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IN THIS EDITION:

WHY 'PROGRESSIVES' SPIN FAIRYTALES ABOUT PAPER MONEY

In a recent opinion piece published on Reuters, Professor Charles Postel twists himself into extreme pretzel logic attempting to explain that elastic, manipulated paper money favours the 'have nots' whereas inelastic, gold-backed money favours the 'haves'. The article is so full of historical misconceptions, logical fallacies and raw, ad hominem attacks on gold standard advocates it is difficult to see how it got past the editors of a supposedly reputable global financial news agency. Yes, I know, the financial mainstream media, enamored as it is of modern, activist central banking, is clearly biased against gold. But when they begin to publish egregious monetary propaganda masquerading as scholarship, it smacks of desperation. Remember Gandhi's observation: First they ignore you; then they ridicule you; then they fight you; then you win!

WHAT'S IN A TITLE?

Frequently one can tell by the title of an opinion piece whether it is going to consist of quality arguments or just meretricious mudslinging. Professor Charles Postel of San Francisco State University boldly announces the latter in choosing to title his recent tirade against sound money, *Why Conservatives Spin Fairytales About the Gold Standard*.[1]

Indeed, right from the start, the reader is presented with the following rhetorical feint:

> At few points since the Fed's founding in 1913 has it taken such sustained fire. It's taking fire from the left, because its policies favor Goldman Sachs, Bank of America and the other financial corporations that are most responsible for the 2008 financial meltdown and the Great Recession. But it is also taking fire from the right.

While acknowledging that the Fed is under attack from the left, he then proceeds to focus exclusively on debunking hard-money Fed criticism from the right, which is supposedly based on 'fairytales'. While politics is largely if not entirely about fairytales, history shouldn't be. As a historian, Mr Postel should know the difference. But as one reads further into the article it becomes clear either that he doesn't, or that his anti-gold-standard agenda is best advanced by spinning fairytales of his own. For a start, he completely ignores the fact that elastic, fiat money is both what facilitated the bubble that caused the 2008 meltdown and what enabled the subsequent bank bailouts, neither of which would or could have occurred had the Fed been constrained by a fixed money supply.

[1] *The link to the Reuters article is here.*

REWRITING THE HISTORY OF THE FEDERAL RESERVE ACT

Moving farther back into history, Mr Postel writes the following fairytale about how the American public felt about the creation and early years of the Federal Reserve System:

> In the years after 1913, the need for a flexible and regulated money supply was widely accepted across the political spectrum.

This is complete poppycock. First of all, the Federal Reserve Act was initially drafted in secrecy by a small group of elite Wall Street bankers and Senators on Jekyll Island, deliberately out of the public eye. Second, it was passed at the start of the Christmas holidays in 1913, with a large number of Representatives and Senators absent. In the Senate there were 43 'yeas', 23 'nays' and 27 absent (and more on the record as opposed than not). This hardly implies widespread support. Indeed, it suggests that the Act was conceived in secret and brought to a vote during holidays precisely because public opinion was opposed. Did this change dramatically in the following years? Well, given that the Fed did not begin to actively manage the money supply until the late 1920s, it is fallacious to argue that (non-existent) monetary activism was 'widely accepted' at this time.

(The eventual onset of Fed activism had its roots in WWI, which left the European economies devastated and led to a series of European currency devaluations and associated capital flight into the US, leaving the dollar by far the strongest currency in the world and contributing to a stock market bubble. By 1927, the 'Roaring '20s' were in full-swing in the dance halls and on Wall Street. But that was when the Federal Reserve finally became activist, goosing the financial markets with a jolt of easy money at the request of Great Britain, mired in recession as a result of Chancellor of the Exchequer Churchill's horribly botched re-pegging of sterling to gold in 1925. The result, we know, was an investment boom which turned to bust in late 1929, a key contributing element to the Great Depression which followed.)[2]

IS CHEAP FOOD A GOOD THING, OR BAD?

Mr Postel also highlights the prominent political debate about monetary policy that took place in the late 19th century. Indeed, monetary policy was such an important issue by the late 1800s that William Jennings Bryan famously won the 1896 Democratic nomination for president with his 'Cross of Gold' speech advocating inflationism.

Inflationism was popular with farmers, who were struggling to service debts they accumulated years earlier when grains prices were soaring due to the lingering inflationary effects of the Civil War. The introduction of mechanised agriculture put an end to rising crop prices as farm productivity soared. This innovation, arguably the greatest technological advancement in human history, enabled a more widespread industrial revolution through urbanisation.

Mr Postel primarily blames the gold standard for the plight of indebted farmers at the time. That they suffered during this period is lamentable. But to 'blame' the gold standard for the breathtaking technological advancement, rapid economic growth and rising living standards in general that took place around the end of the 19th century is a bizarre rhetorical twist indicating a political agenda.

Mr Postel observes, not incorrectly, that inflationism benefits borrowers generally. But then he makes the mistake of assuming that savers are the 'haves' and the borrowers are the 'have nots'. Is he unaware that the most leveraged borrowers in the economy today are the biggest, too-big-too-fail banks? That were those banks to fail, the losses would fall disproportionately on their predominantly wealthy bondholders?! Perhaps this explains his confusion that somehow a gold standard would benefit Wall St and the wealthy, when in fact the exact opposite would be the case.

Additional fairytales follow. He claims the recent effort to audit the Fed is some radical conservative policy, even though there is bipartisan support for increasing transparency into the Fed's shadowy dealings, including those with foreign banks, which have been the largest recipients of the Fed's various emergency lending facilities. Would he prefer that the public continue to be kept in the dark about such matters? (One wonders how he feels about the recent NSA spying revelations and lack of public transparency in that area.)

[2] I have previously put forward this revisionist view of the Great Depression in another Amphora Report, THE RIME OF THE CENTRAL BANKER vol. 3 (February 2012), linked here, and also in Chapter 8 of my book, THE GOLDEN REVOLUTION (Wiley 2012).

A CLOSET CRONY-CAPITALIST?

Mr Postel goes on to characterise David Stockman's *tour de force* critique of crony capitalism, *The Great Deformation*, as a 'jeremiad'. Is he secretly in favour of crony capitalism? Perhaps not, but does he disagree that the Fed's unprecedented financing of bank bail-outs and ongoing money manipulations have enriched primarily the crony capitalists that have taken over Wall Street, as Mr Stockman demonstrates in detail in his book?

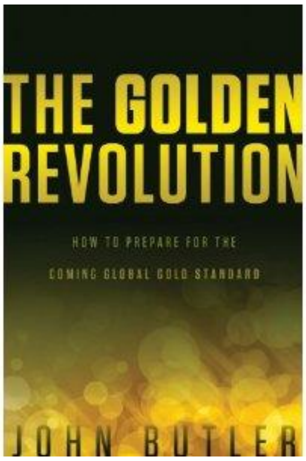
While his piece relies primarily on historical example to push his money manipulation agenda, Mr Postel's ignorance of monetary theory is also evident. For example, he suggests that gold should not serve as money because it can be subject to speculative bubbles. Well, so can the price of paper. Whether in order to make something the legal tender you place a stamp on a piece of paper or on a coin of gold is largely beside the point. What is not is that the supply of paper money is potentially infinite, yet the supply of gold is relatively fixed. Now which of these two, stable versus manipulated money, do you think, encourages more speculation? The question answers itself, which may explain why Mr Postel fails to ask it.

A TOUGH ACT TO FOLLOW

Having demonstrated in this piece his tendency to historical omission, his poor understanding of monetary theory, and his proclivity for rhetorical feints and ad hominem attacks, one is left wondering what will follow. Perhaps Mr Postel's next effort will 'blame' the introduction of the computer, modern telecommunications and the internet for pushing down prices for a huge range of goods and services. Perhaps he will omit any mention of the rampant monetary inflation that continues enriching the asset-rich, crony-capitalist 'haves' on Wall Street at the expense of the asset-poor 'have nots' on Main St. Perhaps he will suggest that, given low price inflation, the monetary inflation still isn't rampant enough. But no matter how hard he tries, he will fail to convince that the gold standard, long since abandoned, caused the Second Great Depression.

This failure, of course, might lead his readers to ask themselves: If the Second Great Depression has occured under an activist, fiat money regime, should we still blame a rigid gold standard for the First Great Depression? Now how do you think they will answer that, Mr Postel? Well, I have an idea!

John Butler
john.butler@amphora-alpha.com
Follow me on twitter! @butlergoldrevo



Find *THE GOLDEN REVOLUTION* on Amazon HERE. And on Facebook HERE.
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"John Butler provides much illuminating detail on how the world's monetary system got into its present mess. And if you're wondering what comes next, this is the book to read."
—Bill Bonner, author of the *New York Times* bestsellers *Empire of Debt*, *Financial Reckoning Day*, and *Mobs, Messiahs and Markets*

More Praise for *THE GOLDEN REVOLUTION*:

"John Butler has written an indispensable reference on the subject of gold as money. His book is a combination of history, analysis, and economics that the reader will find useful in understanding the use and misuse of gold standards over the past century. He breaks the book into a long series of essays on particular aspects of gold that the reader can take as a whole or in small bites. It is technical yet accessible at the same time. The Golden Revolution is a useful and timely contribution to the growing literature on gold and gold standards in monetary systems. I highly recommend it."
—James Rickards, author of the *New York Times* bestseller *Currency Wars: The Making of the Next Global Crisis*

"In The Golden Revolution, John Butler makes a powerful case for a return to the gold standard and offers a plausible path for our nation to get there. Enlightened investors who blaze the trail will likely reap the greatest reward. For those still wandering in the dark, this book provides necessary light to keep you headed in the right direction."
—Peter Schiff, CEO, Euro Pacific Precious Metals; host of The Peter Schiff Show; and author of *The Real Crash: America's Coming Bankruptcy—How to Save Yourself and Your Country*

"John Butler's historical treasure trove empowers the reader to understand, prepare, and act. To have a chance to emerge unscathed from financial turmoil, join the Golden Revolution. I have."
—Axel Merk, Merk Funds; author of *Sustainable Wealth*

"The Golden Revolution is another indispensable step on the road map back to sound money. John Butler's experience of the modern 'fiat' banking world, combined with his understanding of the virtues of a disciplined monetary system, allow for genuine insight into the practical steps that could, and surely will, be taken to reestablish gold as money."
—Ned Naylor–Leyland, Investment Director MCSI, Cheviot Asset Management

"Ex scientia pecuniae libertas (out of knowledge of money comes freedom).John has used his exemplary knowledge of money to lay out a cogent framework for the transition of society based on fiat money to a more honest society forged by gold. He has taken complexity and given us simplicity. Monetary economics and its interrelationship with geopolitics, finance and society is extraordinarily complex, but he has managed to assimilate a vast array of information and distill it in a simple and thoughtful framework. That is an art many academic writers never achieve."
—Ben Davies, cofounder and CEO, Hinde Capital

AMPHORA: A ceramic vase used for the storage and intermodal transport of various liquid and dry commodities in the ancient Mediterranean.

JOHN BUTLER **john.butler@amphora-alpha.com**

John Butler, a former managing director at Deutsche Bank and Lehman Brothers, has advised many of the world's largest institutional investors, sovereign wealth funds and central banks on macroeconomic investment and portfolio strategy. He is the founder and managing partner of Amphora Capital, a boutique investment and advisory firm. He has 20 years' experience in the global financial industry, having worked in London, New York and Germany and has been a #1 ranked research analyst in the annual Institutional Investor research survey. He is the author of *The Golden Revolution* (John Wiley and Sons, 2012), and his research has been cited by the *Financial Times, Wall Street Journal, Frankfurter Allgemeine Zeitung, De Telegraaf, Milano Finanza* and the *Nikkei Shimbun*. He is a regular contributor to various financial publications and websites and also an occasional speaker at investment conferences around the world.