

FOREWORD BY DONALD L. LUSKIN

THE

**NEW
GOLD
STANDARD**

REDISCOVERING THE
POWER OF GOLD TO
PROTECT AND GROW WEALTH

PAUL NATHAN

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*Dedicated to all those writers,
past and present,
who have helped make economics interesting and fun.*

Foreword

How is it that a book about gold, indeed a book that advocates a return to a gold standard, can sound so, well, reasonable?

Maybe it's because its author, Paul Nathan, is a very reasonable man. He's no gold bug. As far as I know he doesn't live in a fallout shelter. In fact he's an extraordinarily successful investor who came through the market crash of 2008–2009 smelling like a rose. You don't do that by being unreasonable.

Maybe it's also because there's nothing so unreasonable about gold. Maybe it's because what's unreasonable is saying that money ought to be just whipped up at the whims of government and not attached in any way to something of objective value—like gold.

From 1935 to 1975 it was illegal for Americans to own gold. The only exception was jewelry or dental fillings—relegating

generations of Americans to the status of refugees or prisoners of war, reduced to hiding wealth in and about their bodies.

Gold is vilified by the political class and its servants in the profession of economics. The most famous economist of the twentieth century, John Maynard Keynes, called gold a “barbaric relic.” Many scholars blame the gold standard of the years between the world wars for causing the Great Depression.

Yet I can’t think of a single politician or economist who would turn down a bar of gold if you offered it to him. Indeed, every government in the world—the same governments whose printing presses churn out so much paper—all hoard gold for themselves.

The height of irony (perhaps *depth* would be a better word) is that the world’s largest hoard of gold is stored in the basement of the Federal Reserve Bank of New York, a couple of blocks from the New York Stock Exchange.

I’ve seen it myself. You are taken by an armed guard five stories down into solid bedrock, 30 feet below the level of the New York subway system and 50 feet below sea level. You enter the vault through a person-sized slot revealed when a 90-ton steel cylinder is rotated. After you walk through the slot and the cylinder rotates back, you are in a watertight, airtight room half the size of a football field stacked to the roof with gold bricks weighing 27.4 pounds each.

At current prices this gold is worth more than \$300 billion. There’s more here than in Fort Knox. Almost all of it is held for foreign governments—very little of it is owned by the U.S. government (that’s in Fort Knox), and none of it by individuals.

Gold is very dense. So each small bar is surprisingly heavy. Don’t try holding one in just one hand. Vault workers wear ultrastrong magnesium shoe-covers to protect their feet from

accidental drops that, over the years, have left the cement floor with dozens of deep dents.

The vault was built in 1921 and looks it. The technology is all very old-school. An enormous scale used to weigh gold bars, tons at a time, looks like a giant balance beam you'd expect to see in an antique apothecary shop—yet it is accurate within the weight of a grain of rice.

When you're in that vault, you know in your bones that there's nothing unreasonable about gold. It's not barbaric. It's not just a hunk of metal, assigned arbitrary value only by the whims of greedy nut-jobs like Auric Goldfinger. It's real wealth. It's real value. It's real money. It's just plain real.

After I visited the gold vault, I went upstairs for meetings with Federal Reserve officials to discuss monetary policy. Normally it's a rare privilege to talk to insiders about such market-moving matters. But after visiting the gold vault—after experiencing what real money feels like when you hold it in your own hands—all the talk about M2, the federal funds rate, and quantitative easing all seemed like nonsense.

It didn't help that on the way out of the vault my escort gave me a souvenir. No, it wasn't a gold bar. It was a little plastic bag, holding one ounce of shredded paper that had once been \$100 bills.

After visiting the gold vault, it wouldn't have made any difference to me if those bills had not been shredded. They could have handed me intact \$100 bills—and it would have still seemed like just paper.

It wouldn't have been gold. Which is to say, it wouldn't have been real.

When I was done I walked out onto the streets of New York. It was just beginning to rain, and vendors seemed to magically appear

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on street corners to sell umbrellas. At that moment an umbrella was a very precious thing to me and to thousands of others caught in the sudden rain. Yet these vendors were willing to accept, in exchange for one, a little piece of worn paper. Why weren't they demanding gold?

Would that have been so unreasonable?

Paul Nathan doesn't think so, and neither do I.

Chances are you don't, either. But maybe you don't have the words or the arguments to really crystallize your intuition. For you, then, this book will give articulate voice—it will apply reason—to what you already feel in your bones.

Some of you are skeptics about gold. This book could change your mind. Be reasonable. Read it.

There's one thing we can all agree on. Something has gone terribly wrong in the economic mechanism of the world. The terrible synchronized global recession we've just endured was a warning. How do we expect to recover, and how do we expect to avoid another financial crisis, if we don't do something to fix that mechanism?

Printing more paper money is probably not the answer. Paper money likely contributed to the problem. Hair of the dog that bit you can be a palliative but not a long-term strategy.

Would it be so unreasonable to at least think about giving a greater role to the medium of exchange and the store of value that has endured for centuries—gold?

Open up your mind, and let Paul Nathan try to convince you. What's in this book might just save the world.

DONALD L. LUSKIN

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Co-Author, *I Am John Galt*

Preface

As we entered the twenty-first century, we may have well entered the century of gold. For the first time in a very long time we are hearing talk about returning to a gold standard. Whether or not governments choose to move toward some form of gold standard is less important than the fact that the free market already is.

The world is in the process of rediscovering gold and is, in effect, moving toward a *de facto* gold standard, whether governments like it or not. No one can know for sure what shape this new gold standard will take, but given new technologies and the freedom of choice, it will at some point take on a life of its own. That is reason enough to strive to understand what a gold standard is and how it is different from the monetary system of today.

This book is not intended to portray gold or the gold standard as Utopian. There is no Utopia. However, the years, decades, and

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centuries of the gold standard, and gold itself as a store of value, have served mankind well. When I talk of the stability of the value of money over the centuries during the gold standard, I am not referring to the government-created money under the gold standard—such as the Continental, which was supposed to be as good as gold but ultimately became worthless. Nor am I talking about the suspension of gold convertibility by governments during that period, which amounts to a broken government promise.

I am not talking about the banks that backed their notes with gold and could not redeem them during panic runs due to imprudence or fraud. And I am not suggesting that gold will prevent, nor could have prevented, financial and credit crises from occurring; it certainly cannot prevent recessions and depressions. Yet, gold and the gold standard have been wrongly accused of causing many of these occurrences. They did not. Gold preserves wealth. The gold standard creates monetary stability. That is its great virtue. That is its legacy. Under the gold standard of the nineteenth century the dollar bought at the end of the century approximately what it bought at its beginning. At the end of the twentieth century, after going off the gold standard, the dollar bought 97 percent less!

While a pure gold standard has never existed in our history, the gold standard functioned effectively in various forms as the monetary system of the civilized world from roughly the early 1700s to 1913, when the Federal Reserve System took over the control of money and credit. As with “complete freedom” or “totally-free markets,” a pure gold standard is an ideal. History has shown that—to the degree nations move toward these ideals of freedom, free markets, and sound money—people prosper. If there is one lesson that history has taught us, it is that money substitutes are merely

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promises. Every piece of paper that claims it is the equivalent of something else is a promise to pay. *Promises can be broken.* This should be painfully evident today after the Enron, WorldCom, AIG, and Lehman Brothers fiascos. Historically, it was never gold's "promise" that was broken. Gold traded as an honest equivalent against other commodities and services, as always, through good times and bad. It was the paper money claims that were always the root of lack of confidence and suspicion, often due to fraud and theft, leading to panics and crises.

When a government imposes legal tender laws compelling its citizens to accept paper claims, which amount to floating promises, then and only then, does money become tied to political promises rather than to the reality of the marketplace. Except for very rare occurrences, when the medium of exchange becomes unstable under the gold standard it is the money substitutes that are the problem—not the underlying commodity represented.

We live in a world of money substitutes called credit and debt. We are struggling to understand where we have gone wrong, why our institutions have failed us, how we should direct ourselves as a nation, and how to insure our financial futures against inflation, deflation, credit crises, debt defaults, panics, stock market plunges, and real estate declines. All good questions.

Where to start? Let's start at the beginning.

PAUL NATHAN

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Part I

GOLD AND THE DOMESTIC ECONOMY

