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**The New Gold Standard: Rediscovering the Power of Gold to Protect and Grow Wealth**, Paul Nathan, John Wiley & Sons: New Jersey, USA, 2011; pp XIX+204, $ 39.95.

The year 2008 will be remembered as a crisis year that saw *Fannie Mae* and *Freddie Mac* went down, followed by *Lehman Brothers* and a host of others. Then everything else to do with financial markets went topsy-turvy. Not unrelated, but relatively less commented on, was the skyrocketting in gold prices. The gold had seen rising earlier, too, but this one had a much larger in comparison with the financial world that is often inadequately explained. Financial analysts while dissecting the reasons for such a rise in gold prices rarely tell the full story, choosing to throw the dart on the growing demand from India and China. A full time private investor in gold by profession, Paul Nathan had recommended for accumulating gold and gold stocks since 2000, and he made profit in 9 years out of 10, with a 40 per cent and 80 per cent of profit in 2008 and 2009, respectively, during which it is estimated that 95 per cent of investors lost money. In 2010, he began commentary and investment website: <*paulnathan.biz*>. In 2011, he published this book "The New Gold Standard" a part of the *John Wiley & Sons* has successfully attempted to unravel the mystery around the gold. He tells a story that is refreshingly different from the standard financial analysts.

The author starts with the narration of the history of gold demand in USA (from 1935 to 1975) - it was illegal for Americans to own gold with the exception of jewellery or dental fillings. 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 in between the world wars for causing the *Great Depression*. When somebody is in the gold vault, there's nothing unreasonable about gold. It's not barbaric. It's not just a hunk of metal. It is real wealth. It's real value. It's real money. It's just plain real, says the author of the book.

The question of re-adopting gold as money always arises because inflation has persisted for some time, prices of almost everything, including gold, have risen, and the savings of the people have been eroded. Some gold standard proponents want to return to the pre-inflation gold/money ratio. Others want to raise the gold price to some arbitrary figure and allow the monetary expansion to play 'catch-up'. Still others say that the least disruptive way would be to discover the current market gold/money ratio and redefine dollar on that basis.

It is aptly mentioned in the book that there is no utopia – not in economies, not in politics, and not in investing. Gold is what it is: a rare and precious metal with particular qualities that make it an effective medium of exchange. It is argued in the book that there is no reason, technically or economically, why the world today, even with its countless wide-ranging and complex commercial transactions, could not return to the gold standard and operate with gold money. The major obstacle is ideological.

*Ideological Obstacle*

Many people believe that it would be impossible to return to the gold standard. There are just too many people in the world now and the economy is too complex. Many others look on a return to the gold standard as an almost magical solution to today's major problems - big government, the welfare state, and inflation. What is the truth of the matter?

It is argued that, for a country prepared to go on a gold standard, it would have to carry out many reforms. The federal government would really have to stop inflating, balance its budget, and abandon welfare state programs. Most voters are not ready for such reforms. And politicians, pressurised by voters and special interest groups for favours, hesitate to pass them. Thus the major stumbling block to monetary reform is *ideological*. If this basic obstacle could be overcome, however, a return to gold money would become a realistic possibility.

The writer of the book having argument: let's consider possible ways for transforming our present monetary system, based on fractional reserve banking, into a gold standard. There may be better ways and worse ways.

Several methods have been suggested for returning to a gold standard. All gold standard advocates agree that the goal must be to re-introduce gold as money, while making it possible to continue honouring outstanding contracts. The principal point on which they differ is with respect to the price that should be set for gold and how any existing paper currency should be defined.

Great Britain suspended specie payments in 1797 and inflated during the Napoleonic Wars. Great Britain finally returned to the gold standard in 1821, 24 years later. Britain abandoned the gold standard again in World War I. Before 1914, London had been the world's financial center. When the war started in August, shipments to England of gold, silver, and goods from all over the world were immediately disrupted. The shortage of funds put London's banks and stock exchange in crisis and they closed down for a few days. When they reopened, a debt moratorium was declared and the Bank Charter Act of 1844, fixing the gold/pound ratio and tying the quantity of paper pounds issued to the gold bullion reserves, was suspended. As the war continued and the government's costs increased, the government inflated more and more. By 1920, after the war was over, inflation had proceeded to such an extent that prices had tripled and the gold value of the British pound had fallen 10 percent on world markets.

*The Proposal*

The goal of returning to a gold standard must be: (1) to reintroduce gold and gold coins as money, without producing deflation and without causing a shock to the economy, while permitting the fulfillment of outstanding contracts, and (2) to arrange for the transfer of gold from the government's holdings into private hands, so that gold coins would be in circulation daily. As pointed out above, before this can happen, there must be a major ideological shift in the climate of opinion. The voters must be willing to be more self-reliant and accept personal responsibility for their actions.

Advocates of the gold standard should not be deterred by the three reasons given by critics who believe a gold standard could not work: that there isn't enough gold to serve the needs of the world, with its increasing population and its expanding production and trade; that gold would be an unstable money; and that a gold standard would be expensive.

In the first place, there is no shortage of gold. The size of the world's population, and the extent of production and trade are immaterial; any amount of money will always serve all needs of the society. Actually, people don't care about the number of dollars, francs, marks, pesos, or yen, they have in their wallets or bank accounts; what is important to them is purchasing power. And if prices are free and flexible, the available quantity of money, whatever that may be, will be spread around among would-be buyers and sellers who bid and compete with one another until all the goods and services being offered at any one time find buyers. In this way, the available quantity of money would adjust to provide the purchasing power needed to purchase all available goods and services at the prevailing competitive market prices.

In the second place, gold would be a much more stable money than most paper currencies. The purchasing power of government- or bank-issued paper currency may fluctuate wildly, as the quantity is expanded or contracted in response to the "needs" of business and/or political pressures, causing prices to rise or fall sharply. Under a gold standard, there would be some slight cash-induced price increases when the quantity of gold used as money rose, as more gold was mined, refined, and processed; and there would be some slight cash-induced price declines as the quantity of gold used as money fell, when gold was withdrawn from the market to be devoted to industry, dentistry, or jewellery. However, under a gold standard, price changes due to such shifts in the quantity of money would be relatively minor and easy to anticipate, and the purchasing power per unit of gold would be more stable than under an unpredictable paper currency standard.

In the third place, although it would cost more to introduce gold into circulation than a paper currency that requires no backing, in the long run a gold standard is not at all expensive as compared to paper. Again and again throughout history, paper moneys had proven extremely wasteful and expensive; they distorted economic calculation, destroyed people's savings, and wiped out their investments. Yale economist William Graham Sumner (1840-1910), writing long before the world had experienced the disastrous inflations of 20th century, estimated that "our attempts to win [cheap money] have all failed, and they have cost us, in each generation, more than a purely specie currency would have cost, if each generation had had to buy it anew".

Once it is agreed that the introduction of a market gold money standard is the goal, here are the steps to take:

First: All inflation must be stopped as of a certain date. That means calling a halt also to all expansion of credit through the Federal Reserve and the commercial banks.

Second: Permit gold to be actively bought, sold, traded, imported, exported. To prevent the U.S. government from exerting undue influence, it should stay out of the market for the time being.

Third: Oscillations in the price of gold would diminish in time and the "price" would tend to stabilize. At that point a new dollar-to-gold ratio could be established and a new legal parity decreed. No one can know what the new dollar-to-gold ratio would be. However, it is likely that it would stabilize a little above the then-current world price of gold, whatever that might be.

Fourth: Once a new legal ratio is established and the dollar is newly defined in terms of gold, the U.S. government and the U.S. Mints may enter the market, buying and selling gold and dollars at the new parity, and minting and selling gold coins of specified weights and fineness. Gold might well circulate side by side with other moneys, as it did during the fiat money inflation time of the French Revolution, so that parallel moneys would develop, easing the transition to gold.

Fifth: The U.S. Mint should mint gold coins of certain agreed-upon fineness and of various weights—say one-tenth of an ounce, one-quarter, one-half, and one ounce, etc.—and stand ready to sell these gold coins for dollars at the established parity and to buy any gold offered for minting. As old legal tender dollars were turned in for gold, they should be retired, so that gold coins would gradually begin to appear in circulation.

Sixth: The financing of the U.S. government must be divorced completely from the monetary system. Government must be prevented from spending any more than it collects in taxes or borrows from private lenders. Under no condition may the government sell any more bonds to the Federal Reserve to be turned into money and credit; monetization of the U.S. government's debt must cease! A 100 percent reserve must be held in the banks for all future deposits, i.e., for all deposits not already in existence on the first day of the reform.

Seventh: The outstanding U.S. government bonds held by non-U.S. government entities, must be fulfilled as promised.

Eighth: To avoid deflation, there should not be any contraction of the quantity of money currently in existence. Thus prices and outstanding debts would not be adversely affected. U.S. government bonds held by the Federal Reserve as "backing" for Federal Reserve notes may be retained, but should not be used as the basis for further issues of notes and/or credit. No bank may be permitted to expand the total amount of its deposits subject to check or the balance of such deposits of any individual customers, whether private citizen or the U.S. Treasury, otherwise than by receiving cash deposits in gold, legal tender banknotes from the public or by receiving a check payable by another bank subject to the same limitations.

Ninth: The funds collected over the years from employees and employers, ostensibly for Social Security, were spent as collected for the government's general purposes. Thus the U.S. government bonds held as a bookkeeping ploy in the so-called Social Security Trust Fund are mere window-dressing.

*Summing Up*

Those who think that a gold standard would place such rigid limits on the market that money lending would no longer be possible should remind that what fully convertible money precludes is not moneylending per se. Individuals and banks would, of course, still be able to lend, but no more than the sums savers had accumulated and were willing to make available. What the gold standard prevents is the involuntary lending by savers, who are deprived in the process of some of the value of their savings, without having any choice in the matter. Fully convertible money under the gold standard prevents more than one claim to the same money from being created; while the borrower spends the money borrowed, the savers forgo spending until the borrower pays it back.

Under the gold standard, banks would have to return to their original two functions: serving as money warehouses and as money lenders, or intermediaries between savers and would-be borrowers. These two functions—money-warehousing and money-lending—should be kept entirely separate. But that will not preclude a great deal of flexibility in the field of banking. With today's modern developments, computerized record-keeping, electronic money transfers, creative ideas about arranging credit transactions, credit cards, ATM machines, and so forth, lending and borrowing, the transfer of funds and money clearings could continue to take place rapidly and smoothly under the gold standard and free banking, even as they do now. However, under a market gold standard people need no longer fear the ever-impending threat of inflation, price distortions, economic miscalculations, and serious mal-investments

All of us 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, but where to start? Let's start from the beginning of this particular book.

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