What Chinese Unemployment?

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“There is gold in them thar hills!”

Occasionally we read in various columns of mainstream journalists that the Chinese have shot themselves in the foot when they (in violence of Friedmanite precepts) failed to revalue their currency upwards. The world will retaliate by imposing punitive tariffs, creating horrible unemployment in China and causing civil unrest.

These journalists should be careful to make wishes, because they may just get what they’ve wished for. One of these days China may open its Mint to gold and silver, setting the example to Asia and the Muslim world and, possibly, to South America. Other countries may follow suit. That will be the ultimate revaluation that restores trade relations to normalcy, at least in that part of the world that returns to the gold standard.

There was a time when unemployment “insurance” and other forms of dole were unknown in the United States. That was the time when the country was on the gold standard and deflation meant an increase in the value (purchasing power) of gold. Whenever this happened, the battle cry inevitably was: “There is gold in them thar hills”, and people who have lost their jobs typically went out prospecting and panning for gold. Pannig for gold always gave them an income and a chance to save some capital. The country did very well, thank you very much, with this “natural unemployment insurance”. The bottom line was: more gold for the economy. More gold cured the disease, deflation, and soon things were back to normal. Unemployment did not have a chance to become “structural”.

Of course, given the present anti-gold mindset — as seen in the thinking of the Fed and the government — today large scale prospecting for gold is prevented in the name of “protecting the environment”. Keynesian economists say that they have the perfect substitute for more gold coming to the economy, namely, printed paper money which also has the advantage that you can fine-tune its creation from a central control-panel, the central bank. What they forget is that their “ersatz” gold is highly counter-productive. Rather than easing the debt-problem plaguing the economy, they make it worse thereby perpetuating, even aggravating the unemployment situation.

Gold: the ultimate extinguisher of debt

By contrast, increasing gold production ameliorates economic stress, including unemployment and, above all, it sets a limit to the increase in total debt. *Paying gold is the only ultimate extinguisher of debt.* Any other method of paying down debt leaves total debt unchanged. It only shifts debt from one debtor to another. Total debt in the world can only grow, never shrink. Ultimately all debt, good and bad, is shifted to the Treasury, creating a sovereign debt crisis. The toxic debt the Treasury has to absorb is destroying the credit of the government. When the crunch comes and pristine credit of government would be needed to reset the economy, it is no longer there. It has been spent. Instead, there is only "toxic sludge".

This is the congenital failure of Keynesianism that cannot distinguish between capital and credit, good credit and bad credit, and it freely shifts items from the liability column to the asset column in the balance sheet of the government 0 rendering the accounting system worthless.

Gold corpuscles in the monetary bloodstream attack toxic sludge and devour it. The monetary system has immunity-protection against bad debt. The total debt in the country is not allowed to grow without limit, as bad debt is constantly being eliminated. The monetary system of Keynes and Friedman has no ultimate extinguisher of debt, which is why it has produced a runaway debt-tower, destined to topple and bury the indifferent and unconcerned public underneath the rubble, as the twin towers of the World Trade Center did ten years ago.

Exchange the beggar's pan to the prospector's pan!

Gold also has the uncanny property that it leaves the place where it is not appreciated and seeks out places where it is welcome. One such place in the world today is China. China knows how to become the world's #1 gold producer. China knows how to double its gold reserves unobtrusively in a couple of years. Incredibly, the Chinese government openly exhorts its people, all 1,34 billion of them, to have gold (and silver) on hand for a rainy day. The advice is wise. There is no free lunch. Be prepared for adversity. Be self-reliant. Have gold. Don’t count on governmentally guaranteed unemployment “insurance” and old age “security” payments: when you need it most, it just won’t be there.

Before any sizeable unemployment could develop in China, unemployed people will go prospecting and panning for gold, scurrying 0 like industrious ants 0 over China’s territory, all 3.7 million square miles (9.6 million square kilometers) of it. If that doesn’t do the trick, the Chinese have something up in their sleeves.

The Chinese have control over the price of gold. They can raise it by marginally bidding for more gold on the world market. *The Chinese mean to control the global gold market* through their marginal control of the gold price. They won’t allow the gold price to run away on the upside. It is not in their interest at present. They are no gold bugs. But they have a superb understanding of gold (and, of course, silver). By contrast, Helicopter and Printing-press Ben has even poorer understanding of gold than his prophet, Keynes used to have.

Many a gold bug has the wrong strategy. He buys high and sells low. He cannot kick the bad habit. He should buy low and sell high. He should study the gold policy of China, that uses the throttle of the gold price to control the level of unemployment. Raising the gold price makes panning more profitable and prospecting more attractive, thus reducing unemployment.

On the other hand, the Chinese will stop a precipitous fall in the gold price only insofar as it is in China’s interest, to wit: as long as it is needed to help reduce Chinese unemployment.

U.S. ineptitude concerning gold

The U.S. government seems to have missed an historic opportunity to win the race for monetary supremacy in the world (that would have secured the “reserve currency” status for the dollar for the 21st century regardless of Chinese ambitions). The ineptitude of Fed and Treasury officials concerning gold brings shame to a country that prides itself with its leading position in global scientific research. *The present financial crisis in the world is a gold crisis*. It cannot be properly diagnosed without an analysis of gold’s economic role in serving as the only ultimate extinguisher of debt 0 a role gold has played for thousands of years, as far back as written records exist, up to the fateful year of 1971. It was exactly forty years ago that the U.S. defaulted on its international gold obligations. To “stonewall” the shame following the fraudulent breach of contract as shadow follows the thief, the U.S. government listened to the Mephistophelian advice of Milton Friedman. It was he who suggested it to Nixon to turn defeat into victory, and shame into triumph, by “letting the dollar float”. The world must be told, Friedman suggested, that this major defeat of superstition was long overdue. Gold is a make-belief asset. Just let the world’s central banks announce that they have stopped “supporting” gold, and may soon start selling it.

Green cheese factory on the Potomac

Then, lo and behold, the rats will start abandoning the sinking ship. People will start selling gold hand over fist. Just let the world’s central banks announce that they have started accumulating U.S. government debt. Then, lo and behold, the miracle of turning stone into bread and water into wine can be routinely performed by monetary technicians through lowering the rate of interest, if need be, all the way to zero. The world will forgive the do-gooder government the technical slip of failing to meet debt-payment in gold.

As Keynes observed: people want the Moon. But they *cannot have* the Moon. The Central Bank will have to tell people that green cheese is just as good, and that they *can* have. With that piece of advice the Central Bank can turn all its resources to green cheese production. Never mind that green cheese may rot, especially if it is used as a store of value.

Harakiri 0 Western style

This kind of thinking has animated U.S. monetary and fiscal policy for forty years. It took that long to dissipate the credit of the U.S. government 0 the result of two centuries of working hard and saving hard.

There followed a systematic persecution of those economists who warned of the danger of fiat money ultimately losing all its value. There has never been a successful experiment making irredeemable currency stick. All such experiments in history have come to grief and caused excruciating economic pain to the people. To try the experiment once more and force the rest of the world to follow the U.S. into the abyss was harakiri 0 Western style.

It was criminal to silence and exile critics through official discrimination and slander. The evidence was available almost instantly after 1971 that the U.S.

was on skid row and it was going to be very difficult if not impossible to turn it around. Foreign exchange, commodity prices, interest rates, bond prices were promptly destabilized in 1971. The labor market started to hemorrhage jobs as high-paying manufacturing employment migrated eastwards.

Kamikaze 0 American style

Low wages in China do not explain this phenomenon. Western industry could coexist with low wages in the Orient under the gold standard. But after the fraudulent and violent overthrow of the old monetary order, gold started migrating East, taking those high-paying manufacturing jobs with it.

At this point the Friedmanite bunk was announced by professors who were the beneficiaries of the purge of old-line economists at American universities that a “weak” currency is boon to the country. It makes exports cheap while making imports dear. Trade deficits plague you? No problem. Just fine-tune the value of your currency downwards. Bingo! Exports will soar and imports will go to a trickle.

The advice that devaluing the currency has a salutary effect of the trade balance is akin to the advice that for the champion, to win the race, the amputation of a limb will be salutary. The Friedmanite bunk started a world-wide headlong rush into competitive currency devaluation (some people aptly call it the “race to the bottom”).

The theory of Milton Friedman, suggesting that the floating dollar system is a self-balancing mechanism capable of rectifying trade flows: it will boost exports and rein in imports is the most vicious theory ever concocted. It is a disgrace besmirching American science, hurting the American public, and bankrupting the American government. To see the Friedmanite bunk in the true light of science we need only recall that devaluation always makes the terms of trade of any country deteriorate. The euphoria of exporting more will last only as long as the stockpiles of imported ingredients used by the exporting industry last. Ever after, the country will have to pay *more* for the imported ingredients. It will also get less value for units of its exports 0 a double whammy that is certain to make trade imbalance deteriorate further. This was kamikaze 0 American style. America has succeeded in devaluing itself to the poorhouse, destroying its once fabulous export industry along the way.

“Après nous le déluge”

The worst aspect of our misery is that in putting Keynesians and Friedmanites in charge of our economy and monetary system we have condemned ourselves to eternal slavery. Previously, elected or unelected officials could be recalled and given a dishonorable discharge in case of failure. Not any more, not in the realm of economic and monetary policy-making. The worse mistakes monetary officials make, the more power they are entitled to grab. You could never make these guys admit that they have been wrong. They know that the power they now have, the power to print money, is *unlimited* power. They will never give it up. *Après nous le deluge.*

October 19, 2011

Calendar of Events

Symposium on Gold in collaboration with the *New Austrian School of Economics;* University of Auckland, Business School, Auckland, New Yealand.

November 28 – December 2, 2011

With the participation of:

Professor Fekete, Louis Boulanger, Sandeep Jaitly, Rudy Fritsch, Keith Weiner.

A ten-lecture event focusing entirely on gold’s historical and future role in the world’s monetary system. A primer on gold basis and cobasis.

For further information, please contact Louis Boulanger at louis@lbnow.co.nz .

See also: http://lbnow.co.nz/goldsymposium .