

[Freegold](#)

The essays listed below are all about the concept of Freegold, and are best read in the order in which they were published (ie. numerical order) for ease of comprehension. I would like to emphasize that these essays reflect my personal understanding of the topic, and represent my best attempt to convey my understanding at that time.



[Freegold 1: An Introduction](#)

[Freegold 2: The Basic Mechanism](#)

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For more extensive coverage of this topic, a visit to [FOFOA](#) and [The Flow Of Value](#) is recommended.

All Thoughts on Freegold as linked above originate from ways in which to perceive the monetary system as originally posted by [Another](#) and [Friend Of Another](#), which are obviously also recommended reading.

At all times in the contemplation of this topic it would be helpful to bear in mind that the Freegold paradigm is actually deceptively simple. The difficulty in comprehension lies in the existing paradigm from which one is attempting to view Freegold. Existing beliefs regarding the nature of value and money and their influence upon people and their behavior may need to be re-evaluated, and perhaps suspended either temporarily or permanently.

Freegold 1: An Introduction



On Why America's 234th Birthday May Not Have Many More To Follow

by [Matthew Hinde](#), July 4th 2010

I'm sure you know that the primary reason for the American War of Independence was to break from the English banking system of the time. The English Banks wanted the US government and corporations to borrow money from them in order to trade. This is really what the founding fathers of America fought against and won independence from. And so after the war had been won the US financial system was controlled, and all US Dollars were issued, by the US Government. The value of each Dollar was fixed (i.e. there was no inflation) and ALL the banks operated within the financial system. The most significant aspects were that the value of a dollar was FIXED and that the commercial banks were not empowered to create money. This is really what the English banks wanted to be in control of - the power to create money and lend it to the US entities at interest.

After the establishment of the Federal Reserve in 1913, however, the bankers finally got their way in the US. They took control of the US financial system and Fractional Reserve Banking became a reality in the US. What this means is that the financial system was essentially privatized and the commercial banks started to create money "out of thin air" by taking in deposits and then using these deposits to empower them to make loans significantly in excess of those deposits. I'm sure you can see how, through this scheme, the banks had shifted themselves out of a situation where they had primarily been an intermediary between savers and borrowers in the economy, to a situation where they had the authority to create and lend money into the economy.

Practically what this has meant to the American people is that as the banks have created additional units of currency, the value of their savings has been consistently undermined and devalued over time. One could argue that this has been compensated for by interest being paid on peoples' savings, however the fact of the matter is that this rate has been manipulated down by the Federal Reserve over time, resulting in significant asset price inflation. In addition to this qualitative devaluation of money, as the capital and interest repayments of existing loans has been made, liquidity has been drained out of the economy thereby creating monetary shortages on "main street". So I'm sure you can see from this that the American people have been hit on two sides, firstly the value of their money has been consistently devalued, and secondly the quantity of money in the real economy has also decreased relative to existing debt levels.

From a banking perspective the only real concern for them was the second issue highlighted above (i.e. the fact that the quantity of money in the real economy was decreasing relative to the existing debt levels). This had the effect of reducing the probability that their loans would be repaid. In dealing with this issue the US Government and the Federal Reserve de-linked money from gold in 1971 and since the early 1980s they have also consistently reduced interest rates. The intention behind these efforts was to ensure that firstly, there would be nothing to limit the growth in the money supply and secondly, to reduce the monetary withdrawals (via interest repayments) out of the system. These two steps have both prolonged the functioning of the system as it stands. The long-term fundamental issue of the financial system though is that it is a "closed" system that requires the economy (i.e. all economic entities) to assume greater levels of

debt for it to keep functioning. At the end of day there is literally no way out without altering the nature of the system itself.

*It is my firm belief that we have come to the “end of the road” for the financial system, as we know it. The myriad of problems that it is creating are only going to get larger as time moves forward – until the US Government takes decisive action to correct the fundamental issues. **To this end it needs to fix the value of each unit of currency by linking it to a basket of commodities (not only gold since the total quantity of gold is limited and so that would in turn limit the total quantity of money - this was the problem that resulted in the initial creation of the Federal Reserve)**, and it needs to eliminate the fact that money can only be created through debt. Under the current financial system, everybody ends up in debt and the banks get to continue reaping from that state. It really is a time for change and I firmly believe that the US will once again lead the world in a new direction, one that is equitable and fair for all economic participants.*

I am in complete agreement with this essay, with the notable exception of this phrase:

To this end it needs to fix the value of each unit of currency by linking it to a basket of commodities (not only gold since the total quantity of gold is limited and so that would in turn limit the total quantity of money - this was the problem that resulted in the initial creation of the Federal Reserve)

With this passage Matthew has completely overlooked another, much better, option, an option generally referred to as free gold or Freegold.

Under Freegold, the currency is not linked officially to gold or anything else. The price, in currency terms,

for physical gold, **not** contracts for gold or any other form of paper gold, but **physical gold only**, is **free** to float against all currencies. The quantity of gold in existence is then not an issue; the price simply rises or falls to whatever level is required by the markets.

Simple. Elegant. Necessary. Coming soon.

We will be posting a lot more on this topic. Stay tuned.



Next part here - [Freegold 2: The Basic Mechanism](#)

Freegold 2: The Basic Mechanism

Physical gold is a **wealth reserve asset**, thus it represents **payment in full**, whereas fiat currency is a **debt based currency** that represents **a claim in the monetary system**. Claims in the system are claims on assets. In this light, the 'preservation of wealth' simply means - *he who holds gold has already been paid*.



Freegold is a gold-based currency valuation system where the currency is not tied to fixed amount of gold.

Under a Freegold system gold would value all currencies individually and the exchange value of each currency would still be relative to every other currency.

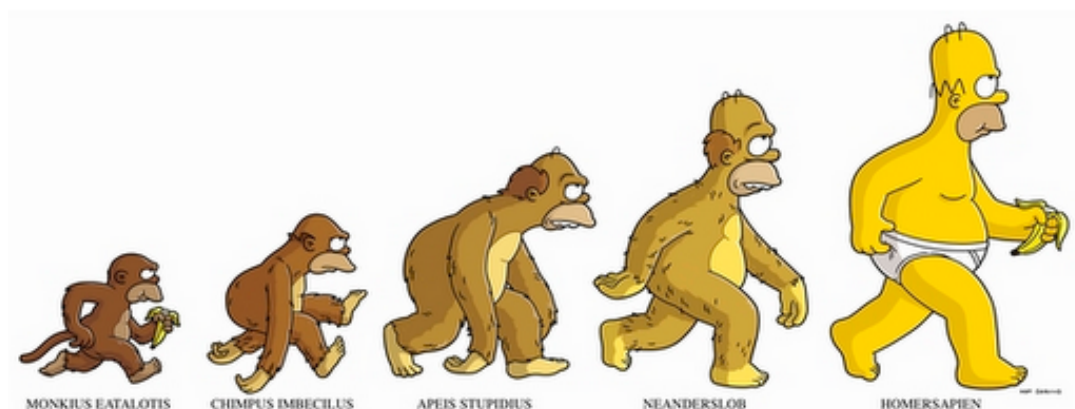
Eg. Gold gram = Euro 1
Gold gram = Yuan 1.5
Therefore Euro 1 = Yuan 1.5

It's a triangulation. As long as the exchange rate between physical gold and currency is established, the relative value of all else can be objectively ascertained.

If there is too much money printing then the exchange value of one unit of a currency will decrease, and as governments quantitatively tighten the exchange value in gold of a unit of currency will increase.

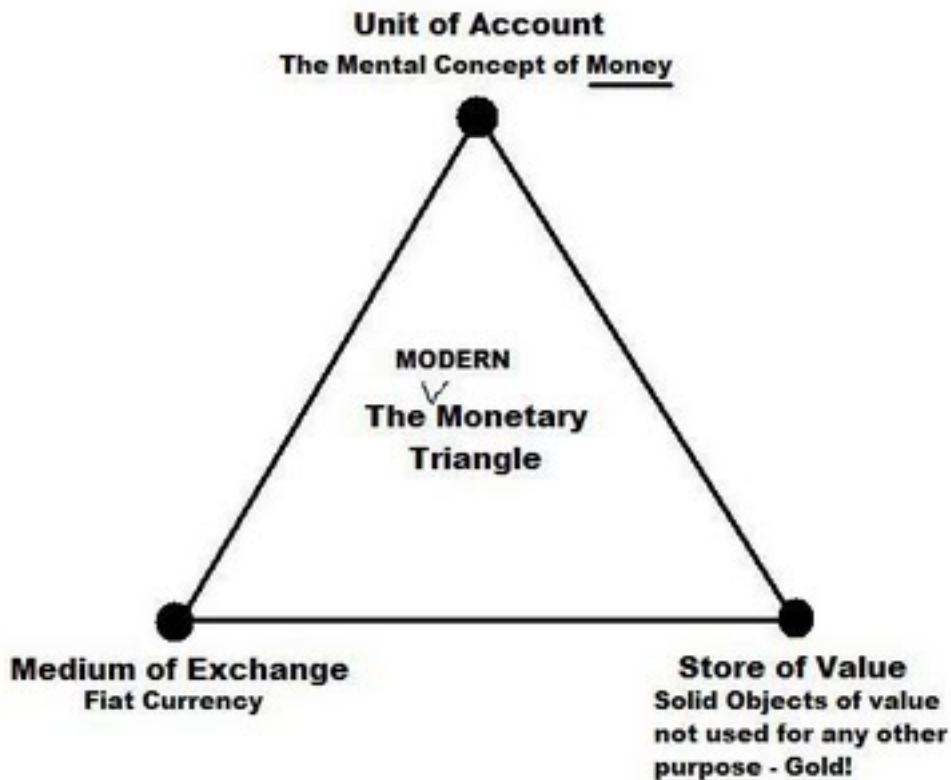
To put it simply, the rate of exchange between all fiat currencies and physical gold is set free to float. The quantity of debt able to be cleared by a given weight of gold would vary, in accordance with the needs of the market. Gold, in its role as the ultimate extinguisher of debt, would be the clearing mechanism for the marketplace. Sovereign entities (whether individual or state) would have a net outflow of gold when consuming more than they produce, and vice versa. Thus every entity is required, by the free market, to live within their means. When not living within their means, they are forced to live by consuming their savings.

Freegold gives the market a real point of reference, physical gold, from which to assess the relative values of everything else. This is the point of reference originally chosen by the natural evolution of money, over thousands of years. Nobody invented money. It evolved naturally from our desire to exchange goods and services. [Evolution!](#) is an excellent description of this process.

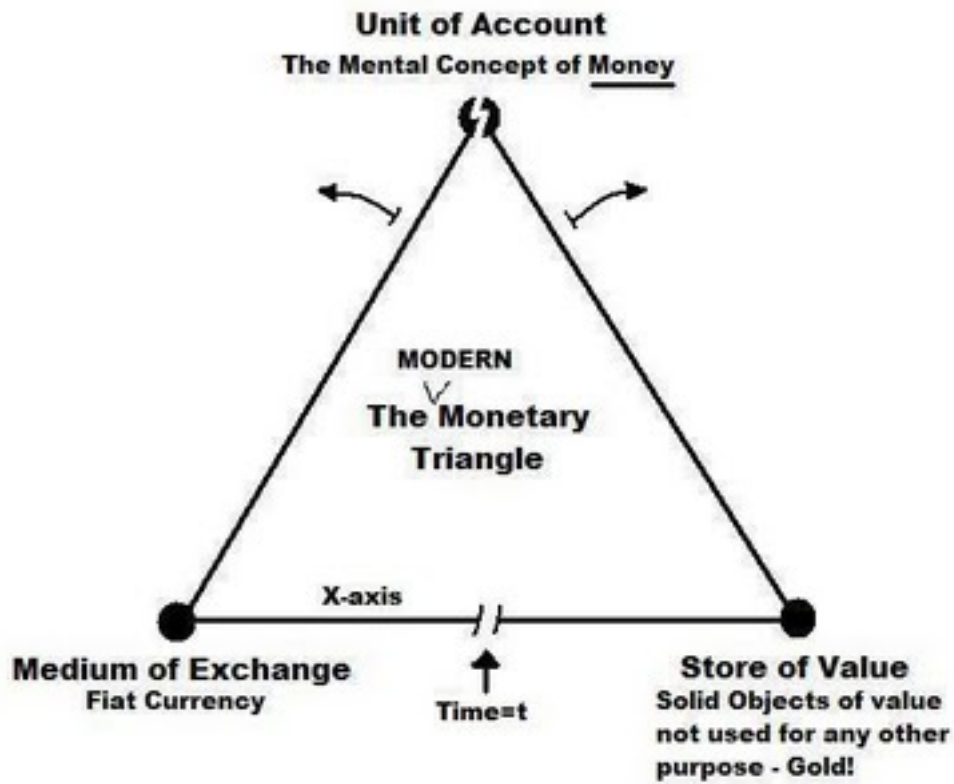


In practice, Freegold is a separation of the functions of money. Physical gold resumes its rightful position as the store of wealth par excellence. Fiat paper continues in its role as the medium of exchange par excellence. The [numeraire](#), or unit of account function of money, would be either gold or fiat, depending upon ones time preference.

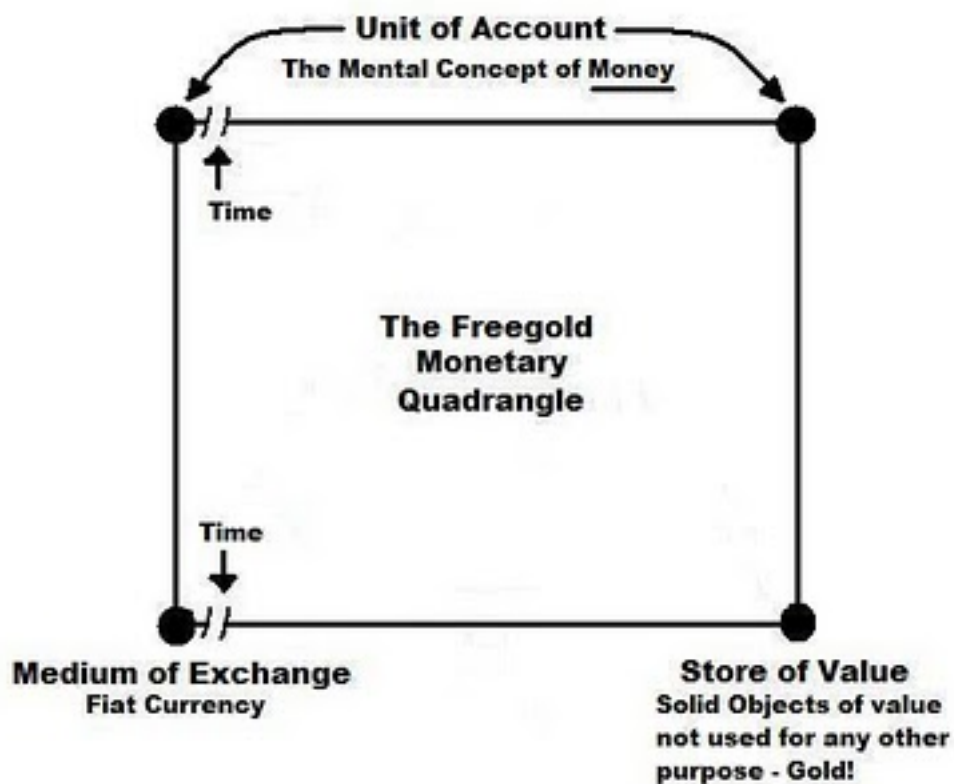
These diagrams⁽¹⁾ may help clarify:



The first diagram shows the present arrangement. It should be noted that currently the vast majority of entities use fiat currency as a store of value. This is a major reason why this "store of value" is always being "invested", seeking a "return on investment". Because *it is **not** storing value*. It needs a ROI to maintain its value (buying power). Fiat is *not* a good store of wealth.



The second diagram shows what happens when we introduce the context of time, which ultimately creates the resulting situation, illustrated in this third diagram:



The three monetary functions are now each being performed by the best "tool" for the respective "job". Which tool is best for which job is a subjective decision, best left to the sovereign entity (whether individual or state) evaluating their own money. The criteria used in making this subjective assessment may be infinite, but the most important of these is *time*: how long does one anticipate holding this money? If the answer is short term (ie. "spending money", used for current expenses), then the best form to hold it in is a fiat currency. If the answer is longer term (ie. "savings", a surplus over and above what is required as shorter term "spending money"), then the best form is gold, to protect one's buying power.



Our abstract debt-based money has produced an abstract mental reality which most of us inhabit. Real, equity based money, with a proper, asset based store of wealth, will move the whole world back into the **real** world, the simpler, easier to understand and inhabit world that we all silently crave. This debt-based illusion, which is wrapped around our perceptions of everything, will collapse as all Ponzi schemes must, leaving the real, physical, equity-based world we live in fully intact. Abstractions not based in reality will be lost in the transition.

Next: [Freegold 3: The Price of Gold is Arbitrary](#)

Also see: [The Flow of Value: Freegold](#) for a more comprehensive description.

Freegold 3: The Price of Gold is Arbitrary



The price of gold has nothing to do with gold's value, but rather the nature of the currency you are using to price it.

Currency is a thought, nothing more. An abstraction. It produces no output, but functions to lubricate the real things that do. Gold **just is**. A physical, tangible, real thing, with a long history of use as money. It is real.

Today, currency is backed by debt, debt being an obligation of one party to another. What is the likelihood this obligation will be met?

Well, that is what ratings agencies would have you believe they can reliably work out, but the evaluation of debt is an impossible task, because it does not rely on entirely objective factors. Whether or not the debt can or will be repaid is vulnerable to many subjective factors on the part of both the debtor and the currency, including the perceptions of the debtor, and the perceptions of other holders of currency. Amongst those perceptions is the likelihood, or not, of other debtors paying their own debts.

In comparison, how can we evaluate gold? Simply, and objectively. Gold is either there, or it is not. To be entirely sure, keep it in your possession. Gold is something we can rely on, which may be why it has such a long and illustrious history.

Debt may, at any time, go bad, with the underlying obligation of repayment never to be met. The debt (and by implication any and all derivatives thereof) may go from being an asset, to vanishing altogether in terms of the value it represents, on the arbitrary whim of the counterparty. Physical gold in your possession, on the other hand, entails no such risk at all. It represents value extracted completely from the system as crystalized wealth, ever ready to re-enter the system at its owners bidding.

If we say that gold, by definition, simply is, then we can see that this is the antithesis of arbitrary.

Currency is not fixed, not to anything real. It constantly fluctuates, in accordance with the perceptions of the market. It is backed by debt, which itself is valued by nothing more than the confidence of the creditor in the means and intentions of the debtor. This is arbitrary. This would not necessarily be a problem, except that it is treated by most of the world as a store of wealth.

So, if we wish to price gold in currency, then the price is truly arbitrary, as this is the nature of the denominator. Reasonably, we cannot price the real with the arbitrary, unless we are willing to concede that the price is also arbitrary.

These days, a very large proportion of the massive wealth generated with the inputs in particular of fossil fuels and modern technology is kept in various forms of debt-backed currency and its derivatives, whether paper or digital. Confidence by the market in receiving the payment of this debt is all that holds this wealth there.

Without that confidence, this wealth would have to run rapidly to another, safer location before its value dwindled quickly to nothing.

Gold is that location, as the storage of wealth is its primary function, and it can be assessed objectively. You have it, or you don't. And when this run occurs, gold will achieve exactly whatever price in currency is required to fulfill this function. It is the performing of this function that endows gold with its **value**. Gold is payment in full, whilst currency is merely a claim.

From the perspective of those who currently believe their wealth to be secure in some form of currency, or derivative thereof, this price will indeed appear arbitrary.

[Blondie](#)

Next: [Freegold 4: The Consolidation](#)

[Freegold 4: The Consolidation](#)

Reposted from [The Flow Of Value](#)

con•sol•i•date |kən'sälə,dāt|

verb

1 [trans.] make (something) physically stronger or more solid : *the first phase of the project is to consolidate the outside walls.*

- reinforce or strengthen (one's position or power) : *the company consolidated its position in the international market.*
- combine (a number of things) into a single more effective or coherent whole : *all manufacturing activities have been consolidated in new premises.*

See note at JOIN .

- combine (a number of financial accounts or funds) into a single overall account or set of accounts.
- combine (two or more legal actions involving similar questions) into one for action by a court.

2 [intrans.] become stronger or more solid : *the limy sands consolidate to sandy textured limestone.*

Soil liquefaction is the sudden change of unconsolidated soil particles from solid to liquid, generally occurring in young (10,000 years old or less) sedimentary deposits when subjected to large amounts of energy passing through them, for example an earthquake. This can prove a most unsatisfactory occurrence for those with a vested interest in the solidity of such soil.



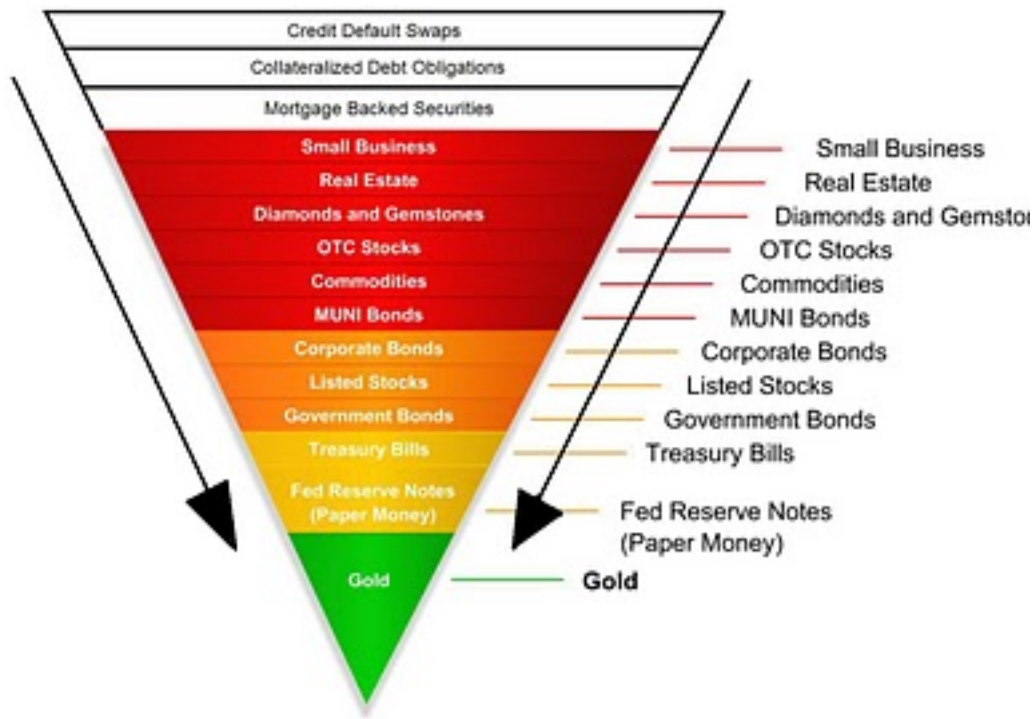
Obviously, it is this application of energy that consolidates such deposits, making them far less susceptible to such relative instability in the future. Complete consolidation results in rock formation, which is definitely no longer able to be liquified by such tectonic activity.

We can see in our present day monetary system similar recent deposits of unconsolidated wealth, held in debt denominated paper, whether actual paper or digital. This unconsolidated wealth is held in far larger quantities than the real, tangible assets it can supposedly lay claim to. With the aggregate contraction of credit currently underway, the value of the debt in which this wealth is denominated is being undermined. Without the willingness of the consumer to take on more debt, this undermining is unstoppable. The debt will collapse, being that it is supported only by further debt, and ultimately nothing more than confidence in the entire system by the system's participants (as described in [The Chicken and the Egg](#)). The confidence that the debt actually can and will be repaid. The suspension of mark to market accounting rules for the world's largest banks is perhaps the fundamental reason this collapse has been postponed for the last year and a half.

This looming loss of confidence in the value of these debts will supply the energy in much the same fashion as an earthquake: sudden, violent, and with unpredictable consequences of a destructive nature. The previously solid appearance of this unconsolidated wealth will suddenly become extremely liquid, as it energetically rushes to stake a claim on

the real, tangible world, to consolidate itself in a more robust store of wealth.

The basic unit of this unconsolidated wealth is the US dollar, the heart of the world financial system for the last 66 years. Never before has a consolidation of *this* magnitude occurred.



Gold stands alone as the ultimate wealth consolidator. This is its true function, as the bedrock of the monetary world. Gold is unique in that as its price rises, its flow diminishes, further driving up the price. Collective confidence in its ability to store wealth virtually forever makes it the perfect storage medium.

The purchase of any physical good (or service) with currency requires both a willing buyer and a willing seller. It can be viewed from either side of the transaction: as currency bidding upon the physical good, or as the good bidding upon the currency. The consolidation occurs when the physical goods cease to bid upon currency. They have lost confidence in its value. Currency rushes to find a good which *will* still bid upon it, before none do any longer. This energetic process is also referred to as hyperinflation, the final collapse into worthlessness which is the ultimate fate of every fiat currency. Even Alan Greenspan recently declared "Fiat money has no place to go but gold."



This consolidation will reveal and revalue the true capital of the world, whilst destroying the illusory. The physical world will remain unchanged. You may want to have some of it in your possession prior.

[Blondie](#)

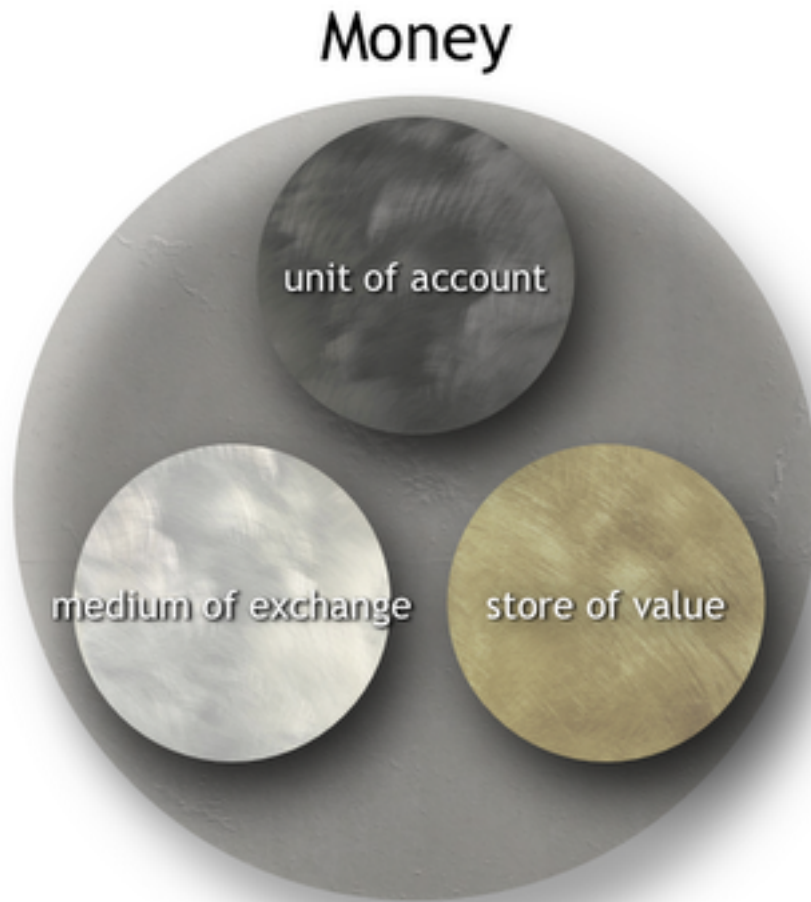
Next: [Freegold 5: Gold Is Not Money](#)

[Freegold 5: Gold Is Not Money](#)

These three functions:

1. store of value
2. medium of exchange
3. unit of account

collectively form the abstract concept we refer to as "money".



All three functions are separate mental processes to which we ascribe different mediums, depending upon circumstance. Money *is not* one or another of these things, nor anything else. **Money is the sum total of these three functions. Period.**

This is the definition which I will apply to the term "money" hereafter. Please keep this in mind.

Past Circumstance

There was a time when gold and silver coins filled all three roles, and at that time it would have been accurate to describe gold as money. Human nature put an end to that. (Technology would have inevitably intervened at some stage too, but human nature got there first.)

Human nature demands money it can borrow. I differentiate between money you can spend before (borrowed) or after (earned) you exchange some form of value for it as either *easy* money, or *hard* money, respectively.

FOFOA:

“In a gold money system with gold lending (which is always demanded by the collective will) fractional reserve banking is the inevitable result. And from there, bank failures are the inevitable result at the first sign of panic (loss of confidence). And from there, some of the savers lose their money.

In a fiat system, the fiat is lent and the savers hold the notes, one way or another. This lending and note holding always increases the money supply just like gold lending and gold-denominated notes expand the gold money supply. You lend something and then you can claim it in the form of a note while the borrower claims it in the form of the currency. Even the notes circulate as they become marketable.

So lending always expands the money supply, whether it is gold or fiat. And when the savers save in the same thing being lent, collapse ultimately comes (or at least threatens), whether gold money or paper. And then the system must undergo a fundamental change one way or another.”

Access to easy money has *traditionally* resulted in more coupons entering circulation than there is value backing them.

If the coupons are for gold (eg. gold backed dollars pre 1933), not everyone can receive the gold owed them. If the coupons are fiat (modern dollars), everyone can get their cash (it's printable, after all), but its buying power shrinks.

When there was not enough gold to meet dollar-bearer demand in 1933, it was decided that to boost supply gold held by private US citizens would be confiscated, to reduce demand dollars held by private citizens

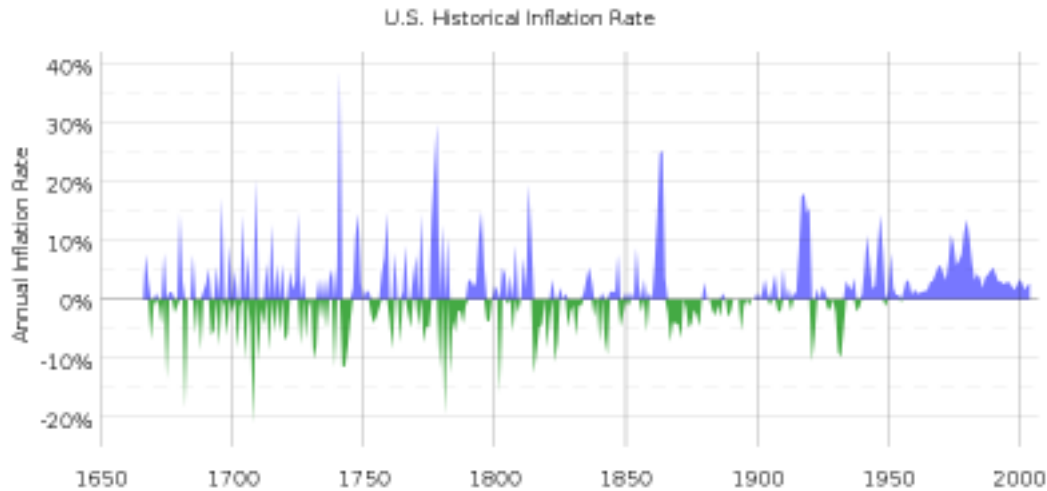
would no longer be redeemable for gold, and to extend the newly consolidated reserves gold would be revalued, higher.

The exact same *symptom* resurfaced on an international scale less than 40 years later, and as a solution the redemption of dollars for gold was ceased altogether in 1971.

Another 40 years on, and the same situation requires a remedy once again. This time, though, it is orders of magnitude larger, compounded by the fact that no-one was forced to take their losses in 1971, as the problem was technically just papered over. Today the majority of dollars and their multitude derivatives are held digitally, and with the dollar no longer officially redeemable by the bearer for anything tangible, the solution will be different in appearance, but not in practice. This time, everyone requiring payment has agreed by their participation that they no longer need gold: they will accept cash. And this time, they *will* get all that is owed them. Of course, when they do, there will be so much of it that it won't be worth anything. The result is the same as previously: savers pay with their savings. Value is lost.

So you can see that in just the last century we have tried using gold simultaneously as both the medium of transaction and store of value, and then the same with fiat, with the same result. It was the lending of the money that forced the departure from a gold money system, when it was deemed more expedient to socialize the losses than to let the banks collapse.

Left to its own devices, the market will naturally remedy the inflationary loss of the real value of money with deflation, as demonstrated by this chart:



The chart above shows clearly that the market has not corrected this loss of real monetary value for the last 80 years. This chart is presented for conceptual purposes only, as the official data used has been manipulated over the last 30 or so years to deliberately understate inflation: in real terms, there would quite likely be even more blue on the right hand end.

Present Circumstance

Deflation increases the real value of money, when measured against the real goods and services it can be exchanged for. We are now at a point where *real deflation* will prevail, because aggregate credit is contracting, and the global deleveraging process is destroying debt-based fiat faster than it can be created.

I refer to this deflation as real deflation because there are no longer any reliable (unmanipulated) traditionally used metrics with which to measure it (the marking to market of credit, for example, has been suspended. This does not mean that it still has value, it just means we are unable to know the degree to which it has lost value), but this does not mean deflation is not *really* occurring anyway, whether visible or not.

Historically, the medium of exchange deflates against the store of value to reinstate real value to money, as seen in the first 3/4 of the chart above. In a gold money system, this meant that either the physical gold rose in value, or the excess paper coupons in circulation to represent it

must be destroyed, to return to a monetary value equilibrium. This process is the bank failures and loss of saver's money FOFOA spoke of in the quote above.

This "monetary value equilibrium" can be found as a balance in the ratio of value between the store of value and the medium of exchange monetary functions.

Today though, the debt-based dollar is used in all three monetary functions, meaning that the store of value has a counterparty. The counterparty holds dollars (and derivatives thereof) as collateral assets.

How can the dollar deflate against itself?

FOA:

"Deflation is impossible in today's dollar terms because policy will allow the printing of cash, if necessary, to cover every last bit of debt..."

If the debt this present monetary system utilizes for all three monetary functions is allowed to default, which would be the natural course of events, it will quickly cascade into default on the sovereign nation level and complete systemic collapse. The only way to counter this, as FOA pointed out, is the printing of more (and more...) money by the Fed to buy all this debt, until ultimately it buys it all. When debt-based fiat is used concurrently for all three monetary functions, these are the only two options when the debt load finally becomes too large.

The dollar cannot deflate against itself. It can collapse in total default, or collapse in hyperinflation. Under the current arrangement with the dollar as the "only money", these are the only two options to restore the monetary value equilibrium.

Future Circumstance

What if, in a break with tradition, the current monetary function arrangement were altered?

With the debt-based dollar performing all three monetary functions, we face a choice between two unpalatable options, both of which culminate in collapse.

Circumstances dictate a different medium be assigned the store of value function, to give the dollar something to deflate against.

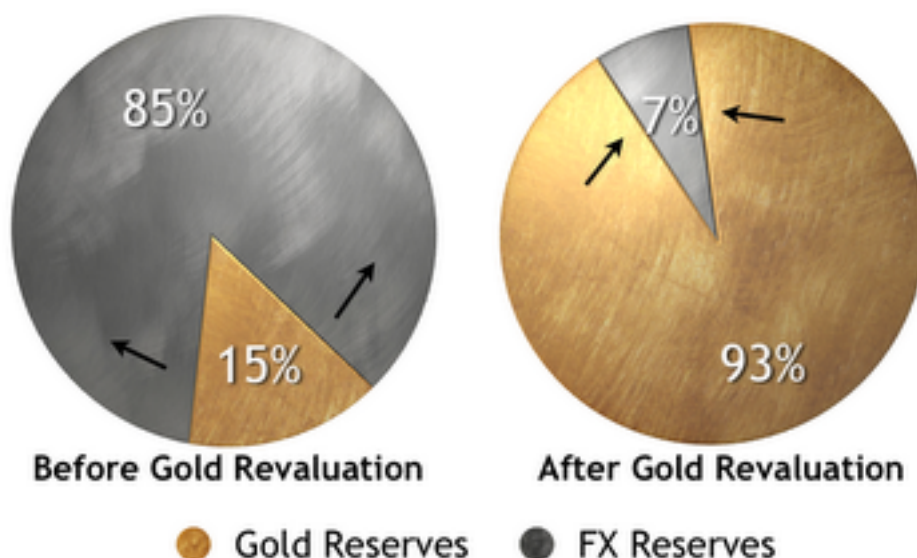
Voila! A third option, one which does not result in collapse.

The only feasible store of value the market can select is the same one the market had always used, because it is the only medium meeting all the criteria that the store of value requires, with the top of the long list being... no counterparty, and the inability to create more at will.
Physical Gold.

There is a hidden (in plain sight) escape hatch from the losses this switch in store of value medium would otherwise cause: existing holders of physical gold will be automatically recapitalized when the exchange rate between gold as the monetary store of value and paper currency as the monetary medium of exchange is left free to float. Central Banks will still hold valuable reserves, for the value lost from their foreign currency (FX) holdings would be offset by the value gained by their gold.

When Adam Smith wrote “Wealth Of Nations” in 1776, he spoke of an “invisible hand”, a concept which remains a fundamental economic principle, in which the cumulative effect of individuals' actions of self interest move the market as an unseen, self-regulating force. It is this self interest which will force the change of monetary function, as the only viable option. The very biggest and most influential market participants already hold gold reserves for just this eventuality, for their own recapitalization in this event. Some of the Central Banks, such as the ECB and Russia, already mark their gold reserves to market. For them, this recapitalizing is already underway, as the value of their gold reserves grow in response to the diminishing value of their FX reserves.
Another conceptual example:

Central Bank Reserves by Monetary Value



This process of reinstating gold as the monetary store of value is a mental process, one already underway. As the market gradually becomes aware of the inevitable choice it faces, the trickle of value into physical gold will become a flood, and the invisible hand will uplift debt-based paper from its role as the monetary store of value, and install physical gold as replacement. Recapitalization is automatic, but only for holders of physical gold.

While paper currencies may have turned in a miserable performance as a store of value, they have excelled in their role as medium of exchange, in more ways than one. In digital format it has introduced new efficiency to international trade, and to its usage and management daily by billions of people. While its quantity is easily adjusted by its issuer, indiscriminate issuance of paper can be kept in check by a rising price of gold in said currency, through an international floating exchange rate with physical gold.

This new arrangement leaves us with a self-regulating monetary value equilibrium: physical gold becomes the perfect hedge against inflation. Capital now has a safe harbour, where it can be stored without loss of value while awaiting a sound investment opportunity, not being rushed into misallocation in an attempt to outperform inflation.

Aristotle:

"I was personally shocked when I discovered that we absolutely NEEDED paper currency in order to set Gold free."

And what of the monetary unit of account function? Which medium will it utilize?

Both. Whether one uses gold or paper currency in this role will depend entirely upon what one's intentions are for the monetary value in your possession. If this value is to be used for current expenses, paper currency will be most adequate. On the other hand, if this value is surplus to your immediate requirements, it would fall into that category usually regarded as "savings", and for this gold would be the best vehicle.

All three of the monetary functions that constitute money are purely mental, and a change of medium in any of them is a collective mental decision. This is a decision our elected leaders are wise to let us make for ourselves.

5/26/98 ANOTHER (THOUGHTS!):

"Do you know the value of gold?

From the day of our birth we are taught to value all things using the one factor alone, currency! Can one contemplate the value of all possessions in other terms? Do you not have to think first as to "how many dollars is that worth", then "how many dollars is this worth" to compare two items? If it is deep within our mind, that we can know value only in terms of paper, to this I ask, can one know value at all?

The Western mind does focus on "what I buy today for the lowest price". Yet, in this modern world economy, the lowest price is always the function of "the currency exchange rate"? The Yen, it is compared to the dollar today, and used to purchase goods. One year later and Japan offers these goods for much less, as the Yen has fallen to the US\$. The currency value of this purchase, was it "true" today, or a year ago?

Understand, all value judgments today are as subject to "exchange rate competition"! It is in "this exchange rate valuations" that the private citizen does denominate all net worth! A safe way to hold the wealth for your future, yes? You should ask a Korean or an Indonesian?

One should grasp that "today, your wealth, is not what your currency say it is"!

In this world, paper currency is for trade, only! It is for the buying, selling, earning and paying, not for knowing the value of your family holdings! Know this, "the printers of paper do never tell the owner that the money has less value, that judgment is reserved for the person you offer that currency to"! Again, I ask, how can we know a true value for our assets, when they are known only in currency that finds it's worth, as in the exchange rate for another currency?

Many will "think long and hard on this", but will find little reason for this position. For it is in your history to know only "things valued in paper terms". Some say, "I hold investments of great increase these past years, and am much ahead of the inflation, if it should come". I say, "your investments, worldwide, have moved little, as it has been the currencies that denominate your assets, that fall a great deal". The price inflation that comes, it is larger than your vision can see! Your past, holds little of knowing value outside of currencies, this does block the good view!"



To paraphrase Aristotle:

The flow of value- Create value to earn currency, buy what you need, save in gold, enjoy what life has to offer.

Ender: "... he who holds gold has already been paid."



**Gold is not money.
Gold is the master proxy of value.
Money is the means by which we collectively manage value.**

[Blondie](#)

h/t all Physical Gold Advocates, everywhere, for sharing the view.

Next: [Freegold 6: Individual Sovereignty Analogy](#)

[Freegold 6: Individual Sovereignty Analogy](#)

Danny MacAskill demonstrates here things that will cause you to alter your perceptions of what it is possible to do on a bicycle, in a similar fashion to that which Freegold will alter your perceptions of the implications of the term "individual sovereignty".

http://www.youtube.com/watch?v=Cj6ho1-G6tw&feature=player_embedded

Next: [Freegold 7: It's the Value, Stupid](#)

Freegold 7: It's the Value, Stupid



Reposted from [here](#).

Warren Buffet recently wondered publicly at the uselessness of gold, all of which ever mined, he noted, would fit into a cube 67ft to the side. \$7 trillion worth he said, which could buy seven Exxon-Mobils and half the worlds' arable land and still have \$1 trillion walking around money in your pocket or somesuch. He does concede it is nice and shiny and he could use the cube as a mirror.

When we create something which others find to be of value to them, we often enter into an exchange of this good or service for other goods or services of value to us (self-sufficiency can be fairly austere), and as a result we find that we can all better specialize in our individual efforts, thereby increasing our productivity, efficiency and level of technology. Utilizing a medium of exchange rather than engaging in direct barter further increases these benefits manyfold.

The medium of exchange is indispensable to human society, and to its continuing evolution, at least as we currently understand it. The exchange of value it facilitates brings its users together in such a way as to render the whole greater than the sum of its parts.

Everyone using this system of value exchange is likely to be wanting to accrue a surplus of value once they have acquired the goods and services they want from this flow, rather than run a deficit, no? They are aiming to have, overall, larger income than expenses, allowing the buildup of a stock of value, commonly referred to as wealth.

Some of this surplus will be redeployed into capital assets to fuel further productive growth and enhance the operating margins.

Some of this value will be saved.

So we have value, created by people (yes, some of it is arguably dug out of the ground or similar, but it must still be mined/harvested etc., in order to realize that which is otherwise only potential value), willingly exchanged between people, some of it consumed, some reinvested to create more value, and some saved.

The consumed and the reinvested values were exchanged using the medium of exchange, and in both cases the ultimate owner of these values took their payment in full in the form of an asset. The medium of exchange is simply a claim in the system, whereas the actual value, the utility the end user is after, is in the asset. The value to the asset's ultimate owner lies in the utility the owner finds in the asset. Value is the measure of utility, subjectively assigned by each individual. The medium of exchange, in facilitating the acquirement of a useful asset, has instrumental value only. It is the means, not the ends.

What to do with the saved value?

It could be held in the medium of exchange if this medium held its buying power over time, if it could be exchanged at a later time for a comparable value with that which was initially relinquished, but this buying power is not maintained, as we know. Instead, today additional medium of exchange is created upon the signature of a borrower, as credit, by banks as a matter of course; with the Government Treasury Department's issuance of bonds; and by the Central Bank expanding its balance sheet to monetize debt, all in accord with the aim of constant monetary inflation, itself a matter of regulatory policy.

So the medium of exchange is constantly diluted, by the promise of value yet to be created. These promises of future value circulate at par with value that has already been created, in the form of the medium of exchange. All three of these methods of medium of exchange creation are based upon promises of value yet to be created.

Saving surplus value in the constantly diluted medium of exchange is a losing proposition for the saver. Value is constantly being drained from such savings, as many people are using a promise of value not yet created to acquire assets, to receive payment in full, concurrent with the ever expanding volume of the medium.

Gold historically served in the store of value function, which is why Buffet is even commenting upon it; it has been a fundamental part of the human monetary system for millennia. It served in this role as a simple physical asset, just like any other asset, but the only practical function of gold as an asset was as an excellent store of value. It rose in prominence in this role simply because it performed it better, for a long list of well documented reasons. Gold was the supreme physical wealth reserve, sheltering surplus value.

It stopped performing so well as a store of value once it was brought inside the monetary system. It was monetized.

Firstly, gold was deposited with a third party (banks, ultimately) for security and notes issued to the depositors, notes which eventually began to circulate as a medium of exchange. At this point, all the value is still intact and undiluted - a 100% reserve ratio. But this changed when gold lending began, and particularly when notes were lent in lieu of the physical metal, as there was now only a partial reserve: the quantity of gold (or at least notes that traded at par with gold, and were accepted to be "as good as gold") had been inflated beyond the actual physical reserve. There are now more claims on value than there is value currently available. Promises priced at par with the real thing.

Secondly, in an effort to divert some of this surplus value into their own possession, the exchange rate of gold with paper currency issued by Government Treasuries was fixed by decree, giving value to said currency. The Gold Standard. A scam, utilizing the reputation of gold. Savers feel secure saving in gold-backed currency, and as such they exchange their surplus value for these notes, printed by the Treasury. The surplus value that once accrued in physical gold, now, by virtue of the fixing of the exchange rate with the currency, accrues instead to the currency. Gold has been monetized, brought inside the monetary system.

The supreme physical wealth reserve was neutered, firstly by the inflation of gold receipts higher than the actual physical reserve (unofficial monetization), and secondly by official monetization. Both are (relatively opaque) misappropriations of the value stored in it.

The banks where the savings denominated in currency are regularly held on deposit are the public's gold exchange window, and the front for the Treasury. In the event of a run, the bank simply closes when insolvent, leaving remaining creditors with no value. Where has their value gone?

Of course over time the Gold Standard could not be maintained as it could not facilitate large-scale wars (WWI and WWII could not have been financed on the Gold Standard), and because its reach was not global; foreigners without a fixed exchange rate for gold found gold could be acquired from regions where it was fixed more cheaply than their local price, so gold gradually migrates to where it holds the most value.

The Gold Standard became the Gold Exchange Standard, with the physical gold window only open to foreign Central Banks, until finally that window too was closed to stem the flow before the stock was exhausted.

We are left with a system of unbacked fiat currencies, all floating against one another with no objective benchmark from which to ascertain their true value. This is no accident; it is the logical last stage of the surreptitious pilfering of value. Gold was this objective benchmark, historically, but in this fiat era gold has been encumbered with a plethora of derivatives, leaving no market value for physical gold. Physical gold is available instead at a massive discount: the “price” of gold in this fiat system is not found in a physical only market, but in one in which the physical is diluted with promises of future gold (all gold derivatives). The “price” is in fact a hybrid of physical and paper gold.

The value of the scarce physical metal is considerably higher than the value of the mass produced paper contracts which dilute the price but not the physical quantity.

And now we come back to the beginning, where the old becomes the new.

Buffet would feel quite differently about his theoretical cube of gold if physical and paper gold were not treated as interchangeable with regards to their value (how can they honestly be when there is a ratio of possibly 100:1 paper to physical?), and the physical were valued in a physical only market as a physical asset. The perfect vehicle for the saver’s surplus value. As demand for physical gold intensifies, this decoupling is inevitable.

The divisibility of that cube to absorb value is practically infinite. As value is stored in it, the exchange rate with currency rises, all else being equal. Gold is once again valuing not only the currencies, but by extension everything else too. It is the objective benchmark allowing us to ascertain the relative values of everything.

Central Banks and the very wealthy the world over hold reserves of physical gold in preparation for this inevitable change.

It is notable that Buffet valued that \$7 trillion in today’s assets. It is only the assets available for exchange with currency that give currency value. This is why gold was monetized at all; to eliminate it as the physical asset which openly and accurately valued currency, thereby terminating the ability to debase currency and divert a flow of value into the hands of those who expended no effort for it.

Of course when physical separates from paper gold, gold will then be accurately showing just how much value has been channelled away from savers’ paper savings, and where it now resides.

Freegold is unencumbered physical gold as the wealth reserve asset outside the

monetary system. Gold will spontaneously reassume this function when physical separates from paper. A casual glance at the balance sheets of those Central Banks who mark-to-market their gold reserves reveals that this is not only expected, but it has been prepared for.

From this position outside the monetary system, as a simple physical asset, gold denominates everything inside the monetary system in terms of value, because accrued value is all that this asset is, accruing value is all it does. This is its function. The function of gold.

The ONLY function of gold.

Next: [Freegold 8: A Freegold Standard](#)

Freegold 8: A Freegold Standard



Value is created whenever one brings into existence a good or service in which anyone finds utility. Any surplus value (stock of value, aka wealth) accrued after income and expenses (flow of value) are netted out is most expediently stored in unencumbered physical gold (Freegold). Currency finds value in accord with its ease of exchange for gold. If a currency is valuable, it is easy to find gold bidding for it, if not then more currency must be offered until gold is coaxed out to exchange for it.

The monetary system, as the sum of its functions (unit of account; medium of exchange; store of value), is simply the system we collectively agree to use to facilitate the flow of value between individuals and groups in society (without such a flow we would all need to be completely self-sufficient individuals). As such, the functioning of the system is much easier to visualize when we consider it in terms of *only the value* and how the value circulates, is stored, and ultimately consumed as a sophisticated spontaneous and continually evolving arrangement of stocks and flows. Viewing money as simply currency

(medium of exchange), and accounting for transactions only in nominal currency terms is misleading - currency has value in accord with the value of real goods or services for which it may be exchanged only, and this exchangeability is not fixed, but rather always in flux. Value is simply the measure of utility, and if a currency buys less or none of what one wants, then it has little or no utility, and hence little or no value. A system of account requires a unit with at least some sort of objective basis to have relevance.

To perform well, any store of value should not be used also as a medium of exchange, as at least part of the value being exchanged in any given transaction would not be kept as savings, and would need to be further exchanged to meet current expenses. This increases the velocity of the store of value, reducing its value. Gold, like any other store of value, stores value best when it lies very still.

With a Freegold Standard, only the exchange rate of a currency with Freegold need be established to find the currency's value, as Freegold is the proxy for the stock of value, wealth.

Freegold acts like a sponge, absorbing surplus value in any given zone, and transferring it between zones through arbitrage, out of deficit zones (net value consumers) and into surplus zones (net value producers). All sovereign entities, whether individual, state, or nation, interact with this system in the same way, only on different scales (micro/macrocosm). They may have different motivations for individual transactions when storing value in or retrieving value from Freegold, but the mechanism they use will be the same - the purchase or sale of unencumbered gold in a floating free market.

The Freegold market is established by the bidding for unencumbered physical gold in preference to encumbered gold derivative products, as these derivatives are found to not perform as well as unencumbered physical in monetary crisis, and as a result are discounted by the market. This is a simple and spontaneous reaction in accord with the self-interest of market participants. When monetary confidence falters the preservation of value becomes the focus, and in this gold is the obvious focal point.

In practice, any currency is valued by the market only by that which it can be exchanged for. Under a Freegold Standard, currencies are technically, but not officially, backed by gold - a currency that cannot be exchanged anywhere anytime by anybody for gold will be avoided in

favour of one that can. It is privately-held gold reserves that make themselves available for this exchange, at the right (floating) price, not Central Bank gold reserves. CB reserves are for currency credibility purposes, and a national savings reserve for facilitating international trade in times of distrust and/or great monetary stress. A Central Bank buys or sells gold to manipulate the value of its currency, buying to inject currency into circulation thereby weakening its exchange rate, and selling to remove currency from circulation and strengthen it.

The Gold Standard

The fixing of the exchange rate between gold and a given currency (aka the classic Gold Standard) is a (barbarous) mechanism which seeks to appropriate surplus value (aka wealth) into the currency rather than the gold reserves via fixing, making the value available to the issuer of the currency (ultimately the government), and obviously no longer available to the savers who stored their value there (this deception leads to bank runs and bankruptcy). Official gold reserves dwindle, while claims on them rise. Inequitable and unsustainable.

The Fiat Scam

The ruse of ceasing redemption of currency for gold leaves the creditor with no benchmark to evaluate said currency as time passes, and as such leaves them behind the curve as currency continues to be issued, now relatively unimpeded, the creditor always imputing more value to the currency than they should. Until that day when confidence is entirely lost, at which point the debtor consolidates their position by revealing that they place a very high current value on their gold reserves - one high enough that they can pay down their entire obligations with only, say, half of their physical gold reserves.

Keeping the actual quantity of the debtor's physical reserves a mystery all the while adds to the debtors advantage, and every extra day that this scam can be kept intact in the latter stages is worth far more to the debtor than many days were in the early stages.

Debt as Wealth

Deferred payment (debt) is only able to be accumulated with accompanying deferred purchase of goods and services of real (tangible)

value. In other words, if the overhanging debt (deferred purchase of tangibles) is corralled in non-tangibles like bonds and currencies.

Stored there it will have no effect upon the perceived values of real goods and services, because it is not bidding upon them. As discussed in [It's the Value, Stupid](#), debt is synthetic/promised/yet to be created value circulating at par with real (already created) value, both in the form of currency. The difficulty in telling them apart is that you can't, because currency is fungible. They both function equally as medium of exchange, exchangeable for either tangibles or non-tangibles.

This corraling requires [inflating the credibility of the issuer](#) of the non-tangibles. As the quantity of the non-tangibles inflates, so must the credibility of the issuer, because anyone storing their value in a non-tangible will only do so if they have confidence they can actually get the value back later, if they consider the issuer to be credible. To issue ever more non-tangibles, it follows that the issuer must have ever-increasing credibility in the face of these claims.

There are lots of savings in these non-tangibles containing almost no real value, but only the confidence of those using them to “store” their value. Of course when someone goes into debt by borrowing currency, and then uses the borrowed currency to purchase tangible goods or services, value passes into their possession. The currency was only a claim on this real value; it took an exchange of these claims for payment in full, a tangible, for actual value itself to pass into their hands. There are currently fantastic quantities of these claims corralled in non-tangibles, dwarfing the current supply of tangibles, or payment in full. When this confidence falters, it “snaps all at once” rather than unwinding smoothly.

A Freegold Standard

Unencumbered physical gold as the ultimate monetary denominator, benchmarking the value which the monetary system serves to exchange, acting as the objective reference point. From the exchange rate (price) of Freegold in any/all other items (currencies and assets alike), the relative value of any/all can be established in a completely objective fashion. In this arrangement it can be seen that it is gold valuing currencies, and therefore everything inside the monetary system, from its position as the physical wealth asset *outside* the monetary system. Gold is the master numeraire because it is the master proxy for value, denominating all

lesser units of account, and thus providing relativity to all participants in the value-exchange (monetary) system.

This can only come about when gold is traded on a physical only basis - no form of gold derivative should ever be traded at par with physical, on the assumption that it is “as good as gold”, because any derivative is not and could never be as good as possession of the real thing, by definition. Gold is physical gold in the here and now only. Nothing more, nothing less.

Human society arranges itself in response to the monetary system it utilizes to facilitate the flow of value between its constituents. This is to say that the monetary system dictates the nature of the society, and the motivations which drive the behaviours of its individual members.

The current monetary system is completely inequitable, as can be seen in the continual movement of wealth (stored value) to the wealthiest .01% of individuals, and away from the poorest. This discrepancy has never been greater, and continues to grow. Value is liberated from its creators and spirited away through the continual depreciation of the savings medium. A Freegold Standard is a return to a fully equitable system, where the net value producer keeps the unconsumed fruits of their labour until such time as they wish to consume them, or give them away. It does not allow the government to sequester privately saved value any longer, to be spent arbitrarily by those not attributed with its creation. A great deal of certainty is found by all users of such a system.

With the benefit of a shared objective reference point to gauge relative value (the utility found in a good or service), all individuals will have the opportunity to go about producing the highest value/utility they can, in accord with this new objective data, which will result in myriad new possibilities to apply existing skills, capital and knowledge far more effectively and productively than at present.

To separate self-sufficient human beings, gold has no utility; but as part of a larger interconnected human super-organism gold has the highest utility, as the heart of an equitable value circulation system.

A Freegold Standard: elegant in its simplicity.

Next:

[Freegold 9: Gold as Pure Equity](#)

Freegold 9: Gold as Pure Equity



When (physical) gold is revalued by the free market, in order to give payment in full to the current surplus of claims (dollars), it will represent to its holder a pure equity position.

A pure equity position in what? In human value, no less.

A bold claim? Let's examine it a little.

The quantity of physical gold in the world is fixed. When one owns some physical gold, they own a fixed share of that quantity. It is an undilutable position, unlike currently traded equities, the supply of which is regularly inflated by their issuers to raise more capital, thus eroding the value held by existing shareholders.

Equity held in free floating physical gold is the very definition of “a hedge against inflation”, inflation of every description (except the inflation of real value). Every dilutable item in the world will depreciate against physical gold upon dilution. Gold retains its buying power.

But free floating physical gold ([Freegold](#)) actually does much better than this. It is often claimed that gold pays no dividend, no return on investment. Freegold needs no return on investment for the traditionally cited reason - the offsetting of loss to currency inflation, because it automatically offsets inflation anyway. Freegold likewise has no need to allow for losses incurred through malinvestment or misallocation of capital - being fully hedged against inflation automatically - there is no longer a need for any capital to ever be deployed in anything other than the soundest of productive ideas. Capital written off on “speculative” investments gone sour will be almost non-existent, for two reasons: the lack of impetus for such investing as described, and the severe punishment of losing

some of your golden equity in a less than sound venture.

Why will this be regarded a severe loss?

Because the vast majority of investment made will be productive, and to be productive means to be valued by the market. Thus investment will produce new value, exclusively. And the excess of this new value will be stored in the safest possible place... gold.

The owner of physical gold will experience continual capital gain through their pure equity holding for as long as humanity can continue to create value. Pretty big incentive to protect your holdings. Pretty big incentive to create some value in the world yourself, in order to buy in, no matter how meager the quantity, considering the direction of the capital gain and the fact that you can never be diluted out.

Looks a better buy than any other form of equity position currently available... and it's currently available at pre-float valuation (for a limited time only).

In the absence of a strong dollar (absent soon for indisputable reasons), gold will find its function as the settler of those claims, as the master proxy for monetary value in the collective mind, and the current ridiculous dollar/physical gold exchange rate will be history. Literally.

What are you waiting for?

Next: [Freegold 10: Paper, Pyramids & Paradigms](#)

[Freegold 10: Paper, Pyramids & Paradigms](#)



For much of its history, society utilized a direct exchange system of goods or services for other goods or services, called barter. All physical goods involved in barter were assets, and as such constituted payment in full.

Most of these goods were eventually either consumed or decayed over time. Gold was the exception, being subject to neither of these forces. Being compact also it was ideal as a portable exchange asset, for trading over longer distances. Over time it accrued in the hands of and became associated with those who tended to produce more than they consumed: the wealthy.

Needing to be kept somewhere secure, a lot of this gold eventually came to be deposited for safekeeping on the premises of those who had continual need for a secure gold vault: those who worked the gold, the goldsmiths.

This deposited gold was accounted for in a ledger book, with the depositor receiving a corresponding note, this note being an obligation of the goldsmith to exchange it for gold upon demand.

As gold is fungible (which is to say that any weight of gold is interchangeable with any other equal weight of gold (all other things being equal)), it was often more

convenient for these notes rather than the gold itself to be exchanged in transactions, with the goldsmith's obligation to deliver gold being to the note's bearer. These notes are the paper currency of a de facto gold standard monetary system.

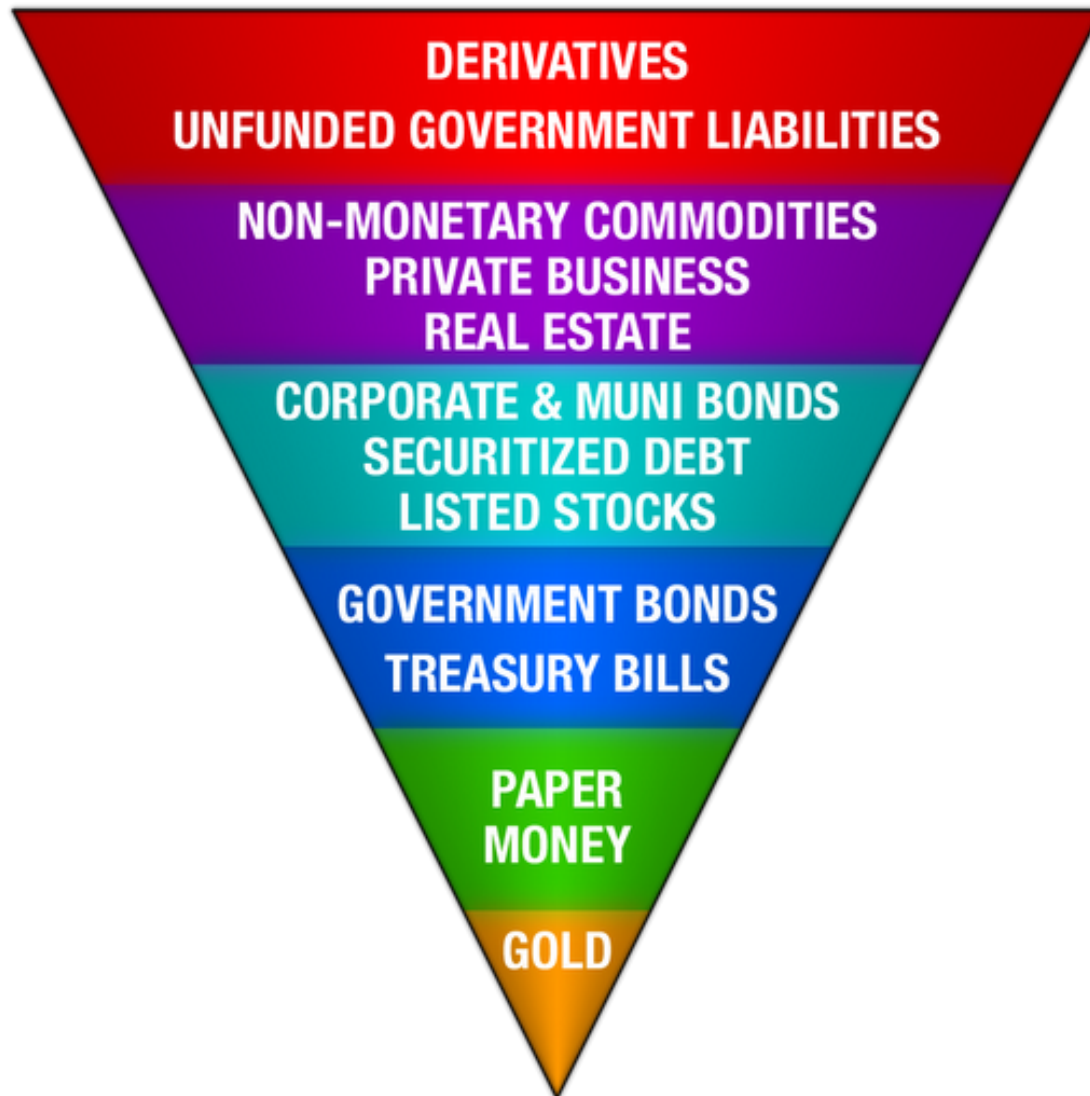
Gold is a physical wealth reserve asset, thus it represents payment in full, whereas paper currency is a debt based currency that represents a claim in the system.

This is the birth of a paper currency-based monetary system, as distinct from a system of trade based upon barter. We can see that it is gold (as an asset outside this monetary system) acting as the reserve asset which supplies the paper notes (the currency) with their VALUE.

It is at this point that the goldsmith (now the banker) sees that much of the gold held in the vault never physically leaves, and decides to lend some, for a fee (interest). Since they exchange for goods at par with gold, notes for gold can also be lent, and notes held as an asset by their bearer can be held on deposit too. Thus is a synthetic supply of currency levered into existence, with multiple claims potentially issued on a given weight of actual physical gold on deposit, and this is before the advent of fractional reserve banking. This is a synthetic supply of claims on assets, claims on *value*.

Today's monetary system is an extension of this, where all forms of paper denominated "asset" have a counterparty (someone else for whom this asset represents a liability/obligation), and as such are claims in the system rather than payment in full, and are all derivatives of the original gold-backed notes which birthed the system.

"Despite the huge tide of paper pyramided currency and notes which are now flooding the world, at some point, every credit extension must return to be based, in however minuscule a fashion, on some deposit of gold in some bank somewhere in the world."^[1]



Even more succinctly: [All Paper is STILL a Short Position on Gold.](#)

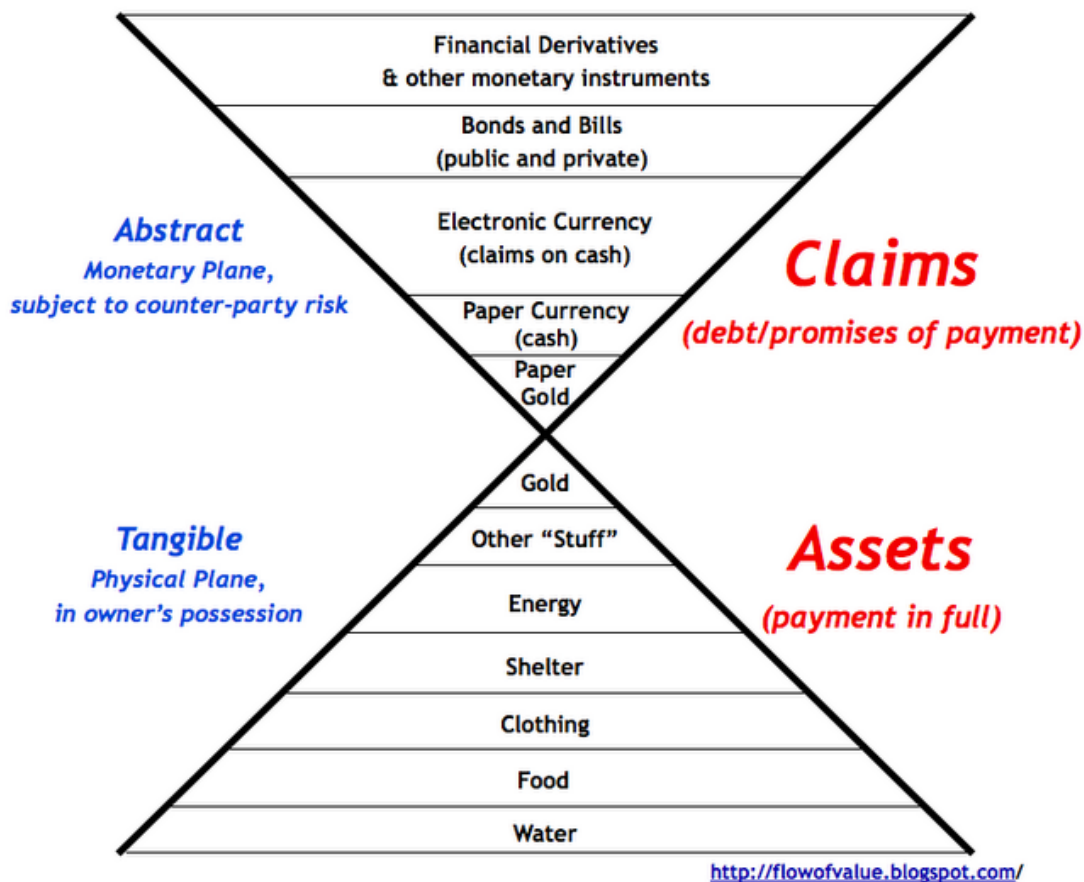
“The U.S. Treasury bond market has a sine qua non adjunct in the gold futures market. Without it, bonds would be irredeemable: they would be promises maturing into more promises, maturing into more promises, etc., ad libitum.”^[2]

To which we could add that the gold futures market has a sine qua non adjunct in the physical gold market, without which futures would be irredeemable: promises maturing into more promises...

The best form of savings one could hold would be that which values the paper currency, rather than in the paper currencies themselves, or in that which is valued by the paper currency.

"In this light, the 'preservation of wealth' simply means - he who holds gold has already been paid."^[3]

Let's reconstruct Exter's pyramid based upon this new appreciation of how the monetary system is an abstraction leveraged from value stored in physical gold, the pre-eminent wealth reserve asset, firstly by building a pyramid of tangible assets. Surplus value moves to the top of such a pyramid, as and when it becomes available, with the top of the pyramid being physical gold, store of all truly surplus value for whose owners all other assets represent greatly diminished marginal utility (ie. they already have every asset they realistically have any use for, aka the very wealthy):



Physical gold is an asset, and as such finds its place at the pinnacle of the asset pyramid of tangibles as the wealth reserve asset, freely chosen by the market in which to store surplus value for any (potentially infinite) length of time. The inverse debt pyramid which stands atop the asset pyramid is composed entirely of abstractions rather than tangibles. These abstractions are all claims on assets, or further derivatives thereof as merely claims on claims, excess claims (synthetically created by being "borrowed" into existence rather than representative of value already created), wagers on the value of this claim or that claim, spreads between

claims... the list goes on.

All these claims (ie. the entire inverse debt pyramid) are subject to counter-party risk, which is to say that default will diminish their value. They are promises of payment, dependent upon the means and intent of the debtor (counter-party).

All assets in the tangible pyramid merely are what they are, dependent upon no one in the sense that they are payment in full, already taken.

As claims on assets, the inverse debt pyramid is a derivative of the tangible asset pyramid. Long before any element of the claims pyramid ever came into being, gold was the pinnacle of the asset pyramid as the supreme store of surplus value (wealth) in a barter economy. The first of these claims originated as claims on gold, as notes claiming ownership of x amount of gold stored at y by z (and as such "z" is the issuer of the notes), circulating as a medium of exchange for the sake of convenience. After gaining currency in this function of convenience, the quantity of notes could quietly become greater than the quantity of gold they purported to represent... as discussed earlier.

The values of the assets and the claims had been disconnected.

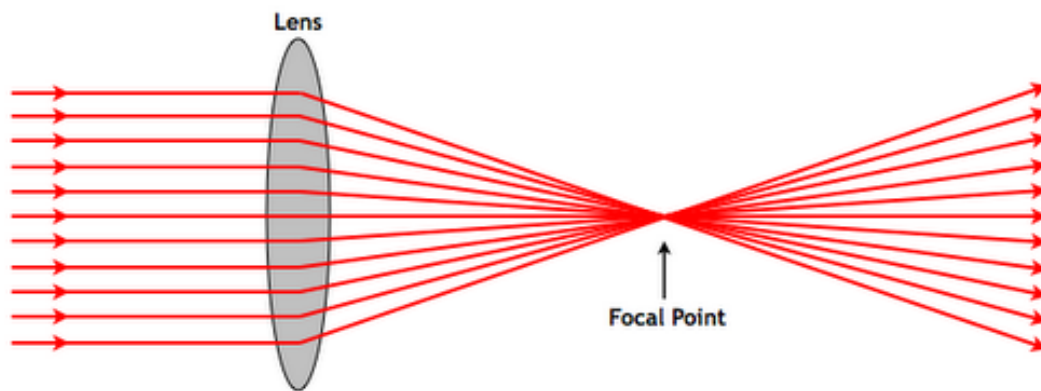
All monetary claims making up the inverse pyramid are ultimately extensions of credit based originally upon physical gold. These extensions have been steadily inflated for the entire existence of the debt-based monetary system... should physical gold, the wealth reserve asset, cease to be available in exchange for claims upon it, the debt pyramid will deflate. This contraction of credit will not be slow and steady as the inflation was, but rather sudden and catastrophic. Being based purely on confidence in the claims, the situation can and will change as quickly as one can change their mind, with this loss of confidence being known, paradoxically, as hyperinflation. (It will be much like the popping of a bubble, because all this debt in fact is a bubble of epic proportions; when people start finding the utility of an item to be in its value (ie. ever increasing value or capital gain) rather than its normal utility, then it is a bubble.)

Initially, this process creates demand for paper money and paper gold, as whatever value is present in the upper levels of the inverse debt pyramid must pass through these on the way down into gold and the security of the asset pyramid... contracts must be redeemed for dollars before gold and other assets can be purchased, and paper gold is far more readily available than much rarer physical item. This is the deflation which precedes hyperinflation, where the paper currency (cash) increases in value as the value flees the less liquid claims higher up the pyramid. Hyperinflation follows, as the value of physical gold decouples from paper gold claims, and the paper currency circulates faster and faster seeking refuge in anything tangible, becoming practically worthless in the process. This is in reality the deflation of the remains of the inverse pyramid against physical gold, and the consolidation process is complete.

The market has discounted the claims in accord with their true value as given by the assets.

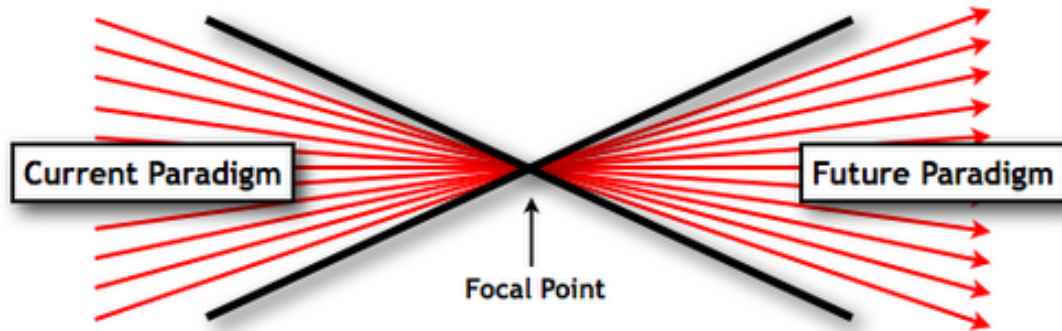
The nature of the system which binds individuals into a society has a *great* deal of influence upon the nature of that society, of the motivations, behaviours and resulting experiences of the individuals within it.

To state that differently: Human society arranges itself in *response* to the monetary system it utilizes to facilitate the flow of value between its constituents. It is the monetary system that dictates the nature of the society, and the motivations of its individual members. It exists as a society because of the existence of this flow of value; because it has a monetary system. Without a monetary system we are simply many self-sufficient individuals, not a society.



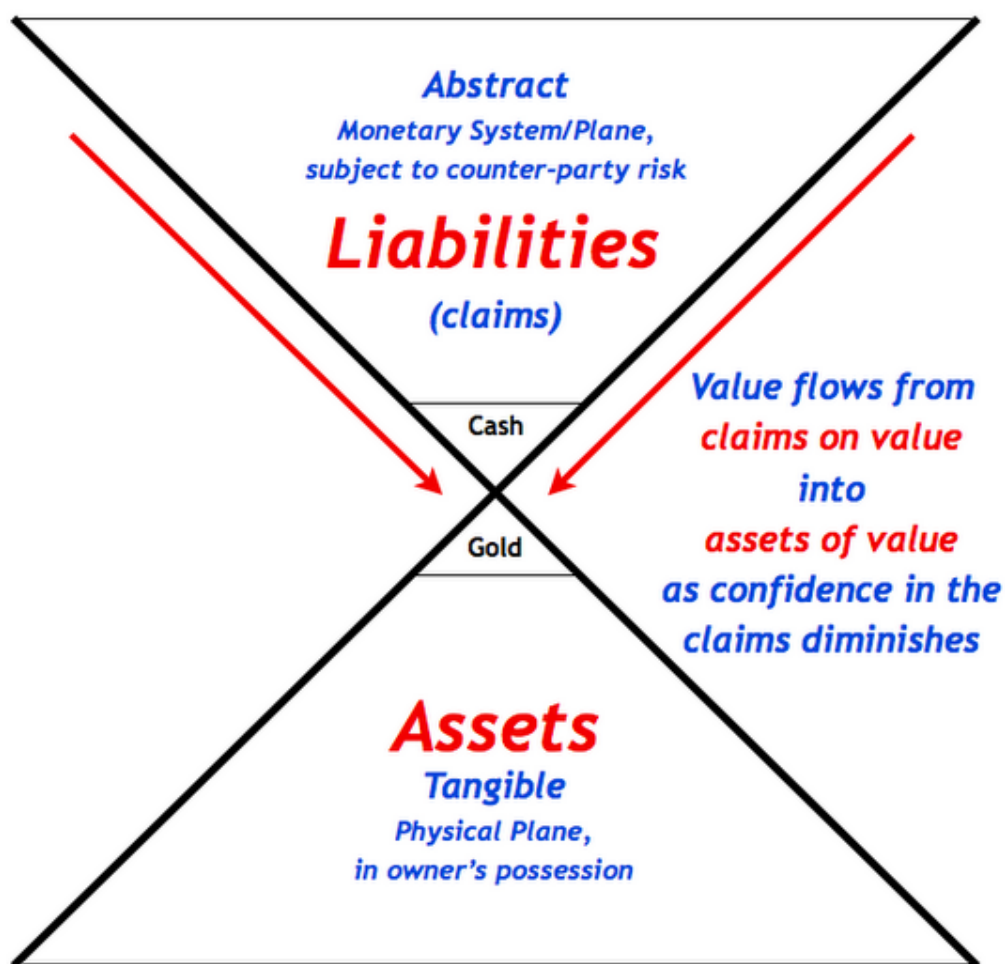
A focal point is a point of convergence. In optics this is the convergence of light, which is caused to converge by a lens whose influence alters its trajectory. In game theory a focal point is a convergence of attention or action, brought into focus once again by a lens.

The paradigm we inhabit as a society is created by the monetary system we utilize to trade our value; change the system and the paradigm changes too.



As our confidence in the integrity of monetary instruments we currently use to store value diminishes (because these instruments are claims on value rather than assets of value), so physical gold is increasingly coming into focus as the foremost asset in which one can have confidence others will also turn to store their value. Value (the expression of utility) is the fundamental good a monetary system circulates, and this circulation is the very reason for the system's existence; our desire to specialize in our productive efforts for mutual benefit whilst avoiding the austerity of self-sufficiency.

This diminishing confidence in the integrity of the claims in the current system is the lens which is refracting our attention, bringing into focus the point at which a paradigm shift occurs.



<http://flowofvalue.blogspot.com/>

When the monetary system's existence is threatened, those with value held as claims in the system (savings) naturally seek to preserve it by removing it from the system, exchanging their claims on value for assets of value. That a replacement system will emerge is guaranteed by the distaste for and the inability of most individuals to be self-sufficient. The path of least resistance to a replacement system would be to one that is essentially the same as the current one, except for one crucial difference: the stock of surplus value (savings) is never returned to be stored in the monetary system, but instead held outside the system in physical assets. Such assets can be sold as and when their owner desires in order to utilize the value they have stored. The storing of value inside the monetary system has always been the root of our problems.

The paradigm shift occurs as we collectively transfer our stock of value (savings) from the abstract claims of the monetary system into tangible assets, extinguishing the claims and their counter-party risk and receiving our payment in full.

Only one physical asset, gold, specializes in the storage of value (gold's only utility),

with a potentially infinite time horizon and a stable stock. Any other asset will store value too, but for a limited time in a fluctuating stock, sooner or later being consumed as all other assets have other utilities too. Gold is simply the best asset in which to store value.

*"Indeed, there can be no other criterion,
no other standard than gold. Yes, gold,
which never changes, which can be shaped
into ingots, bars, coins, which has no
nationality and which is eternally and
universally accepted as the unalterable
fiduciary value par excellence."*

-Charles de Gaulle

An honest monetary system requires but one denominator.

The process by which we change our monetary system is both natural and spontaneous, and it is already underway. An honest monetary system is one in which the money is valued by the assets, not the assets by the money. In such a system gold, as the best value storage asset, will serve as the proxy for all assets, for value, as the denominator of the monetary system we utilize to flow value between us.

The current paradigm is within an inequitable system, while the future paradigm is within an equitable one. We will experience a paradigm shift because the inequities of the current system are finally overwhelming our society.

It's just time.