Why Gold Is The Currency Of The Free

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The modern system of money, banking and credit is a loathsome beast that impoverishes and enslaves. It has made wars that should never have happened possible, and it has brought about relentless commercial expansion and malinvestment that has raped the earth. In this essay, I shall consider some of the benefits of doing away with the modern system of money, credit and fractional reserve banking (don't worry, I'll explain what that means) and using gold as money once again.

The poet Ezra Pound once said 'In our time, the curse is monetary illiteracy, just as inability to read plain print was the curse of earlier centuries.' We need to understand what money was and now is, and how we got where we are today, if we are to appreciate how the current system persecutes us all – and how it can be changed. But let us first consider, do we need money at all?

Many of us has dreamt of a society without money. Barter is a wonderful system, and among its many beauties is the fact that it is hard to tax, so government can't get its grubby claws in on any deal. But because barter relies on what is called 'The Double Coincidence Of Wants' – you have to want what I am offering at roughly the moment I want what you are offering - it is, sadly, impractical on a day-to-day basis.

Let's say you are an erotic masseuse and I am a plumber. In a society without money, for any transaction to take place between us I am going to have to want an erotic massage within roughly the timeframe that you need some plumbing done. There will be the occasions when this coincidence occurs, but they will be infrequent. What is needed is some means of storing the value of the work one of us has done for the other. This can then be used at a later stage to buy other goods or services. There are numerous barter websites that are currently thriving and giving some kind of resurgence to the barter system, but they all rely on some system of storing the value of the work you have done or goods you have sold that can later be exchanged for other goods or services. In many cases they use a points system. All these boil down to is a modern money equivalent, a different form of money. Like it or loathe it, a society can't function without money. Even the most primitive developed some kind of payments system.

Shells, cocoa beans, various metals, even feathers have been used over the years as money. At one stage Roman soldiers were paid in salt, from where we derive the word, 'salary'. These early forms of money were 'Commodity Money'. The most widely and successfully used forms of commodity money were gold and silver, and, for smaller transactions, copper and nickel. Indeed the words 'silver' and 'money' are interchangeable in some 90 or more different languages: 'Argent' in French, 'Plata' in Spanish, for example. A Pound Sterling once meant a pound of sterling silver. The casting of gold and silver coins which certified the weight and purity of the metal content oiled the wheels of trade.

The names of many modern currencies was originally the name of a unit of weight. One pound sterling meant of a pound of sterling silver. 'Lira' means the same. Once the currency of Italy, the currencies of Turkey , Lebabnon, Syria and Jordan are also known as 'lira'. A French franc was one 'livre'. The Spanish 'peseta' and South American 'peso' also mean weight. The Arabic dirhem was a unit of weight, known to the Romans as a 'drachm', a derivation of the Greek word 'drachma' which means a handful. The dollar derives from the world 'thaler', an ounce weight of silver originally coined by one Count Schlick in the Sixteenth Century. Even the Thai 'baht' was a unit of weight.

The Chinese 'yuan' and Japanses 'yen' both mean round shape – referring of course to the shapes of coins. The Scandanavia 'krona' refers to the crown, the issuer's stamp. The German 'mark' and the French 'franc' are also words that denote the authenticity of the issuer and thus the metal content of the coin. The Dutch 'guilder' means simply 'golden'.

People would store their gold and silver in the vaults of their local goldsmith, who would issue a certificate as receipt. Over time people began to use these certificates in the marketplace as if they were the gold itself. Governments issued such notes (the Bank Of England began doing so in 1694) , which in the case of the pound (eventually) were considered, 'as good as gold'. World trade had slowly moved from a 'Commodity Money' to a 'Representative Money'.

It is at this stage in money's history that the 'fraud' of modern banking crept in. Seeing that few depositors ever removed their actual gold, instead using their certificates for trade, goldsmiths realised they could make money by lending out certificates against depositors' gold. Despite the inherent duplicity in the scheme – lending what is not yours to lend - it worked. The depositors did not lose anything. In fact gradually this process became the norm. The goldsmith, now effectively a banker, paid one rate on deposits and then lent at a higher rate. But then bankers then began lending out many times the amount of gold they had on deposit.

In times of panic some borrowers might demand their real gold back, instead of the paper certificates, and you had the dreaded run on the bank, with the banker not having enough gold and silver to redeem all the paper he had put out. It would have been straightforward to outlaw this new lending practice, but the large volumes of credit the bankers had issued made huge European commercial expansion and, indeed, the Industrial Revolution, possible, asset prices had risen to levels concomitant with the new levels of money in the system, so, instead, the practice was legalised and regulated. The monetary system had moved on from 'Representative' to 'Debt'. But, as one Pullilius Syrus said, 'Debt is the slavery of the free'

It is no coincidence that both Christianity and Islam regarded lending, or usury as it was called, as a sin. Before mass media, religion was the primary means to govern, educate and control people. Many of the practices that are promoted or chastised, from not eating pork to not killing to not doing any work on the seventh day, were done so for a specific and sensible practical purpose.

Bankers agreed limits on the amount of money that could be lent out, limits still much larger than the amount of gold and silver on deposit. Usually the ratio was nine loaned units to one actual unit in gold. This is the fractional reserve banking system I referred to earlier. It was also arranged that, in the event of a run, central banks would support local banks with emergency gold. Only if there were runs on a lot of banks simultaneously would the bankers' credit bubble burst and the system come crashing down.

By the twentieth century, this fractional reserve system, where you need only hold a fraction of the money you lend out, became the dominant money system of the world. But simultaneously, another, more ominous problem was developing: the amount of gold backing the paper money steadily shrank. The British came off the Gold Standard in 1914 because they needed to print money to pay for World War One. So did the Germans. By 1944, the USA and Switzerland were the only major nations left with a currency backed by gold. With the Bretton Woods agreement of 1944, which established monetary order between the major industrial countries at the end of World War Two, the dollar became the global reserve currency. It was pegged to gold at $35 an ounce.

Throughout the 60s, however, President Johnson and then Nixon allowed many more dollars to be issued or printed than they had gold to back them. They needed to pay for their new, expensive welfare systems and for the war in Vietnam. The French, under Charles De Gaulle, recognized this and began demanding gold in exchange for their dollars at the agreed fixed rate $35 per ounce. Initially, the US coughed up, but eventually, in 1971, as the run on the dollar sped up and faced with the rising cost of the Vietnam War, President Nixon removed the dollar from the gold standard altogether.

This move was a direct breech of the US Constitution which clearly states that nothing but gold and silver should be money. Article I, Section 10, Clause 1 reads: 'No State shall…coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debt.' America's Founding Fathers, having had their own currencies collapse, wrote this clause with good reason.

Nevertheless, after 1971, for the first time in history, with the exception of the Swiss Franc, no currency on the planet, nor any small fraction of any currency, was backed by anything tangible. The basic nature of money had changed again. We were now in an era where money is money by fiat, that is by government edict - by the law. That is all. The dollar, the pound, the euro are all debt-based, government 'fiat' currencies. Fiat is a Latin word meaning 'let it be'. In the past, people had the choice to refuse privately created bank credit notes, but now legal tender laws declare that citizens must accept this government-edict money – or fiat currency - as payment. Their value is determined by how they trade against other fiat currencies on international currency markets. The status of the money is protected by the fact that the governments demand that tax be paid in that currency. Without that legal backing, your pound note or computer digit that represented a pound note would be pretty much meaningless.

The status of the dollar was also protected indirectly by the US military and by the fact that oil was bought and sold in dollars. (Did you know that shortly before the US invaded Iraq, Saddam Hussein had pledged to sell oil in Euros? Some say the US invasion had more to do with protecting the hegemony of the dollar than anything else).

Did you know the US founding fathers never intended Americans to be taxed on their income? What they worked for should be theirs and no one else's. This was changed in 1913 – coincidently the same time that the US Federal Reserve Bank, the single most villainous institution in whole of the global monetary system, was formed – with the The Sixteenth Amendment to the United States Constitution, which read, *'The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration'.* What right does a state have to take from you under threat of prison what you have fairly worked for? All that state offers in exchange are dubious services of a dubious quality which you never given any choice over. You have to pay protection money to the mafia or you will be kidnapped or beaten up; you have to pay taxes to the government or you will be arrested and locked up. What's the difference?

(I'm in favour of a consumption tax, by the way. Instead of being taxed on what you produce (your work), you are taxed on what you consume. Surely it's more sensible to reward and incentivize production rather than consumption. Production breeds real wealth. Consumption leads to debt. It is also infinitely better for the soul to produce rather than consume, just as giving is more satisfying than receiving. Other beneficiaries of a consumption tax would be the environment (less consumption means less rape of the earth) and freedom (less debt means less control) .

Since that fateful day in 1971 when Nixon unpegged the US Dollar from gold, debt has grown exponentially and there has been nothing to stop it. We have seen the formation of the greatest credit bubble in history. It has brought with it greatest rape of the earth, the longest-working hours, the greatest slavery, the worst working conditions, the highest divorce rates, the highest crime rates, the most wars, the greatest frauds, the most bubbles, the most malevolent greed, the biggest government and so on. It is no co-incidence.

What's more, this system of debt-based fiat system of money is the reason that gulf between rich and poor never stops expanding. Let me explain.

Only the government has the power to issue this fiat money, but banks can create it through lending.

If somebody wants to borrow 10 dollars, a bank can create it from nowhere and lend. It can then charge interest. If it doesn't have the ten pounds in reserve it can go into the interbank lending market and borrow it – at a much cheaper rate than it lends it out.

Banks also create money by lending against an asset , such as a house. They are given the deeds to the house, and they create the money - out of nowhere - and lend it. At interest, of course

But who benefits from this system?

Those that have the power to issue money : governments and banks . They haven't had to do anything productive; they just create money.

But however money is created, be it through lending, fractional-reserve banking, financial bail-outs or old-fashioned printing, banks are always at or near the top of the money-issuing pyramid,.

Next come corporations who borrow large sums, those on lucrative government contracts for new ventures – particularly overseas - banks' associate companies and partners, those that borrow early and at low rates, and the banks’ senior employees. They all quickly get their share of the pie. In some cases this will come in the form of bonuses.

Those companies and individuals that get this money early can spend it before the prices of the things they want to buy have risen to reflect the new money in circulation. In other words, they get services, products, assets cheap.

But prices soon rise, so holders of assets, such as shares or houses, will then see gains without there necessarily being any improvements to the company or house in question. Often this can leads to speculative bubbles.

But what about those at the bottom of the pyramid? Those on fixed wages or incomes, those who live in remote areas or those with savings? By the time this newly created money has filtered to them the prices of the things they want to buy have increased, their savings buy them less, however, and their wages remain largely unchanged.

In many cases they have to take on debt just be to afford things they were previously able to buy, which means they have to go back to the banks.

In reality, this process of creating money only redistributes wealth from the bottom to the top of the pyramid. Thus that ever-increasing gulf between rich and poor gets bigger and bigger and bigger.

Is it any wonder the financial sector of our economy has grown so disproportionately large?

We have just lived through the greatest credit bubble in history – greater than the South Sea Bubble, than the Dutch tulip bubble, than John Law's Mississippi Bubble which brought about total economic collapse in France – and are now facing the consequences. There is a finite amount of gold in the world. With gold as money such expansion would never have been possible because there would not have been the gold to pay for it. But with modern money that can be endlessly issued, there was no such restriction.

The modern monetary system relies on ever expanding debt to function. Some new money is physically printed, but most money - over 90%, according to the Money Reform Party - is created digitally through the issuance of debt. There is an idea that successful business ventures create money. No economic activity has *created* any money. It has generated revenue yes, but actually created money, no. New debt creates new money. Thus the only way to service the entire debt of the system is for that system to take out more debt. But as debt expands, so the cost of servicing debt increases and you have this never ending bubble of expansion that requires people to work harder and harder and business to expand and expand (and thus pillage to earth) until eventually the cost of servicing the debt becomes too great and the whole system comes crashing down. That is where we are now. Governments worldwide are trying desperately to keep the system going by encouraging more and more lending (Brown : 'We will do whatever it takes') but they are doomed. It is a great big mess that could never have happened if gold was money and there was no or only limited fractional reserve banking. As Winston Churchill put it: "All previous attempts to base money solely on intangibles such as credit or government edict or fiat have ended in inflationary panic and disaster."

George Bernard Shaw once said, "You have to choose, as a voter, between trusting to the national stability of gold and the natural stability and intelligence of governments. I advise you, as long as the capitalist system lasts, to vote for gold." Let's look now at why we should vote for gold.

Money has two uses: one, to be a medium of exchange and, two, to be a store of wealth. A successful form of money must have two main qualities. It must, firstly, be portable and, secondly, have a purchasing power that lasts, so it can be used at a later stage to buy goods or services. Enough people have to believe in its value for a money to function properly. As long as it has these qualities, money can, in theory, be virtually anything. Bullion dealer Franklin Sanders says: 'Money what society agrees to call money and since money is just a social construct, it doesn't matter what it is.'

Gold's rarity gives it value. A great deal of worth can be stored in a single gold coin. Silver, being less rare and thus less valuable, (it is fifteen times more common in the earth's crust) was more useful for day-to-day transactions. However, over time, we have seen that people preferred the ease of paper money and now digital money. So gold, though portable and infinitely more beautiful than paper or digital money, was eventually bettered in the first necessity of money, which is to be portable. But this drawback is no longer the case. Now we have digital gold (and silver): gold is stored in vaults and ownership of that gold can be transferred digitally as transactions take place just as debit cards work today.

Money's other function is to be a store of wealth. Spandau Ballet sing, 'Gold you're indestructable' and indeed gold is immutable. It doesn't tarnish. As the recent discoverers of Iceni gold buried in Norfolk found to their delight, you can dig up a gold coin buried in the ground a thousand years ago and it would be more or less intact, unoxidized and unblemished. Just as gold lasts over time, so does its purchasing power. There is the wonderful observation that an ounce of gold would have bought a Roman Senator a jolly decent toga and perhaps a pair of sandals; today the sterling equivalent (600 pounds) would buy your local MP a very respectable suit and shoes.

There is another story from the Old Testament where it is referenced that King Nebuchadnezzar of Babylon was able to buy three hundred and fifty loaves of bread with an ounce of gold. If a loaf now costs one pound fifty, three hundred and fifty loaves would cost about £525. An ounce of gold costs about £650. So gold buys you as much bread now as it did in the Old Testament. In fact, it buys more as, with modern farming and production, bread has got cheaper.

Similarly, according to the Koran, a gold dinar would buy you a lamb. The modern equivalent still does today. So gold buys you as much bread, meat and clothing as it ever has. Its purchasing power is unchanged over millennia.

Compare that with the modern pound or the dollar. A five pound note would not last ten years buried underground and think how much less it buys you now than it did ten years ago. What is the point of saving money if it will buy you less in the future? The chart below shows the declining purchasing power of the pound. It comes from a House Of Commons Paper – so they know!

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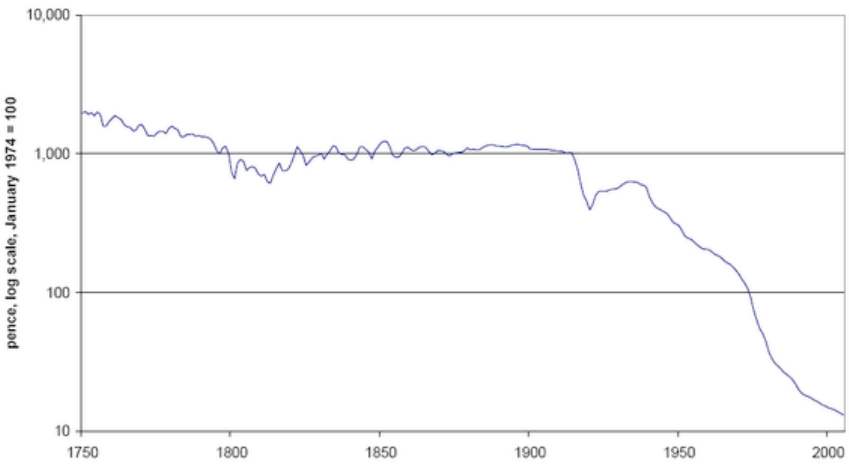
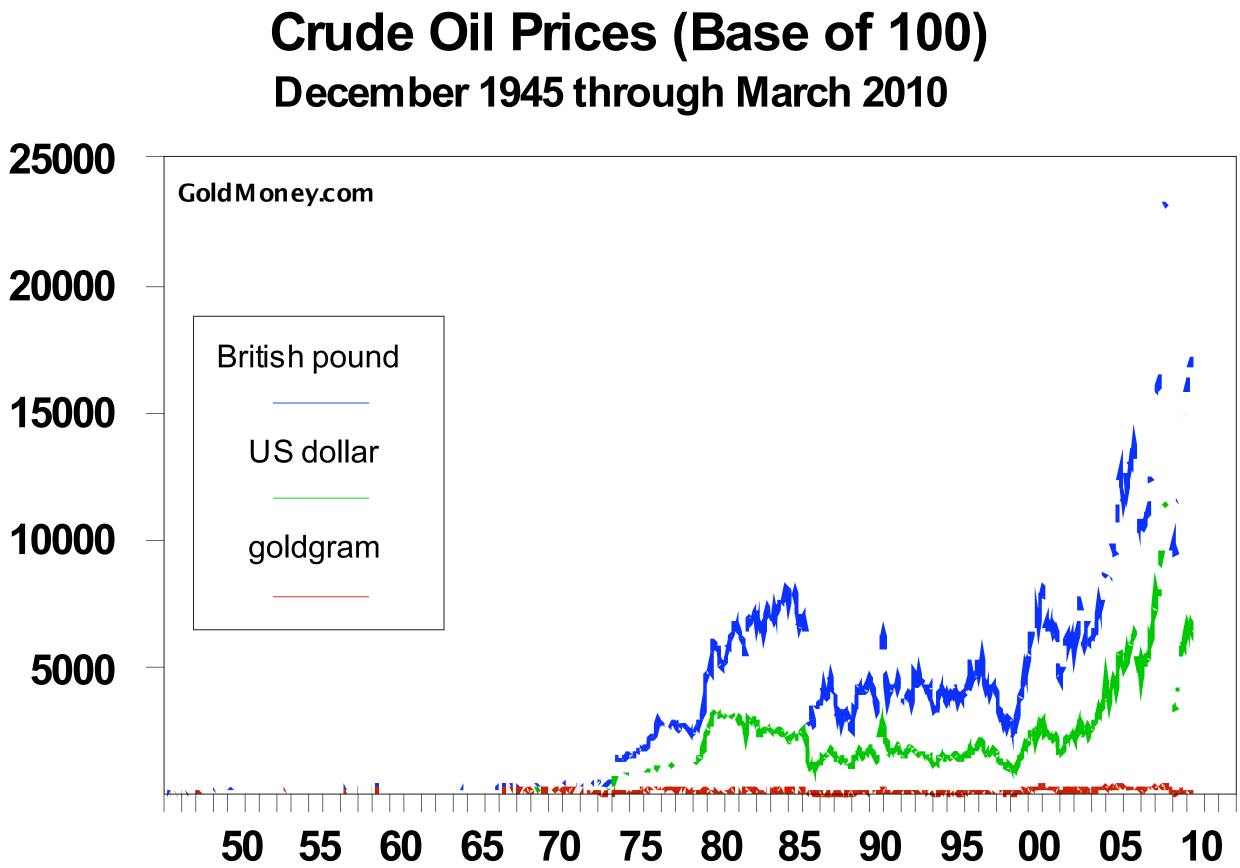
Chart 4: Value of the pound 1750-2005 (log scale)



That period of stability in the pound throughout the Nineteenth Century came when the pound was on the Gold Standard and considered 'as good as gold'. The decline only came after we left it.

Except for water, oil is the most important commodity in the world. Below is a chart which shows the cost of oil measured in US Dollars versus the cost of oil measured in grams of gold. You can see the purchasing power of gold has been fairly constant over the last hundred years, while the purchasing power of other currencies has been wild and unstable.



(How much better for global trade would a stable global currency, beyond the interfering control of governments, be? Businesses would no longer go bust because of currency fluctuations. You would not see these huge divergences between what an Asian or African earns and what a Westerner does).

We come now to gold's importance to The Idler. Gold's lasting purchasing power makes it the currency of the idle. You have your money. You leave it safely stored, perhaps in the form of jewellery about your wife's person, confident your wealth is preserved for you or your descendants. The falling purchasing power of modern money breeds this idle-unfriendly culture of spending and speculation. The ever-expanding debt breeds this obsession with work at the expense of other, more important, areas of our lives.

As anyone who has ever handled gold bullion will vouch, gold is not only beautiful, it has an indefinable, magical, captivating power. It is real money, tangible wealth. Just as the handwritten letter is preferable to the email, so is a beautifully engraved gold or silver coin infinitely more desirable to the idle and free as payment for their endeavours to some intangible digital currency paid via bank transfer. It is pleasant to handle gold and it is said that gold jewellery about your person is actaully good for your health. The image of the old miser counting his gold was a PR stunt wrought by the same people who today tell you to go shopping, to buy things you don't need with money you don't have and persuade you that somehow this will make you happy and save the economy. More nonsense. Nobody gets rich by spending money they don't have. The way forward is to go back to a culture of real production, not redistribution – growing stuff, mining stuff, making stuff, rather than consuming it. And we will be happier. True satisfaction comes through production not consumption.

Apart from in a few rare electronic applications, gold has absolutely no industrial use whatsoever. In fact almost all the gold that has ever been mined still remains in the world today, unconsumed. Gold's only use is as money, as a means to store wealth. Newly mined gold increases world inventory by about 3% per year - the same rate as world population growth - so the idea that there is not enough gold to go round is a nonsense. A lot of environmentalists despise gold miners because of the damage they do to surroundings and workers. This may be so in some cases, although practices have vastly improved. But the damage done by gold miners is nothing compared to the rape of the earth caused by the endless expansion of debt and the malinvestment it creates.

Governments are at best incompetent and at worst corrupt. Their role should be to organize essential services such as rubbish collection, and no more. (If indeed they should even be doing that). They should not be in charge of money and its creation. It gives them too much power. In 1790, the banker Mayer Amschel Rothschild said, "Let me issue and control a nation's money and I care not who writes the laws." Government has too much power already. Look what they've done with that power from wars to the creation of intergenerational welfare state dependence. The same goes for banks. Look what they have done with their power. The best way to stop the misuse of power is to spread it and widely and equally as possible. We must take away from government the power to print money.

Politicians make silly promises in order to get elected. Then they somehow have to meet these promises. To do so, they will often print the money. There is nothing to stop them. Government's response to this current crisis has been to bail out the banking system, the car industry, anything they can. They have already spent , even in inflation adjusted terms, many times more than was spent on the whole of World War Two. 'Where has the money come from?', many are asking. They have printed it, or rather they have entered digits into a computer somewhere and issued bonds and gilts (a word which, by the way, derives from gold). The money has effectively, as US Congressman Ron Paul is so fond of saying, been 'created out of thin air'. The only reason this has not resulted in global Zimbabwe-style hyperinflation is that governments have not been able to print as fast as credit has contracted. Moreover, people still trust our system of money. Many argue, however, that that hyperinflation will come. I'm not sure, but I've no doubt that it's possible.

Ben Bernanke, who is chairman of the US Federal Reserve Bank – effectively the most powerful banker in the world - wrote in 2002, "The U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost.' The printing press is what he and his UK counterparts are resorting to. It is immoral. Companies that have acted irresponsibly should be allowed to go bust. It may be painful, but the hole they leave will be filled by another company that has behaved responsibly and prudently.

What gives the government and bankers the right to print and create money? The more money in circulation the less its value. If you have a hundred pounds which you have earned fairly and government just creates another hundred pounds, the value of your hundred pounds has just been interfered with and diminished, because there will be another hundred pounds chasing the same goods and services. By printing money governments are effectively destroying it. What right does a government have to destroy what you have earned? The amount of gold in circulation is limited by the amounts newly mined. There is no such limit on unbacked modern money, be it pounds, dollars or Euros. It's modern alchemy.

Now imagine a world where at both national and personal level you could only spend what you had and you didn't have the power to print money. You could only spend as much gold as you had. And once you'd spent it. That's it. It's gone.

All those ridiculous government spending programmes would disappear instantly. Neither the UK nor the US would be able to pay for its some would say illegal war in Iraq. (And if you think work is anti-idle, try war). Nor would our own government be able to bail out the banking system or waste money in any of the other innumerable ways it has found to blow it. Efficiency and competence would suddenly become essential, waste would become less possible. Looking back, World War One could never happened. Neither the British nor the Germans had the gold to pay for it. We both came off the gold standard to print the money. The subsequent German reparations, which gave rise to Weimar hyperinflation and then to Hitler would never have happened. The endless expansion of debt and its enslavement of millions would never have happened. I can go on ad infinitum. All those horrendous crimes that are committed in the name of law and order – from war to fascism-through-political-correctness – would not be possible.

But the current system of money imposes no such discipline. People are blaming the 'free market' for the current economic woes. But it is not a free market while issuance of money remains in the hands of governments and banks. It is only a free market when you have a free money, beyond the control of any body of people. There are calls for more regulation. We have enough regulation already. We do not need any more. It's just a further attack on freedom and it taking us on the road to serfdom and totalitarianism. Regulation absolves people of moral and individual responsibility. With regulation you can say, 'We were only obeying orders'. At present deficits don't matter. Governments can print what they like, spend what they like, and that means they have almost unlimited power. Professor Walter E. Spahr, Chairman of the Department of Economics at NYU from 1927 to 1956, sums up: *What is the meaning of a gold standard and a redeemable currency? It represents integrity. It insures the people's control over the government's use of the public purse. It is the best guarantee against the socialization of a nation. It enables a people to keep the government and banks in check. It prevents currency expansion from getting ever farther out of bounds until it becomes worthless. It tends to force standards of honesty on government and bank officials. It is the symbol of a free society and an honorable government. It is a necessary prerequisite to economic health. It is the first economic bulwark of free men.*

Anyone can mint gold. Anyone can issue gold receipts. With gold, control of the money is taken away from government. Gold is true. It is incorruptible. You can't print it. It is a rare, useless, inanimate object, but it is constant, immutable and nobody else's liability. Gold imposes a discipline on people and governments which means they can't spend it recklessly. Spending , now matter how well-intentioned, creates problems and distortions in the economy. Gold is a restrictive monetary system, but it is a fair, free and honest system. It all starts with money. Values, morals, behaviour, ambitions, manners, everything. Money must be sound and true. At the moment it is neither. Society is corrupt as a consequence. As Dorothy is repeatedly advised in The Wizard of Oz (an allegory about the monetary system and the fraud that is the dollar, 'The Emerald City') the time has come once again to 'follow the yellow brick road'.

Dominic Frisby
frizzers@gmail.com