**Sunday, November 6, 2011**

**[Moneyness](http://fofoa.blogspot.com/2011/11/moneyness.html)**



Have you ever wondered what money really is? You'll notice that everyone you read has a strong opinion about what money actually is, but who's right? Is money really just one single thing and then everything else has varying levels of moneyness relative to real money?

Is gold real money? Or is money whatever the government says it is? Or is it whatever the market says it is? Is silver money in any way today? Are US Treasury bonds money? Is real money just the monetary base? Or is it all the credit that refers back to that base for value? Is money supposed to be something tangible, or is it simply a common unit we use to express the relative value of things?

Is money really the actual medium of exchange we use in trade? Or is it the unit of account the various media of exchange (checks, credit cards, PayPal) reference for value? Should the reference point unit itself ever be the medium of exchange? Some of the time? All of the time? Never? Is money a store of value? And if so, for how long? Is money supposed to be the fixed reference point (the benchmark) for changes in the value of everything else? Or is it simply a shared language for expressing those changes?

So many questions, right? And how often have you seen these questions even asked, let alone answered? Is money something that changes over time? Or is money's true essence the same concept that first emerged thousands of years ago? And probably the most important question: Does the correct view of money produce answers that are vastly superior to the blind conjecture prescribed by all other views?

**Answers**

I wonder if it's even possible to answer all these questions in one post. It's a neat challenge in any case, isn't it? As I said at the top, everyone has a strong opinion about what money actually is. So "everyone" will probably disagree with what I write. But that doesn't mean they are right and I am wrong. I want to challenge you to use your own mind and see for yourself. Take what I say and then take what they say, compare, contrast, analyze and then decide for yourself. The prescription produced by my view is quite simple. And only you can decide if it is vastly superior to their blind conjecture.

**The Pure Concept of Money**

According to Webster's the word 'money' emerged in the English language sometime during the Medieval period in Europe, maybe around the late 1200s. [Wikipedia](http://en.wikipedia.org/wiki/Money#Etymology) suggests a possible etymology originating with the Greek word for 'unique' or 'unit'. The Western term for physical coins that emerged sometime around the late 1500s was 'specie' from the Latin phrase for "in kind" or "payment in kind," meaning "payment in the actual or real form." The word 'currency' came a little later from the Latin word for current or flow, and was married to the money concept in 1699 by the philosopher John Locke who described the "circulation of money" as a flow or current of monetary payments made in specie.

Etymology is important, because with money or "the moneyness of things" we are talking about a vital concept that predates the word by thousands of years. And it's only by understanding the pure concept that we can see the ways the word has been bastardized by the [two camps](http://fofoa.blogspot.com/2010/07/debtors-and-savers.html) [debtors and savers] over centuries. The meaning we commonly assign to words may change over time, but that never changes the original concept underlying the emergence of the word in the first place.

Case in point: Is 'money' equal to 'wealth'? Is "gathering wealth" the same as "gathering money?" In the 1950s a Seattle engineer named Howard Long was deeply distressed that his beloved King James Version of the Bible just didn't seem to connect with people when sharing the Word of God. Long felt he needed a new translation that captured the truths he loved in the language that his contemporaries spoke.

It took a couple of decades, but Long's passion became the New International Version (NIV), a completely original translation from Hebrew, Aramaic, and Greek texts that was finally released in 1978. The King James Version had been translated into English and released 367 years earlier, in 1611. Here is one verse as it appears in each version:

Proverbs 13:11 (KJV) **Wealth** gotten by vanity shall be diminished: but he that gathereth by labour shall increase.

Proverbs 13:11 (NIV) Dishonest **money** dwindles away, but whoever gathers **money** little by little makes it grow.

I use this only as an example of how we sometimes change words to fit our modern understanding, not as any kind of a criticism of the NIV. To be fair, there are many more verses where the NIV does *not* remove or replace the word 'wealth'. Here are a few other translations of the same verse, which I think will help to illustrate my point about words and concepts:

Proverbs 13:11 (English Standard Version **2001**) Wealth gained hastily [or *by fraud*] will dwindle, but whoever gathers little by little will increase it.

Proverbs 13:11 (Wycliffe Bible **1395**) Hasted chattel, that is, gotten hastily, shall be made less; but that which is gathered little and little with hand, shall be multiplied.

Proverbs 13:11 (Young's Literal Translation **1862**) Wealth from vanity becometh little, And whoso is gathering by the hand becometh great.

And, just for fun:

*"Think now, if you are a person of "great worth" is it not better to acquire gold over years, at better prices? If you are one of "small worth", can you not follow in the footsteps of giants? I tell you, it is an easy path to follow!"* --ANOTHER (THOUGHTS!) 1/10/98

The point is, your modern understanding of 'money', and the pure concept of money that emerged long before the word, may be substantially different things. I'll go even further to say that the modern understanding of money is so confused and disputed by the [two opposing money camps](http://fofoa.blogspot.com/2010/07/debtors-and-savers.html) that the only way we can hope to have a clear view of what is actually happening today is by reverting *our* understanding to the original concept, before it was corrupted by the two camps.

So now let's go back to the etymology at the top of this section because, while it does not set the pure concept, it does reflect it from a time more proximate and a meaning less corrupted than now. And I should note that etymology is a somewhat subjective and inexact science, kind of like interpreting what you find at an archeological site. So I'm using it only as a tool that helps me share with you a concept, not as proof of the correctness of my concept. There is no proof at this time. There is only the use of your own discerning mind.

If we look at the specific etymology I highlighted, we are pretty close to the pure concept which I will confirm from a couple different angles. 'Money' is a "unique unit" that we use as a kind of language for expressing the relative value of things other than money. The modern example would be "dollar". Not "*a* dollar," not a physical dollar, but the word "dollar" as it is used to say a can of peas costs a dollar, or my house is worth 100,000 dollars, or you owe me a hundred dollars. If you give me two grams of gold you won't owe me a hundred dollars anymore. You don't have to give me actual dollars. That's just the unit I used to express the amount of value you owed me. That's the pure concept of money.

This is where it gets a little tricky and mind-bending. The actual physical dollar, that physical item we call "a dollar," is not money in and of itself. In other words, it is not intrinsically "money". It is only money because we reference it when expressing the relative value of goods, services and credit. If we stopped referring to it, it would cease to be money even though it would still be a dollar. Can you see the difference? Like I said, it's tricky.

A dollar is just a thing, a tradable item. And it will continue being that same thing even if we stop referring to it when expressing relative values. It will still be a dollar, it just won't be money anymore. Therefore it is not money *in and of itself*. It is just a thing. Take the old German Reichsbank marks from 1923. Some of them still exist. They are still marks with lots of zeros. But they are no longer money. We can still trade them. I might trade you a few Zimbabwe notes for an original mark, but that obviously doesn't make them money. The same goes for gold. Gold is just a tradable item.

We could be using seashells as money. If we were, then all the seashells available for trade would be the monetary base. That's the base to which I would be referring when I said you owed me one hundred seashells. A single seashell would be the reference point, the unique unit, but the whole of all available seashells would be the base around which money flowed. You could pay your debt to me with either an item that I desired with a value expressed as 100 seashells, or with 100 actual seashells. So if the total amount of seashells available (the monetary base) suddenly doubled making them easier for you to come by, I'd be kinda screwed. Of course I'd only be screwed if the doubling happened unexpectedly between the time I lent you the value of 100 seashells and the time you paid me back.

Getting back to our etymology, the concept behind the term 'specie' meant actual units of the monetary base. In the 1500s, that was the total of all metal coins-of-the-realm available for trade. That was the monetary base of the day and the term 'specie' arose as a way to express payment in the monetary unit itself rather than payment in bulls, or hats, or anything else. But original concept aside, the meaning of the word became married to coins and stuck [to this day](http://www.etymonline.com/index.php?term=specie):

Specie: 1610s, "coin, money in the form of coins" (as opposed to paper money or bullion), from phrase in specie "in the real or actual form" (1550s), from L. in specie "in kind," ablative of species "kind, form, sort"

Notice it says "coins… as opposed to… bullion." That's because while gold *coins* were referenced in the use of money at the time the word 'specie' emerged, gold bullion was not. "Gold" was not money in and of itself. It was just a thing; a tradable, barterable item. Notice also that it says "money ***in the form of*** coins." The coins themselves were also not money *in and of themselves*. They were only called money because, in that coin form, they were the monetary base that was referenced when expressing the relative value of everything else *at that time*. Some of those gold coins from the 1500s and 1600s still exist today. Today they are not money, but they are still gold coins. Can you see the difference yet?

Now remember, there's no right or wrong at this point. There's only the usefulness of a perspective in delivering the correct analysis of what's actually happening today and the best prescription for your personal action. But you can't use a perspective until you get it. Then, and only then, you can use your own mind to decide if it is the correct perspective and then act upon it. Later it will be proved correct or incorrect, just as Another said: "time will prove all things."

But in support of this particular view of the money concept, I'd like to direct your attention to [Gold Trail Three](http://www.usagold.com/goldtrail/archives/goldtrailthree.html) where FOA went to great length explaining the historical precedents for this view found in the archeological record. Some of this history has been rewritten in hard money text books to fit the modern meaning of words, while the actual historical record—and FOA—tell a different story about the underlying concepts.

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**Sidebar Post-within-a-post**

**FOA on the Concepts of Money and Wealth**



Beginning on the third page of The Gold Trail, FOA presents a number of cases in which the hard money camp has corrupted the interpretation of money-related archeological finds in order to make them fit a modern agenda. By projecting modern biases on antiquity, this camp leaves us with estimates of the volume, value and role of ancient gold that may be entirely wrong.

FOA explains "his group's" contentions along with the archeology and sound logic that backs them. And in so doing, he leaves us with an alternative interpretation of the historical record that I think can only be properly viewed by letting go of some of our modern hard money dogma.

For example, the amount of gold that existed in, and made it out of antiquity is probably overestimated. So, if anything, there’s likely *less* than the current estimates of all gold available today. And gold probably carried a *much* greater value in antiquity than Hard Money typically assumes. Less gold, circulating as a tradable good (not hoarded, not money) at a really high value relative to everything else. Gold’s primary utility was that you could travel to far-away markets with a great amount of tradable wealth in a small package. It was essentially the trade good that was preferred "on the road," not at home in common everyday trade. It was too valuable for that.

The way gold was used, the way it was valued, the reason why we find more silver, copper, and bronze coins buried at the ancient sites, all this and more has been misinterpreted by our hard money teachers because they project modern thoughts onto the ancients in support of their modern policy prescriptions. FOA said "to understand the value of gold, we must remove ourselves from present time thought and think of gold as the Ancients did." Gaining FOA's ancient perspective is helpful in understanding the ultimate moneyness of gold in Freegold.

I went through GT3 again (for probably the fourth time) just to pull a few tastes and give you the flavor of this masterful piece of conceptual dissemination by FOA:

Gold, that wonderful metal that has all the unique qualities to function as our one and only wealth medium, and we just can't use it without altering its purpose. You know, the Lydians had it right, back around 430 BC. They didn't struggle with the concepts of money, like we do today. They just stamped whatever pieces of gold they found laying around and kept it for trade. There was no need to clarify for certain that their gold money needed properties of "utility", store of value, medium of exchange, etc. etc.. They didn't need to identify these qualities were in gold before they stopped questioning if it was safe to use gold as savings. Gold was owned and the knowledge that people owned it and carried it for trade was alone enough to make it "worth its weight as wealth".

You see, back in antiquity there existed another property that could override our need for modern definitions of tradable wealth. That property was found in the one identifying mark of wealth that transcended all ages; real possession!(smile) This factor and this one factor alone had the ability to activate all the other modern attributes of money properties, even when the knowledge of these attributes was unknown in the ancient era. Come now, Alexander the Great didn't know about "utility" did he? (grin)

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Wealth.

As a means of example; think about art work for a moment? That fine painting that graces your main prominent wall. It's tradable for something, isn't it? Perhaps that Renoir for the acreage down the street. That use would cover some of the medium angle, right? A little bulky, but the large value makes it no more or less cumbersome than five gold bricks.(smile) Utility? Just watch your friends stare at it for hours. Store of value? A Renoir? We don't even need to discuss this.

But, one more thing, is it wealth? Of course it is. You see, it is wealth because you possess it, and the very knowledge that you possess it is held by others.

These paintings command a value, a price, a demand, precisely because every one of them is possessed by an owner. In the world of wealth, worth is enhanced because the supply is lessened by this "possession attribute". And possession is how most people in antiquity understood wealth.

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Many hard money philosophers have pointed their finger at others for the fiat situation we use today. It was the bankers and governments, the kings and cohorts, big business and robber barons or some communist manifesto that forced us to use this type of money. Well, you may not like the process and consider yourself above or apart from it all. You may even declare all of them evil. But, in the end, one fact remains; society may govern itself in many ways over thousands of years, but it has never stopped the evolution that corrupts the use of real money as official money.

Over time and life spans gold has been brought into official use countless times. Only to be bastardized by forces, we as peoples can never control. After every failure and ruination of much wealth, the cries always return to bring gold back as money. Once again to begin the long hard road that leads to the same conclusion. Gold coins, then bank storage, then gold lending, then gold certificate use, then lending of certificates, then certificates are declared paper money, then overprinted, then gold backing removed, then price inflation, then,,,,,, we begin again. But this time it's different the hard money crowd say. Yes, it is. Only the time has changed.

For the better part of human existence, gold alone has served all of the best functions of tradable wealth. But as soon as we call it our money, human nature takes over. Yes, we can call it a stock or a bond, a piece of land or a painting, a car, boat or antique, but just don't label it as money.

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Going back over #56 "The Gold of Troy":

You noticed that I structured that discussion in a way that makes the independent mind wander about. Let's pull those thoughts together and move along.

We found that history had left us with some conclusions that were, it seems, never concluded. Archaeology had never been approached by someone like us, with a different hard money perspective. Yes, all the records were there, but most every paper written on the subject appeared carbon copy. They all projected our modern sense of money into the economic structures as they existed back then. "Of course, we are today more complicated", our history papers said,,,, so,,,,,, allowing for that difference "the ancients still operated back then the same as us now". How neat!

Yes, our teachers "called our perception of money, their money and our perception of goods, their goods" in the same context we can use now. They said "hey, they were using hard money to buy and sell from each other, just like we once did" Again,,,,, how neat"!

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For us, as hard money "Physical Gold Advocates", to understand the value of gold, we must remove ourselves from present time thought and think of gold as the Ancients did. Not as money but as little tradable hunks of metal. Gold for goods, straight up, as the citizens of Troy did!

It's the Physical Gold Advocate's "advantage", because while he is waiting for the real value to emerge, the real value that we know existed in antiquity has never gone away! It just doesn't have a marketplace to show it. It will.

I use the phrase; "our advantage of owning the metal", because buying physical gold for today's currency,,,,,,, is like buying a lifetime wealth option that never expires. The commission one pays for this gold coin position, in the form of what we call today's price,,,,,,, may one day go to almost zero as our paper market structure fails from the discovery of real price.

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So, with the Athens, Macedon, Tarentum and Antiochus to name a few, began the world's first coins. Gold coins? Yes they were, but money as we know it? Our view of how these people viewed and used this gold money is, we believe, far different from what gold scholars teach. And its impact on estimates of existing modern gold supply and use is enormous.

All throughout these early times, prior to BC and into some AD, people didn't see these gold coins as we think of money today. These various gold coins had tremendous value, but they were just gold pieces. They were wealth for trade like everything else was. That's simple logic, I know, but the vessel of oil, for instance was just as tradable as a gold coin. In fact, within most of the medium sized city states of that era, barter of like goods was just as good or better than gold coin. One's life was better if he owned wealth he used.

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More to the point, this logic made these guys spenders of gold, rather than savers! If you had gained gold in trade, for your services or goods supplied, you had no reason to save it. There was no other money that needed to be hedged against value loss.

It's becoming more and more apparent that average people of that time quickly traded (spent) their gold for something useful of value, for both them and their family. They didn't have the excess we know today. In modern nomenclature; this logic dictates that a much smaller amount of gold money circulated and circulated faster than many supposed.

For longer savings, even for those of above average means that had all they wanted, people tended to spend their most valuable gold coins first, while saving the least valuable (bronze, silver, iron) for emergencies and later use. To us, today this sounds strange, but place yourself in that time. It was better to build your most useful and needed store of things while times were good.

Therefore, you traded the gold, which brought the most equal trade, first. If things got so bad that one had to dig up the stash, you were trading for last ditch things anyway. Kind of like wrapping up and burying beef jerky to get you thru a pinch. This use of lower metal is supported. Remember, lots of things served as money objects then. Even much later, AD, it was common in Rome to trade big iron bricks that were forged as a bull. Its use was in trade for "one bull" or something of that animal's value.

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When evaluating lifestyle wealth, back then, many often find themselves comparing things in a relative mode with today's perspective. In this position we think the mark has been far missed for gold worth. It's possible that gold payment, in these early times amounted to a huge premium compared to today. The various goods and lifestyle conditions in existence indicate a much higher relative worth for their goods of daily life. Thereby giving gold a much greater relative worth within one's life also. If a one stater Darius of gold, from Cyrus of Persia was worth a very valuable vessel of oil, why utilize the effort to find gold just to trade for some oil. Better to skip the gold production and make the oil. This was the norm for thinking by people not trading on the road, living "within local" city states. Indeed, outside the need to pay armies, a much smaller amount of gold did the job much better than us modern thinkers thought was necessary. Further, the use of oversea warfare and trade perhaps lost more gold into the ocean than we will ever know.

Consider these possibilities well. In that gold today is in a much lesser existence, compared to modern goods supply and lifestyle enhancements, when comparing it to its value in life in the past. It's true worth as a wealth medium could be a 1,000 times higher! For it to return to its ancient position of true asset wealth, for trade outside the modern currency realm, we can see where its European benefactors have once again placed it "On The Road" to much higher fiat currency prices.

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Back then, there was no other currency. No paper moneys or banks. One had no need to save gold as a hedge or savings account. Your wealth was in the useful things contained in the world around you. Those little hunks of metal were just that, little hunks of gold that everyone knew had trading value. They were not money, not the way we think of money today. They were just a beautiful metal, gold.

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The Lydians, Greeks and Romans all held gold. From Parthia through Rome and on to the Visgoths, Lombards, Normans and Franks, they all held gold as wealth. It was wealth first and traded as what we call money second. Possession identified that gold as real wealth, even if that ownership was for but the moment of a trade.

From the earliest times right into the Old World periods of Europe, gold served as the most valued wealth asset one could use in trade. It was by far the largest unit of tradable wealth in circulation that could be counted on to bring a premium in trade while shopping between cities. It moved, it flowed and it traveled. It was indeed, always "on the road"! Lesser metals and other tradable wealth assets always competed with gold for its trading function, but only gold made the best "on sight" trade. When given the choice of other "almost moneys", gold would always bring an extra slice of meat or fuller basket of cloth.

The irony of gold use over most of its earlier periods was that few average people kept it for long. Hence the seldom discovery of gold coinage where average people lived (see my earlier posts). To be sure, it represented wealth to these commoners, in good form and to the highest degree. Yet, their possession of this wealth usually constituted only a short time period. This short ownership occurred because gold did, would and could trade so much better for the needed things in life. For the worker, service wages paid in gold meant you just got a bonus or raise and the time had come to finally buy what you couldn't afford if paid in other means. If these people saved at all, it was usually in the form of the lesser metals (see my other posts).

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If gold was so valuable back then, there must have been a bunch of it saved and transported into our modern time?

No, not really! We used to try and extrapolate all the gold that was mined and turned into jewelry, bullion or coin. If it was so good for coin and trade, civilizations must have saved every ounce, we thought! But something kept nagging at our conclusions. Something that kept turning up over and over at our digs.

Some of you have seen the Gold of Troy pieces or other fine examples of old gold craftsmanship at other museums. Ever notice how good they were at making gold so long ago? From intricate bracelets to rings, head dress items to fine cups, even the most thin of leaf. Some of it was so small we had to use magnifying glasses to see the work clearly.



This gold in jewelry and art work form was the other major form of traveling wealth. In many of our recent findings we now think that jewelry and coin traded places as easily as getting your check cashed today. Throughout the ancient land, gold centers occupied the trade routes. Any gold that rested for too long was quickly recruited into a form that worked for the next traveler. In fact, evidence now points to all forms of gold ownership, not just coins, being a short term proposition for the average man. Indeed, contrary to what we thought, the fingers of all mankind did, through the ages, touch gold!

Now place yourself in that time. You work for Rome in the army, a fighting man. Not all of you were paid in lesser metals, many of you were relatively better off. You did carry some of your wealth with you in the form of gold coin or jewelry. In the case of a Roman soldier, a gold ring was very probable. When you went into battle, did you leave your few gold items laying in the tent? Or did you wire them back to a Swiss bank for safekeeping until after the battle? (big grin)

What we are finding, in the form of molecular fragments at battle sites, leads us to believe that most wars were fought with most wealth possessions worn or in pockets. Gold included. To make a long story short, we now believe that a great deal of early gold was scattered on trails, in the sea and during every war. In fact, rubbed, scraped and powdered to the four winds.

Because gold was so valuable in long trade, extremely small creations were carried as jewelry. Much smaller and much more able to be lost than other larger units of the lesser metals. The nature of so much of this gold was that it was easy to be lost and dispersed. Especially considering the modes of travel back then. We as museum visitors see all the magnificent pieces displayed. What we don't see are the countless broken, partial and fragmented items that are never offered for viewing.

Knowing what we know now, we believe that a very large portion of gold was lost and scattered on a yearly basis. Add to this the fact that most gold mining brought almost the same return as making many of the goods it purchased and we can see how gold was and is over counted. Where it was once taken as fact that all gold was looted and remelted, we now think that gold stocks were lucky if replaced.

By the time of the great gold coinages in Europe, the gold that flowed into these major commerce centers was all there was left in the world!

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The real issue is our misunderstanding and misuse of the term "sound money". That thought has been bantered around for hundreds of years. Truly it does not exist except in the minds of men.

Money, the term, the idea, perhaps the ideal,,,,,,, is something we dreamed up to apply to one of our chosen units of tradable wealth. Usually gold. We could take almost every item in the world and use it in this same "money fashion". Still, this form of trading real for real is just exchanging wealth. It isn't exchanging money as we understand money.

Gold is no different than anything else you possess as your wealth, it just so happened to be the most perfect type of tradable wealth in the world. So it evolved to be used the most and eventually labeled in the same function of what we consider to be "sound money".

Now, consider that all wealth is represented in and of itself. You cannot reproduce wealth through substitution, like giving someone five pieces of copper for one piece of gold and then have them think they now have five pieces of gold! This is the process we try to perform within the realm of man's money ideals. We have always debased trading wealth by duplicating it into other forms and calling all of it, collectively, "our money".

This duplicating, this replicating, this debasement is the result of taking the concept of a credit / contract function (paying in the future) and combining it with the concept of completing a trade at the moment. Think about that for a moment?

As an example, I'll give you a paper contract to pay you later for some oranges and you give me the basket of oranges. Better said, I just gave you modern man's actual concept of money.

Or I trade you a basket of apples "or gold" for those same oranges and the deal is finished, done! We have been taught to think that this is also the concept of money trade.

The first uses what our currency system has evolved into, what is really money in our mind. Where the second uses no credit form at all and is more comparable to trading real wealth as the ancients traded using gold.

Contemporary thought has always blurred these two notions; saying that these two methods of trading are one in the same and both forms use the same idea of what we think money is.

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This is the road ahead. **A fiat** no different from the dollar in function, yet a universe away in management. **A wealth asset** that also stands beside this money, yet has no modern label or official connection as money. In this way modern society can circle the earth, to once again begin where we started. Having learned that **the concepts of wealth-money and man's money were never the same**.

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They are not trying to Un-money gold! They are going to un-Westernize gold so it performs its historic function of acting as **a tradable wealth holding**. No longer following the Gold Bugs' view that governments need to control gold so it acts like real money in the fiat sense. Truly, the BIS and ECB are today "Walking In The Footsteps Of Giants"!

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Gold will no longer be able to successfully carry the Western name of Money so as to allow for its political price fixing. A process that, it seems, has been with us for generations. Enslaving millions of hard workers by always officially classifying the terms and value of both their paper currency and their metal savings. Always inflating both items for the good of society's never ending political agenda.

Allowing FreeGold to circulate as a wealth asset would denominate its true worth through the much larger real demand of "Wealth Possession" instead of paper possession. Such a gold scale would measure our world reserve currencies against each other instead of against our Western concept of gold as official money. But, in addition, on a higher level, prevent any one country from subjugating other nation states through fiat dominance. To more fully grasp the impact of "Possession" and why ancient gold was worth so much more as FreeGold; hike again that part of our trail (FOA (04/18/01; 20:20:06MT - usagold.com msg#64) Lombards, Normans and Franks.)

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We were first alerted to the "gold is money" flaw years ago. When considering the many references to gold being money, in ancient texts, several things stood out. We began to suspect that those translations were somewhat slanted. I saw many areas, in old text, where gold was actually more in a context of; his money was in account of gold or; the money account was gold or; traded his money in gold. The more one searches the more one finds that in ancient times gold was simply one item that could account for your money values. To expand the reality of the thought; **everything we trade is in account of [*counted in*, I presume - FNC] associated money values; nothing we trade is money!**

The original actual term of money was often in a different concept. In those times barter, and their crude accounts of the same, were marked down or remembered as so many pots, furs, corn, tools traded. Gold became the best accepted tradable wealth of the lot and soon many accountings used gold more than other items to denominate those trades. Still, **money was the account, the rating system for value, the worth association in your head. Gold, itself, became the main wealth object used in that bookkeeping.**

This all worked well for hundreds and perhaps thousands of years as fiat was never so well used or considered. Over time, society became accustomed to speaking of gold in the context of money accounting. Translations became all the more relaxed as gold and money accounting terms were mingled as one in the same. It was a subtle difference, then, but has become a major conflict in the money affairs of modern mankind; as gold receipts became fiat gold and bankers combined fiat money accounting with gold backing.

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**To understand gold we must understand money in its purest form**; apart from its manmade convoluted function of being something you save. **Money in its purest form is a mental association of values in trade; a concept in memory not a real item**. In proper vernacular; a 1930s style US gold coin was stamped in the act of applying the money concept to a real piece of tradable wealth. Not the best way to use gold, considering our human nature.

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By accepting and using dollars today, that have no inherent form of value, we are reverting to simple barter by value association. Assigning value to dollar units that can **only have a worth in what we can complete a trade for**. In effect, refining modern man's sophisticated money thoughts back into the plain money concept **as it first began; a value stored in your head!** Sound like something that's way over your head of understanding? I'll let you teach yourself.

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You use the currency as a unit to value associate the worth of everything. Not far from rating everything between a value of one to ten; only our currency numbers are infinite. Now, those numbers between one and ten have no value, do they? That's right, the value is in *your* association abilities. This is the money concept, my friends.

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A fiat trading unit works today because we make it take on the associated value of what we trade it for; it becomes the very money concept that always resided in our brains from the beginnings of time. In this, a controlled fiat unit works as a trading medium; even as it fails miserably as a retainer of wealth the bankers and lenders so want it to be.

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For thirty years fiat use evolved on its own to embrace the non-wealth trading aspects of "the money concept". Leaving in its wake a world of worthless dollar debt as people bought wealth outside the "money concept" anyway. We are, today, in a transition away from that dollar mess and much of our wealth illusion will be passing from our grasp in the process.

In every way, society is trading its way back to where it started. In the process, gold will find a new value from its history in the past:

"A wealth of ages savings for your future of today."

End Sidebar
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Well, there you have it! The pure concept of money is our shared **use** of some *thing* [gold] as a reference point for expressing the relative value of all other things. Money is the *referencing* of the thing, not the thing itself. As FOA said, money is "a value stored in your head!" Money is not something you save. "Money in its purest form is a mental association of values in trade; a concept in memory not a real item… the value is in your association abilities. This is the money concept, my friends."

But what does this have to do with me in 2011? I can almost hear you thinking this question now. Well, I'm going to share a secret with you. The big secret is that the people's money is simply credit. And by "the people's money," I mean *our* money, the real producing economy's money. The monetary base is only the banks' and governments' money, except for that little bit of cash you keep in your wallet for emergencies. Let me explain.

Today's monetary base is a clearly defined thing. It is all physical currency plus reserves held at the Fed. We the people cannot have electronic base money. We cannot open an account at the Fed. Only banks and the government can. We use commercial bank credit and private credit to keep the economy churning. The reference point of our credit is the base. We reference that base when we transact in "dollars".

Private and commercial bank credit appears and disappears spontaneously all the time, all throughout the real economy. This is what actually lubricates the economic engine; having a base of stable value to which we refer in monetary transactions. Private credit is generally cleared using bank credit. And bank credit is cleared using the monetary base. But all credit denominated in dollars refers to that base and relies on a stable unit value or price stability.

It is the banks' job (both commercial and central banks) to make sure that bank credit (the people's money) and base money (the banks' money) are fungible. That is, they are always freely and equally exchangeable. But of course they are two separate things, credit and base money, with two very different volumes. Under normal conditions, there's a lot more credit money floating around than there is base money. So keeping them fungible can be a juggling act on occasion. But for the most part, we the people *choose* to hold bank credit as our money rather than cash. And, in fact, it is the limited availability of cash in the system (its relative "hardness") that keeps *our* money stable in unit value.

Think about it this way: We are free to choose cash at any time. And when we go to the bank to exchange our credits for cash, we put that bank under pressure to come up with cash that is relatively "harder" to come up with (more limited in volume) than credit. Let's say, for example, that "demand deposits" (those that *can* demand cash on the spot) are ten times larger than the total volume of cash in the system. Is this good for our money? Yes, because it means that the reference point unit we use is in limited supply, which keeps a vital *tension* on the overall system. The operations the bank must do to come up with our cash (sell off some value) maintain value in our credits.

Say the base volume is one trillion dollars, which is about what it was in October of 2008. That means the base *unit reference point* for all dollar credit in the world is one one-trillionth of the base volume, all the available above-ground dollars ever mined throughout all of history. Then imagine you doubled that base to two trillion dollars. The unit reference point will have been ***cut in half***, from one one-trillionth to *one-half* of one one-trillionth of the base volume.

Like this: Remember the "reference kilo" in [Reference Point Revolution](http://fofoa.blogspot.com/2011/03/reference-point-revolution.html)?


Say you've got a contract or a credit for a kilo of gold. Now obviously the total volume of gold can't be doubled overnight like the dollar base was, so what would be the equivalent effect? Well, it would be like someone cutting that reference kilo in half. Your one kilo contract, since it is denominated in kilos, refers to this unit reference point that has just been cut in half. It has suddenly become twice as easy for your creditor to deliver on his obligation. And, by the way, the volume of the dollar base has more than doubled since Oct. 2008. It's now at 2.7 trillion, which means the unit reference point was actually given a 63% "haircut" in three years, from one one-trillionth to little more than one-third of one-trillionth of the total volume.

Now, before you start arguing your own favorite economic pet theory, let me remind you that there is no right or wrong at this point. There's only the usefulness of a perspective in delivering the correct analysis of what's actually happening today and the best prescription for your personal action. But you can't use a perspective until you get it. Then, and only then, you can use your own mind to decide if it is the correct perspective and then act upon it. Later it will be proved correct or incorrect, just as Another said: "time will prove all things."

Clearly the 63% destruction of the dollar unit reference point over the last three years did not immediately translate into a 170% rise in prices at the grocery store. And I wouldn't expect it to. It never works like that. [Henry Hazlitt](https://mises.org/daily/2916) explained it like this: "The value of the monetary unit, at the beginning of an inflation, commonly does not fall by as much as the increase in the quantity of money, whereas, in the late stage of inflation, the value of the monetary unit falls much faster than the increase in the quantity of money."

If you have a large 401K, IRA or pension fund full of credits for dollars, you may be taking comfort in the fact that the 63% haircut in the very unit your retirement nest egg references has not yet shown up at the stores where you shop. But the fact remains that the dollar has been debased. That's why they call it debasement. The base is diluted by expanding its volume which reduces the value of the unit used for reference relative to the volume of available units.

There are, of course, plenty of economic theories out there that are wholly designed to distract your attention away from this plain and obvious debasement and to tell you why it doesn't matter, and how the presently slow price inflation is proof that it doesn't matter if they debase your money and your life's savings.

* Some will tell you that the apparent fungibility of credit and cash means they are the same thing.
* And some will even try to tell you that the base unit reference point derives its value from the volume of *credit* rather than its own volume, and that the base volume is essentially meaningless.

But I think that if you are keeping your wealth in the form of money, sheep being periodically sheared is an image worth keeping in mind.

**The Pure Concept of Wealth**

Another concept of concern today is that of 'wealth'. As FOA emphasized in the sidebar, the fundamental property of wealth is that of "possession." It is by this property that wealth is identified, and thereby it becomes 'wealth'. "In the world of wealth, worth is enhanced because the supply is lessened by this 'possession attribute'. And possession is how most people in antiquity understood wealth."

Have you ever noticed how the super-rich seem to stay super-rich no matter how much money they spend? Not only that, but they seem to get wealthier the *more* they spend! They buy amazing super-homes, expensive antique furniture to fill the homes, and priceless artwork to hang on every inch of their fancy walls, yet somehow they retain their wealth.

That's not to say that they don't also participate in the Western tradition of "the something for nothing game" we call the paper markets. They do, but that participation does not constitute their 'wealth'. Yet we, the commoners, are told constantly, by state-approved financial advisors, to put our entire nest egg at risk in this "something for nothing game."

We can't afford that nice furniture and art that the super-wealthy buy, so we buy low-priced crap from China that is worth half what we paid for it the minute we walk out of the store. What is going on? Is it possible to imagine a new monetary system that would put common people on equal footing with the super-rich when it comes to possessing our wealth?

**FOA** (05/06/01; 20:30:52MT - usagold.com msg#69)
**A Tree in the Making**

In this world we all need much; blessings from above,,,,, family,,,, home,,, friends and good health. But after all that, one must have currency ***and*** an enduring, tradable wealth asset that places our footing in life on equal ground with the giants around us,,,,,, gold! Understanding the events that got us here and how they will unfold before us is what this GoldTrail is all about.

I know I keep repeating myself, but this post is specifically designed to encourage independent thought; to let your mind wander about, freed from the confines of [modern dogma](http://www.youtube.com/watch?v=CP_WhG4fe-w). If you were able to wrap your mind around the pure concept of money, you may be starting to sense the danger, at least conceptually, in holding your lifetime's-worth of accumulated wealth as money. Because when they double the base, they are diluting all of “our” money by half, even if “our money” outnumbers the base by 10:1 (bank credit), 100:1 (all credit), 1,000:1 (credit derivatives) or whatever. It is credit's reference point they are abusing to ease their own discomfort, and our money they are debasing. And the more money you are holding when they do this, the greater your share of the loss.

To contrast these two important concepts, money and wealth, notice that, conceptually, money is not the item that is referenced, and the item (e.g., a dollar bill) is not money in and of itself. It only obtains moneyness by the fact that it is referenced in valuing other items. True wealth, on the other hand, is, in fact, the item itself. A wealth item *is* wealth, in and of itself, by the mere fact that it is possessed.

The easy money camp always wants the savers to store their wealth in money, so they can loot those savings by debasing the referenced unit which eases their discomfort.

Meanwhile the hard money camp always wants the debtors' deficit spending to be denominated in real wealth. The problems with this approach are myriad.

So here’s an interesting question: What do you call a monetary system where physical gold wealth (not credits denominated in ounces issued by a commercial bank, but the actual physical stuff) sits on Line 1 of the Eurosystem’s monetary assets? There’s no silver there on line 2, no copper, no oil, no GLD or PHYS, no mining shares, no antique furniture or Renoirs, just 400-ounce bars of physical gold bullion and a few minted gold coins. Official purchases and sales of gold (changes in the volume) are publicly reported every week, and its value is updated every quarter.

What do you call that system? And what do you call the gold in that system? How would you describe gold's moneyness in such a system? And why hasn’t Greece sold its gold yet to end the discomfort? Why do we mainly hear politicians proclaiming "the euro will survive." Why do we rarely if ever see the central bankers sweating "the survival of the euro"? Aren’t they worried about the survival of their reference unit? Or do they simply understand moneyness better than the rest of us?

**MMT**

If you read my whole sidebar like I hope you did, you saw where FOA described in the broadest terms how we arrived at our latest iteration of easy money. Here it is again:

*Gold coins, then bank storage, then gold lending, then gold certificate use, then lending of certificates, then certificates are declared paper money, then overprinted, then gold backing removed…*

How's *that* for covering a lot of years in one sentence?

Depending on which camp you're in, as long as you haven't grasped the pure concepts of 'money' and 'wealth', there's a whole spectrum of descriptions of how "modern money" works with varying degrees of uselessness in practical applicability, both macro and micro. On the hard money side, you'll find lots of criticism of "fractional reserve banking," "thin air money," "borrowed into existence," "credit money is a pyramid scheme" (it's not, the concept of money has always been a credit reference to a base unit), etc., etc… Hard money descriptions of modern money are overwhelmingly critical because, of course, the easy money camp has been in charge for a long time now.

Obviously I think the hard money camp misses the mark in its policy prescriptions, but you've got to understand that they can only address today's issues in the counterfactual subjunctive. In other words, "if A had been true, then B wouldn't have happened or the outcome would have been better." But A isn't true. A being "if only we had hard money today."

But it's over there in the far corners of the easy money camp where you'll find some truly repulsive arrogance by those who unfortunately have the luxury of using *true* antecedents in their modal logic. Like this: "If it is true today that USG deficit spending is not technically constrained by taxes and borrowing because it issues its own currency, then structural trade deficits are not only sustainable, good and loved by our trading partners, but necessary. 'Austerity', or producing more than we consume at times like these, on the other hand, is a total disaster." That's the logic. Here's the arrogance:

*"As a current account deficit nation, the US government can appropriately be thought of as a net currency exporter. This means that we send pieces of paper over to the foreign nations in exchange for goods and services."* (Cullen Roche)

*"We don’t need China to buy our bonds in order to spend. China gets pieces of paper with old dead white men on them in exchange for real goods and services."* (Cullen Roche)

And why doesn’t China just buy other American stuff?

*"They have attempted to use their dollars to purchase other USD denominated assets, but the US government has squashed those efforts. So, instead of leaving these pieces of paper to collect dust in vaults, they open what is the equivalent of a savings account with the US government."* (Cullen Roche)

*"Anyone who uses the term [monetization] in the context of the Fed’s contribution of government spending does not understand how the modern monetary system works."* (Cullen Roche)

*"This is basic macroeconomics and the debt-deficit-hyperinflation hyperventilating neo-liberal terrorists seem unable to grasp it."* (Bill Mitchell)

*"The Fed is not printing money. They are merely swapping treasuries for deposits."* (Cullen Roche)

Someone should explain to these guys the meaning of the phrase, "never look a gift horse in the mouth." It means that when someone gives you a free horse, you shouldn't inspect it too closely in front of the giver.

Of course this is MMT, or Modern Monetary Theory I'm talking about. Even Paul Krugman noted the arrogance of these theorists in his latest [blog post](http://krugman.blogs.nytimes.com/2011/08/15/mmt-again/) about MMT (my emphasis):

*"First of all, yes, I have read various MMT manifestos —* [*this one*](http://pragcap.com/resources/understanding-modern-monetary-system) *is fairly clear as they go. I do dislike the style — the claims that fundamental principles of logic lead to a worldview* ***that only fools would fail to understand****…"*

I bring up MMT not because it is entertaining to make fun of their misguided (and often repulsive) arrogance, but because of the inauspicious rise of their extreme easy money theories right at the tail end of history's grandest easy money experiment. I find it to be a handy platform from which to explain how the ancient concepts of money and wealth are still more relevant to the near-term outcome than a few accounting identities that thrive solely in the monetary plane, and do so with reckless disregard for the real power of the physical plane.

One of the main tenets of MMT is the accounting identity that roughly states the amount the USG deficit spends (government spending in excess of the taxes it takes in) is always equal to private sector net savings plus the trade deficit (exports minus imports, or stated another way, our trading partners' net dollar savings).

This is generally explained with the analogy that the USG spends money *into* existence and taxes money *out of* existence. So if the USG (God forbid) taxed as much as it spent (or spent as little as it taxed), there wouldn't be any extra USG money for us mere mortals to save. So by spending more than it takes in, the USG is graciously giving us money for savings. And then, the USG issues Treasuries in an amount equal to that deficit spending (extra money for us to save Woo hoo!) to give us an interest-bearing exchange for our net-production.

To be fair, MMT consistently reminds us it is only ***de***scribing and not *pre*scribing a monetary system. Fair enough. But the presence of the trade deficit and our trading partners' presumed need for dollar savings should probably set off your alarm bells. If so, MMT wants to calm your worry with these soothing words:

*"In a world with global trade we are certain to have trade deficit and trade surplus nations."* (Cullen Roche)

In other words, we are simply a trade deficit nation. That's just [who we are](http://www.youtube.com/watch?v=ss_BmTGv43M#t=0m3s). Get used to it, and then embrace it! After all, it's pretty cool to get free stuff:

*"…the US government can appropriately be thought of as a net currency exporter. This means that we send pieces of paper over to the foreign nations in exchange for goods and services."* (Cullen Roche)

It's pretty neat the way accounting identities work. They are always true because, by definition, they must be true. They are like saying, "the amount of widgets sold equals the amount of widgets bought." You can't really dispute them as they are framed. But it is in the static assumptions that go into the careful monetary plane framing that flaws can be found. The physical plane can be much more dynamic than they assume.

For example, what if all the private sector net-producers decided to save in gold instead of USG debt? Since the accounting identity we're talking about includes our foreign trading partners like China, I'm essentially asking what happens if they (and we) stop buying Treasuries. Remember that Cullen says it doesn't matter:

*"We don’t need China to buy our bonds in order to spend. China gets pieces of paper with old dead white men on them in exchange for real goods and services."* (Cullen Roche)

In other words, if they don't buy our Treasuries (run a capital account deficit), then they'll just stack the Benjamins. In other words, that's just the way it is. See? It's an accounting identity.

But then a reasonable person might point out that the USG still issues Treasuries equal in amount to all its deficit spending. And if we and the Chinese aren't buying them, then the Fed has to, so it makes up a cool name like QE2 to disguise the real purpose of the purchases. Not so fast, MMT says. The Treasury does not need to issue debt in order fund its spending. When it spends, it simply credits private sector accounts with new credit money and the banks with new base money. There is no direct connection between sales of Treasuries and money spent other than a myth in our confused minds.

In fact, during the debt ceiling debate in late 2009, MMT actually advised them to stop issuing Treasuries and just keep spending:

*"The anti-deficit mania in Washington is getting crazier by the day. So here is what I propose: let’s support Senator Bayh’s proposal to 'just say no' to raising the debt ceiling. Once the federal debt reaches $12.1 trillion, the Treasury would be prohibited from selling any more bonds. Treasury would continue to spend by crediting bank accounts of recipients, and reserve accounts of their banks. Banks would offer excess reserves in overnight markets, but would find no takers—hence would have to be content holding reserves and earning whatever rate the Fed wants to pay. But as Chairman Bernanke told Congress, this is no problem because the Fed spends simply by crediting bank accounts.

This would allow Senator Bayh and other deficit warriors to stop worrying about Treasury debt and move on to something important like the loss of millions of jobs."* ([L. Randall Wray](http://neweconomicperspectives.blogspot.com/2009/11/memo-to-congress-dont-increase.html))

I want you to notice a small detail in the above quote that probably slips by most people. Wray writes (my emphasis): *"Treasury would continue to spend by crediting bank accounts of recipients,* ***and reserve accounts of their banks****."*

Out here in the real world of the productive economy, when we spend, only the account of the recipient gets credited. Not the reserve account of their bank. The "reserve account of their bank" is that commercial bank's account at the Federal Reserve Bank. Remember? You and I can't have accounts there. Only the banks and the government can. Our spending is netted out in the system each night and the imbalances between banks are cleared with those substantially smaller reserve accounts.

I imagine there's a good reason Randall Wray was careful to include this small technicality in his piece. That's because raw government-created money through deficit spending is fundamentally different than "our money." Government spending adds one unit of credit money (our money) to the system as well as one unit of base money (their money). The bank receiving the deposit gets a reference point unit asset to match the liability it takes on.

So the volume of the base is expanded when the government spends, and it is likewise contracted when the government taxes and/or sells Treasuries to the private sector (including our trade partners like China). But when the government spends in excess of those two operations (taxing and debt selling), the base volume is simply expanded. And MMT apparently sees no difference between the true concept of money (all that 100s of trillions of credit denominated in a single reference point unit) and the base which it references. Take QE2 for example.

Super easy money camper and activist Ellen Brown writes in [IS QE2 THE ROAD TO ZIMBABWE-STYLE HYPERINFLATION? NOT LIKELY](http://webofdebt.wordpress.com/2010/12/02/is-qe2-the-road-to-zimbabwe-style-hyperinflation-not-likely/):

*"Unlike Zimbabwe, which had to have U.S. dollars to pay its debt to the IMF, the U.S. can easily get the currency it needs without being beholden to anyone. It can print the dollars, or borrow from the Fed which prints them.

But wouldn’t that dilute the value of the currency?

No, says* [*Cullen Roche*](http://pragcap.com/mechanics-qe-transaction)*, because swapping dollars for bonds does not change the size of the money supply. A dollar bill and a dollar bond are essentially the same thing."*

This is part of the flaw in MMT’s view. Bonds are credit (the economy’s money) denominated in (referencing) the base unit (the dollar). Swapping credit for base units dilutes and debases every single credit dollar in the world, all quadrillion of them if you included derivatives.

When the private sector (plus our foreign free stuff suppliers) buy bonds, the USG is essentially spending credit money rather than expanding the base because "the credit to the ***reserve account*** of their banks" that Randall Wray mentioned above is ***deleted*** when the private/foreign sector buys a Treasury bond. Spending credit money does not dilute the base and debase the reference unit. But when the people (or banks) that bought those bonds swap them with the Fed for cash, the base is diluted and the reference unit is debased. So Cullen is wrong. A dollar bill and a dollar bond are *not* essentially the same thing.

Back in June, talking about QE2, I wrote something very similar to what Cullen says. See if you can spot the subtle difference.

[Cullen](http://pragcap.com/mechanics-qe-transaction): *"There is not 'more firepower' in the market following QE. All that the Fed altered was the duration of the U.S. government’s liabilities. The Fed took on an asset (treasurys) and also accounted for a new liability (the reserves). But this transaction did not change the net financial assets in the system. The point here is that from an operational perspective the Fed is not really altering the money supply."*

[Me](http://fofoa.blogspot.com/2011/06/from-treasure-chest.html?showComment=1309619211980#c8614179482815949557): *"The Fed has not created more money, it has simply* ***changed the nature of existing money****. Remember, FOA said that '...hyperinflation is the process of saving debt at all costs, even buying it outright for cash.'"*

So, just to recap, MMT says that neither selling debt to the Chinese nor QE (selling it to the Fed) is actually necessary to fund government deficit spending. The government spending actually happens *first*, therefore it is independent of, and not reliant on, either of those financial operations. And to this point, I think we can all agree with MMT's description of the process as it exists in the monetary plane, although it is clearly not the *only* correct description, and certainly not the whole story.

Here's the thing, the act of government deficit spending *without* either counterbalancing taxes or Treasury sales to the private/foreign sector, and the act of Fed quantitative easing, both change the nature of the money supply in a way that all other "normal" activities do not. They debase "our money" by expanding "their money" in volume to ease their discomfort. And this kinda gets us to the driving thrust of MMT; that MMT sees little to no danger of this monetary plane debasement spilling out into the physical plane with deadly consequences for the dollar.

There is, however, one area in which the danger is at its all-time peak today. And that is the US trade deficit as viewed from the physical plane. But before we get into that, let's take a look at a couple neat charts that Cullen Roche uses to visualize the monetary plane accounting identity that underlies his theory. Cullen calls them "sectoral balances," meaning the monetary plane balance sheet of three different sectors: the government sector (USG), the domestic private sector, and the foreign sector.

What I'm going to try to do is to help you see the physical plane reality of these charts. They are so neat and balanced in the monetary plane, yet they represent an immense ***imbalance*** in the physical plane that, because of the [credibility inflation](http://fofoa.blogspot.com/2010/08/credibility-inflation.html) of the last 40 years, leaves the dollar vulnerable to spontaneous hyperinflation. More on that in a moment.

In this first chart, I want you to pay special attention to the dashed blue line. In the monetary plane, that line represents the amount of US paper our foreign trading partners are taking in each year. When they take in dollars, those show up as a current account surplus on their sheet and a current account deficit on ours. Then when they trade them in for Treasuries they show up as a capital account deficit on their sheet and a capital account surplus on ours. But the easiest way to understand this blue line is in the physical plane. It represents the trade deficit; the amount of free stuff we got each year in exchange for nothing but paper. As Cullen says, "the US government can appropriately be thought of as a net currency exporter." So the blue line is our "currency exports."



Here's a link to our Balance of Payments (BOP) from 1960 through 2010:

[www.census.gov/foreign-trade/statistics/historical/gands.txt](http://www.census.gov/foreign-trade/statistics/historical/gands.txt)

The first column is our trade balance. A negative number means a trade deficit. I'm sure the MMT folks reading this are getting tired of me calling it "free stuff," but that's what it is, which I'll explain in more detail later. Foreign central banks were literally supporting our trade deficit for their own reasons for the last 30 years. You'll notice we went into deficit in 1971, with the only blips up into surplus since then occurring in '73 and '75.

You've probably heard it said that the US has become a "service economy" as opposed to producing all the real stuff we used to produce. Well, if you look at the second and third columns, the goods column and the services column, you'll see the inflection point of that transition was also in 1971. So all those negative numbers in the first column really do represent real goods, the kind of stuff that gets packed into containers and physically shipped to the US.

In 2010 you'll see that our trade deficit was $500 billion. That number comes from a $645B deficit in goods, and a $145B surplus in services. In 2011 we are on track for a trade deficit of about $565B ([monthly data](http://www.census.gov/foreign-trade/statistics/historical/exhibit_history.prn)). For the last decade, our trade deficit range has been $400B - $750B per year. The average for the decade is $581B per year, or $48.5B per month.

Now this second chart really shows the monetary plane symmetry that MMT loves. The whole point of the accounting identity is that the balances of the three sectors (government sector, domestic private sector and foreign sector) must net out to zero. One person's savings is another person's debt, or so the story goes. Remember what I said about widgets? "The amount of widgets sold equals the amount of widgets bought." Well the accounting identity behind this chart is essentially just as simple: "the amount of debt sold equals the amount of debt bought." If you're going to save, then I have to deficit spend (create debt notes) for you to hold as your savings. Neat, huh?



On this chart, the bottom is the amount of debt sold and the top is the amount of debt bought. All that red on the bottom is the government sector selling debt. The green on the top is the foreign sector buying that debt. The blue, which seems to jump around, is the domestic US private sector either buying (top) or selling (bottom) debt (think: MBS). What I want to draw your attention to is this last bit of blue at the end:



What this section, roughly encompassing the last three years, apparently shows is that 1. The debt sold by the USG jumped dramatically, 2. The debt purchased by the foreign sector decreased, and 3. The domestic US private sector apparently picked up the slack dropped by the foreign sector. I propose to you that "the domestic US private sector" in this case was mostly Ben Bernanke and the Federal Reserve. I do understand that MMT interprets QE as something other than money printing, but I would like you to read this paragraph from [Wikipedia](http://en.wikipedia.org/wiki/Quantitative_easing#Amounts) on the specific amounts of quantitative easing:

*"The US Federal Reserve held between $700 billion and $800 billion of Treasury notes on its balance sheet before the recession. In late November 2008, the Fed started buying $600 billion in Mortgage-backed securities (MBS). By March 2009, it held $1.75 trillion of bank debt, MBS, and Treasury notes, and reached a peak of $2.1 trillion in June 2010. Further purchases were halted as the economy had started to improve, but resumed in August 2010 when the Fed decided the economy wasn't growing robustly. After the halt in June holdings started falling naturally as debt matured and were projected to fall to $1.7 trillion by 2012. The Fed's revised goal became to keep holdings at the $2.054 trillion level. To maintain that level, the Fed bought $30 billion in 2–10 year Treasury notes a month. In November 2010, the Fed announced a second round of quantitative easing, or "QE2", buying $600 billion of Treasury securities by the end of the second quarter of 2011.*" (Wikipedia)

Now, before we move on, I want to draw your attention to three curiosities to which I will be referring:

1. Using the latest data for the last three years, the dollar [monetary base](http://research.stlouisfed.org/fred2/data/BASE.txt) expanded by **$1.7T** and the US [trade deficit](http://www.census.gov/foreign-trade/statistics/historical/exhibit_history.prn) (free stuff inflow) was **$1.5T** over the same time period.

2. For fiscal year 2011, the trade deficit was **$540B** and "QE2" was **$600B** over the same time period.

3. For the last year, Chinese [Treasury holdings](http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt) are perfectly flat (same amount held in Aug. 2011 as in Aug. 2010) and Hong Kong holdings are down by $26B.

**The Debtor and the Junkie**

The USG may be a dealer in the monetary plane, but it is most definitely a sketchy junkie in the physical plane. The USG thinks (and truly believes) that the key to rejuvenating the US economy is trashing the dollar as a short cut to increasing exports (reducing the trade deficit). But what it can't see (nor anyone that focuses solely on the monetary plane for adjustment) is that the huge trade deficit the USG wants to quit is actually its own heroin fix. This is a deadly combo for the US dollar.

MMTers don't think very highly of "hyperinflationists". They call us "hyperventilators" and such, although I shouldn't really bunch myself in with the others. I think my description of hyperinflation is more in line with reality than others I've read. See [here](http://fofoa.blogspot.com/2010/09/just-another-hyperinflation-post.html), [here](http://fofoa.blogspot.com/2010/09/just-another-hyperinflation-post-part-2.html), [here](http://fofoa.blogspot.com/2010/09/just-another-hyperinflation-post-part-3.html), [here](http://fofoa.blogspot.com/2011/04/big-gap-in-understanding-weakens.html) and [here](http://fofoa.blogspot.com/2011/04/deflation-or-hyperinflation.html). But in this post I hope to show you where the MMTers go wrong on hyperinflation, and to show why—and how—dollar hyperinflation is the only possible outcome.

The "debtor" I had in mind for my section title was Weimar Germany in the early '20s, not the USG today. The USG is the junkie. Weimar Germany owed war reparations, a debt resulting from WWI that was essentially denominated in gold. This was a debt in a hard currency (hard as in difficult, not hard as in solid), unlike the USG who owes its debt to others in its own currency. MMT got that part right. The USG cannot be forced into involuntary default on its own currency debt. And because of this property, USG debt is a monetary plane illusion when viewed from the physical plane. It is a great store of nominal value, and a terrible store of real value.

Where MMT derails from the description track and goes careening off the *pre*scription cliff, the message is usually about the admirable goal of full employment. You know, the Fed's ***other*** mandate. Indeed, L. Randall Wray's book is titled [Understanding Modern Money: The Key to Full Employment and Price Stability](http://www.amazon.com/Understanding-Modern-Money-Employment-Stability/dp/1845429419/). But the bottom line is MMT's untested theory that the USG *could* pay for full employment (hire anyone who wants to work) through raw monetary base expansion while enjoying the same relatively stable prices of the last 30 years. And their best defense of this shark jump proposition appears to be debunking the hyperventilators.

In [Zimbabwe! Weimar Republic! How Modern Money Theory Replies to Hyperinflation Hyperventilators (Part 1)](http://www.economonitor.com/lrwray/2011/08/24/zimbabwe-weimer-republic-how-modern-money-theory-replies-to-hyperinflation-hyperventilators-part-1/) Randall Wray writes:

*"MMTers are commonly accused of promoting policy that would recreate the experiences of Zimbabwe or Weimar Republic hyperinflations. These were supposedly caused by governments that resorted to “money printing” to finance burgeoning deficits—increasing the money supply at such a rapid pace that inflation accelerated to truly monumental rates."* (Wray)

He goes on to explain how the hyperventilators have it all wrong. He shows how hyperinflation is more about an increase in money velocity than volume; that hyperinflation begins with a loss of confidence, not too much money. Any of this [sound familiar](http://fofoa.blogspot.com/2011/04/big-gap-in-understanding-weakens.html)? Then he beats a gold bug straw man or two before explaining to us how modern money *really* works. Here's the most important part to understand:

*"You cannot print up Dollars in your basement. Government has to keystroke them into existence before you can pay your taxes or buy Treasuries."* (Wray)

Notice he mentions taxes and Treasuries. This is important to understand. Government money, which is the monetary base the economy uses as its reference unit, is expanded when the USG spends, and only contracts when you either 1. pay taxes, or 2. buy Treasuries. He wasn't just throwing those out as two examples of how you might spend your money. Those are the *only* two checks on base money expansion. But the sneaky thing that MMT does is to marginalize the importance of those two methods of contracting the base. Like this, as if it's no big deal, a mere afterthought:

*"Usually the treasury then sells bonds to let banks earn higher interest than they receive on reserves."* (Wray)

The basis of MMT is that government spending (base money expansion) is not conditional on 1. taxing or 2. borrowing that money (base money contraction). Expansion is not conditional on contraction. This is obviously true because the base has been expanding. But armed with this epiphany, along with the "obvious fact" that the hyperinflationists don't understand how modern money works, they jump to the conclusion that contracting the monetary base after the government has expanded it is a fool's errand. And so they go to great lengths to marginalize the need for contraction, especially when unemployment is rising and the economy is in recession.

As it stands, our government still operates on the "antiquated" condition that taxes plus borrowing must equal spending. So we periodically raise the debt ceiling and we keep issuing Treasuries to match the entire budget deficit. But QE is the new way to reverse the base money contraction that happens when these Treasuries are sold. The Fed simply buys them from the banks and credits the banks with the base money that was deleted when they were purchased.

From an accounting perspective, this QE operation has the same effect as if the government had spent more than taxes and borrowing combined, or as if the government reduced taxes while keeping debt and spending constant. So armed with this epiphany, MMT is able to marginalize QE as a mere [fiscal operation](http://neweconomicperspectives.blogspot.com/2010/01/helicopter-drops-are-fiscal-operations.html) rather than the "helicopter drop" those silly hyperventilators like to talk about. "Fiscal operation" sounds pretty innocuous, doesn't it? But it's not quite that tame.

What I'm going to show you is that **there's something quite dangerous to the dollar that is already well underway.** From an accounting perspective, there's not much difference between QE and the easy money prescriptions coming from some of the MMTers. And these seemingly innocuous "fiscal operations" are actually born of necessity arising, not in the monetary plane, but from the physical trade deficit.

Unfortunately, the USG/Fed believes that trashing the dollar will help the domestic US economy as a kind of short cut to growing exports and thereby increasing wages and consumption demand. In other words, if we could just make our products cheaper overseas through monetary plane operations, we could sell more real stuff and thereby we'll have more money and all will be peaches and cream.

But the problem is that, net-net, the US consumes everything it produces and then some. This intractable problem cannot be solved in the monetary plane, except through dollar hyperinflation! Here's some more [FOA](http://www.usagold.com/goldtrail/archives/goldtrailthree.html):

*"I point out that many, many other countries also have the same "enormous resources; physical, financial, and spiritual" that we have. But the degrading of our economic trading unit, the dollar, places the good use of these attributes in peril. Besides, the issue beyond these items is our current lifestyle.* ***We buy far more than we sell, a trade deficit. Collectively, net / net, using our own attributes and requiring the use of other nation's as well.*** *Not unlike Black Blade's Kalifornians sucking up their neighbors energy supplies (smile). We cannot place [our tremendous resources] up as example of our worth to other nations* ***unless we crash our lifestyle to a level that will allow their export! Something our currency management policy will confront with dollar printing to avert.*** *Also:

NO, "this country will not turn over and simply give in" as you state. But, we will give up on our currency! Come now, let's take reason in grasp. Our American society's worth is not its currency system. Around the world and over decades other fine people states have adopted dollars as their second money, only to see their society and economy improve. Even though we see only their failing first tier money. What changes is the recognition of what we do produce for ourselves and what we require from others to maintain our current standard of living. In the US this function will be a reverse example from these others. We will come to know just how "above" our capabilities we have been living. Receiving free support by way of an over-valued dollar that we spent without the pain of work."* (FOA)

That was written a decade ago. In the month that was written, the US as a whole (Government sector plus domestic private sector) was living above its means to the tune of $31.3B. That year we were living above our means by $361B. In the decade since that was written, we have maintained an average "excess consumption" of $48.5B per month and $581B per year. But here's the thing—in the most recent third of that decade (2008-2011), the domestic US private sector actually *has* crashed its lifestyle more or less. The economy is in recession and unemployment is up over 9%. Yet the government sector expanded *its* "lifestyle" to take up the slack!

Remember these from my 2009 post [No Free Lunch](http://fofoa.blogspot.com/2009/08/no-free-lunch.html)?





And for something a little more recent, here are two headlines I saw on Drudge just last month:

[DC area tops US income list; average fed employee makes $126,000 a year...](http://www.bloomberg.com/news/2011-10-19/beltway-earnings-make-u-s-capital-richer-than-silicon-valley.html)
[Reid says government jobs must take priority over private-sector jobs...](http://thehill.com/blogs/floor-action/house/188443-reid-says-public-sector-jobs-must-take-priority-over-private-sector-jobs)

No wonder we're maintaining that trade deficit!

So I thought I'd come up with my own "physical plane identity" (kinda like an accounting identity in the monetary plane) for "living above our means." Here's the legend:

USG=US Government sector
USP=US Private sector
BOP=Trade balance for both sectors combined

We know how much the USG is living above its means. That's the budget deficit. And we also know how much the USG+USP combined are living above their means. That's the BOP. So the "identity" looks something like this:

USG+USP=BOP

The annual USG budget deficit (how much the USG lives above its means, with means equaling taxes) is about $1.4T. And the BOP is about $565B. So we get this:

USG=$1.4T
BOP=$565B
$1.4T+USP=$565B

Or stated another way:

USP=(-$835B)

So the US private sector is actually living below its means by $835B if we isolate it from the government sector. The government sector, on the other hand, is living way above its means with 60% domestic support and 40% foreign support. Stated another way, the US private sector is providing the USG with $835B in goods and services in excess of taxes, or 60% of USG's "deficit consumption."

Viewed this way, there's only one way to reduce that trade deficit (inflow of free stuff): reduce the size of the USG monstrosity. Unfortunately, the USG is totally incapable of voluntarily shrinking itself, especially because it issues its own currency! The real problem, the heart of the matter, the reason why the dollar will and *must* hyperinflate, is that the US trade deficit, on the physical plane, is structural to the USG who issues its own currency. Simple as that.

Here's what we get whenever the USG pretends to crash its own lifestyle:

I can almost hear the MMTers screaming at their computer screens, "he doesn't understand how modern money works!" ;)

Of course, MMTers don't think the USG should crash its "lifestyle" at all. They think the USG needs *more* deficit spending right now. Because deficit spending is not constrained by taxes and/or borrowing and the hyperventilators don't understand how modern money works so currency collapse can be essentially ignored. Are you starting to catch on yet?

MMT is all about ***how*** it works from a monetary plane accounting perspective with reckless disregard for ***why*** it works and ***why*** the dollar monetary plane has stayed connected to the physical plane (no hyperinflation) as long as it has. That last part, of course, is what *this* blog is all about. MMTers, like most modern economists, think the physical plane services the monetary plane, not the other way around. They think you can fix problems in the real world by simply controlling the monetary world. Why? Because everyone wants money, of course!

But herein lies the problem of what money actually *is* to the real economy. Money is our shared **use** of some *thing* as a reference point for expressing the relative value of all other things. And by expanding the base you don't simply create money, you destroy the moneyness of it. As MMT explains, the base is expanded when the government deficit spends, and it is likewise contracted when the Treasury sells debt to anyone other than the Fed. Those of you who read FOFOA regularly know the story of ***why*** the dollar has not yet collapsed, but here's a very brief [not really!] version for the rest of you.

The US has enjoyed a non-stop inflow of free stuff including oil (a trade deficit) ever since 1975, the last year we ran a trade surplus. In the 1970s, following the Nixon Shock and the OPEC Oil Crisis, the US dollar went into a tailspin. Because the US dollar was the global reserve currency, this was bad news for the global economy. If the dollar had failed then, without a viable replacement currency representing an economy at least as large as the US, international trade would have ground to a standstill.

Europe was already on the road to a single currency, but it still needed time, decades of time. So at the Belgrade IMF meeting in October of 1979, a group of European central bankers confronted the newly-appointed Paul Volcker with a "stern recommendation" that something big had to be done immediately to stop the dollar's fall. Returning to the US on October 6, Volcker called a secret emergency meeting in which he announced a major change in Fed monetary policy.

Meanwhile, the European central bankers made the tough decision to support the US dollar, at significant cost to their own economies, by supporting the US trade deficit by buying US Treasuries for as long as it took to launch the euro. As it turns out, it took 20 years. After the launch of the euro, the Europeans slowly backed off from supporting the dollar. But right about that same time, China stepped up to the plate and started buying Treasuries like they were hotcakes. This may have been related to China's admission into the WTO in 2001.



Then, sometime around 2007 or 2008, the dollar's [Credibility Inflation](http://fofoa.blogspot.com/2010/08/credibility-inflation.html) peaked. The growth of the "economy's money" (credit denominated in dollars) hit some kind of a mathematical limit (expanding to the limit was wholly due to [FOFOA's dilemma](http://fofoa.blogspot.com/2011/05/return-to-honest-money.html)) and began to contract. Since then, China has slowly backed off from supporting the dollar. We now know that China is more interested in using its reserves to purchase technology and resource assets wherever they are for sale than bonds from the US Treasury. China is also expanding the economic zone that uses *its* monetary base as a reference point in trade settlement to the ASEAN countries.

Meanwhile, the junkie USG has kept the free stuff flowing in by expanding the monetary base. Sure, China still wants to sell her goods to the US, but she's no longer supporting the price stability of the last 30 years by recycling the dollar base expansion back into USG debt. Cullen says:

*"We don’t need China to buy our bonds in order to spend. China gets pieces of paper with old dead white men on them in exchange for real goods and services."* (Cullen Roche)

While technically true, one has to wonder at the consequences of them ***not*** buying our bonds, no?

*"They have attempted to use their dollars to purchase other USD denominated assets, but the US government has squashed those efforts. So, instead of leaving these pieces of paper to collect dust in vaults, they open what is the equivalent of a savings account with the US government."* (Cullen Roche)

So does that mean they're just stackin' 'em up now to collect dust rather than going after real resources wherever they are for sale in the world?

Okay. So the USG doesn't owe a hard debt like Weimar Germany did in the early '20s. But perhaps she has developed a structural addiction; a need for something that's just as hard as foreign currency—real stuff from the physical plane. Here is L. Randall Wray [describing](http://www.economonitor.com/lrwray/2011/08/31/not-worth-a-continental-how-modern-money-theory-replies-to-hyperinflation-hyperventilators-part-2/) Weimar:

*"The typical story about Weimar Germany is that the government began to freely print a fiat money with no gold standing behind it, with no regard for the hyperinflationary consequences. The reality is more complex. First, we must understand that even in the early 20th century, most governments spent by issuing IOUs—albeit many were convertible on demand to sterling or gold. Germany had lost WWI and suffered under the burden of impossibly large reparations payments—that had to be made in gold. To make matters worse, much of its productive capacity had been destroyed or captured, and it had little gold reserves. It was supposed to export to earn the gold needed to make the payments demanded by the victors. (Keynes wrote his first globally famous book arguing that Germany could not possibly pay the debts—note these were external debts denominated essentially in gold.)

The nation’s productive capacity was not even sufficient to satisfy domestic demand, much less to export to pay reparations. Government knew that it was not only economically impossible but also politically impossible to impose taxes at a sufficient level to move resources to the public sector for exports to make the reparations payments. So instead it relied on spending. This meant government competed with domestic demand for a limited supply of output—driving prices up. At the same time, Germany’s domestic producers had to borrow abroad (in foreign currency) to buy needed imports. Rising prices plus foreign borrowing caused depreciation of the domestic currency, which increased necessitous borrowing (since foreign imports cost more in terms of domestic currency) and at the same time increased the cost of the reparations in terms of domestic currency.

While it is often claimed that the central bank contributed to the inflation by purchasing debt from the treasury, actually it operated much like the Fed: it bought government debt from banks—offering them a higher earning asset in exchange for reserves. For the reasons discussed above, budget deficits resulted from the high and then hyper- inflation as tax revenue could not keep pace with rising prices. Finally in 1924 Germany adopted a new currency, and while it was not legal tender, it was designated acceptable for tax payment. The hyperinflation ended."* (Wray)

Let's happily skip over the fact that Wray compares the German central bank during the Weimar hyperinflation to the Fed today when he writes: "actually it [the Reichsbank] operated much like the Fed: it bought government debt from banks." I have a better comparison I want to try. I want to try a little word replacement game with Wray's Weimar description. Let's replace Germany with the USG and the war reparations debt with a trade deficit addiction and see how it looks. Other than these few substitutions, I'll leave Wray's descriptive words alone:

*"The USG had endured 30 years of foreign-supported trade deficit and developed an addiction to free stuff. To make matters worse, much of its productive capacity had been shipped overseas during this time period. The US private sector could not possibly support the USG’s addiction to real goods.

The nation’s productive capacity was not even sufficient to satisfy domestic demand, much less to support USG demand. Government knew that it was not only economically impossible but also politically impossible to impose taxes at a sufficient level to move resources to the public sector to satisfy the USG’s insatiable addiction. So instead, it relied on deficit spending through raw base money creation. This meant government competed with global demand for a limited supply of importable goods—driving prices up. At the same time, the US private sector had to pay the same higher prices without the benefit of issuing its own currency to buy needed imports. Rising import prices forced the US economy to consume more of its own domestic goods, which increased USG’s reliance on imports, and since foreign imports cost more in terms of the domestic currency, this increased the cost of the USG’s addiction in terms of domestic currency."* (Me)

Now I want you to think especially hard about that last line, "…this increased the cost of the USG’s addiction in terms of domestic currency." This is the key to understanding ***why*** we are headed toward all-out, balls-to-the-wall, in-your-face wheelbarrow hyperinflation. This is it, the point I'm trying to get across to you.

That inflow of free goods that is structural to the status quo operation of the US government is more dangerous to a monopoly currency issuer than the war reparations debt in Weimar Germany. The USG is incapable of reducing that inflow of real goods voluntarily and so the non-hyperinflation of the dollar requires it to flow in for free. And it has been, up until recently.

Today we are debasing our monetary reference point in defense of that inflow of goods from abroad. And, at this point, it is entirely attributable to the USG alone, and not to the US economy at large which has contracted, unlike the government. MMT says that Bernanke's QE is a simple like-kind swap of paper for paper, or money for money. Cullen: "What they’ve essentially done via QE2 is swap 0.25% paper for 2% paper and call it a day." In a sense, it is. But it is removing newly created credit money (debt created by the USG) from the system and replacing it with newly created base money. By increasing the volume of the base which credit references for value, simultaneous with a constant inflow of necessary goods, we are in essence devaluing—or more precisely debasing—the credit money flow that flows in the opposite direction of the goods flow. The fact that this doesn't show up *immediately* in consumer prices is perfectly normal.

[Henry Hazlitt](https://mises.org/daily/2916): *"What we commonly find, in going through the histories of substantial or prolonged inflations in various countries, is that, in the early stages, prices rise by less than the increase in the quantity of money; that in the middle stages they may rise in rough proportion to the increase in the quantity of money (after making due allowance for changes that may also occur in the supply of goods); but that, when an inflation has been prolonged beyond a certain point, or has shown signs of acceleration, prices rise by more than the increase in the quantity of money. Putting the matter another way, the value of the monetary unit, at the beginning of an inflation, commonly does not fall by as much as the increase in the quantity of money, whereas, in the late stage of inflation, the value of the monetary unit falls much faster than the increase in the quantity of money. As a result, the larger supply of money actually has a smaller total purchasing power than the previous lower supply of money. There are, therefore, paradoxically, complaints of a 'shortage of money.'"*

Again, I want you to think about that last line or two, "As a result, the **larger supply** of money actually has a **smaller total purchasing power** than the previous lower supply of money. There are, therefore, paradoxically, complaints of a "**shortage of money**."

So what does the supply of money have to do with the catastrophic loss of confidence that ***is*** hyperinflation? Yes, the catastrophic loss of confidence **drives prices higher**. This makes the present supply of money **insufficient** to purchase a steady amount of goods (USG junkie fix). True balls-to-the-wall hyperinflation requires a feedback loop of both value and volume. Value drops, so volume expands, so value drops more…. Without the feedback loop, you simply get the Icelandic Krona or the Thai Baht. With the USG in the loop, you get Weimar!

Think about a debtor who owes a hard debt to a loan shark versus a junkie who owes a regular, ongoing, hard fix to himself. Which one is worse off? Which more desperate? As I wrote above, this intractable problem cannot be solved in the monetary plane, except through dollar hyperinflation!

**Big Danger in "A Little Inflation"**

I just received an advance copy of Jim Rickards' new book, [Currency Wars](http://us.penguingroup.com/nf/Book/BookDisplay/0%2C%2C9781591844495%2C00.html?Currency_Wars_James_Rickards) (thank you Steve and Jim). And while I haven't had a chance to read it yet (because I've been working on this post), I have it on good authority that Jim thinks the Fed is actually targeting 5% annual inflation right now while saying 2% or a little more. This sounds credible to me.

So what's the danger in a little inflation?

If the dollar sinks, like they (the USG/Fed) want, sure, our exportable goods will become relatively cheaper abroad (even though their price here won't drop) and their (our trading partners’) exportable goods will become more expensive here. This will appear as good old-fashioned price inflation, since we’ll now have to ***outbid*** our own trading partners ***just to keep our own production***, and pay more for theirs. And while the domestic private sector has already crashed its lifestyle somewhat, the currency issuer has ***increased*** its "lifestyle" to compensate.

The bottom line is that ***the USG cannot crash its own lifestyle***. And when the dollar starts to "sink", that pile of pennies in the video above will be insufficient (not enough money). Luckily, that pile of pennies represents the budget of the currency issuer himself. So he’ll just increase it, to defend his lifestyle, while scratching his head at why the trade deficit has nominally widened rather than narrowing as he thought it would when he trashed the dollar.

One of the strongest arguments that the USD will not hyperinflate like Weimar or Zimbabwe is that the USG's debt is not denominated in a foreign currency. If it were, this would be a different kind of hyperinflationary feedback loop we were facing. If all the USG debt was in a foreign currency and the dollar started falling on the foreign exchange market, that debt service would lead to hyperinflation. But that is not the case. So it’s not the FX market (monetary plane) that is the big danger to the dollar.

The dollar is the global reserve currency, ***so it is the physical plane that is the biggest threat to the dollar*** in the same way the FX market was a threat to the Weimar Mark. And it is not the nominal debt service that is the threat like it was in the Weimar Republic, but it is the structural (physical plane) trade deficit. To the USG, that is the same threat as nominal debt service denominated in a foreign (hard) currency was to Weimar Germany.

As the German Mark fell, there was "not enough money" to pay the debt. And with a little inflation, there is "not enough money" to buy our necessities from abroad.

**Not Enough Money**

On October 6, the Bank of England released [this publication](http://www.bankofengland.co.uk/publications/news/2011/092.htm) announcing a £75 billion increase in QE. In the press release, they mentioned inflation:

*"CPI inflation rose to 4.5% in August. The present elevated rate of inflation primarily reflects the increase in the standard rate of VAT in January and the impact of higher energy and import prices. Inflation is likely to rise to above 5% in the next month or so, boosted by already announced increases in utility prices. But measures of domestically generated inflation remain contained and inflation is likely to fall back sharply next year as the influence of the factors temporarily raising inflation diminishes and downward pressure from unemployment and spare capacity persists."* (BOE)

That same day, Mervyn King made [headlines](http://www.guardian.co.uk/business/2011/oct/06/britain-financial-crisis-quantitative-easing) saying "the UK was suffering from a 1930s-style ***shortage of money***."

"There is ***not enough money***. That may seem unfamiliar to people." he told Sky News. "But that's because this is the most serious financial crisis at least since the 1930s, if not ever."

It should be obvious from this video that Mervyn King, at least, does not get that expanding the base which debases the economy's money is not the best response to "not enough money." You don't have enough money, so you make what you've got worth less? Perhaps he meant the monetary base is too small for the credit clearing system. He did, after all, reference the 1930s rather than the '20s. But, sadly, that's not the case because he clearly said "we are injecting 75 *billion* (with emphasis reminiscent of [Dr. Evil](http://www.youtube.com/watch?v=jTmXHvGZiSY)) pounds directly into the British economy." But in King's defense, he's doing no different than the Fed or the Reichsbank:

*"While it is often claimed that the [Weimar] central bank contributed to the inflation by purchasing debt from the treasury, actually it operated much like the Fed: it bought government debt from banks…"* (L. Randall Wray)

*"In proportion to the need, less money circulates in Germany now than before the war."* (Julius Wolfe, 1922)

*"However enormous may be the apparent rise in the circulation in 1922, actually the real figures show a decline."* (Karl Eister, 1923)



([Source](http://www.dollarvigilante.com/blog/2011/9/20/the-case-for-hyperinflation-in-the-us.html))

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**Sidebar Post-within-a-post**

**FOA on Inflation>>Hyperinflation**

I know this post is long. But just remember that no one is forcing you to read it, certainly not me. I give freely of my time to put these together for you… to share deep concepts that I believe are vital to your financial well-being. So enjoy the length, don't despise it. There is no filler here. It is all pure gold. But if you're one who prefers short sound bites, I'm also on Twitter @FOFOA999. ;)

I handpicked some more quotes from FOA that many of you have already read. But perhaps they will have a deeper meaning today, given a new perspective on moneyness. These are all from his last month of regular posting in 2001. And, clearly, dollar price inflation was on his mind that month.

People like to say that A/FOA got it wrong, because the timing didn't seem to play out exactly as they inferred it would. But I would like to proffer another view. Perhaps FOA was unaware of the lengths to which the PBOC [China] was prepared to go in supporting the dollar and the US trade deficit over the next decade.

China was admitted into the World Trade Organization on December 11, 2001, one month *after* these posts. And it wasn't until 2002, after FOA stopped posting, that China really began to [ramp up](http://www.census.gov/foreign-trade/balance/c5700.html) its trade with the US and to purchase US bonds in size. From '99 to '01 China's Treasury holdings were flat at around $50B, but from 2002 they began a [parabolic](http://jec.senate.gov/archive/Documents/Reports/foreigndebtkindnessofstrangers.pdf) rise that has now ended and is once again [flat](http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt).

So if China has backed off of supporting the dollar today, in the same way that the European CBs had backed off right when FOA wrote these posts, well then perhaps they are more relevant today than the day they were written. So with that thought in mind, enjoy!

**FOA** (10/3/01; 10:21:26MT - usagold.com msg#110)
**The makings of a dust storm**

For decades hard money thinkers have been looking for "price inflation" to show up at a level that accurately reflects the dollar's "printing inflation". But it never happened! Yes, we got our little 3, 4, 8 or 9% price inflation rates in nice little predictable cycles. We gasped in horror at these numbers, but these rates never came close to reflecting the total dollar expansion if at that moment it could actually be represented in total worldwide dollar debt. That creation of trillions and trillions of dollar equivalents should have, long ago, been reflected in a dollar goods "price inflation" that reached hyper status. But it didn't.

That "price inflation" never showed up **because the world had to support its only money system until something could replace it. We as Americans came to think that our dollar, and its illusion of value, represented our special abilities; perhaps more pointedly our military and economic power. We conceived that this wonderful buying power, free of substantial goods price inflation, was our god given right; and the rest of the world could have this life, too, if they could only be as good as us! Oh boy,,,,,, do we have some hard financial learning to do.**

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Over the years, all this dollar creation has stored up a massive "price inflation effect" that would be set free one day. Hard money thinkers proceeded to expect this flood to arrive every few years or so; the decades passed as those expectations always failed. Gold naturally fell into this same cycle of failed expectations, as the dollar never came into its "price inflationary" demise.

A number of years ago, I began to learn from some smart people about the real political game at hand and how that would, one day, produce the final play in our dollar's timeline. Indeed, you are hiking that trail with us today; us meaning Euro / gold / and oil people. All of us Physical Gold Advocates that have an understanding about gold few Americans have ever been exposed to.

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Our recent American economic expansion has, all along, actually been the result of a worldly political "will" that supported dollar use and dollar credit expansion so as to buy time for Another currency block to be formed. Without that international support, this decades-long dollar derivative expansion could not have taken place. Further, nor would our long term dollar currency expansion produce the incredible illusion of paper wealth that built up within our recent internal American landscape.

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The relatively small "goods price inflation" so many gold bugs looked for will be far surpassed and the "hyper price inflation" I have been saying is coming is now being "structurally" set free to run.

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Why "structurally", why now? [2001]

For years now, "politically", the dollar system has had no support! Once again, for effect, "Politically NO", "Structurally Yes"!
…To this end, I have been calling for a hyper inflation that is being set free to run as a completed Euro system alters Political perceptions and support. That price inflation will be unending and all-encompassing. While others call, once again, for a little bit of 5%, 10%, 15% price inflation, that lasts until the fed can once again get it under control,,,,,,,,, I call for a complete, currency killing, inflation process that runs until the dollar resembles some South American Peso!

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**FOA** (10/5/01; 10:55:19MT - usagold.com msg#112)
**Discussing the World with Michael Kosares**

When it came to using fiat money in our modern era, it made little difference what various inflation rates were in countries around the world; 50%, 100% 1,000%,,,,,, they went right on playing with the same pesos. There have been countless third world examples of this dynamic, if only we look around. Mike, look at what happened in Russia after they fell,,,, the Ruble stayed in use and function with 6,000% inflation. My god they still use it now.

… The ensuing domestic price inflation will waste away all buying power of dollars overseas.

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**FOA** (10/8/01; 08:04:08MT - usagold.com msg#113)
**Gold on the trail.**

**The US placed its money into this current equation in 1971.** Then it failed to accept the internal price inflation that over-printing its money demanded and a remarking of its gold reserves would expose to the world.

… While hard money historians, to the man, clamor for a return to honest government and a dollar backed with gold; they leave out an important step in the process that history says will never be skipped. **Once a nation embarks down a road of inflating its currency for local political use, the cast is set for a constant redenominating of the money unit; that is "real bad" price inflation. However, modern economic evolution has presented an even more profound reply. Once a nation embarks down a road of inflating its currency for international political use, the cast is set for the world to find said fiats useful limits, then drop it from use; that is super price inflation as a result of fiat replacement. To this end we come.**

… This incredible currency expansion will break out into the open with real price inflation as never before witnessed in the US. In turn, foreign holders of dollar-based assets will, not only, demand price performance of their "paper gold" hedges, even as they are compelled to shift a larger portion of their asset bases into Euro positions.

… As dollar price inflation roars, and physical gold demand soars; the dollar gold markets will completely fail their past hedging purpose as they become locked into a political cash settlement mode. A mode that forces an ever expanding discount against spot physical trading in Europe and the world.

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**FOA** (10/9/01; 10:05:48MT - usagold.com msg#117)
**PIZZA,,,, Bronco's,,,,,, Tonne of Yellow Metal,,,, and USAGOLD: Ha Ha,,, a gold advocates dream come true (ssssmile)**

Dollar hyperinflation and super high gold prices are closer than many think.

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**FOA** (10/15/01; 07:49:09MT - usagold.com msg#120)
**Continuing from my last talk:**

It's no wonder that Alan Greenspan has commented so often on the need to control derivatives yet has no workable plan to counter their function. Truly this dynamic was created to counter his function and few can understand this! In effect, the dollar was placed on a one way street that required it to be inflated into infinity. All as a means of protecting dollar originators; the US banking system. Dollar leverage, that is actually US liabilities, is now built up endlessly. This all points to a nonstop, end time need for an uncontrollable inflationary expansion by our fed.

…Now, we will follow this trend in an accelerated fashion, until all derivative process is exposed as nonfunctional outside a massive hyperinflationary policy.

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**FOA** (10/20/01; 08:50:20MT - usagold.com msg#122)
**Taking broader steps: heading towards a clearing**

Our evolution of thought will find its roots in an inflationary financial crisis that is now beginning to unfold in dollarland. In fact, "all" dollar hedging systems will most likely meet the same fate as the effects of a real, serious price inflation in local US markets escalates.

… Once real inflation begins to demand that these hedges truly spread financial risk with real performance, resulting in a pile up of loses, the political solution used time and again will return as the time honored utility that saves the day:

------change the rules------!

… ECBMBs (European Central Bank Member Banks) never really sent out very much real gold; they just lent their good name to the BBs. That means cash pooling for the loans also. So, when a new currency transition workout proceeds, the members of the ECB are receiving Euro cash in payment for gold loans. In hindsight; it will be seen that they lent the commitment to sell gold only long enough for US inflation to end the dollar's timeline and bust its dollar system.

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**FOA** (10/25/01; 09:30:26MT - usagold.com msg#124)
**A quick report and comment from my office on the trail.**

As the gap between inflation rates and returns on Euros grows, that currency will be seen more and more like a world class money. World class; in that the Central Bank is more driven to keep the money strong and not base its policy on local politics the way the US does.

**---- Remember: Unlike the Fed, which has a mandate to boost jobs, the ECB's main task is to combat inflation.------**

… Truly, if the dollar IMF system can be the reserve for all internal US banking assets; then the Euro could easily do the same in Europe. Especially as US inflationary money printing eventually drives our price inflation rate to a level that makes dollars and dollar debts, outside the US, valueless assets! Paying back those debts will be like tossing a nickel where one once launched a bill to settle a debt.

… Of course I own dollars and will likely keep using them right thru any super inflation. I never expect the dollar to disappear. Most hard money investors, with extra funds to hold, also have that same view.

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**FOA** (10/26/01; 09:01:38MT - usagold.com msg#126)
**Still at the Trail House**

Somewhere in the middle of all this; real savers will supply Euroland with a solid base of credit wealth that can be borrowed without driving their local price inflation thru the roof. Then: other national economies will have a market that shares realistic price levels for all goods. Then; all economic systems will begin a non-inflationary expansion that centers around Euro use! All of this period will mirror our (US) internal coming inflationary expansion **that limits our ability to import or export. Think about it.**

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**FOA** (10/26/01; 21:21:33MT - usagold.com msg#127)
**A few comments on comments!**

…Only trouble is that they never understood that fiat inflation using a world reserve currency, like our dollar, is different from other systems. We buy cheap social policy and economic expansion with the blood and sweat of foreign productivity. I bet Old Breuer thinks its ok for a business to buy $1.00 running shoes from asia and sell them in Dollar land for $120.00. Then he would point out that shoe inflation is only running at a few percent because those shoes went up $3.00 last year. Oh well.

The Euroland Germans, and the ECB studied our ways for a long time and now fully understand how to attract other nations into a fair game. The Euro will become a "world standard" more so than a reserve because they want it to be a fair currency that's accepted for its value. For the Euro to gain American financial acceptability later, it will do so because it will be the "last man standing" when this inflation storm resides.

… Can't push that string? Pick it up and heave it in a third world like inflationary pitch. That ball will fly, brother,,,,,, oh will it fly!

… Japan is a different problem. They have been locked into the US dollar economy for so long that they cannot escape. There is simply no way that China will let them into the Euro house. The HK / China central bank system, also known as Big Trader, simply wields too much economic sway between Asia and Europe. In historical precedent, the orient express always headed to Europe and never saw "The Japans".

Actually, Japan doesn't want to go there and has risked a decade of time waiting for some economic change in the US. I have said from way back, that Japan will go down with our (US) inflationary tide. They will waste away their dollar assets following our lead. Those that think that these peoples want to be part of a third world currency block do not know them. I do,,,, but that is another story.

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**FOA** (11/2/01; 12:35:27MT - usagold.com msg#128)
**Gold,,,,,, Gold,,,,, Who has the Gold?**

Now, for the hundredth time they say: "Mises is correct, the markets cannot be faked, so a little deflation will follow this inflation!"

Baloney! **The evolution of Political will is now driving the dollar into an end time hyper inflation from where we will not return. That is our call.** Bet your wealth on the other theorist's call if you want more of Their last 30 years of hard money success.

… Gold must rise in value many many times just to regain its wealth barter asset value. Perhaps $10,000 to start. Then, it will run with any and all dollar inflation,,,,, even Euro inflation that ECB people openly admit must be a part of a dollar to Euro transition.

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**FOA** (11/3/01; 14:39:16MT - usagold.com msg#129)
**An "inflationary depression" is in the cards -- a "price deflation" doesn't have a chance!**

**When a currency system comes to the end of its reserve use, I'm speaking politically, its domestic market will come to a point where it can no longer export "real price inflation" in the format of; "shipping its excess currency outside its borders".** This happens because internal money inflation, that is super currency printing, is increased so much that it overwhelms even its export flow. Worse, even that export flow later tumbles as the fiat falls on exchange markets.

The effect is that local "passive inflation", built up over decades and fully reflected in "Sir John's" paper assets, spreads out as "aggressive inflation" and hyper price rises begin…

**Remember; in political inflation's, money is printed to save the assets as they are currently priced;**

… The politics of wealth today is centered around gold bullion and only gold bullion: that is where the wealth and power will be manifest: this is where the gains will be! To bet on the rest of the hard market is to bet against the coming inflation making your asset whole!

End Sidebar
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**Conclusion**

This post represents about seven weeks of bouncing around Thoughts and ideas, and **close to a hundred emails with Costata and JR**. Thank you to both of you! A lot of time went into this, and I think I've included everything I wanted to, but I'm sure I'll think of something else as soon as I hit publish. ;)

And so now, let's look back at the questions I set out to answer in one post. Let's see if I hit my target:

1. Is money really just one single thing and then everything else has varying levels of moneyness relative to real money?
2. Is gold real money?
3. Or is money whatever the government says it is?
4. Or is it whatever the market says it is?
5. Is silver money in any way today?
6. Are US Treasury bonds money?
7. Is real money just the monetary base?
8. Or is it all the credit that refers back to that base for value?
9. Is money supposed to be something tangible, or is it simply a common unit we use to express the relative value of things?
10. Is money really the actual medium of exchange we use in trade?
11. Or is it the unit of account the various media of exchange (checks, credit cards, PayPal) reference for value?
12. Should the reference point unit itself ever be the medium of exchange?
13. Some of the time?
14. All of the time?
15. Never?
16. Is money a store of value?
17. And if so, for how long?
18. Is money supposed to be the fixed reference point (the benchmark) for changes in the value of everything else?
19. Or is it simply a shared language for expressing those changes?
20. Is money something that changes over time?
21. Or is money's true essence the same concept that first emerged thousands of years ago?
22. Does the correct view of money produce answers that are vastly superior to the blind conjecture prescribed by all other views?

Alright, well maybe I didn't answer them all as specifically as you thought I would. But what I hope I did do was to provide you with some food for thought and encouragement to use your own mind in answering these questions for yourself. Sure, I could have simply answered them all in a checklist. The post would have been a lot shorter if I had done it that way! But what's that old saying about giving a man a fish, you feed him for a day, but teach him to think for himself in concepts and he might just discover Freegold ***before*** it is upon us? It's something like that anyway.

Sincerely,
FOFOA

FOA: *My friend, our message and our position is that we are in one of the most exciting times of all the history of gold! We have seen that during times with the most radical transitions, the majority are usually defending the wrong asset. This unfortunate situation need not impact everyone today. If better judgment is the result of a full understanding, then some who read here will be exposed to tools that could help them avoid the mistakes of our Western hard money majority.

For Western Gold Bugs today, their culture, their system and their recent knowledge is all ensconced within the last 30 years of paper wealth. Yet they are using a hard money defense, written by masters preceding our modern era. They struggle to use that logic out of context, as it is thought to apply to this gold market today. These two precedents are leading them to reflect their gold values in some form other than physical ownership in possession. This mistaken detour from gold's true purpose will once again prove, by reality, the value of owning real gold.

Standing aside this group is the Physical Gold Advocate. For them, for us, these times will contain the greatest gain in real wealth ever seen. For those who are falling behind, gold is still within your grasp.

TrailGuide*

Funky dollar bill
U.S. dollar bill
Funky dollar bill
U.S. dollar bill

You go to school
To learn the rules
On how to love and live your life
But think about it twice
The pusher push, the fixer fix
The judge acquits
The junkie leads his life
For the dollar bill
For the dollar bill
U.S. dollar bill
Funky dollar bill
U.S. dollar bill

You don't buy a life, you live a life
A father learns much too late
He was a-never home
He worked two jobs, never stayed at home
He had to, 'cause
His love life was gone
For the dollar bill
For the dollar bill
For the dollar bill
U.S. dollar bill

It'll buy a war
It will save a land
It pollutes this air
In the name of wealth
It'll buy new life
But not true life
The kind of life
Where the soul is hard
My name is dollar bill
Funky dollar bill
U.S. dollar bill

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