal bills are only meant to work in a truly free-market banking system. Real bills (and any other form of credit/clearing) are going to be abused in a government run system. That's a given. In order for real bills to really be safely utilized requires the absence of any central bank as a lender of last resort. (Hultberg 2005).

Greg Jaxon
Greg Jaxon is an American software engineer who has been studying New Austrian School economics for over a decade, in part by fact-checking Professor Antal Fekete's revisionist historical claims.

Between Malthus and a Hard Place

In my last article 'Tail Wags Dog', we turned 'leftwards' to take a look at a bigger picture of economics; the real (physical) economy... vs the constrained financial aspect that the term economics currently implies. Now I suggest we turn even farther 'left' and look at an even bigger picture; Humanity and its very place on the planet.

Malthus looked at the animal kingdom, and saw 'dog eat dog' competition, saw species growing without bounds... saw that only starvation limited species expansion... indeed, his vision reflects Abrahamic religion's imperative for Humanity to endlessly 'propagate' and dominate the Earth.

He did not, could not see that the animal kingdom has far more cooperation than competition, as modern research shows... nor that species complement each other... nor that life lives through life... and worse; he and his followers applied his views of the animal kingdom to Humanity.

His views sparked many responses from some segments of society; Club of Rome, Limits to Growth, overpopulation, resource depletion... all Malthusian ideas, ideas sparked by Malthusian thought. But are these thoughts and ideas true? Do we truly suffer from overpopulation, from resource depletion?

First we need to recognize that while Humanity is indeed part of the animal kingdom, Humans also are gifted with a faculty that no other species exhibits; the faculty of creativity. The ability to invent, to create, to consciously learn from experience, to understand ever more deeply how the Universe works; this is a faculty unique to the Human species... at least on planet Earth.

This faculty and only this faculty enables Humanity to overcome Malthus. To see how this works in real life let's look at resource depletion that supposedly leads to a Malthusian end game; to an inevitable resource war.

Economic (financial) collapse may lead to war. Resource depletion may also lead to war; indeed, the Middle East wars now in progress are, at least in part, resource wars; OIL wars. Today crude oil is Humanity's biggest, most important resource... and a lot of crude oil is found in the Middle East. Maybe Malthus was right? Maybe WWIII will be fought over oil? Maybe Oil wars will be the end of the Human species?

Big question! To tackle it we need to consider Human history, with a jaundiced eye towards Malthus and his ideas. We need to understand the true human condition. We must first understand that there are NO resources Per Se in the world; there is only stuff. Endless varieties of stuff, it is true; mineral stuff, vegetable stuff, animal stuff... but all just stuff... until Humanity invents a way to make use of the 'stuff', promoting 'stuff' to 'resource'.

Coal was just a curiosity in Roman times. Bits of coal were used as jewelry; shiny, faceted black crystals called Jet... until Great Britain started to run out of another resource called trees, especially oak trees. Oak trees were used to build the Royal Navy's war ships, wood was used for heat, for making charcoal used to produce wrought iron... wood was not just stuff, but a vital resource... till the Malthusian effect kicked in as the last tree in England was cut down... not.

Indeed, there was a period when wood became scarce... but human creativity kicked in, not the Malthusian effect. People learned to burn Jet, to mine Jet in quantity. So was born the industrial revolution. Soon the oak sided battle ships of the Royal Navy were replaced by steel sided battle ships; steel wrought in Bessemer converters fueled by... coal. Jet transmogrified into King Coal.

Crude oil was a smelly, sticky nuisance in the North Forty that cattle stepped into... until Human ingenuity figured out a way to refine and use crude oil; gasoline, Diesel, petrochemicals, fuel oil to fire ship's boilers, kerosene for jet aircraft and rockets to outer space. Now the Royal Navy runs on Oil; Coal is no longer king. The King is dead. Long live the King.

Now Oil is 'King'...until in turn replaced, as were oak trees, as was coal. There are no resources, only stuff... until Humanity figures out a way to use the 'stuff'. Not convinced? How about stuff like Ice; like ice on the driveway, the highway, the lake... surely ice is not a resource to be fought over, surely it is just a nuisance to be fought against?

So it is today... but about a hundred years ago, Ice was a resource much in demand. In North America, ice harvesting in winter was a serious business, employing thousands, even creating conflict over property rights... who owns the lake and the ice?

Much money was made, and many tons of ice was stored in ice houses for the heat of summer. When mechanical refrigeration and rural electrification came on the scene, Ice lost its status as a resource; demoted to being just stuff once again.

So we are left with one resource and one resource only; human creativity. Malthus will be defeated or held at bay only if we recognize this; if instead of preparing for resource wars by spending trillions on ever more lethal nukes, we encourage and nurture Human creativity.

We must do more of what works and less of what doesn't. Club of Rome, Limits to Growth, Peak Oil... all these ideas do not, cannot work... unless we accept Malthus, and decimate the human species. What does work is Human creativity; Bessemer vs Malthus. We need new sources of energy vs oil wars. We need the freedom to create, to learn to think... vs the Malthusian indoctrination that permeates Western school systems.

Shanghai tore up the book on how to educate children about twenty years ago, and started a new system of education; well-paid teachers, maximum of three hours teaching per day, plenty of time to work with individual students, plenty of time to interact with other educators learning and sharing 'what works'... school principals provided with a limo and chauffeur(!)

Shanghai understands that education of Humanity, that nurturing Human creativity is the way; that action taken on this understanding is the way. The results are phenomenal. Worldwide student evaluation shows that the average Shanghai high school graduate is three years ahead of graduates of the second best school system in the world.

We must do more of what works; change course economically, change course morally, change our world view. Throw out the Club of Rome, loose the blind faith demanded by Abrahamic religions... and replace with faith in the Human species, faith in Human ingenuity.

Humanity can get along, can learn to deal with resource depletion, can even learn to leave the planetary cradle; rather than Malthusian extinction, Humanity can reach the stars. We can do all this, if we but come to our senses, if we but wake up and loose the fear that tyranny implants in us to control us.

On the other hand, creativity has a down side... if directed by immoral psychopaths. Instead of creative new solutions to ancient problems, we create new weapons of mass destruction, of mass surveillance, of mass control.

We create ever newer forms of pretend 'money'. Bitcoin is a 'crypto currency'... but there are now over six hundred variations of 'crypto currency' in existence! The banksters are not only using Bitcoin for their purposes, but are designing their own version of Bitcoin... for their own purposes. Obfuscation is hard at work, or the 'bullshit baffles brains' effect is.

There is Gold, there is Silver... both immune to printing, both immune to hacking, both immune to counterfeiting. Why on earth do we ignore this reality, and buy into virtual reality, into a fantasy world being created for us by our masters? Why more warfare and less peace? Why more poverty and less prosperity? These questions go deep, and deserve their own article.

Rudy J. Fritsch

Another Serious Real Interest Rate Fallacy

What is the *real* interest rate? It is the *nominal* rate minus the i*nflation* rate. I previously wrote about one problem with this notion (the *nominal* rate exists in the market, but the *real* rate is imaginary). Now let's turn to another problem.

To visualize this problem, let's make an analogy to someone who inherits a family farm. There are two approaches to making a living from a farm. In the first—we'll call this investing—Farmer Brown determines how to produce the greatest amount of food at the least cost. He increases production of milk from his herd, and apples from his orchard.

In the other approach—we'll call this liquidating—Liquidator Larry sells off the farm, bit by bit. The back 40 acres can be sold to a developer of high-end condos. The apple trees can be chopped down, because cabinets made of fruitwood are hip in high-end condos. The barn can be torn down, because those condos need flooring. Wood planks from old barns is really cool.

Brown operates his capital asset to grows crops, but Larry sells off his capital asset to buy groceries. Both eat well this year, but Larry will run out of farm eventually. Larry is consuming capital that was accumulated by his father and grandfathers.

Next let's look at interest, and then we can tie interest to farming.

Consider two examples. In both cases, you have a $1,000,000 nest egg. The cost of groceries is $20,000 a year.

One example is when you earn +2 percent—i.e. $20,000—and the price of food is holding steady. You can spend the interest and keep your principal indefinitely.

The other is when you're paid nothing, but the cost of consumer goods is falling at -2 percent. You must spend $20,000 of your principal to buy groceries. Every year, it dwindles. After 20 years, you have only $667,608. Although groceries are cheaper too, it's small consolation because you're eating your life savings.

Case one looks a lot like Farmer Brown, doesn't it? To pay interest, the borrower works your capital to produces new goods which he sells at a profit. To earn a living, Brown works the farm to produce crops. This model is about earning a yield on capital. Modern monetary economists dismiss this as a mere *nominal* yield.

Case two is like Liquidator Larry. You're paid no interest, because your cash is doing nothing productive. Just as Larry's farm is producing nothing. With no interest, or no milk and apples, there is no yield. This model is about consuming capital.

Let's extend the analogy further. Suppose the price of Larry's farm bits is rising at +2 percent per year. That's equivalent to your cost of groceries falling at -2 percent per year. Although a smaller chunk of capital can buy the same food, both Larry and you are forced to consume capital, to liquidate your estates.

I say there is no **actual** yield from a farm that is not growing apples or producing milk. I say there is no **actual** yield on cash that is warehoused, but not used productively.

However, modern monetary economists sing a different song. They tell us that what matters is the *real* interest rate. *Real* = *nominal* – *inflation*. They say if Larry grows no crops, but the price of his farm is rising, then he has a *real* yield, just as if he was operating his farm. They insist that if you are paid zero interest on your cash, but consumer prices are falling, then you have a positive *real* yield. They deny any difference between production and liquidation.

Modern monetary economics is a siren song, especially alluring in a world of falling, zero, and negative interest rates. I urge you not to dash your wealth against the rocks.

Keith Weiner
President, Gold Standard Institute USA