The Case for the Gold Standard

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value."[1]

Alan Greenspan, July 1966, *The Objectivist Newsletter* (before he became part of the establishment)

Obama ran on a platform of "change" and many are going blind, squinting to try to see the "change" they are getting. For a nanosecond, I think I saw "transparency." If the crowd inside the Beltway were even half serious about real change, we would at least be discussing sound money—a return to the gold standard. This month I will be discussing why this is the only lasting solution for free people. Next month I will be explaining how we could actually go back to a gold standard. I hope this route comes by choice instead of the markets imposing it on us. Let's start with the history of money.

Thousands of years ago, man came to realize that he could enjoy a better standard of living if each member of society could specialize. Through trial and error, a barter system was developed to allow different people and regions to use their skills and natural resources to their highest potential. Bartering was a huge step for mankind, but it came with two big problems—"indivisibility" and "lack of coincidence of wants."[2]

"Indivisibility" makes bartering challenging when you only have a large asset and you want to trade for small day-to-day items. For example, it wouldn't make sense for me to remove a part from my motorcycle in order to trade you for a meal that you prepared. That probably wouldn't be a very safe ride back home.

The "lack of coincidence of wants" issue arrives when I have a couple of fishing poles that I am looking to trade for a rocking chair. Can you imagine how long it might take for me to find a fishing pole-wanting rocking chair owner—especially pre-internet?

Money developed over time as people realized that they could trade their goods for something divisible that was desirable by more of the population. I might first trade my fishing poles for eggs, wheat, whiskey, or precious metals so that I could then trade these items to the rocking chair owner. Even though I may not have a need for whiskey, if I knew that others valued it and it could be traded for what I wanted, then whiskey could be used as money.

Eventually gold and silver became the preferred choice for money because they are:

[1] http://www.321gold.com/fed/greenspan/1966.html
[2] Murray N. Rothbard, *What Has the Government Done to Our Money?* (Auburn, AL: Ludwig von Mises Institute, fifth edition, 2005), 25.

1. Fungible- Check the periodic table. An element is an element and once you melt it, you can't tell the difference between Chinese gold and Canadian gold.
2. A Store of Wealth- Gold and silver are better than eggs because they don't rot and break when you drop them.
3. Precious- Both are relatively rare and allow the owner to store a lot of wealth in a small space.

If money needs to have these three characteristics, then the dollar only meets one qualification. Professor Murray Rothbard said it best when he said:

> Money is not an abstract unit of account, divorceable from a concrete good; it is not a useless token only good for exchanging; it is not a "claim on society", it is not a guarantee of a fixed price level. It is simply a commodity. It differs from other commodities in being demanded mainly as a medium of exchange. But aside from this, it is a commodity—and, like all commodities, it has an existing stock, it faces demands by people to buy and hold it, etc. Like all commodities, its "price"—in terms of other goods—is determined by the interaction of its total supply, or stock, and the total demand by people to buy and hold it.[3]

Unfortunately, governments decided to intrude on the people's rights and got into the money business. By fiat (arbitrary order or decree), we are told that we have to trade in "Federal Reserve Notes." There has never been a paper money system that has developed in the free market. It has always come by a government violation of property rights.[4] In *Meltdown*, Tom Woods helps underscore the insanity of our current system:

> As economist Robert Murphy puts it, only a genius could have envisioned money and its possibilities without having observed it, and he would have sounded like a crank if he tried to describe it. ("Instead of trading away your valuable pigs for horses, why not accept some smooth stones? Don't worry that you don't want them; someone else will give you those horses in exchange for the stones! C'mon, everybody, if we could all just agree that these useful stones are valuable, we'd all be so much better off!")[5]

The history of government intervention into money is soiled with blood and tears. Not many people realize that one of the major causes of the fall of the Roman Empire was massive inflation. The basic coin they used was the silver denarius introduced by Augustus at the end of the first century BC. This coin was about 95% silver and 5% base metal. It worked very well until successive corrupt emperors clipped and shaved the coins, and even issued new coins with their face on them. By 268 AD, there was only about .5% silver in each denarius. Not surprisingly, gold kept its purchasing power during this time while other coins experienced incredible inflation.[6]

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[3] Murray N. Rothbard, *What Has the Government Done to Our Money?* (Auburn, AL: Ludwig von Mises Institute, fifth edition, 2005), 27-28.
[4] Thomas E. Woods Jr., *Meltdown* (Washington, DC: Regnery Publishing, Inc., 2009), 113.
[5] Thomas E. Woods Jr., *Meltdown* (Washington, DC: Regnery Publishing, Inc., 2009), 111-112.
[6] Joseph Peden, "Inflation and the Fall of the Roman Empire," speech given 10/27/1984 , http://mises.org/story/3663

The once strong Byzantine Empire began its terminal descent when they began to mix their "bezant" coins with cheap alloys.[7] If I had space, I could share pictures with you of "Sols" that I brought back from Peru and the stories I heard of people losing fortunes at the hands of Alberto Fujimori (I wish some of our presidents would resign via fax from Japan too) and Alan Garcia Perez (How did he get re-elected?). There are also examples of hyper-inflation in the German Weimar Republic, most of Latin America, and more recently in Iceland and Zimbabwe. Most of you have seen my $100 Trillion Zimbabwe dollar that I bought for $1USD on EBay. There are some excellent pictures, like the one to the left, of the horrors that Robert Mugabe brought his people at http://humorland.wordmess.net/20081025/what-the-real-crisis-is-like/.

"Without the limitations of sound money, governments will spend without limit. They will spend money to hire their cronies, pay off special interests, give out favors, create dependence and generally distract from the terrible job they do at their chief mandate, which is to protect the liberties of the people. Fiat money is a blank check to government, which is very dangerous, and we are witnessing the death throes of the system as the bills come due and the underlying capital is squandered away,"[8] said Congressman Ron Paul.

I have a deep respect for the founding fathers of our nation. Their understanding of man, liberty, government, and money is unparalleled. Jefferson gave us a glimpse of how he knew the true nature of man when he said, "In questions of power then let no more be heard of confidence in man, but bind him down from mischief by the chains of the constitution." John Adams echoed his skepticism in 1778 when warned "No man's life, liberty, or property is safe while the legislature is in session." These men had seen their own hearts. They had lived under the tyranny of George III. They had read Cato's letters, Voltaire, Smith, and the history of Greece and Rome. They understood that man is fallen and needed to be restrained from his natural urges.

With that knowledge, they designed a system of checks and balances and wrote the excellent Bill of Rights—a document that spells out exactly what the government *can't* do to its people. The founding fathers also understood, as Lord Acton put it, "All power corrupts. And absolute power corrupts absolutely." Let's see why the government can't be trusted with our money.

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[7] Ron Paul, *Gold, Peace, and Prosperity: The Birth of a New Century* (Lake Jackson, TX: FREE, Inc., 1981),18.
[8]http://www.house.gov/htbin/blog_inc?BLOG,tx14_paul,blog,999,All,Item%20not%20found,ID=100216_3645,TEMPLATE=postingdetail.shtml

Imagine that you were given a genuine printing press that is exactly what they have at the Fort Worth Mint. Imagine that you are also a very good person. (That shouldn't be hard for many of my wonderful clients to do.) For a while, you continue to work and toil as you always have and do not run the press. You are tempted, but you resist. After a while, you start to dislike your job, have an emergency, or want to splurge. You begin to print money and live beyond your means. Because you are printing the real thing—you justify in your head that you are not counterfeiting. After all, you are only adding a little bit to the money supply each year and you are giving some of it to the poor.

That is the temptation that our founding fathers knew was irresistible. They weren't obsessed with feeling a smooth gold coin or watch the sun shine on their gold. They gave us sound money because they loved freedom and they knew that the only way a man could keep the spoils of his labors was with sound money and restrictions on the government.

There is no difference between a man or the government committing murder. An immoral act is wrong regardless. There is also no difference to savers when the government or the mafia counterfeits money. Either way, the counterfeiter has added to the amount of money in existence and made everyone who owns dollars poorer. Paper money is confiscatory and in the end it never creates wealth—only production can create wealth. Murray Rothbard said:

> Our present system gives to the Federal Government and its Federal Reserve System the unlimited power to counterfeit. The problem is that if the Fed has the power to counterfeit, it will inevitably use that power. Why? Because the power to counterfeit is too tempting. The power to create money means that it is far more tempting to print it than to work for it. It means that the counterfeiter can pay his debts, spend more money, give more money to his friends and associates. In the case of government, the power to counterfeit means that government's debts can be paid without levying taxes, that government spending can increase, and that political allies can be purchased and maintained. The power to counterfeit is the power to abuse. It is not enough to urge the government to use it more moderately. The power must be taken away. Counterfeiting is fraud, and no one should have the right to counterfeit, least of all the government, whose record throughout history is black indeed. Money and banking should be separate from the State, just as Church and State are separated in the American tradition, just as the economy and the State should be separated.[9]

Our country has already had two horrible experiments with paper money during the Revolutionary and Civil wars with the "Continental" and the "Greenback." Does anyone remember the phrase "ain't worth a continental?" Both hyper-inflations came about because our all-knowing leaders knew it was easier to print paper than raise taxes or actually sacrifice. William Gouge quoted a member of the Continental Congress in 1833: "Do you think, gentleman, that I will consent to load my constituents with taxes, when we can send to our printer, and get a wagon load of money (25 sheets) of which will pay for the whole?[10] "

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[9] Ron Paul, *Gold, Peace, and Prosperity: The Birth of a New Century* (Lake Jackson, TX: FREE, Inc., 1981),12-13.
[10] Ron Paul, *Gold, Peace, and Prosperity: The Birth of a New Century* (Lake Jackson, TX: FREE, Inc., 1981),19.

http://zerohedge.blogspot.com/2009/05/annihiliation-of-dollars-purchasing.html

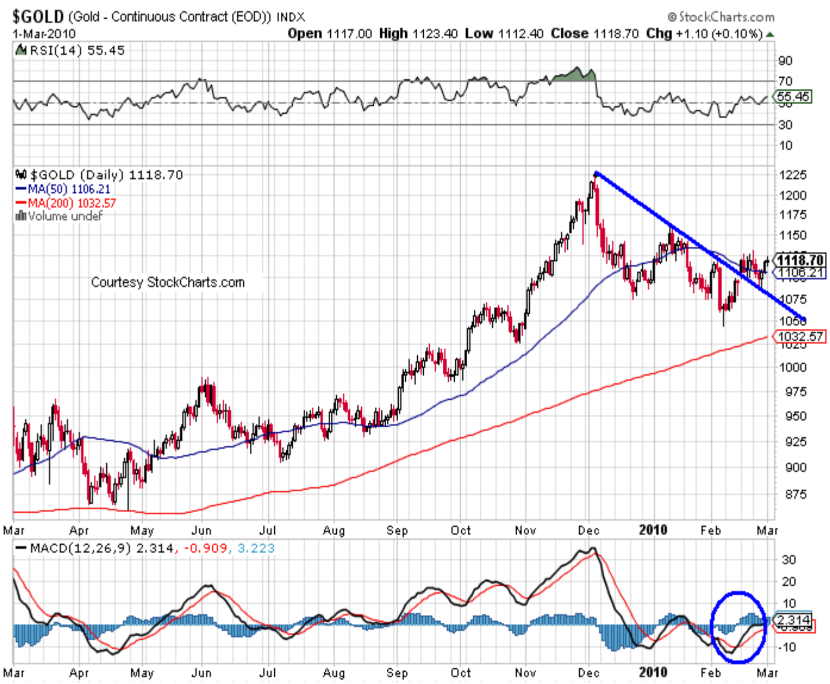
I hope that I have made a compelling case for freedom and restrictions on our massive government. The main reason for a gold standard is restraint. It is a lot more expensive to mine an ounce of gold than it is to cut down a tree and put some ink on it. If history is any guide, the only question for us is *when* this experiment ends in tears. My final argument is the chart to the left. The folks at Zero Hedge make a great point about this chart. It took 76 years for the dollar to lose 94% of its purchasing power. The only question is whether it will take 76 months for the next 94% devaluation.

"At the end fiat money returns to its inner value—zero."

- Voltaire

Markets

As you can see from the chart below, gold broke its 2.5 month down-trend on February 16. It also is now above its 50 day and 200 day moving average and recently had a MACD “buy” signal (see circle).



Let me leave you with the following two pearls of wisdom that I read this month from two of my favorite investment strategists.

“The dip in gold price is a correction and this should be taken as a great buying opportunity...the weakness that gold has shown recently is no reason for investors to get out of gold investments. I still believe gold should continue to be part of every investor’s wise investment portfolio.

“There is no doubt the printing of money from central banks around the world is generating inflation, and it will increase going forward. That alone is a good enough reason to have gold in your investment portfolio. Gold remains the best bet as a currency these days because of the fact that the yellow metal supply is extremely limited”[11]

-Dr. Marc Faber

“Do not expect too much from gold now. Over time, gold will prove to be the ultimate reservoir of wealth. In the end, gold will be "the last man standing." Compute your gold position in ounces, not in its current value in dollars.[12]”

-Richard Russell

[11] http://decodingwallstreet.blogspot.com/
[12] http://ww1.dowtheoryletters.com/

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