

THE GOLD EXCHANGE STANDARD AND THE MAGICAL TRAP OF PAPER MONEY

Fabrizio Pezzani

ABSTRACT: *The old Mickey Mouse cartoons were a symbol of greed where old Uncle Scrooge loved to satisfy his endless "auri sacra fames" (accursed greed for gold) by diving into his secret pool filled with gold dollars. How times have changed, poor old Uncle Scrooge would today have to dive into a pool filled with paper money, perhaps the impact would softer, but the satisfaction would be also be less, or worse, into a pool of derivatives, but this would be infinite, immaterial and empty, in short, it would be a leap into the hyperuranion of a magic finance of nothing.*

KEYWORDS: Gold, Exchange Standard, Magical Trap, Paper Money

INTRODUCTION

Paper money becomes infinite: The beginnings

The old Mickey Mouse cartoons were a symbol of greed where old Uncle Scrooge loved to satisfy his endless "auri sacra fames" (accursed greed for gold) by diving into his secret pool filled with gold dollars. How times have changed, poor old Uncle Scrooge would today have to dive into a pool filled with paper money, perhaps the impact would softer, but the satisfaction would be also be less, or worse, into a pool of derivatives, but this would be infinite, immaterial and empty, in short, it would be a leap into the hyperuranion of a magic finance of nothing.

Today instead, we face an immense financial mass detached from the measurable reality, purely virtual, but with a concentration of power and global inequality unprecedented in human history. This finance has nothing underlying it and increasingly becomes an endless bubble without regulations or scientific foundations, but able to dominate the political and social choices of countries for higher interests. Unlike past history where in the drama of the wars one could physically see the enemy, in today's virtual environment, an elusive danger can be felt without understanding where it comes from as no deployed armies can be seen.

Money and its use are perhaps the most direct representation of the perennial conflict that stirs the human soul torn between solidary cooperation and individualism as an end in itself, which is the antechamber of death. Human history goes hand in glove with the history of money that can symbolically represent an instrument of solidarity, but also cruel domination. Man is thus perpetually suspended between the summit of Mount Sinai representing the encounter with the

divine and the golden calf representing the return to the materiality of life in its worst aspects, becoming its slave, and as the Bible says in Exodus, venerating it.

The period of the Greek myths and extraordinary intellectual production first systematically faced the problem of man's relationship with money as a tool of trade and seeking identification with God, the "hubris" and omnipotence with the myths of Prometheus and Icarus, and the effects on the composition of a just society.

Centuries passed as did the the great thoughts of thinkers, but in the end, the answers seem to always be on paper in the search of a balance between money and a just society, in thought and goodwill, but as the saying goes "the road to hell is paved with good intentions".

The search for a balance between speculative greed and social order marked the history of man, and has led over time to the search for forms of stability in monetary exchanges so that paper money and financial instruments used as forms of insurance and speculation were linked to a real equivalent. Coming to our time, the "gold standard" initiated in the years before the First World War was the first form of functional monetary regulation to give stability to the exchange and value of money for the real equivalent it represented. In those years, Keynes deliberated on how to find a form of stability in exchanges to prevent financial speculation. Abandoning the "gold standard" risked becoming an explosive mixture stifling the real economy and launching society into the abyss of depression and hyperinflation. It was clear to him that money had to have a reference standard, in other words, its emission should always be linked to a real counter value, not having value in itself, as had always been foreseen.

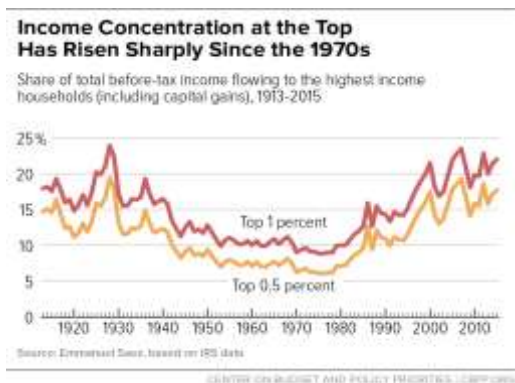
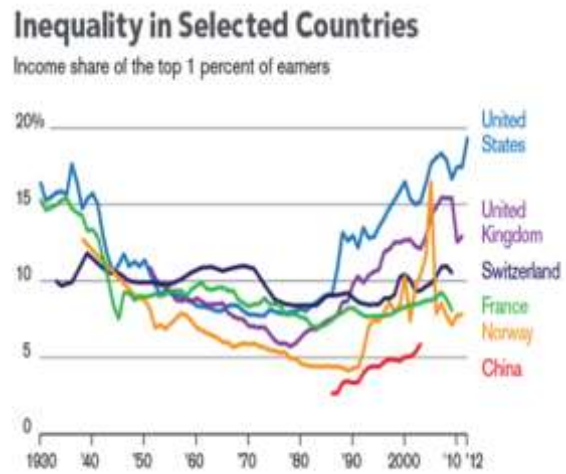
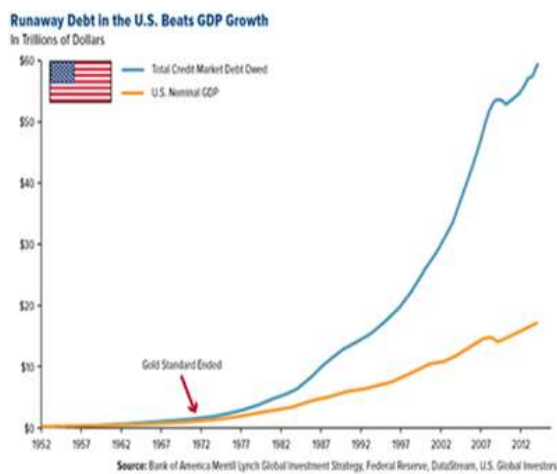
At the end of World War II, consciences shaken by the war brought man to reason and the Bretton Woods agreement in 1944 marked a point of restarting to try to stabilize exchange rates and anchor paper money to a real equivalent to again avoid the monetary storms that human greed ends up riding. In practice, the system designed at Bretton Woods was a gold exchange standard based on fixed exchange rates between currencies, all pegged to the dollar, a dollar-centric system, which in turn was pegged to gold (\$28 printable for every gram of gold).

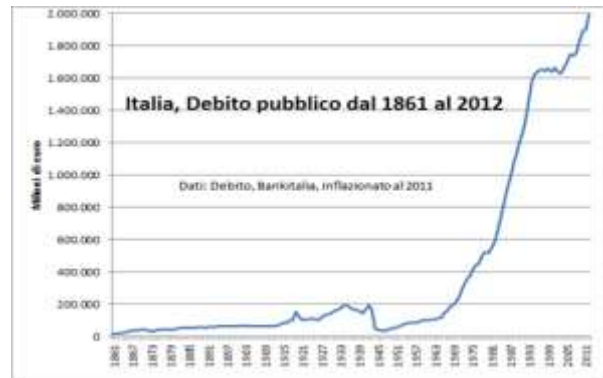
The leap into the hyperuranion of virtual finance: Columbus' egg

The subsequent 1948-1969 period was economically and socially a boom period with a substantially fixed exchange rate system that allowed maintaining public finances. In the 60s, the US had the lowest point of public debt and Italy had a debt/GDP ratio of 32%. That period defined by many scholars as the "golden age" began to falter in the late 60s and saw its turning point in 1971 when Nixon declared the end of Bretton Woods and gold convertibility, because the internal problems had pushed towards printing increasing amounts of paper money without

gold as a counter value. In this way, monetary inflation from surplus liquidity came to befuddle the world in a financial storm that would firmly impose itself after the fall of the Berlin Wall in 1979. The apex of the mythological drift was reached with the Nobel for Lucas who with the rationality of markets gave birth to sacral and infinite finance detached from the real world, losing its role as an asset of reference and thus only studiable with mathematical formulations that suddenly erase both the emotionality of man's decisions and the DNA of economics that against all logic and evidence transformed from a social and moral science into a positive and exact science. Since then, a system of toxic relationships developed between political finance and academia that lined up behind it in evidence of the cultural subordination rendering it partly responsible for the current disaster.

Deregulated and infinite finance would become a huge casino whose operators deluded people and countries, and imposing sovereign debt. The following graphs show the change in the curves in those years, the explosion of paper money, of finance, the diffusion of the quantity of dollars in paper money at the expense of the dollar in gold, public debts that would work as a "garrote" and private debt that would explode after those years. Finance was detached from the real world and inflation would be discharged on other countries such as Italy:





From that moment, everything followed a script that was orderly and predetermined, gold reserves became irrelevant to currency, and the quantities exploded at central banks in the same way as the ratio of the value of an ounce of gold and its gold equivalent. The trend of its price depended on endless speculation:

PAPER RESERVES IN CENTRAL BANKS 1948 - 2017

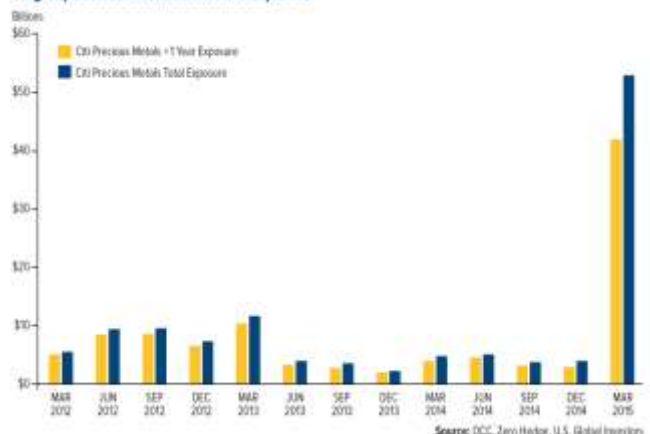


Paper Dollar Inflation 1945 to 2011 US Dollars to One Ounce of US Gold		
Event Milestone	Year	Dollars per One Ounce US Gold Reserve
Start of Bretton Woods	1945	\$39.00 : 1
Start of London Gold Pool	1961	\$64.97 : 1
Kennedy Assassination	1963	\$81.42 : 1
End of London Gold Pool	1968	\$135.01 : 1
US Closed Gold Window	1971	\$198.82 : 1
Barron's 18 March 2011 Issue	2011	\$3812.65 : 1

The Bretton Wood's Monetary Accords instituted a \$35 Dollar an ounce Gold Standard. This Standard was to prevent the United States from Printing more than \$35 Paper Dollars for Every Ounce of Gold it Held in the US Treasury. History shows that the US Never took the BWA's \$35 / 1 Ounce of Gold Standard Seriously. This is the Root Cause of today's Current Debt Crisis.

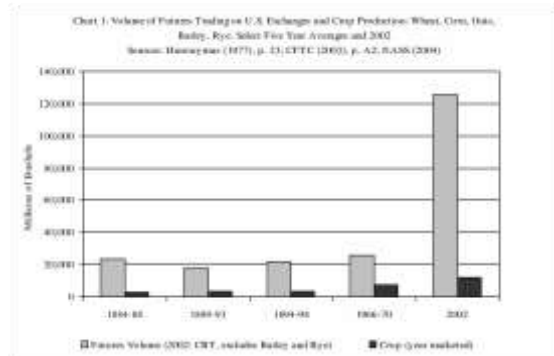
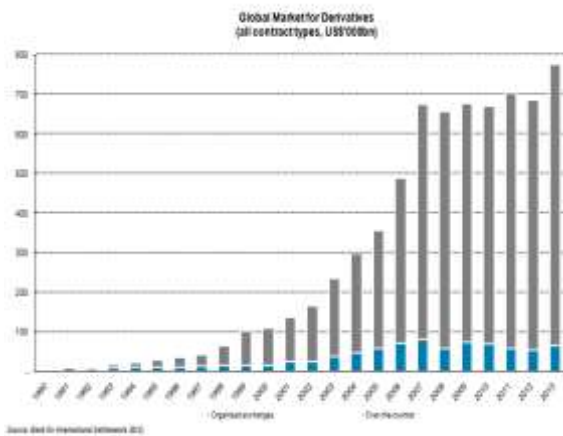
Source Barron's
Graphic by Mark J Lundeen

Citigroup Precious Metals Derivative Exposure



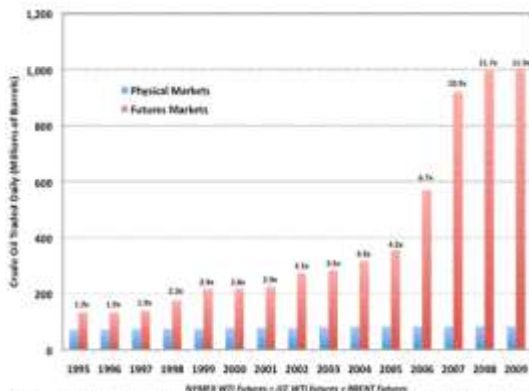
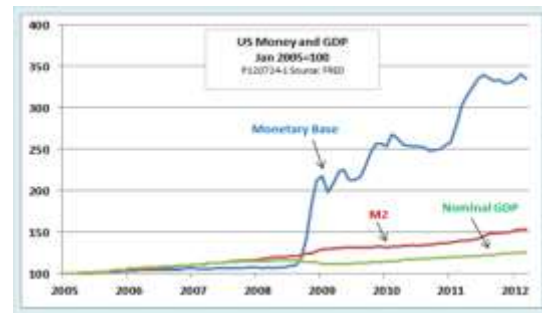
Rational finance would find the explosive mixture to create financial chaos in the derivatives markets, in the total deregulation of finance and the abolition of the Glass Steagall Act.

In fact, with the level of systematic manipulation of the markets and the monetary system, the economic fundamentals were out of control, rendering statistics and market trends useless. The following graphs show the explosion of derivatives, the concentration of wealth in investment banks and how the manipulation of securities defined the prices of goods absolutely independently of their real quantities:



Concentration of US banking system

Total assets of top three US banks as % of total commercial banking sector assets

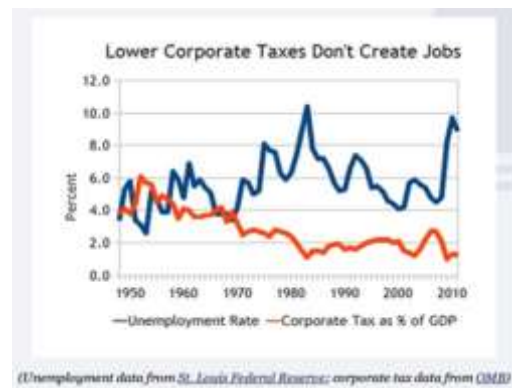
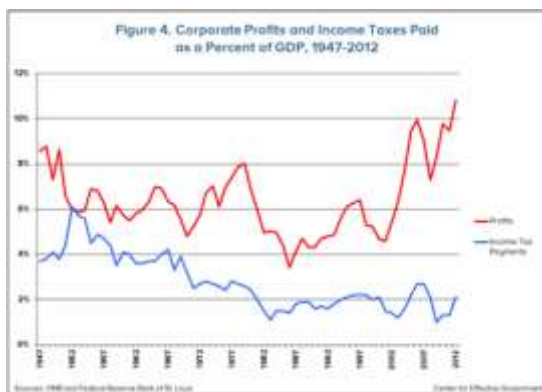


The last two graphs clearly show the correlation between the price of oil and the performance of the dollar, the first is the dependent variable and the second, with the petrodollar, became the independent variable. When the dollar decreases, the price of oil increases and vice versa;

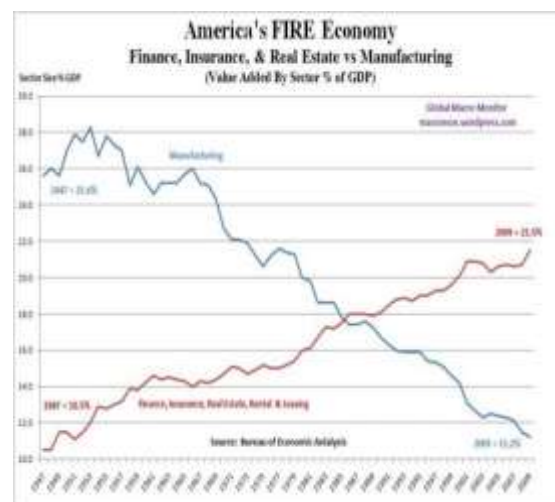
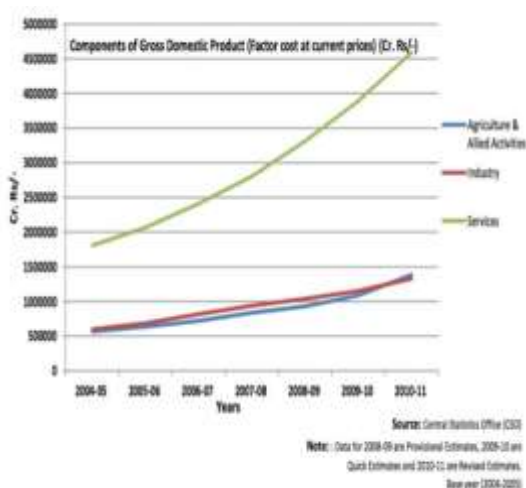
as can be seen, with equal physical quantities, the price varies according to speculation in derivatives. The beginning of the oil price collapse in 2016, the year of the US presidential elections, depended on speculative transactions, the aforementioned derivatives, instrumental to weakening countries such as Russia, Iran and Venezuela, whose income depends largely on oil and its price per barrel; all short-term maneuvers and as expected, the price of oil increased.

The deadly trap of endless liquidity and falsely rational markets

Studies deal with finance, but no longer with economics linked to the real world and everything is seen in a short-term or very short-term perspective in virtual models that lead to its accumulation. Unlike economics that had an external end, a just society, finance has an internal end, its maximization at the expense of normalizing illegal behavior. Everything becomes finance and relocation is instrumental to reducing production costs through cheap labor. Global finance also allows relocating the gains in the blacklist areas and tax evasion ends up in the social drama of separating capital from work, to the detriment of the latter, but also capital from countries, as the following graphs show:



The relocation of production activities destroyed manufacturing jobs and developed those in services, radically transforming the composition of the US GDP into an immense manager of financial flows that increased inequality and the social system disintegrated, as we can see:

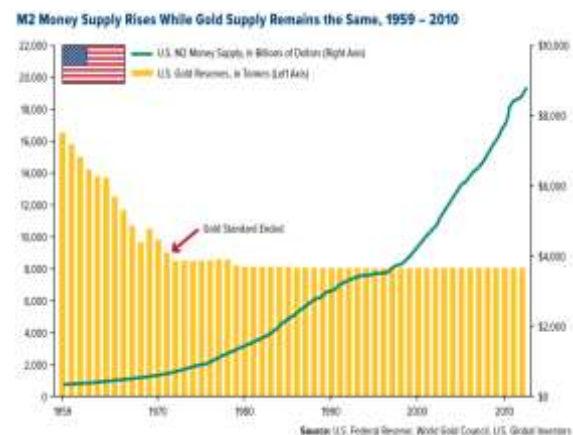
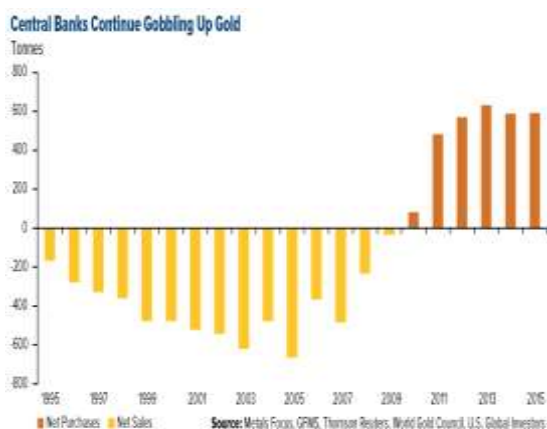


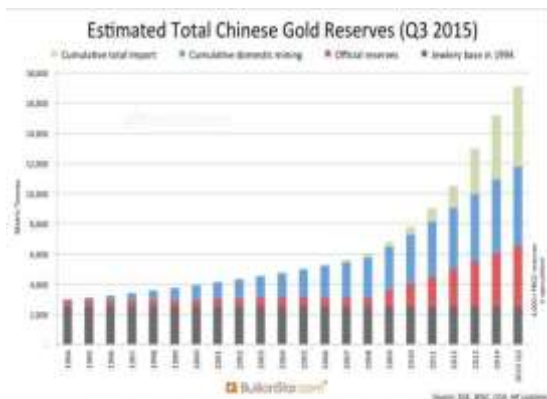
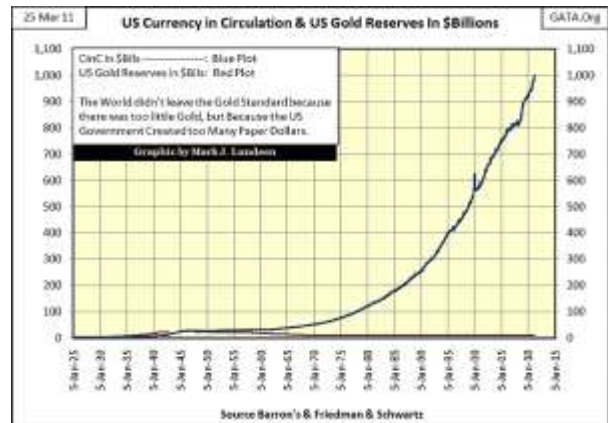
A type of supranational virtual senate formed that operated outside the rules and respect of social equilibrium. Manufacturing activities that create wealth were taken away, jobs were lost, inequality increased and social pathologies exploded. Keynes' prophecy of the "euthanasia of the rentier" began to be fulfilled, the system constantly deteriorated, demonstrating that the thought that created chaos cannot be the same thought that helps solve the problem, and requires dealing with the problem where the mythological system of finance was made independent of its convertibility into a real asset. A return to the gold exchange standard is the only path to return finance to its cage that symbolically represents the ancestral tiger of human greed.

A return to the gold exchange standard means the end of chaos

The collapse in September 2008 could have been an acknowledgment that the system was at an end and admit the dramatic consequence of creating not only a financial but also a social bubble that would give way to the tragic path of a malicious crisis. The only financial culture was that of liquidity flooding the markets to make them manageable and manipulated to serve the interests to be realized. Toxic relations between academia, politics and finance that continued to lie about the fundamentals of a science such as economics that had been converted into a casino. The design supported by an inept and helpless political class that thought above all about survival was elevated to a dogma by the "media" who slavishly lent themselves to represent rational markets as a magic and indisputable entity.

However, awareness of the problem has prompted several countries to increase their gold reserves even taking these to be held in the coffers of others as can be seen from the following graphs showing the decoupling in the US of currency from its real equivalent and the strengthened position of other countries:





COUNTRY	GOLD RESERVES 2009	GOLD RESERVES 2015	INCREASE (DECREASE)
China	1,054.1	1,708.5	654.4
Russia	649.0	1,352.2	703.2
Brazil	33.6	67.2	33.6
Turkey	116.1	504.5	388.4
Mexico	8.6	121.8	113.2
Kazakhstan	70.5	213.5	143.0

As can be seen, there is a growing asymmetry between endless paper money and its real value. US finance lost the battle for the last presidential round that saw a strong supporter in Clinton against Trump elected by the poor who are increasingly intolerant of unacceptable inequality and brought to collapse by a ruling class that is no longer able to mask the failure of a cultural model. A return to the gold exchange standard is in the facts, but the slower the awareness, the more violent the ordeal.

The euro: A false measure that does not measure

The most obvious consequence of the anomaly of worthless paper money is the drama of the euro, the child of that purely monetary culture and what it represents, and how the current situation cannot continue without a decisional process that leads to the defense of money or to a dissolution to start again from the ancient wisdom of Europe and not the opportunistic blindness of a failed political class.

If money has no value in itself, how can it be used as a unit of measure of societies that are very different in terms of history, religion, traditions, culture? After the financial crisis of 2008,

they rightly considered adjusting the sense of measure of the GDP that in 1968 Robert Kennedy had defined as a useless measure of the value of a people. The Sarkozy commission lasted “l'espace d'un matin” and so we returned to raving about the GDP in turn constructed with monetary values systematically manipulated by finance.

The austerity process has weakened the countries that were already in difficulty, but without sterilizing endless finance and downsizing it, imposing austerity but without regulating toxic finance that continues to rage especially in the largest bank in Germany, Deutsche Bank, which found itself in the midst of illegal transactions to the point of being pursued by the US supervisory authorities.

Today we are at a crossroads, either we defend the euro modifying the substantial evaluation of societies that cannot be measured by a measure that does not measure and is systematically manipulated. The gold reserves of the European countries combined exceed 12,000 tons compared to nearly 8,000 tons officially declared by the Fed, but without real and certified recognition.

The first among countries with the largest gold reserves are Germany with 3377 tons, Italy with 2451, and France with 2,435 tons. In reality, gold in Germany is largely (45%) kept at the Fed although its officials, for security reasons, are prevented from seeing it. Unfortunately, about half of Italy's gold reserves are in foreign deposits, the Fed and the Bank of France.

Starting from an initial form of gold convertibility of the European currency would make it more independent from the speculation of supranational finance. European rating agencies would be required to take account of social variables, strict regulation of toxic finance starting precisely from German banks, and finally, the re-introduction of the Glass-Steagall Act.

REFERENCES

- Aristotele, *Etica Nicomachea* [Nicomachean Ethics], 2000, Bompiani, Milan.
Balzac de Honoré, *Illusions Perdues* [Lost Illusions], 1892, Calmann Lévy, Paris, France
Bauman Zygmunt, *Liquid Life*, 2005, Laterza, Bari, 1998.
Bauman Zygmunt, *Parasitic Capitalism*, 2009, Laterza, Rome-Bari.
Bloch Ernst, *The Principle of Hope*, 1994, Garzanti, Milan.
Chomsky Noam, *Failed States: the Abuse of Power and the Assault on Democracy*, 2006, Il Saggiatore, Milano.
Freud Sigmund, *The Discomforts of Civilization*, 1971, Bollati Boringhieri, Turin.
Freud Sigmund, *The Future of Illusion*, 1971, Boringhieri, Turin.
Freud Sigmund, *L'interpretazione dei Sogni* [The Interpretation of Dreams], 1991, Bollati Boringhieri, Turin.
Guardini Romano, *The End of the Modern World*, 1954, Morcelliana, Brescia.

- Guardini Romano, Europa. Compito e Destino [Europe. Task and Destiny], 2004, Morcelliana, Brescia.
- Kant Immanuel, Perpetual Peace. A Philosophical Sketch, 2007, Feltrinelli, Milan.
- Keynes John Maynard, Economic Possibilities for Our Grandchildren, 1991, Bollati Boringhieri, Turin.
- Keynes John Maynard, The End of Laissez Faire, MacMillan Publishers, London, 1923
- Keynes John Maynard, Essays in Persuasion, MacMillan, London, 1933.
- Krugman Paul, End This Depression Now, 2012, N.Y. Times.
- Krugman Paul, How Did Economics Get It So Wrong? 2009, The N.Y. Magazine.
- Pascal Blaise, Thoughts, 1994, Mondadori, Milan.
- Pezzani Fabrizio, The Lucidity Pact, 2008, UBE, Milan.
- Pezzani Fabrizio, Cooperative Competition, 2011, Egea-UBE, Milan.
- Platone, La Repubblica [The Republic], 1990, Mondadori, Milan.
- Plato, Symposium, 2012, Feltrinelli, Milan.
- Posner Richard, The Crisis of Capitalist Democracy, 2010, Egea-UBE, Milan.
- Prigogine Ilya, La Fin des Certitudes. Temps, Chaos et les Lois de la Nature, Odile Jacob, Paris, 1996.
- Putnam Robert, Social Capital and Individualism, 2004, Il Mulino, Bologna.
- Reich R., Supercapitalism, 2008, Fazi, Rome.
- Rousseau Jean-Jaques, Origin of Inequality, 2009, Grafica Spiel, Milan.
- Russell Bertrand, The Scientific Outlook, 2009, Laterza, Rome-Bari.
- Sen Amartya, Development as Freedom, 1999, Oxford University Press.
- Sen Amartya, The Theory of Moral Sentiment, 2010, Penguin.
- Severino Emanuele, Techne. The Roots of Violence, 2002, Rizzoli, Milano.
- Sorokin Pitirim, Social and Cultural Dynamics, 1975, Utet, Turin.
- Sorokin Pitirim, The Crisis of our Age, 1941.
- Stiglitz Joseph, The Price of Inequality. How Today's Divided Society Endangers our Future, 2012.
- Toynbee Arnold J., Civilization on Trial, 1949, Bompiani, Milan.
- Toynbee Arnold J., Mankind and Mother Earth, 1977, Garzanti, Milan.
- Vico Giambattista, La Scienza Nuova, [The New Science], 1722, Napoli.