Lecture 4:

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GOLD STANDARD UNIVERSITY

Summer Semester, 2002

Monetary Economics 101: The Real Bills Doctrine of Adam Smith

Lecture 4

THE TWO SOURCES OF CREDIT

-Lending *versus* Clearing M Interest Rates *versus* Discount Rate -

- Uses and Abuses of Credit M Social Circulating Capital -

- Condemning the Regime of Irredeemable Currency M -

Monetary System Tied to Negative Rather Than Positive Values

I dedicate this Lecture to the memory of Ludwig von Mises, monetary scientist and teacher, who exposed the motives for Gold Wars as follows:

"The struggle against gold which is one of the main concerns of all contemporary governments must not be looked upon as an isolated phenomenon. It is but one item in the gigantic process of destruction which is the mark of our time. People fight the gold standard because they want to substitute national autarky for free trade, war for peace, totalitarian government omnipotence for liberty."

(Ludwig von Mises: Human Action, Chapter XVII, Section 19)

1972 was a milestone in the history of money and credit. Previously, in the world's most developed countries, money (and hence credit) was tied to a positive value: that of a well-defined quantity of a good of a well-defined quality. In 1972 this tie was cut. Ever since, money has been tied not to *positive* but to *negative* values - that of debt instruments. This innovation had two immediate consequences, both of which are pointedly ignored in the scholarly literature on the subject:

- 1. The option to reduce the world's total debt in the course of normal payments has been lost: total indebtedness could only be reduced through default or through currency depreciation.
- 2. Governments have lost the option to balance their budget. When in need of real resources, governments borrow, and borrow they must especially from foreign creditors.

As a result of these two features the world's monetary system, which previously was patterned on the model of an *anchor*, is now patterned on the model of a *weather-wane*. As the tide of unpaid and unpayable debt grows, so ebbs the value of money.

That the world has lost the facility to reduce its total indebtedness short of default or monetary depreciation becomes clear if we consider the fact that a debt of $1,000 once contracted cannot be liquidated. If it is paid off by a check, the debt is merely transferred to the bank on which the check is drawn. The situation is no better if it is paid off by tendering $1,000 in Federal Reserve notes, ostensibly the ultimate liquidator of debt. In this case the debt is transferred to the U.S. Treasury, the guarantor of the liabilities of the Federal Reserve banks (since it is clear that the latter have neither the intention nor the resources to meet these obligations). However, substituting one debtor for another is not the same as liquidating debt. The very notion of 'debt maturity' has lost all reasonable meaning previously attached to it. At maturity the creditor is coerced into extending his original credit *plus* accrued interest in the form of new credits, usually on inferior terms. It is true that the option to consume his capital represented by the credit is open to him. But is it not a strange monetary system, to say the least, which forces savers to eat the seed corn whenever they are dissatisfied with the quality of available debt instruments, or with the terms on which they are offered?

Monetary Growth Must Exceed the Rate of Interest

This argument also shows that the stock of money must increase at least at the rate marked by the rate of interest. Every year monetary authorities must create at least as much new money as needed to service outstanding debt, in order to keep the game of musical chairs going. No monetary policy can be implemented that would cut the rate of

monetary growth *below* the rate of interest on a net basis. So much for Milton Friedman's clever horse that he said he would train to tread out new money at the treadmill. Poor horsey will be confused mightily when the rate of interest goes to 16 percent, as it did in 1980.

Governments have lost not only their option to reduce indebtedness but, more ominously, the option to balance their budgets. There is a new item in the budget that is never named, that is well-hidden, but that is increasing by leaps and bounds year after year: that part of government borrowing that is needed to provide cover for the increase of the monetary base. In other words, the budget deficit has become an autonomous, non-discretionary item in the budget that has nothing to do with financing operations, or with husbanding resources. It has become indispensable without which there is no way to inject new money into the economy, and without which the dogs of deflation would be unleashed. From a narcotic drug with all its negative side effects the budget deficit has become a standard prescription drug routinely provided for the stimulus to which society has become addicted. It is remarkable that this change in the character of the budget deficit had to be made clandestinely. The utterances of politicians about their resolve to eliminate the budget deficit is disingenuous - it cannot be done under the prevailing monetary regime on a net basis. This raises grave questions about the stability and durability of the regime. Governments are busy constructing an enormous Tower of Babel to reach to high heaven, the bricks of which are made of public debt - without giving the slightest thought to the wisdom or safety of their construction.

Anniversary Ignored

The year 2002 marks the thirtieth anniversary of the Brave New World of reckless debt breeding. A third of a century is not a great length of time in the course of history. But it might be sufficiently long to warrant an examination of this deliberate policy of heaping more debt upon unpaid and unpayable debts. Has the policy of unbridled credit-expansion, blindly embraced by the governments of the world some 30 years ago, served the people well? Or do the negative results of this latest experimentation with the regime of irredeemable currency warrant a more careful examination of the principles involved than hitherto provided? The question is not raised, and the anniversary is being ignored. A great deal of obfuscation surrounds the issue. Officially the topic is off-limits to scholarship and research. Anyone who dares to question the legitimacy and wisdom of the world's present monetary arrangements, or challenges the doctrine that the regime of irredeemable currency represents 'progress' over 'obsolete' metallic monetary regimes, is browbeaten or subjected to ostracism and contempt by the powers-that-be. Professional standing is reserved for those who pay lip-service to the dogma that emancipation from a metallic monetary standard was a progressive, even a necessary, historical development.

Ludwig von Mises

One author whose work may help those undaunted in the pursuit of knowledge in the face of official disapprobation is Ludwig von Mises. He published his epoch-making treatise *Theorie des Geldes und der Umlaufsmittel* in 1912 at the age of 31. A second German edition was published in 1924. The work was translated into English and published under the title The *Theory of Money and Credit* in 1934. The first American edition in 1952 included an important essay entitled *Monetary Reconstruction*. Mises also developed a theory of interest contained in his *magnum opus* entitled *Human Action* (Chapters XIX and XX). He died in 1973 at the age of 92, just one year after the politicians, in the face of his persistent exhortation to the contrary, committed our planet to the regime of irredeemable currency. Ludwig von Mises was indeed a giant of monetary science in the twentieth century. It is a great tragedy of our age that world leaders deliberately ignored his teachings and advice when they chose this most perilous course, apparently irreversible, the global regime of irredeemable currency. Not a single country has been allowed to experiment with a metallic monetary standard. The world's monetary and payments system is based on coercion, probably worse than the bondage of vassals in the Middle Ages. No serious thought was put into the construction of this monetary regime. It was shaped as the world was drifting from one monetary crisis into another, each step representing deterioration as compared with the previous stage.

Missed Opportunities

Two unique historical opportunities have been missed to change course. One was marked by the collapse of the Soviet Union and its 'Evil Empire'. It is a fact not very well known that in 1989 a delegation of high-powered monetary economists from the United States traveled to Moscow and warned Soviet leaders that the collapse of their economy was imminent. They recommended that Soviet leaders issue gold-bonded debt in order to save their power at the 11th hour. The advice came too late. The Soviet Union collapsed, and the reason was the downwards spiral of its economy as predicted. This episode is interesting for two reasons. First, the same advice was not given to the new leadership of Russia. Saving Soviet Communism from self-destruction was apparently well-worth playing the gold card. But saving Russia from the consequences of the continuing downwards economic spiral is another matter. Russia is now target for globalization. There is no place for gold-bond financing in the globalized world. But there is another reason, too, why the episode mentioned is interesting. It reveals that the gold card does have a place in the contingency planning of the managers of the world's monetary system. They may play it if and when a systemic collapse of credit occurs.

The second missed opportunity was the adoption of the Euro by the European Community. It should have been an occasion for initiating a reform of the international monetary system. Unfortunately, European politicians were motivated by greed more than by a desire to pull the world out of the morass. They created a monetary system which appears to be a carbon copy of the defunct dollar system, trying to capture part of the 100 percent seigniorage the Americans collect as a tribute from the rest of the world on global monetary reserves.

I build on the monetary theories of Ludwig von Mises. However, I wish to point out to my audience that where I find myself in disagreement with him, I will be bound neither by false admiration nor by false devotion, but will state the truth as I see it. I am convinced that Mises would not want me to act in any other way. I have already touched upon my disagreement with Mises on the question of the Quantity Theory of Money. I shall mention two others later in this Lecture.

Uses and Abuses of Credit

This long introduction to my topic on hand was necessary to set the stage. According to an old saying, a text-book on pathology makes you feel sick: in a healthy world you are bombarded with pictures of worst-case diseases. I may add that a text-book on credit will make you even sicker. In the real world as it exists today, there are only pathological varieties of money and credit to which we have all been thoroughly conditioned. In a sick world you are bombarded with pictures of healthy and wholesome varieties of money and credit. The experience will make you sick with jaundice. To lessen the shock you must be debriefed.

Credit is one of the great creative forces of civilization and one of the supporting pillars of human welfare. Next to knowledge and capital, credit is the paramount engine of progress. It can hardly be doubted that most of the prodigious amenities and inventions, technological and therapeutic advances available to modern society owe their origins to credit. To see this we have only to remind ourselves of the role of credit in capital accumulation and in capitalizing income. While capital accumulation would still be possible in the absence of credit, the amounts involved would be reduced to a pittance, subject to the physical limitations of their primitive form: hoarding. Not only would quantity be limited by physical factors, but also the reward would be far removed from effort, giving rise to psychological forces that would militate against saving. One of the great merits of credit is in the manner it works upon the time-element in the means-ends chain, shortening the effort/reward nexus, prompting the individual to work and save harder.

Credit abuse is one of the most difficult problems economics is called upon to study. Exactly the same factors that make credit a great creative force and an engine of human

progress will, when abused, render it a most dangerous and obreptitious agent of destruction. With credit, just as with any sharp instrument, the more beneficial the uses, the more devastating are the abuses. Yet precisely because of the way credit operates on the time element in the means-ends chain of human action, abuses obscure the causality nexus and corrupt the feedback mechanism. Consequently, abuses persist and penalties are deferred. While deferred, they are certainly not forgiven. When the credit system can take no more abuse, cumulative penalties are meted out all at once. If it were not for compounding, penalties would be lighter and immediate adjustment would avert further punishment. There would be self-correction. But as the feed-back mechanism has been corrupted, a veritable disaster in the form of credit collapse is periodically visited upon society. There is also a tendency to confuse the issue: a *man-made* disaster such as inflation (more appropriately called deliberate currency depreciation) is described as a *natural* disaster that mortal man can hardly control, still less eliminate.

Positivism

Positivism is a philosophical school underlying the 'scientific culture' of our age. It fanatically denies the teleological nature of economics, and is largely responsible for the confusion between capital and credit. Positivists deny that there is anything wrong with the world economy and its financial underpinnings. According to them everything in economics is to be explained in terms of causality to the exclusion of teleology. Then of course the notion of credit abuse disappears, that is, becomes unscientific. So does the notion of honorable dealings, fair play, and the sanctity of contracts. No shame is attached to breaking a promise, to pulling a surprise devaluation of the currency, or to declaring bankruptcy fraudulently - if perpetrated under a dispensation from the government. The only thing that matters is that 'human molecules' respond positively to the stimulus provided by the injection of bills of credit with no ultimate obligor into the system. Goethe described this in his famous paper money scene:

We printed at once the notes, large and small,
Tens, twenties, fifties, hundreds and all,
You can't imagine how it pleased the people, short and tall!

(Goethe: Faust, Part II, Act 1)

To the positivist mind it is cantankerous hair-splitting to drag eleemosynary and educational institutions, widows and orphans - who are dependent on the integrity of the currency for their economic survival - into the debate. It is not the task of my Lectures to enter into a moral argument. It should be possible to establish scientific truth without reference to a value-system. We only need to establish the fact that credit abuse corrupts the feedback mechanism without which no adjustment is possible, that it undermines and ultimately destroys the free and voluntary cooperation of individuals under the system of

division of labor; that it leads to capital consumption which is hard to detect but which, nevertheless, is a prescription for the wholesale pauperization of society.

The Two Sources of Credit

In the first three Lectures I talked about short-term credit as it arises through clearing. Now I want to put it into a wider context. There are two kinds of credit: in addition to short-term we also have long-term credit. It is very important to keep the two separate and avoid any possibility of confusion between them. Let us put the main features of the two varieties of credit side-by-side.

Short-term credit	Long-term credit
Definition: 91 days or less	*Definition:* 92 days or more
Source: Clearing	*Source:* Saving
Motivation: Propensity to consume	*Motivation:* Propensity to save
Instrument: The real bill	*Instrument:* The gold bond
Theater: The bill market	*Theater:* The bond market
Regulator: The discount rate	*Regulator:* The rate of interest

The dividing line of 91 days between the two is not arbitrary. It is one quarter, the length of the seasons of the year. The difference between the two kinds of credit is fundamental, and goes far beyond the difference in the maturities of credit instruments. Mises denies that sound credit can arise outside of the context of lending and borrowing. For him 'discount rate' is just another name for the rate of interest on short-term loans. Mises denies the validity of the Real Bills Doctrine of Adam Smith. He considers circulating real bills as inflationary as any other form of credit expansion.

In the following Lectures I shall show that there is no lending and borrowing involved in discounting a real bill, and that bills stand apart conceptually as well as functionally from bonds, as does the discount rate from the rate of interest. Real bills circulate on their own wings and under their own steam. To put it more succinctly, the negotiation of the bill is not a lending but a clearing function. One of the greatest shortcoming of Mises' theory of interest is his failure to recognize the discount rate as another independent and autonomous regulator of credit. It is a mistake to believe that saving is the only source credit. Clearing is a well-recognized second source. The rate of interest is the regulator of lending, grounded in the propensity to save. The discount rate is the regulator of clearing, grounded in the propensity to consume. The relationship in both cases is inverse: the higher the propensity the lower is the rate, and conversely. For example, the higher the propensity to save, the lower is the rate of interest; the lower the propensity to consume, the higher is the discount rate. We shall study these relationships in much greater details in later Lectures.

Social Circulating Capital

Social circulating capital, a concept that we also owe to Adam Smith, is defined as that mass of finished or semi-finished goods in urgent need which is moving fast enough to retail outlets so that it is bound to be removed from the market in less than 91 days (the length of the seasons of the year) by the ultimate cash-paying consumer. A certain consumer good is part of the social circulating capital if, and only if, the bill drawn against it will circulate. The prospect of impending consumption of this goods makes it rather special. Its movement through the production and distribution channels is predictable. The uncertainty connected with the ultimate disposal of this goods is reduced to its irreducible minimum. For this reason the credit it generates will circulate Not every consumer good is capable of generating bill circulation, e.g., slow merchandise, goods sold on an installment plan, stores of goods held back in the expectation of speculative profits due to a rise in price. We shall see that certain type of merchandise may at one point start generating bill circulation indicating that they have just become part of the social circulating capital. At other times the same merchandise may drop out of the social circulating capital, the sign of which is that bills drawn on them no longer circulate, e.g., seasonal goods such as heating fuel or seed corn. This highlights the rationale for limiting the term of real bills to 91 days. We shall also see that the composition as well as the size of social circulating capital is subject to frequent changes reflecting the shifting demand of the consumer. Handlers of goods belonging to the social circulating capital can operate with a minimum amount of capital by virtue of the fact that bills on fast-moving goods are acceptable in trade as a means of exchange. These tradesmen are processing merchandise 'on the go', the further path of which is highly predictable. The risk that the goods won't be sold in time is negligible. Compare this with the risk of carrying merchandise that does not belong to the social circulating capital, goods that cannot be sold in 91 days. If merchandise cannot be sold in 91 days, then it may not be sold for a year until the same season of the year comes around once more. During the year fashion may change beyond recognition, and any other unforeseeable circumstance may make the merchandise unsaleable except at a loss. To cover this risk tradesmen must carry insurance in the shape of a larger capital.

Present and Future Goods

The theory of interest of Mises is built upon the distinction between present goods and future goods. Interest is just the premium people are willing to pay for the privilege of getting the present good they prefer to the corresponding future good. Therefore it is very important to know where to draw the line between the two.

This is a point where I could not bring myself to agree with the position of Mises. He states in the *Theory of Money and Credit* that secure and mature claims to gold coins are complete substitutes for them and, as such, they are able to fullfil all the functions of the gold coin in those markets in which their security and maturity is recognized. Mises categorically states that a bank note is a present good just as much as the gold coin. "A person who accepts and holds [bank] notes grants no credit - he exchanges no present good for a future good... The note is a present good just as much as the money." (See the 1980 edition, p 304-305.) I must part company with Mises over this issue. My position is that the holders of gold certificates and, for the stronger reason, holders of bank notes are in fact (voluntary or involuntary) grantors of credit. What they hold is a promise to deliver a present good, not the present good itself. In other words, paper currency such as a gold certificate or a bank note is a future good. There is no point in wiping out the distinction between a present good and a promise to deliver a present good on demand, or a 'legal tender' readily exchangeable for a present good. If we admit that a bank note is a present good, then we also have to admit that Keynes is right after all in suggesting that the government has the power to create wealth out of nothing, simply by sprinkling some ink on little scraps of paper. This is no idle quibbling or hair-splitting. This is a fundamental issue on which the theory of interest turns (and to which I plan to return in 2003 when I offer another course on the bond market and the formation of interest rates.)

The Regime of Irredeemable Currency

Both Mises and I condemn the regime of irredeemable currency. His reasoning has to do exclusively with its role causing progressive inflation. Mises subscribes to what he calls a refined version of the Quantity Theory of Money. (The refinement consists in taking into full account leads and lags in the increases in the stock of money and changes in the price level.) The difference between the position of Mises and that of Friedman is this: Mises believes that inflation caused by irredeemable currency inevitably leads to a 'crack-up boom', while Friedman believes that such an outcome can be avoided indefinitely, provided that the rate of increasing the stock of money is kept fixed at a suitably low level. If Friedman could prove his contention using cold logic then, presumably, Mises would no longer object to the regime of irredeemable currency.

My own objection is more fundamental. The Quantity Theory divorces money and credit from moral philosophy. It robs money of its ethical dimension. It makes the emergence of money a mechanical process devoid of any moral content. My own position concerning the role of money in society is closer to that of Ayn Rand. I regard the Quantity Theory a most vicious and dangerous doctrine. Its seductive simplicity and plausibility make it suitable to lull the vast majority of people into a false sense of security. It is responsible for the victims of inflation accepting the proposition that the government has a legitimate role in managing the nation's money supply, and inflation will be eliminated as soon as researchers come up with the right formula how to fine-tune it. Even if I granted that

Milton Friedman were right in assuming that, with a judicious control of the money supply, the inflation could be completely eliminated (which I don't), I would still condemn the regime of irredeemable currency on moral grounds, as it disenfranchises savers and consumers. The saver can no longer control his savings. Bereft of his gold coin, his role is reduced to that of the bee: to gather honey for the benefit of the apiarist. The consumer is no longer king. Bereft of his gold coin, he has been reduced to the status of a pawn. Producers and distributors of consumer goods are no longer his servants. They have all been put in hock to the banks. The regime of irredeemable currency represents a latter-day bondage and servitude, more vicious than any throughout the long history of humans exploiting humans. Previous forms of exploitation were overt. The slave knew he was a slave. The new forms of exploitation are covert. Slaves are encouraged to believe, as they do, that they are free or, what is more, that they are in charge.

Extended Order of Information

The 'division of knowledge' and the related idea of the 'extended order of information' were introduced by F. A. Hayek in his last book *The Fatal Conceit - Errors of Socialism* (Chicago, 1988). The Nobel laureate economist compared the data-collecting and data-processing mechanism of the market system to a gigantic computer that could not be replaced, imitated, or duplicated by the human brain, still less by an artificial device conceived by the human brain. The extended order of information works with a data-base whose sheer size and information-density boggles the mind. It processes, propagates, and retrieves information so efficiently that we cannot even describe it in terms of examples borrowed from other fields. This particular form of organizing knowledge is *sui generis*, one of a kind. It cannot be realized except in the context of the market system, with its continually changing prices, interest and discount rates, and with the instantaneous reactions to these changes by market participants. Without it our civilization would cease to function, production and exchange of goods would be thrown into utter confusion. Hundreds of millions would become homeless; famine and epidemic diseases would decimate the population. In future courses to be offered in 2003 on the program of Gold-Eagle University I plan to take a glimpse into the inner workings of this miraculous system of information-processing and communication, in describing the formation of the discount and interest rates in terms of marginal analysis and arbitrage.

Credit is of great interest to everybody with a modicum of intellectual curiosity, and my Lectures are designed to satisfy this curiosity. Unfortunately, the subject is usually treated in a polemic style generating more heat than light. While the literature on the subject is vast, most of it is one-sided and partisan. There are few studies explaining *sine ira et studio* the principles underlying credit and banking. I shall endeavor to relate the subject of credit to the larger problem of exchanging income for wealth and wealth for income, a new approach that I believe to be very fruitful. Only in this way can the economic functions of the rate of interest and the discount rate be brought to light.

It is hardly necessary to add that I shall try to make this study fair and candid. I have created this lecture series for the benefit of those open-minded readers who are looking for a disinterested treatment of the subject. Those who believe that government intervention in credit-relations can do no harm but that the government can, through judicious monetization of its own debt, create value and wealth, are asked to switch off the screen and read no further. My Lectures are dedicated to the refutation of latter-day orthodoxy. They represent the opposing view, however unfashionable, that the credit of the government, no less than that of the individual, can indeed be abused. The monetization of government debt and other forms of credit abuse ultimately lead to a wholesale destruction of capital, and hence to the pauperization of the entire society through credit collapse. It has happened before. The most recent episode was the Great Depression of the 1930's. It can happen again.

Today we are witnesses to the unfolding of an unprecedented historic event. The entire world is being engulfed by a tidal wave of credit expansion. The *tsunami* of the $100 trillion derivative monster is just one example. The runaway Debt Tower of Babel, based on nothing more substantial than the irredeemable promises of the U.S. Treasury - itself empty (or worse), is another.

In all historical episodes of experimenting with the regime of irredeemable currency, while some governments were churning out irredeemable bills of credit with abandon, others continued paying their bills punctiliously as contracted - that is, in specie. When the day of reckoning dawned, the latter could help the former to find their way back to the path of fiscal and monetary rectitude. In the present episode all governments of the world are merrily destroying their own credit - and with it, their command over real resources. Which quarter will rescue come from when the Debt Tower of Babel topples?

Open the Mint to Silver, Too!

Mr. David Shapley dshapley@dfwoffice.com asks how the monetary system I recommend compares with the bimetallic system of the U.S. Constitution. Should the Mint be open to silver as well?

First of all, a correction. Bimetallism prescribes an official fixed bimetallic ratio between gold and silver. As the normal state of prices is dynamic rather than static, bimetallism rests on the presumption that the government can create or destroy value by fiat. It is, therefore, a faulty monetary policy which is bound to fail. The U.S. Constitution never prescribed bimetallism. It merely ordered that the Mint should be open to both monetary metals, the implication being that there would be a parallel standard of both silver and gold (at a variable exchange rate). The monetary unit was specified as the standard silver dollar.

It was the Coinage Act of 1792 that, by fixing the price of gold in terms of silver, introduced the official bimetallic ratio of 15:1. It was a mistake that gave rise to a lot of monetary mischief later, threatening social peace. The mistake was never corrected. It would have taken a Constitutional amendment to drop the standard silver dollar as the monetary unit of the United States.

In a series of Lectures of this type it is not possible to discuss every minute detail of the plan for monetary reconstruction, such as the question of silver coins, subsidiary coins, gold and silver certificates, etc. Therefore I did not discuss the role for silver. But now that the question has been raised, I have to clarify my position which is this. The monetary system that I recommend for the United States is the Constitutional one: open the Mint to both monetary metals. I recommend that the one ounce Gold Eagle coin (*minus* the silly reference on the coin to the dollar) should be adopted, instead of the standard silver dollar, as the monetary unit. *This will take a Constitutional amendment*. This change reflects a greatly increased monetary role for gold and decreased one for silver that has occurred during the past two hundred years, and the great abuse to which the dollar has been subjected by the government. But I think that the wisdom of the Constitution should be respected and silver be given its monetary role back. Let the people decide whether they prefer a dual monetary standard or a monometallic one. Mr. Shapley continues his comments raising some very interesting possibilities.

"It seems that the purchasing power of gold would be very high. I would imagine that a loaf of bread would not cost a gold coin. What about small-ticket items? I would lay odds that people would also want to carry something lighter than coins. Perhaps cards with smithereens of perfectly weighed gold in them? Or gold certificates? However, if they choose paper once again, what is to stop the issuers of that paper to do what they have done to the old gold standard, i.e., issuing far more paper than they had gold to back it?"

It seems to me that Mr. Shapley's idea of enclosing stamped gold smithereens in Lucite cards or coin-shaped holders is a most excellent one to provide fractional coinage. For that matter, the standard Eagle Coin could also be enclosed in Lucite holders to eliminate wear and tear. No doubt, there will be a lot of discussions on these proposals once the major hurdle, the opening of the Mint to gold and silver, has been cleared.

Reference

F. A. Hayek: The Fatal Conceit - Errors of Socialism, Ed.: W. W. Bartley III, The University of Chicago Press, 1988

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GOLD STANDARD UNIVERSITY

SUMMER SEMESTER, 2002

Monetary Economics 101: The Real Bills Doctrine of Adam Smith

Lecture 1: Ayn Rand's Hymn to Money
Lecture 2: Don't Fix the Dollar Price of Gold
Lecture 3: Credit Unions
Lecture 4: The Two Sources of Credit
Lecture 5: The Second Greatest Story Ever Told; (Chapters 1 - 3)
Lecture 6: The Invention of Discounting; (Chapters 4 - 6)
Lecture 7: The Mystery of the Discount Rate; (Chapters 7 - 8)
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FALL SEMESTER, 2002

Monetary Economics 201: Gold and Interest

IN PREPARATION: COURSES TO BE OFFERED IN 2003

Monetary Economics 201: The Bill Market and the Formation of the Discount Rate

Monetary Economics 202: The Bond Market and the Formation of the Interest Rate