

GOLD IN HOARDS *versus* GOLD ON THE GO

Splitting the Roman Empire into two halves

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How much gold?

Many readers of my column have asked me how much gold I think there is in Fort Knox, and how much gold I think is being hoarded by Americans that may be available for coinage in case the U.S. Mint is re-opened to gold.

I don't have the figures or estimates. From my perspective these figures do not matter any more. What matters is whether confidence can be restored to the extent that gold will start flowing to the Mint. Here the situation is definitely sad, as shown by the treatment of presidential candidate Ron Paul by the establishment, his own party, the media, the investing public, and the electorate. He has been given the cold shoulder by all in these extraordinary times, just when the financial world started crumbling all around us. He might be God's messenger, but he has been treated no better than any other before him who was sent out to be prophet in his own land. Even a debate on gold as money, let alone the realization of it, is strenuously opposed by everybody, including the people themselves who are going to suffer for their denseness and put-on deafness as the dollar is ignominiously removed from the stage.

Gold on the go

Gold sitting in vaults is one thing, and gold on the go is another. Gold on the go is as different from gold in hoards as day is from night. The former suggests confidence in the present and radiant optimism about the future. You dare spend your gold coin as you fully expect it to come back to you on the same terms. The latter suggests fading confidence in the present and deep pessimism about the future. The gold coin is not to be spent. It may never come back to you.

Whenever gold is being hoarded, there is a danger that the economy will plunge to its worst levels, possibly all the way back to barbarism. If all the gold is hoarded, prosperity will collapse regardless of the state of knowledge and technology. But if the Mint is re-opened, gold will flow to the Mint and the economy may rise from the dead. People will be talking about an „economic miracle“. Our leaders fail to see this. To them gold is still the „barbarous relic“, rather than the elixir of life, turning the moribund economy around from the brink.

Key to confidence

Trade and commerce, and prosperity that depends on them, hinge upon two primal ingredients: integrity and confidence. It is the function of money to implement their existence and interaction. For 63 centuries they have worked together since the first gold slug was used in exchange by men. Gold is the key to confidence. The universal acceptability of gold throughout history has enabled the agencies of production, consumption, exchange, and distribution to bring about the highest level of prosperity commensurate with the prevailing level of knowledge and technology. Take gold out and, lo and behold: knowledge and technology will no longer uphold prosperity. Sinking back to the Dark Ages becomes inevitable.

Terror of the error

The United States has missed its chance, in this election year, to have a grand national debate on the merit of a metallic currency, and how gold could be pressed into service at the eleventh hour, to stave off world disaster. The U.S. Mint will not be reopened to gold, and the „terror of the error“ will run its course to the bitter end. A depression will engulf the world. *Suave qui peut* — that's the message from the 2008 presidential election campaign that has aborted six months too early.

End of the Roman Empire

Maybe a foreign country will open her Mint to gold and silver. The Chinese could do it, but like all Orientals they are too suspicious and secretive, and they totally lack the trust which is the characteristic of the Western way of doing business. Be that as it may, history appears to be repeating itself. It conjures up the split of the Roman Empire into an Eastern and a Western half in 395 A.D. By 476 the Western half ceased to exist, entering the Dark Ages. Civilization, as people had known it, was gone. However, the Eastern half, partly due to the fact that it could keep its Mint open to gold, continued in existence for another thousand years. Circulating gold represented confidence. Confidence in production, confidence in trade, confidence in the future.

Dark Ages

We no longer talk about deflation and depression. We face the Second Coming of the Dark Ages. At the time of the collapse of the Roman Empire all the gold was still available that had kept a munificent world trade going. The trouble was not a shortage of gold. The trouble was that gold was going into hiding. Had it been put back into circulation, then the Dark Ages could have been fended off. It did not happen, because of the ignorance and selfishness of the leaders, and their self-conceit that a fast-depreciating monetary system will serve the purposes of their Empire. As gold was going into hiding, and there was no statesmanship to press it back into service, there was no way to save civilization in the Western part of the Roman Empire.

It is important to understand that the Dark Ages that followed, and gold going into hiding, are just two sides of the same coin. We have the same double threat facing us today. This time, too, the Dark Ages could last several hundred years.

Bezant, savior of civilization

The Eastern half of the Roman Empire, Constantinople, fared better. There, they kept the Mint open to gold for another thousand years. Not only did people survive: they prospered. The gold coin of the Empire, the bezant (named for Byzantium, as Constantinople was called before Great Constantine renamed it after himself) saved civilization from ruin to which the Western part of the Empire succumbed so easily.

If history is repeating itself, then the Oriental half of our civilization, backed by the born-again economic strength of China, will have the wisdom to save the world by opening the Mint to silver. Unfortunately, it will not benefit the Occident.

People crying out in despair

Our government leaders conducting our irredeemable currency and credit program do not understand that people can be faced with tragedy and disaster in the wake of the collapse of the monetary system. Until such a devastating catastrophe occurs, they proceed as though some special Providence will protect this nation from the monetary and social chaos in which the helpless and hopeless mass of people cry out in despair. People can do little or nothing but suffer because inept men, in the area of monetary

economics, threw the Constitution to the winds, usurped unlimited power, and took possession of the monetary program of the nation.

When monetary statesmanship is replaced by foolishness, recklessness, irresponsibility, and related examples of human misbehavior, catastrophe and chaos await the unfortunate nation caught in that frequent tragedy of mankind.

Impostors sewing the Emperor's invisible clothes

The common procedure is to avoid upright monetary scientists whose efforts in behalf of the helpless mass of people are generally resented, ridiculed, taxed out of existence and, sometimes, subjected to other forms of punishment such as ostracism or worse. At the same time currency manipulators attempt to persuade the public that they are intelligent and honorable men acting in the best interest of the nation, and on the basis of latest scientific evidence. Such people are wined and dined, given prizes and honors, and otherwise subjected to effusions of praise and appreciation. The media and financial press cannot find the superlatives to heap upon them. But all the hoopla won't change the fact that they are celebrating impostors who pretend to sew the Emperor's new clothes, "invisible to all but the wise".

Gold, anathema to Communist creed as well as to fiat money ideology

The United States is illustrating once more how a nation, when sufficiently inept and presumptuous in the area of monetary economics, pursues the course based on irredeemable credit that ends in distress, tragedy, and despair. Unless, in the last minute, Western political leaders somehow come to see the light, and beat the Chinese to it, by opening the Mint to gold first. Don't ask where the gold will come from. If the Chinese can attract silver, anathema to their Communist creed, then surely Keynesians and Friedmanites can attract gold, anathema to their fiat money ideology.

De-industrialization of the United States

Fiat money has de-industrialized the United States just as thoroughly as two world wars and fiat money in their wake had de-industrialized Germany. That country had to start capital accumulation from scratch at the end of World War I, only to waste it all in another futile war which left the country in ruins, divided, and under enemy occupation. But Germany, at least its Western part, like the mythological bird Phoenix, rose from her ashes and became the richest country in Europe by 1965.

Why the German economic miracle has forgone the gold coin

According to a story reported by *Newsweek* magazine on November 11, 1957, under the title *Gold for Sale*, Dr. Ludwig Erhard, the Minister of Economics in West Germany in 1947, even contemplated opening the Mint to gold. He reportedly said that "Germans prefer the clink of shiny gold coins to the prosaic rustle of paper money". He desisted for one reason: he would not want to embarrass the wealthy, powerful U.S. where gold coins were taboo.

Taking poorly concealed sips at the bottle of inflation

If the *Newsweek* story is true, Erhard has made an historic blunder. The attempt to avoid offending the powerful by pandering to its weaknesses and lack of respectability is a phenomenon one sees occasionally in social behavior. Erhard did not want to advertise the lack of respectability of the occupying power as revealed by its currency system, by introducing a thoroughly respectable one in West Germany. He preferred that we continue to regard ourselves as "just as respectable as the woman across the street" as we slop around in bedroom slippers, hugging a blousy dressing gown of irredeemable currency around our flabby figure, hair unkempt, while we continue "taking poorly

concealed sips at the bottle of inflation” — to paraphrase the words of Harold Wincott writing in *The Financial Times* of London (article *No Laughing Matter*, October 5, 1954.)

Incessant talk about leadership of the Free World

The officials of the United States have been talking incessantly of her responsibility as a leader of the Free World, and of her unmatched know-how in all fields of human endeavor. Yet here we are treated to a most humiliating spectre. Germany, a defeated country with benevolent tolerance in the area of monetary science makes an inferior choice in reforming its currency system, for fear of embarrassing the mighty leader who is dissolutely lacking in regard of leadership in the field of money. So much for leadership of the Free World. So much for unmatched know-how.

Floating by sinking

You don't need a war on home soil to de-industrialize your country. The United States has accomplished that feat bit-by-bit since 1971, the apogee of her industrial power which, not surprisingly, coincided with severing the last link between the dollar and gold. The most astounding part of it was that nothing has been done to arrest the decline during all those years. The warnings of monetary economists have been ignored, even ridiculed. The United States persisted with the Friedmanite program of 'floating by sinking'. The dollar has been subjected to continuous and conscious debasement ever since 1972 in spite of the obvious damage it was doing to America's industrial capital.

Devaluation of the currency is self-mutilation. Floating is devaluation under a disguise — as if mutilation piecemeal were less painful. Be that as it may, Milton Friedman's recipe for the floating of the dollar has caused the greatest capital consumption ever recorded by history. It turned Americans into prisoners of "instant gratification". The lesson, that once industrial capital is consumed or otherwise dissipated it is gone and cannot be replaced by a click of the mouse (as can misused credit), has been ignored.

It is not war but declaring gold 'taboo' that destroys industrial capital

The real cause of de-industrialization of a once flourishing industrial power is not war, but declaring gold a taboo. Yet, as the example of the German example shows, the process is not irreversible. With a sound currency backing producers and savers, the country could re-generate her industrial base. It could regain its industrial capital. But it takes discipline, cutback on wasteful consumption, savings — and, above all, *monetary leadership*.

It is still not too late to reverse the train of destruction.

Just open the U.S. Mint to gold.

April 1, 2008.

CORRECTION

The date for Session Four was incorrectly stated in the last announcement. Session Four is planned to take place in Szombathely, Hungary (at the Martineum Academy where the first two sessions were held) from July 3 to 6. The subject of the 13-lecture course is *The Bond Market and the Market Process Determining the Rate of Interest* (Monetary Economics 201). For more information please contact GSUL@t-online.hu. Further announcements will be made on the website www.professorfekete.com.