Gold: Back to Money World

Part I

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There is a sign the world financial system is facing drastic changes, while numerous events related to gold are becoming part of contemporary life. There is a fundamental tendency taking shape against the diverse picture of events – gold gradually returns the status of currency metal.

Gold as private money

The process of gold leaving the world of commodities to join the world of money is just starting; it's barely distinguishable against the background of global events and the US dollar being deprived of any back up. Talking about the micro level of events, the main occurrence is the creation of monetary systems called «electronic gold»: (e-gold). It has the following key elements: a) the real material metal deposited in special organizations making up the foundation of electronic money; b) not real metal but electronic documents are used for settlements; c) the number of e-gold users is limited, though the money could be used for operations outside the country. Some entrepreneurs switch over to settlements in gold using coins, ingots and other acceptable diversifications.

It has been reported that the billionaire Donald Trump decided to receive the payments from equity holders in gold, not dollars. Gold payments are a dark segment of market relations, especially in the countries preserving taxes for gold and other precious metals operations. That's why the fight for complete abrogation of such taxes has been waged since a long time. To great extent the value added tax has become a thing of the past in Western Europe when it comes to gold settlements.

Some private companies offer the *«gold products»* of their own. No matter gold is often called the *«money of last resort»*; many potential investors complain it's too expensive. At the moment the cost is 1700 dollars per ounce, it's not a vital instrument for exchange in case food supplies or ordinary retail trade stop. Absence of gold coin weighing an ounce (31.1 grams), or even one tenth of ounce, makes less expensive silver more acceptable in case one wants to buy a few loans of bread, medicine or clothes in emergency.

All these factors pushed Valcambi, a Swiss company, to introduce a 50 grams 999 fine gold «golden card» called Combibar Gold Card, which can easily be broken into one gram pieces to be used for minor everyday life payments. The value of a gram is approximately equal to an ounce of silver, or 34 dollars, making it a comfortable means of retail payment. According to Valcambi, the Combibar Gold Card will be launched on market in 2013.

Plans to legalize gold money at state level

Many statesmen do understand that the days, or perhaps, years, of the dollar based world financial system existence are counted. Once all national monetary systems are interconnectedwith the US currency, the time is ripe to prepare for future changes. For instance, different schemes of internal money circulation, based on gold standard, are being studied. In recent years, we constantly hear about the plans to establish a gold dinar (Muslim states), gold yuan (China), and gold frank (Switzerland). Some states leaders start to talk about returning gold into internal circulation. For instance, the idea has been supported in Sweden, Norway, South Africa, South Korea, Iran, Taiwan, Zimbabwe and some Latin American countries.

Switzerland is the country, which has approached closer than others the stage of gold money practical introduction. It was the last country in the world to break the interconnection between paper money and gold. It took place only in 2000, when the Swiss franc was declared not to be tied to gold anymore and became no different from other currencies, like the US dollar, British pound sterling, German marc, Japanese yen and others. Now the discussions are focused only on introduction of franc as a «parallel» currency to go around along with ordinary paper francs on the territories of Switzerland and Lichtenstein. At that, there will be an exchange rate between the gold and paper francs. According to the authors of the project, the gold franc will cost five current Swiss francs or 5.3 US dollars.

The gold currency will be issued by private banks under strict control exercised by government and national Central Bank. The licensed financial bodies will be authorized to print coins with franc's formal logotype on one side and the recognizable Swiss gold franc logotype on the other. There will be no value added tax, or any other taxes related to the new franc's circulation. The gold franc is not vintage money, and it's not an ordinary investment commodity. The idea was put forward by Ulrich Schlüer, the member of the Swiss National Council (the lower chamber of parliament) representing the Swiss People's Party. It's part of *«sound currency»* of*«healthy currency»* campaign.

The gold price is around 45 thousand francs per kilogram. According to Schlüer, the introduction of gold franc will enhance the chances of the Swiss to protect them from currency devaluation. The price of one 0.1 gram gold franc may be just 4.5 francs, making the value of a one gram gold coin rise to around 45 francs. *«I want Swiss people to have the freedom to choose a completely different currency»,* said Thomas Jacob, the man behind the gold franc concept. *«Today's monetary system is all backed by debt — all backed by nothing — and I want people to realize this»*, he adds. According to him,

> *«The time is right; the issue simple. We are talking about freedom of choice in monetary matters, something that cannot be opposed in good faith. It is not primarily about attacking today's monetary system, but giving people the freedom of choice. If today's monetary system remains as good as today's authorities claim it is, they shouldn't worry – if it isn't, we, the people, shouldn't be forced to use it».*

At the time the Swiss People's Party is applying efforts to make the parliament ban the country's Central Bank from selling away any of its gold reserves. The proposal, dubbed "Save our Swiss Gold", would prohibit the Swiss National Bank (SNB) from offloading its gold reserves as well as force it to hold at least 20 percent of its assets in gold. Many Swiss politicians are trying to make precise how the country has lost a significant part of its gold reserves in recent years. When the franc's connection to gold was cancelled, the Central Bank started to sell away the yellow metal reserves under the pretext that it became a useless asset. In 2000-2005 1300 tons of gold were sold at damping prices. The opponents of the measure say the total loss was 60 billion dollars. (True, the studies say the gold never left the country to be stored by national private banks). The substance of the proposal is building a rather strong customs and economic wall around the Swiss Confederacy, something contradicting the principles of European integration. The introduction of gold franc will require changes in the Swiss Constitution. If the amendments are not accepted, then the issue will be decided by popular vote (referendum).

Gold yuan is also a favorite son of media today. It does not exist yet. But there are multiple signs testifying to the fact that China is on the way to introduce it.

USA: 13 states vote for gold currency

There are no plans to issue gold currency at the federal level. There are separate calls for going back to gold standard, which had existed till Franklin Delano Roosevelt took office. For instance, Representative Ron Paul, the well-known critic of the Federal Reserve System, has come out in support of the idea a number of times. He wants to put a «gold bridle» on the printing press. In other words, Ron Paul proposes to link the dollar emission to certain percentage of US gold reserves (8.133.5 tons of metal for March 2013). He never made precise if the plans include free exchange of paper banknotes for the metal, like it used to be before 1933. In the USA the*«monetary sovereignty parades»* movement is in full swing at the states level.

The state of Utah is the leader. In 2011 it adopted and enforced the law to legalize gold and silver coins as money… The Utah Sound Money Act of 2011 recognized gold bullion and silver bullion as currency. It also exempts the sale of the coins from state capital gains and sales taxes. As the new law states, the coins called *American Gold Eagle* (weight from 0.1 ounce, denomination 5-50 dollars) and *American Silver Eagle* (1 ounce, denomination one dollar) are accepted to pay for any goods and services according to real price of precious metal. At the moment the law became effective, the correlation was 1.5 dollars for an ounce of gold, or 38 dollars for an ounce of silver. Utah also introduced another major innovation. Upon the law enforcement, the state built a gold and silver depository to allow people avoid using the coins first-hand (something that would otherwise cause a lot of discomfort). Gold and silver coins could be stored there; the owners can use a deposit card as if they had ordinary dollar accounts. The value of coin is calculated on the basis of metal prices in US dollars, according to daily London fixing.

Missouri and South Carolina in 2012 were the closest to enacting very similar legislation and creating a gold bullion and silver bullion depository, just like Utah. Both states echo the same sentiments as Utah and this is evident by the names chosen for the bills. For example, in Missouri, the legislation put forth is called the Missouri Sound Money Act of 2012.

Other states considering legislation to make gold bullion and silver bullion legal tender are Montana, Colorado, Idaho, Indiana, New Hampshire, Georgia, Washington, Minnesota, Tennessee, and Virginia. The majority of the states mentioned here foresee the use the coins printed by the US Mint, as well as any other ones coming from abroad. The states also have an intention to follow the Utah example and build depositories to measure exact percentage of precious metal contained in the coins and adjust the metal value to the world market rates.

Ron Paul, the founder of Tea Party, is promoting the Free Competition in Currency Act of

2011, allowing the states to introduce their own currencies and seeking to end all taxes charged by federal, state and local governments on coins and bullion. He also calls for creation of a commission to consider the ways to get back to gold standard.

(To be concluded)