

THE SPONTANEOUS REMONETIZATION OF GOLD AND THE REVIVAL OF THE MORIBUND WORLD TRADE

Antal E. Fekete

New Austrian School of Economics

And the Lips Institute

Summary

In the words of the Old Testament “the use of false weights and measures is the greatest abomination in the eyes of the Lord”. The Great Coin Melt of 1933 by Franklin D. Roosevelt certainly answers the description “greatest abomination”. He confiscated the gold coins of the American people; he melted them down and wrote up the value of the proceeds. He pretended to have compensated people for their stolen gold by giving them Federal Reserve notes in exchange. These notes have, in hardly more than a generation, lost 90 percent of their purchasing power.

Then, to crown a great job done, he closed the U.S. Mint to gold in order to prevent succeeding generations from undoing the damage. They were condemned never to be able to recover their honest weights and measures. Along with their gold coins of the realm they have also been deprived of their Mint where new ones could have been coined.

The question is this: has Roosevelt succeeded in mesmerizing all people in making them believe that broken government promises can be used as a true measure of value? Will the remonetization of gold really be impossible forever and ever? –as Kenesians and Friedmanites shout from the rooftop? Perhaps, human race is not after all perpetually condemned to worshipping the ‘paper calf’ of irredeemable

currency after the Great Coin Melt. Relief is coming in the form of the market producing a substitute in the form of a universally acceptable means of payments the stock of which *no central bank but the people themselves* directly regulates – as ordained by the U.S. Constitution.

Now, for the first time, we are getting the answers to these questions. Like it or not, we see that the stupidity of the 20th century yields to the enlightenment of the 21st. Profit-seeking business has come up with a synthetic substitute for the metamorphosis of gold. Roosevelt's closing of the U.S. Mint is getting neutralized. A new metamorphosis is in the making. It consists in converting twenty-five kinebars into one octandor, the new universally acceptable unit of value (see the Glossary below), the stock of which is regulated by the people rather than an unconstitutional central bank.

Introduction

Falling prices and vanishing world trade in the wake of devastating currency wars with no winners but with lots of losers are a clear indication of deflation morphing into depression. The international monetary system based on the irredeemable dollar is in its death-throes. What kind of monetary regime will follow it? The foolhardy insists that whatever it will be, under no circumstances will it be the gold standard. “You cannot put spent toothpaste back into the tube!” What kind of currency will the ‘wave of the future’ bring? Why, it will bring the defaulting banker’s dishonored promises, naturally. Similar propaganda was spread in the past every time an influential banker defaulted on his promises to pay. It is true that the latest episode in the saga of turning the lowest kind of money (namely, fraudulent promises) into the highest (namely, high-powered central bank credit) has been the longest. But it does not follow that ‘this time it’s different’.

The exiled sovereign, gold, is being reinstated on his throne in front of our own eyes through spontaneous market processes – never mind the wishes of the government. Profit-seeking business has reinvented Adam Smith’s real bill maturing into gold.

How is that possible?

Here is how. World trade in foodstuff is coming to a halt, too. As soon as the fear of world-wide famine takes hold and no food is obtainable except in exchange for gold, bills drawn on foodstuff payable in gold in 91 days (91 days being the length of the food-growing seasons in the world's temperate zones) will replace the dollar. Inevitably, bills maturing into gold will become money. The point is that people refuse to starve themselves to death for the greater glory of the unconstitutional and irredeemable dollar.—a dishonored promise to paybearer gold on demand.

The resurrection of the real bill

What is more important, circulation of real bills subject to discount turns gold into an earning asset. Once again, gold is able to return an income in gold through the mechanism of discounting – exactly as it has been the case before World War I. To understand the significance of this development we have to go back and retrace history to see how the gold standard was sabotaged after hostilities ended in November, 1918.

The victorious Entente Powers had to lift their blockade of Germany pursuant to the Armistice agreement.

In their wisdom, policymakers decided to block the circulation of the gold bills financing Germany's foreign trade. They thought it was smart move to replace the blockade with the blocking of the bill market

They failed to see that this was tantamount to castrating the international gold standard by removing its clearing house, the London bill market. Policy-makers wanted to blunt the efficiency of German industry, even at the cost of forcing inefficient bilateral trade (*alias* barter) on the world replacing the much more efficient multilateral trade under the international gold standard.

The measure boomeranged. The destruction of the London bill market also meant the destruction of the Wage Fund out of which the wages of workers producing merchandise were paid, up to 91 days before the merchandise was paid for in cash by the consumers themselves. There was a hiatus of 91 days in paying the wage-bill. There was no one to advance the funds. Workers had to be laid off. The result was a hideous world-wide unemployment. Policy-makers who were responsible for

the disaster in the first place were quick to blame it on the whipping boy, the ‘contractionist’ gold standard.

But truth must ultimately be told. The unprecedented unemployment was not a failure of the gold standard. On the contrary, it was the consequence of blocking the circulation of gold bills by the victorious Entente powers. It was the direct consequence of their malicious trade policy wanting to cripple Germany’s foreign trade after lifting the wartime blockade, by other means.

Now, for the first time since November, 1918, gold bills are getting ready to circulate once more, whether the British and the U.S. government, the chief culprits of sabotaging the gold standard like it or not.

This is changing the nature of gold hoarding. People will soon scramble to exchange their gold bullion for gold bills. They want to take the opportunity to earn an income in gold by reinvesting the proceeds from maturing gold bills into fresh gold bills.

Earning an income in gold is vastly different from earning an income in irredeemable dollars. Hoarding dollars has by now lost all its roots in logic. As long as the dollar was able to retain its value until the depreciation cycle was complete, it did make sense to build dollar reserves for the purpose of replacing physical capital after it was eroded through natural wear and tear. But the point where the dollar could no longer do this is long since past. As a result of deliberate debasement the dollar is losing its value so fast that less is left after the completion of, the depreciation completed than needed to defray the cost of buying new capital goods. The acceleration has by now reached the level that the dollar is useless for the purpose of replacing capital eroding through wear and tear. You might as well save in a substance that evaporates by the time you can catch enough of it.

As people switch from gold hoarding gold to generating a gold income a point must be reached where as much gold is released from hoards as it takes to finance the production and distribution of foodstuff in most urgent demand. Anything less means world-famine in the midst of plenty (echoing the famine during the Great Depression of the 1930’s)

Thus, then, gold bills will take over the financing of trade in a world increasingly reluctant to accept the irredeemable dollar (or, for that matter, any other irredeemable currency) in exchange for *real* goods and *real* services.

The solution for the problem of replacing the dishonored dollar as a reserve currency lies not in the inventing of yet another *esperanto* currency, be it called euro, asio, africo, amero or australo. The solution lies in reinventing Adam Smith's real bill that has served the world well for many a century. We now explain this transition that is destined to save the world from famine – and civilization from turning itself into barbarism.

Glossary

Kinebar is the name of a 5-gram, 9999 fine gold bar produced and stamped by the State Mint of Austria with a serial number. The obverse of the kinebar is stamped with a hologram depicting a rider of the Spanish Riding School of Vienna in action. The movements of horse and rider explain how the kinebar earns its name.

Octandor (rhymes with ‘octane door’) is the name of a composite gold bar, resembling a bar of chocolate, made up of twenty-five kinebars. The total weight of an octandor is 125 grams or slightly over 4 Troy ounces. This makes it equally marketable in Europe and America. ‘Octandor’ is abridgement for “one eighth of one kilogram of gold”. Octandors can be exchanged at the rate of one hundred to one for international good delivery gold bars weighing 400 ounces or 12½ kilograms (more or less).

Octandors are designed to compete with gold coins. They have fineness 9999, as compared with the gold coin's usual fineness of only 8350. Moreover, gold coins fail to be divisible. At any rate, if broken up into smaller pieces, a gold coin ceases to be negotiable – except after costly assaying. By contrast, octandors enjoy divisibility into kinebars without any loss of value. What is more, they can be individually identified through serial numbers with which the component kinebars are stamped – which gold coins can't be. Thus octandors, unlike gold coins, are suitable for purposes of making *allocated* deposits at depository institutions.

To recapitulate, octandors represent a significant improvement in marketability over that of the traditional gold coin.

Matador is the name of a firm whose business is the manufacture of octandors. In more details, the process involves sandwiching kinebars between two transparent flexible plastic cover sheets. Matador imparts added value to kinebars through metamorphosis, as it were. In putting the component kinebars together, Matador creates a gold bar, the octandor, possessing increased marketability, equally recognizable in Europe and in America. (This is a consequence of the incidental fact that 125 grams is slightly greater than 4 Troy ounces.)

Bancor is the name of a firm whose business is to act as a market-maker for octandor bars as well as for bills of exchange (called octandor bills) maturing into octandor bars in 91 days, the estimated time it takes to manufacture and distribute octandor bars (including delays due to congestion at Matador).

In more details, Bancor posts its asked and bid prices at which it is prepared to sell and buy octandors, as well as octandor bills, in unlimited quantities.

Curaçao is a small island country belonging to the Kingdom of Netherland in the Caribbean (located just north of the Venezuelan coast; capital city: Willemstad). It has virtually unrestricted sovereignty. Its self-governance is more complete than that of the similar small island colonies of the U.K. such as Gibraltar, Bermuda or the Cayman Islands.

Curaçao has recently attracted international limelight after it introduced a new tax

code for internet companies registered in its territory, and for e-commerce initiated by them. They are taxed at the flat rate of 2 percent. Both Matador and Bancor are

internet companies registered and taxed in Curaçao. They finance e-commerce by

raising credit in octandor bills.that mature in octandors.

* * *

The metamorphosis of gold

The metamorphosis of the kinebar into the more marketable octandor at the hands of Mondor is akin to that occurring at the Mint as the blank ingot is stamped and turned into the coin of the realm, of greater marketability than that of the blank ingot. Economists have neglected to study the ability of the Mint to impart marketability to the blank ingot higher than justified by its melt-down value (the value it enjoyed before being stamped). The word ‘metamorphosis’ aptly describes this almost miraculous transition. As a result of this neglect . F.D.R. and other policy-makers deprived the world of a great resource, the gold standard and the metamorphosis of gold it makes possible. One hundred years ago, they had to decide how to finance World War I. The choice was: either to finance it through the metamorphosis of *gold* at the *minting press*, or the metamorphosis of *paper* at the *printing press*.

To the world’s great misfortune they chose the latter. Had they chosen the former, the conflict could have been resolved much earlier, saving life and treasure. But they were mesmerized by miracle of the metamorphosis of *paper* and they were happy to sacrifice the gold standard.

One could put the similarity between the Mint and Matador into high relief by suggesting that both are in the business of manufacturing the measuring rod of value. The difference is that while the Mint is a government agency and its stamp constitutes an official guarantee of weight and fineness, Matador is a private firm and the manufacture of octandors need imply no such guarantee. (The increase in value is “in the eyes of the beholder”. Happy are those who have eyes to see.)

It is next to impossible to exaggerate the importance of the rediscovery of the metamorphosis of gold. For the first time ever, the government Mint is rendered superfluous. No longer is it a *sine qua non* for the metamorphosis of gold. The same effect can be produced by profit-seeking private enterprise, while still benefiting people at large. Consider two cases.

(1) Suppose Bancor receives an order from a third party wanting to buy x octandors. Bancor buys $25x$ kinebars at the asked price of the Austrian State Mint or at the open market asked price, whichever is smaller, and delivers them to Matador while drawing a bill with face value of x octandors on the latter. That there may be a problem with completing this transaction may become clear when considering the size of x . If it is of routine size, no further consequences need to be considered. But if it is of extraordinary size, then Bancor is put on alert. Next time it may not accept the same discount rate but will push for an increase. It wants to protect its flanks against the contingency that the asked price for kinebars in irredeemable currency is going up.

(2) Conversely, suppose Bancor receives an order from a third party wanting to

sell x octandor bills at the market. Bancor makes the sale at its posted bid

price and will replace the octandors spent by buying octandor bills. If this turns out to be difficult, then Bancor will lower its bid price for octandor bills. Note that the bills Bancor just acquired mature into an octandors in 91 days' time. The asked price quoted in octandor bill units includes a mark-up representing the profit margin of Bancor.

Why the closing of the Mint to gold was a world disaster

But why should anyone be willing to pay a mark-up in buying an octandor bill? Well, for the same reason third-party buyers were willing to pay a mark-up for real bills as predicted by Adam Smith's Real Bills Doctrine. They wanted to capture a gold income on funds that otherwise would lay idle.

The Mint was formally closed to gold in 1931 when Britain, followed by the U.S. in 1933, defaulted on their gold liabilities. While the default caused some indignation at the time, the closing of the Mint was hardly newsworthy. Yet the event destroyed an all-important Constitutional right of the people, as will now be shown.

Trying to legislate for the ‘benefit’ of all future generations by trampling on the Constitution

We have dwelt on the metamorphosis of gold at some length because we are witnessing a historically unprecedented phenomenon: the ingenuity of private enterprise making government certification of weight and fineness of gold superfluous. Up to now it was thought that the opening of the Mint to gold in a sovereign jurisdiction was a necessary condition for the monetization of gold. Without this condition being satisfied there was no *guaranteed* future conversion of gold bullion into gold coins. Governments could limit the quantity of the coin of the realm in existence by closing the Mint to gold. This would make the coin of the realm scarce, hurting businessmen who had outstanding contracts payable in these coins. They would be reluctant to accede to contracts the monetary value of which was not properly backed. In this we can see why the closing of the Mint to gold was far more than a mere ‘house-keeping change’. If the U.S. government could close it, then it could also block any effort aiming at remonetizing gold. Ever. The logic is as follows. Having demonetized gold in 1933 through the closing of the Mint, the U.S. government could prevent gold from ever being remonetized by the simple stratagem of keeping it closed. This was the reason in the first place why the U.S. Constitution mandated the opening of the U.S. Mint to the free and unlimited coinage of silver and gold. The closing of the Mint is tantamount to “trying to legislate for the benefit of all future generations by trampling on the Constitution”.

Throwing souvenir gold coins into the eyes of the people

Please do not allow yourself to be misled by the red herring of minting souvenir gold pieces in limited numbers on Treasury account for profit. Minting gold coins on Treasury account is as different from minting them on private accounts as night is different from day. When the U.S. government started minting souvenir gold coins in the last decade of the 20th century, it did so in order to throw dust into the eyes of the public. “See? We have reopened the Mint to gold and nothing happened. Certainly the new coins failed to go into circulation! Here is your proof, if proof is needed, that gold is finished as money for good! Nothing can replace the dollar as circulating money!”

Haircut, 1935-style

Yet minting gold coins on private account remains a matter of Constitutional rights. Only an amendment to the Constitution could take that right away; presidential proclamations and acts of the Congress could not. That right still exists today as it existed before 1933. The fact that it has been usurped by the U.S. Treasury for the past 82 years has zero legal effect.

It has turned out that the ingenuity of private enterprise can outsmart the U.S. Treasury. The opening of the Mint to gold is no longer a *sine qua non* for turning gold bullion into the gold coin of the realm (i.e., for remonetizing gold). Bancor could perform of the metamorphosis of gold without government license, simply by ordering Matador to manufacture octandors for its own account in unlimited quantities.

Why is this subtle difference important? Well, we have to go back to the Great Coin Melt of 1933 for an answer. The first proclamation of Franklin D. Roosevelt after his inauguration on March 4, 1933, as president of the United States was the closing of the U.S. Mint to the free and unlimited coinage of gold – along with the arbitrary closing of banks under the jurisdiction of the U.S. government. The circulating gold coins of the U.S. were summarily confiscated and melted down. Irredeemable Federal Reserve notes were paid out in compensation.

Pretense was maintained that this was a just and full compensation. It wasn't, justification for the highway robbery offered two years later notwithstanding. According to the decision of the U.S Supreme Court, handed down in 1935, “the domestic debt-discharging power of the Federal Reserve notes was *not* abridged”. Well, if it wasn't, that was due to the unconstitutional decision of the same High Court in upholding legal tender laws to protect the value of the irredeemable Federal Reserve notes. Absent that decision, the domestic value of the Federal Reserve notes would have suffered the same fate as their international value did. It would have undergone a ‘haircut’ to the tune of some 56%. (The clever simile of a haircut, designed to mitigate the harsher language of “highway robbery”, had not yet gained currency in 1935.)

Due processes of lawlessness

This was just the first of a series of several episodes in which the Supreme Court of the United States of America stooped to the level of a kangaroo-court. No greater lie was ever spread than that the suggestion that “property has never been taken from an American citizen except in consequence of due processes of law”. The fact remains that in 1935 the High Court took the property of American citizens held in the form of gold certificates issued by the U.S. Treasury. If “due processes of law” means anything, it must mean that each case must be adjudicated separately, on its own merit. The Supreme Court’s handing down a *single* decision to the effect that in *all* cases where a citizen is found in possession of a gold certificate the Constitution is automatically suspended, is not enough!

Phyrric victory

Curiously, the High Court did say that the federal government had no power to alter its contracts unilaterally. In doing so it apparently did try to protect the property rights of those Americans who owned bonds with a gold-clause protection issued by the U.S. Treasury. Seigniorage was increased from 0% to 100% by a stroke of the pen. Apart from a few Constitutional experts and monetary scientists, no one recognized the chicanery involved. By now this shameful episode of retroactive legislation and rights-mutilation is conveniently forgotten by rewriting history.

Global irredeemable currency

The international implications of the usurpation of Constitutional rights were even more ominous. Prior to 1933, all attempts to introduce irredeemable currency on a global scale failed ignominiously everywhere. Countries that resisted the trend and stayed on the gold standard were able to help their weaker brethren to return to monetary rectitude. But after 1933 all countries, including France and Switzerland to mention but two examples, were forced to follow the American lead. In 1936 the French and Swiss franc were also devalued in terms of gold. For all intents and purposes they have also become an irredeemable currency and the international monetary system was converted into a club of irredeemable currencies. Redeemable currencies have been wiped off the face of earth. The self-breeding of debt could start in earnest as a result.

He laughs who laughs last

This was the end of honest dealings between the government and its subjects and, hence, the end of honest dealings between private individuals. Honest weights and measures were effectively outlawed. According to the Old Testament such abuse of government power was “abomination” in the eyes of the Lord. Having closed their Mint to gold, governments thought they could keep them closed as long as they wanted (that is to say, forever). In this way they could prevent future generations from returning to a system of honest weights and measures by reopening the Mint to gold.

However, as the saying goes, he laughs who laughs last. Governments have left the ingenuity of private enterprise out of calculation. Here is how government dishonesty is rendered ineffective by the ingenuity of private enterprise

Bancor (the drawer) delivers 25 kinebars while drawing an octandor bill on Matador (the acceptor). The octandor bill, duly accepted (endorsed), is returned to the drawer.

Having two good signatures (those of the drawer and the acceptor), the octandor bill is enabled to circulate through endorsement and discounting. The discount is proportional to the number of days remaining till maturity. The proportionality factor is the gold discount rate. It depends on the supply of and demand for octandor bills. The octandor bill is a gold device uniquely capable of yielding a return *on gold in gold*, the gold discount rate marking the yield. As the demand for octandor bills is virtually unlimited, the discount rate is positive. The amount of gold going into hiding is no longer infinity as it was under Z.I.R.P.

Octandor bills have no competition. Nor has such a competition existed since 1931-33 when the gold standard fell victim to British-American sabotage. We are, here and now, witnessing the remonetization of gold by market forces – apparently against the wishes of the governments of the U.K. and the U.S. that have never lived down the ignominy of defaulding on their gold obligations over eighty-two years ago.

The “Wave of Future”

Once octandor bills arise through the manufacture of octandors, they go into spontaneous circulation. There is international demand for them as the following

example of financing world trade demonstrates. Assume that Saudi Arabia wants to buy wheat to be delivered in 91 days. Russia will have the wheat by then and is well able to fill the order. The trouble is that Russia is not interested in payment in irredeemable dollars. “Once discredited, always discredited!” Russia insists on getting paid in gold or in gold devices. Saudi Arabia has to go into the bill market to buy gold bills maturing in 91 days. It uses gold from its foreign exchange reserves to pay for the purchase of octandor bills.

Naturally, Saudi Arabia will not pay the face value of the gold bill. As a result of a bargain with Bancor, Saudi Arabia buys octandor bills at a discount. Russia is glad to accept octandor bills from Saudi Arabia in exchange for wheat futures contracts. They mature into octandors in 91 days’ time, while the alternative, dollar credits will remain as irredeemable as a doornail.

This transaction shows how the circulation of octandor bills can revitalize trade. In a world increasing reluctant to accept irredeemable dollars in exchange for *real* goods and *real* services

Gold is indispensable for the reviving and revitalizing vanishing world trade. finance and revitalize vanishing world trade in a world increasingly reluctant to accept the irredeemable dollar (or any other irredeemable currency subject to unlimited augmentation,a.k.a.Q.E.) in exchange for *real* goods and *real* services such as wheat or crude oil and the wages of construction workers who are working in constructing pipelines.

Therefore the solution to the problem of replacing dishonored and discredited dollar lies, not in inventing yet another irredeemable currency. It lies in putting gold bills maturing in 91 days into circulation. These bills represent the “wave of future”. They are the best earning assets a commercial bank can have. They are the best monetary reserve to hold against a maturing bond issue, or against a real estate deal to be closed out in the future, or against just any contingency monetary liability, such as the import bill in case of an unexpected earthquake, flood or tsunami. Far better than the irredeemable debt of a default-happy government which, to boot, is also the greatest debtor on record, with its debt increasing at an alarming rate, with no visible sources from which to reduce its debt *ever*.

Notice further that the octandor bill is the perfect antidote against deflation. If there are not enough of them in circulation, then their price will rise and the gold discount rate will fall. The incentive for exchanging gold for octandor bills will be high. But it is also the perfect antidote against inflation. If there are too many of them in circulation, then their price will fall and the gold discount rate will rise, as the incentive for exchanging gold for octandor bills will be low.

Central banks will be put under pressure to compete with octandor bills when it comes to financing trade in merchandise commanding the highest consumer demand. Bank notes redeemable only in unpaid and unpayable debt have no chance facing competition from devices maturing into gold.

Nor will they have a chance to compete against devices maturing into gold when it comes to serving as reserve in the Wage Fund. Irredeemable currency will fall by the wayside, through the sheer logic that creditors need meaningful collateral, rather than relics from distant past when upright countries used to have redeemable currencies. If central banks want to survive, then the credit they issue must be based on short-maturity real bills payable in gold at maturity – as they did prior to 1914. The argument that no such bills presently exists is no longer valid. Such bills do exist, for example, octandor bills. We can take it for granted that there will be no shortage of imitators once the concept is understood by the general public.

This also means that the rehabilitation of the bill market through the circulation of gold devices such as octandor bills will eliminate the threat of unemployment, as far as the employment of those eager to work for wages are concerned. The gold discount rate, unlike the rate of interest, can be (and will be) serially halved any number of times. This will reduce the capital requirement of businesses that move merchandise from the producer to the ultimate consumer.

Incidentally, this brings out the tragic failure of economists through the whole spectrum from Keynesians on the left, through Friedmanites in the middle and post-Mises Austrians on the right, who all failed to distinguish between *the rate of interest* as it is regulated by the *propensity to save* and *the discount rate* as it is regulated by the *propensity to consume*.

Conclusion

It was axiomatic that the remonetization of gold could only come about through the decision of a sovereign jurisdiction opening the Mint to the unlimited coinage of gold on private account. This means that private individuals and firms have the right to bring gold bullion to the Mint in unlimited quantity and exchange it for freshly minted gold coins of the realm ounce for ounce.

This has now changed. There is a new, synthetic way of remonetizing gold that needs no government Mint, or approval, nor legislation asserting individual rights.

Here is how the synthetic way of gold remonetization works. Individuals or firms that have gold bullion to sell can offer it to Bancor for sale against octandors or octandor bills. Bancor stands ready to buy at its posted bid price. As it does, the gold bullion so sold, has been remonetized.

I have studied the question of gold remonetization in all pertinent details and I stake my professional reputation on the thesis that profit-seeking private enterprises will find a way to remonetize gold, thus coaxing gold that had gone into hiding during the long campaign of the U.S. government to drive the rate of interest to zero.

April 10, 2015.