

Gold: The "New" Money

By Paul Nathan
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Ben Bernanke said in testimony in front of congress that he did not understand what was causing the gold price to go up. In fact he said he didn't understand gold. Larry Kudlow has been asking everyone on his program "what is causing the price of gold to move up?" The use of the term "gold standard" and "new reserve currency" has been used more in the last few months than in the last few decades. Perhaps that is the tip off.

Some commentators are beginning to join the debate on the pro's and con's of a return to the gold standard. One said he would bet his career that this will never happen. Most laugh at the prospect. The fact is it is happening now.

The new controversy over a reversion to a gold standard is welcome. Many who comment, pro and con on the possibility are new to the subject, and as such have not really thought through some of the implications. I have been writing articles on the gold standard since the early 70's and I welcome the new commentators to this debate. Two points I would like to make to anyone who participates: One, any return to a gold standard will come well into the future. A return to the gold standard will be incremental. You can not graft a gold standard onto the present system. It presupposes fiscal responsibility, balanced budgets, monetary stability and free trade. A political and economic transformation would need to occur first. And two, it will look much different from gold standards of the past. No one knows -- or can know -- what a future gold standard will look like. The reason is that technology has changed.

Today we can compute values of gold, silver, ETF's in precious metals, or anything else and convert those values into paper claims in a nano second. Which means we could pay for goods and services with a credit or debit card which are backed by our savings or checking accounts. Which means we could save in gold or silver or whatever we want and use the credit or debit card as our medium of exchange.

My suggestion to Ron Paul and all those wanting to return to gold, is the best way to accomplish this is not by proclaiming your determination to replace the Federal Reserve Board with the gold standard, but to *attack the legal tender laws of this country*. I was one of the few back in the early 70's along with Ron Paul that fought for the legalization of gold to be allowed back into the American system. That was the first step in returning to the gold standard. Today is very much the same. The next step is to institutionalize competing monies.

The key is to go after the governments monopoly on money. If broken, gold will find it's way into the monetary system, as it is today, and reclaim it's superior role *as long as it is not prevented from doing so*. Legal tender laws do just that. They prevent choice.

Today, to be an advocate of a gold standard is to be laughed at and ridiculed as naive. But, to be against legal tender laws, wipes the snickers off the face of those against gold very quickly. To be against legal tender laws is to be *for* freedom of choice and *against* government coercion. You will not find the same chuckles from "intellectuals" when confronted with a proposal of this nature. On the contrary, you will find terror.

This goes to the heart of government power. It goes to the use of force. It goes to governments ability to control people, raise taxes, borrow money, and inflate. This is the tactic and strategy required to achieve an honest money once again in this country. Let the private market develop a private money and compete with government money, and then we will see who has money and who does not.

With this in mind, the following is an article I wrote recently on the subject:

Government has a monopoly on money. It declares what can and can not be legal tender. It controls the value of money through setting the supply and the price of money by setting short term interest rates. We have been on a fiat standard for a century. Fiat means "decree" and that is what government does -- sometimes subtly, sometimes brutally. But make no mistake, the government controls money.

The force of a monopoly alone, however, is insufficient to prevent individuals from protecting their wealth. So, governments best chance of preserving stability is through trust, confidence, and credibility. Lose these things and government will eventually lose control. Today, we see this very scenario playing out before our eyes.

Over the last few years, there has been a move away from government money and towards gold. Not too long ago, governments were net sellers of gold. Every year they would announce how much gold they were going to sell into the market. It was part of "demonitization", which represented a monetary philosophy that accepted the fact that gold was a "barbarous relic" that had little relevance in today's modern financial system. If governments needed money, they would simply print it. If they needed more gold, they would print that too. They created "paper gold", known as Special Drawing Rights, or SDR's. These would act as reserves instead of the metal itself.

Flash forward. Today, there is a steady run on gold by a growing number of governments everywhere. As creditor nations begin to question the value of their paper reserves they have been converting them into gold. Gold is becoming, once again, the reserve currency of the world banking system. (See my article "Are The Fiat And Gold Standards Converging?" under "more articles" at the top of this page).

More importantly, individuals are accumulating gold like never before. In five years the ETF that tracks the price of gold, GLD, has bought more and more gold as demand has risen. It now holds more gold in trust for individuals than most governments do. And gold coin sales are breaking records throughout the world as individuals clamor to own physical gold. This is the re-monetization of gold. Yet, only a fraction of individuals still actually own gold.

The free market is a marvelous thing to behold. It has a life of its own. It represents the values and judgements of free individuals -- right or wrong -- apart from government decree or "informed opinion". Even in dictatorships you will find black markets where you can find pretty much anything you want for a price. So, when you see a trend - as you do today- toward gold accumulation, you need to take notice. What is it telling us?

Personally, I view it as a market response to the need of an honest currency outside the influence of governments. At a time when government debt, currencies, and financial institutions are all under suspicion, is it any wonder that the market demands an historic form of

money, devoid of government influence and promises? That demand is being sought out and satisfied daily.

Many investors look at the price of gold and claim it is in a bubble. But it is not a matter of price -- it is a matter of possession. If only a fraction of individuals around the world possess gold today, what would a future price of gold be when almost everyone wanted gold?

If governments fail to get their fiscal houses in order there is no telling what the future will bring. Gold offers some semblance of security. Among other things, it is a hedge against stupidity. Given the almost criminally reckless fiscal policies of government, who in his right mind would not want to protect himself. And if a currency crisis occurs, who would believe the promises of a new government paper currency in light of the broken promises of governments everywhere. Gold is not a promise that can be broken, and therein lies its present appeal.

In my opinion the private market is in the process of developing a private competing money. No one can predict where this will lead us, but it is happening as we speak. We are seeing the emergence of gold ATMs whereby individuals can convert dollars for gold on demand. If those machines eventually are equipped to also accept gold for paper money, we will have the specter of convertibility on street corners everywhere.

"We are going to make gold public with these machines," said Thomas Geissler, CEO of Ex Oriente Lux AG, which owns "GOLD to go." Fifty thousand machines are being produced to be placed in countries all over the world. And retailers such as Sears and K-Mart have announced they will now be dealing in gold. Companies that buy gold are everywhere, and companies that sell gold are increasing. Convertibility is becoming an industry. This is a further sign of the establishment of the "new" private money.

How this will evolve, not even the market "knows". But it is obvious the market is telling us that there is a demand for gold as money. Will we start computing commodity prices, stock values, and possibly all prices in terms of gold as well as the dollar to know whether we have deflation or inflation and to what degree? Will credit card companies start pricing and translating purchases of goods and services in terms of dollars *and* gold as they do foreign currencies? Will financial institutions store gold as a new form of savings account, en masse? In a new world of modern technology there is no telling how gold will be used, but it is being explored by entrepreneurs world wide as we speak.

To be sure, it will be a long time before we are walking around with gold, silver, nickel, and copper coins in our pockets as we did in the past; there is a long way to go before we ever see gold in the form of a medium of exchange. But there is little doubt that gold will be needed more by governments in the future to shore up their failing fiat standard, and desired more by individuals as a money of last resort in case they don't.

In either case gold is back -- and back big time. Those that argue that the price of gold is approximating a bubble, miss the point. What if governments around the world lose the confidence of those that hold their paper money? What if individuals through the private market desire a non-governmental money, as they are starting to today? What if the billions of individuals who do not own gold start to demand it? What price of gold then, knowing that all the gold ever produced would fit into a large swimming pool? Point? Talk of a bubble within this context becomes meaningless and is way premature.

(This is not a prediction of sky high gold prices yet to come, but rather the realization that what we are experiencing is not a bubble in gold, but a steady increase in demand. Gold prices are rising due to a "walk" on gold worldwide.)

To all the pundits that believe a gold standard is impractical, I suggest they look at the present fiat system and then judge it against the hundred years of monetary stability we enjoyed in years past under the gold standard. Then talk to me about which system is practical and which

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