FORBIDDEN RESEARCH

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In order to soften the coming blow of a credit collapse, a group of concerned citizens has decided to establish, in the year 2007, the Gold Standard University Live, home for the study of monetary issues placed under taboo by other institutions of higher learning. Here is a partial list of forbidden research topics.

1. What is a gold standard?

A gold standard is a mechanism whereby people exercise their God-given right to create or extinguish money, while denying monopoly power of money-creation to would-be crooks. The individual, if he thinks that money is scarce, or the rate of interest is too high, can do something about it. He can take old jewelry or newly mined gold to the Mint and convert it into the coin of the realm free of seigniorage charges. If the individual thinks that money is too plentiful, or the rate of interest is too low, he can do something about that, too. He can melt down his coins or export them, and he can divert the flow of new gold from the mines away from the Mint, say, into jewelry-making. Note carefully that in establishing a monetary system for the new country the U.S. Constitution did not make provisions for a central bank. *It made provisions for a Mint*.

2. Why is there no bond speculation under a gold standard?

The chief merit of the gold standard is not to be found in the stabilization of prices which is neither possible nor desirable. It is to be found in the stabilization of interest rates. Only a gold standard can guarantee the lowest level for the rate of interest that is still compatible with conditions in a free economy. Most significantly, *there is no bond speculation under a gold standard* for the simple reason that there is no sufficient volatility in the price of a gold bond to make speculation profitable.

Not only is bond and foreign exchange speculation wasteful as it diverts talent and capital to unproductive uses; it is also a surreptitious method to exploit savers and producers. When bond prices are driven down, savings accounts are pilfered; when driven up, capital accounts are plundered. Our grandfathers who wrote gold clauses into government bonds were not lunatics, as mainstream economics would have us believe. They understood that there was no other credible way of stabilizing the interest-rate structure for the benefit of everyone. Savers could save with confidence knowing that their savings will not be wiped out by *rising* interest rates. Producers could produce with confidence knowing that the value of their physical capital will not be wiped out by *falling* interest rates. Consumers and distributors were not threatened by capricious price volatility. Speculators could repair to the market in agricultural commodities where risks are created by nature, not by man as in the bond and foreign exchange markets. The inequity of risk-free speculation was exorcized.

3. How are savers and producers disenfranchised?

The regime of irredeemable currency is a scheme whereby savers and producers are disenfranchised. The former are deprived of their right of choosing the form in which they want to save. They are forced to save in terms of a depreciating currency. The latter are deprived of their

right to sell to whomever they wish to sell. They are forced to give the right of first refusal to the issuers of irredeemable currency and their cronies.

Worse still, savings accounts are pilfered surreptitiously every time interest rates are driven up (bond prices are driven down). Savers and bondholders are creditors who are locked in at a lower rate than that the market is paying. They suffer capital losses as interest rates rise.

By the same token, capital accounts are plundered surreptitiously every time interest rates are driven down (bond prices are driven up). Producers and sellers of bonds are debtors who are locked in at a higher rate than that the market is offering. They suffer capital losses as interest rates fall. Please note that producers can't protect themselves against plunder by getting out of debt. To the extent they need capital goods, they have financed their operations at the wrong rate of interest. In other words, when rates are driven down, the physical capital of the producers is made obsolete artificially and prematurely.

Note the perversity as mainstream economics hails lower interest rates as being "timely help" to beleaguered producers; or as it hails higher interest rates as being "godsend" to beleaguered savers. In fact, producers and savers are toast as the rate of interest is manipulated to their prejudice. It would never occur to Keynesians and Friedmanites to recommend the return to a gold standard in order to stabilize interest rates in promoting social equity.

4. Is there an 'optimal rate' of increasing the money supply?

The idea of increasing the stock of money by central banks based on scientific principles is chimerical. There is no scientific way of determining the optimal rate of increase in the money supply any more than there is a scientific way of predicting the future. The very notion of an optimal rate is contradictory and makes no sense except in the context of favoring political pressure groups at the expense of the rest of society. Increasing the stock of money at a fixed rate is no less chimerical. Creditors would inevitably find the fixed rate too high; debtors would find it too low. If the power to "manage" the stock of money is delegated to an agency dressed up in a scientific garb, then this agency is a front behind which impostors hell-bent to usurp unlimited power under false pretenses hide.

5. What is the 'sudden death syndrome'?

The life-span of the regime of irredeemable currency may be extended through machinations such as the artificial stifling of demand for gold, or trying to satisfy this demand with paper gold. Other stratagems serving the same end are: the manipulation of interest rates in order to boost demand for bonds artificially; the manipulation of interest-rate spreads to offer risk-free profit to the carry trade; allowing the derivative markets on bonds to grow beyond any conceivable limit. These manipulations, machinations and stratagems can certainly put off the day of reckoning. However, there is a cost: it makes the inevitable credit collapse, whenever it may come, a great deal more painful, and recovery ever more protracted. The one certain result is that the 'sudden death syndrome' will hit the currency when it is most vulnerable and disaster is least expected.

We should remember that every experiment in history with irredeemable currency has ended in a cataclysm unless the currency was stabilized in time by making it convertible into gold. The managers of the present experiment betray extreme conceit when they pretend to know something that their predecessors, the managers of the continental currency, of the assignats, mandats, or of the Reichsmark did not know. The only difference between the present experiment and its historical precedents is a more highly refined web of disinformation.

6. Why are open market operations fraudulent?

The so-called open market operations of the Federal Reserve (and similar practices of other central banks) are a thoroughly fraudulent scheme. They should have never been authorized. In fact, they were introduced illegally, in contravention of the Federal Reserve Act of 1913. Later the Act was amended to make the practice legal retroactively as a "temporary emergency measure" (Glass-Steagall Act, February 27, 1932). The purpose was to legalize check-kiting between the U.S. Treasury and the Federal Reserve. The floodgates were opened for the wholesale monetization of government debt in direct contravention of the Federal Reserve Act as originally enacted in 1913. Further amendments made these "temporary emergency measures" permanent, thus legalizing open market operations through the back door (Banking Act of 1945).

Open market operations are the main culprit for destabilizing interest rates in the world. The process is as follows. Speculators 'crowd out' savers and producers from the bond market. Anticipating the impending move of the Federal Reserve to buy, speculators act *en bloc* to forestall official purchases of bonds in an effort to pocket riskless profits. As they rush from the buyers' to the sellers' side, they generate a destabilizing oscillation in the rate of interest to the great detriment of both the savers and the producers. Their action will ultimately cause the boat to capsize.

7. Why is the so-called 100 percent gold standard a pipe-dream?

The circulation of real bills, that is, short-term self-liquidating credit, is non-inflationary. The emerging credit does match, dollar-for-dollar, merchandise emerging in the last stages of production and distribution. Moreover, the credit is extinguished simultaneously with the removal of the underlying merchandise from the market by the ultimate consumer. A functional gold standard presupposes the flow and ebb of self-liquidating credit which facilitates the journey of maturing goods from the producer to the consumer. A rigid 100 percent gold standard, so called, which refuses to extend ephemeral monetary privileges to self-liquidating commercial credit, is a pipe-dream. It has never existed, save in the imagination of charlatans. If one were put in place, it would collapse during the first Christmas shopping season. It is futile to hope that a fixed quantity of gold coins handle all the extra demand that may be thrown upon the markets without prior notice by the consumers capriciously unless the gold coin circulation is cushioned with self-liquidating credit.

8. In what way is the discount rate different from the rate of interest?

The discount rate is not the same as the short-term rate of interest, nor is it determined by the *propensity to save*. Rather, it is determined by the *propensity to consume*. When the demand for consumer goods is high and increasing, the discount rate is low and decreasing, and *vice versa*. The discount rate and the rate of interest move independently of one another, possibly in opposite directions. The discount rate is an indispensable part of the internal communication system of the free market whereby the consumer dispatches his order to the producer and distributor for consumer goods in most urgent demand. Without the discount-rate mechanism the producer would not know what to produce, when to produce it, and how much. Only those bills circulate spontaneously which are drawn on goods moving to the ultimate gold-paying consumer fast enough: goods that will be consumed before the season of the year is over (in 91 days or less). Slow bills, bills drawn on merchandise sold on installment plans, anticipation bills, and other financial bills will not be discounted by the market and consequently they will not enjoy spontaneous circulation.

9. Why is gold hoarding harmless?

Not only is gold hoarding under a gold standard harmless; it is a necessary part of it. Gold hoarding is the leash the public is meant to have (1) on the banks, and (2) on the government. We deal with (1) here and with (2) under the next caption. Of course, it is always assumed that

saboteurs are not permitted (let alone encouraged) to spread false rumors about the imminent suspension of gold payments by the government or by the banks.

Gold hoarding has an indispensable role to play in the economy. It is a tool in the hand of the marginal bondholder. He is the first to take profits in selling his overpriced gold bond, and hold the gold, until the bond price returns from outer space to earth, at which point he will buy his bond back. In this way the bondholder can assert and validate his time preference. The saver is not defenseless. He can fight back whenever banks try to suppress the rate of interest to his prejudice below the rate of time preference. If you take the gold coin away from him, then you have rendered the saver helpless.

Gold hoarding is also a legitimate tool in the hand of the depositor and the holder of bank notes. In demanding gold he withdraws bank reserves forcing the bank to contract credit thereby allowing the rate of interest to find its proper level as determined by time preference. Gold withdrawal is the only effective means to remind the bank that it has extended short-term credit beyond safe limits set by its quick assets. Without it the savers' time preference is mere wishful thinking. It is precisely gold hoarding that lends teeth to it. In the absence of a gold standard the banks are the master of savers and producers; the latter are mere servants. Their savings and capital accounts are open to pilfering.

It goes without saying that hoarding gold certificates or bank notes, whether redeemable or not, is not the same as hoarding gold coins. As a protest against low interest rates it is not only ineffective: it is outright counter-productive, because it is tantamount to extending credit at zero interest.

10. Why is gold hoarding an indispensable constraint to render governments *limited*?

Gold hoarding is also a legitimate and indispensable tool in the hands of the electorate to force the government to fulfill its election promises for greater economy in public spending. Gold withdrawal is an unmistakable sign that people are concerned about the condition of the public purse. In the absence of a gold standard the electorate is helpless. It is deprived of protection against the vote-buying tactics of cynical politicians. The individual voter is marginalized in the face of machinations by powerful organized pressure groups. The regime of irredeemable currency is a weapon in the hands of special interests to obtain economic advantages at the expense of the 'silent majority'. In the absence of a gold standard the government is the master of the people, and the people are servants of the government, farcical free elections notwithstanding. There is no limited government without reserving the right of hoarding gold to the people. There is no substitute for gold, the 'most hoardable' good in existence. The power to print money is necessarily unlimited power, be it wielded by angels or by the devil himself. Unlimited power means unlimited corruption. And that is what we have in the United States today, in consequence of the high-handed treatment of the monetary clauses of the Constitution by the federal government and the Supreme Court.

11. Why is hoarding marketable commodities other than gold harmful?

In contrast to gold, hoarding other marketable commodities is definitely harmful. It destabilizes markets. It generates oscillating speculative money-flows between the commodity market and the bond market. This may trigger a self-boosting runaway vibrator between resonating waves of prices and interest rates. It would drive prices and interest rates up only to drive them down again. Such a linked roller-coaster ride of prices and interest rates is the invisible engine of the business cycle. Hoarding marketable commodities other than gold generates the Kondratieff long-wave cycle that ultimately destabilizes the economy.

This does not mean that hoarding marketable goods other than gold ought to be outlawed. What it means is that artificial obstacles in the way of gold hoarding, the proper outlet and conduit for the propensity to hoard, ought to be removed.

12. What has 'legal tender' legislation got to do with unemployment?

The unprecedented world-wide unemployment that started in the 1930's and which is still very much with us but for the fig-leaf of the 'welfare state' which pays workers for not working and farmers for not farming, was a delayed consequence of the legal tender legislation of 1909. That fateful year France and Germany in preparation for the coming war decided to concentrate monetary gold in their own coffers. They stopped paying civil servants in gold coins. In order to make this legally possible they declared bank notes legal tender. Thus governments started sabotaging the gold standard *cum* real bills as early as 1909.

The effect was fatal. Finance and treasury bills gradually 'crowded out' real bills from the portfolio of central banks. Since the wage fund of workers in the consumer goods sector was financed by the bill market, and no other way of financing it was available, massive unemployment was threatening the world, as pointed out by the German economist Heinrich Rittershausen. He was the only one to see the causal relation between legal tender laws and unemployment. His prediction came true in the 1930's when up to one half of the work force in the consumer goods sector of all the countries of the world was idled. Economists were at a loss to find explanation for the catastrophe

Conditions for full employment in the world will not return until the wage fund has been reestablished through the rehabilitation of an international gold standard *cum* real bills. However, researching this question is strictly forbidden. Young economists are brainwashed by the Keynesian and Friedmanite orthodoxy into thinking that the regime of 'managed' currency represents a great advance over 'obsolete' metallic monetary standards, and is a 'great blessing' to society. Austrians are not helpful either with their rigid refusal to examine the merits of the 'Rittershausen syllogism'. Obstacles in the way of monetary education are enormous.

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Bonds bond. Question is: whom?

The global regime of irredeemable currency throws the inhabitants of Earth into bondage. Monetary servitude is no better than other forms, long since discarded by history, such as slavery and serfdom. It may well be more odious, if for no other reason than for being covert. Historical forms of slavery made no effort to hide their coercive nature. Every attempt is made to conceal the fact that the regime of irredeemable currency is one of coercion. Latter-day slaves hardly realize that they are in bondage, although this does not make their yoke lighter. Under a gold standard bonds bond the *debtor,* not the *creditor.* All is turned upside down by the regime of irredeemable currency. The bond market furnishes the mechanism whereby issuers of and speculators in bonds throw the rest of society into slavery. This is a subtle process that "not one in a million may be able to diagnose". It will take a great deal of educational effort to make the truth dawn upon the public.

The global clearing house for the regime of irredeemable currency is a highly secretive private company called the Deposit Trust and Clearing Corporation (DTCC). Its shares are closely held by multinational banks and financial institutions. DTCC's turnover in 2004 exceeded $1000 trillion or *one quadrillion dollars* (*sic!*). More than half of this amount was generated by trade in government securities and foreign exchange or derivatives thereof. In comparison, the combined GNP of all nations was a paltry $40 trillion. In other words, two weeks' turnover was all it took to clear transactions generated by the production and distribution of all the goods and services

devoted to keeping the population of the world fed, clad, and sheltered for the entire year. The rest, fifty weeks' turnover, was just froth whipped up by speculation in churning the derivatives markets.

Pilfering Savings and Capital Accounts

In view of the fact that there was no bond and foreign-exchange speculation under the gold standard, to the uninitiated this might appear as a pointless exercise. Whatever else it may be, pointless it is not. It epitomizes the metamorphosis of bonds under the regime of irredeemable currency. Bonds are no longer an instrument of savings. They are an instrument of exploitation. Bond speculators speculate and win big risk-free on the coattails of central bank open market operations. In doing so they pilfer the savers and plunder the producers. Here is how.

Bond speculation generates a long-wave interest-rate cycle linked to the price cycle (subject to leads and lags), known as the Kondratieff cycle. When in the rising mode, wealth is being siphoned off from the savings accounts of the savers; when in the falling mode, it is being siphoned off from the capital accounts of the producers, as explained above under (3). In either case, it is an irreversible process. Reversal of the trend will not put siphoned-off funds back into the account from which they have been pilfered.

While the pilfering of savings under the regime of irredeemable currency is fairly well understood, the plundering of capital is not. Yet the latter is the raw material of which deflations and depressions are made, as their chief characteristic is the destruction of productive capital. This highlights the urgency of research into the vulnerability of capital under irredeemable currency.

Producers are not aware that they are being victimized. They have been brain-washed into thinking that their losses are due to cosmic factors such as continental drift, to which monetary inflation is often likened, disingenuously, by mainstream economists. Producers are not even looking for the causes of growing deficiency in their capital accounts. If truth be told, the losses of producers are due to the threat that interest rates may be driven further down, while the losses of savers to the threat that they may be driven further up.

If truth be told, the losses of savers and producers are the gains of the multinational bankers and their lackeys, the corrupt politicians. They are the only beneficiaries of the regime of irredeemable currency that allows them to tap into the savings and capital accounts of society clandestinely. They will not stop until they will have squeezed the last drop of blood out of the savings accounts of the savers and the capital accounts of the producers by chasing bond prices up and down, effectively enslaving the entire population of the Earth.

Prometheus had given his shivering creatures fire in order to save them from freezing to death in winter.

God has given *his* gold, in order to save them from perpetual debt slavery.

References

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