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Gold and Inflation

Ken:

It seems we disagree but this time you are totally wrong. Let me indicate why.

In theory, what is it about gold that prevents inflation? A constant supply. But what happens when we invent institutions and processes that can multiply money, like banks can? I was taught that if a bank was forced to have a 20% reserve against deposits it could multiply money by five. That is why the central bank uses the level of reserves to control the level of money.

But since then we have invented many more money multiplying processes. For example, I have a credit card with a $10,000 credit limit. I can decide to create $10,000 temporary dollars any time I want. I can go on margin in my portfolio and create 50 times that amount of money. Or I can go really crazy and buy options which have about a 10% margin requirement (if I'm not mistaken). Simple old me, who does not even live or is a citizen of the United States of America can create several million dollars on a whim, on a stock tip. And just as fast can I destroy this money by listening to Marty.

Lest you think this is an exaggeration let me quote Lester C. Thurow from the forward of Dr. Ravi Batra's stupid book The Great Depression of 1990: "In August 1982 the American Federal Reserve Board announced that it was giving up on its attempts to control the American money supply on the grounds that new money market instruments were being invented so rapidly and in such large numbers that it could not effectively control the money supply. Economic forces had essentially taken over the government's nominal role as printer of money." How could a gold standard prevent this? Only if everyone holding a gold certificate could go to the central bank and ask for his ounce of gold; only foreign governments had this right of late. This had been prohibited in the US a long time before Nixon admitted the truth and made if official by declaring what had been the fact for years.

By 1992 John Major, the British Prime Minister, had forgotten this lesson. He tried to defend the British pound and this allowed George Soros to make 1 billion pounds and countless others smaller amounts only in the millions! I quote from "Soros" by Robert Slater: "The billions that George Soros would eventually risk in the fall of 1992 in his bet against the British pound were only a small part of the swelling waves of capital washing along the shores of the world's financial markets. With advances in thechnology and deregulation, $1 trillion in currency was being exchanged every day, more than triple the level of 1986. The pension funds of American workers had $150 billion invested overseas, 20 times the level of 1983. All kinds of institutions, from Japanese insurance companies to American mutual funds, were scouring the world for investments.

Denny