

Why Gold?

By Adrian Douglas

This article is written as a special dedication to Bill Murphy and Chris Powell and all those at GATA (www.gata.org www.lemetropolecafe.com) who have worked tirelessly in the struggle to expose the fraud that has been occurring each day in the gold market. I wish them all a very Merry Christmas 2005 and the very best for the coming New Year, which will undoubtedly be an historic year for GATA.

What we often hear about gold is that it is useless. Almost all the gold ever mined in human history is still available above ground. It is not consumed, it is hoarded. Even the small amount that is “used” as jewelry is still available to be sold and sent to refiners to be melted into ingots if you were prepared to pay enough to the ladies that own it.

So by implication, if this stuff is useless, just hanging around gathering dust, earning no interest, a barbarous relic, it must also be worthless. Just like that broken old typewriter I have in the attic.

I have heard it said that gold has intrinsic value. How come gold has this magic “intrinsic value” but my old typewriter doesn’t? They are both useless, so they should both be worthless.

As a comparison let’s consider the air-bag in my car. It is totally useless (and I sure hope it remains that way!). Most of the time it is not required to be used so it is “useless” and by implication not worth very much. If when buying my car the salesman said the car was \$30,000 without air-bags and \$130,000 with airbags there is no way I would take the airbag option. If subsequently someone close to me drove my car and was seriously injured or killed I would do anything to wind back the clock and pay the extra \$100,000 for the airbags if it would have avoided the injury or the death.

For 99.9% of the maiden voyage of the Titanic the lifeboats were totally useless, and, therefore, worthless. In financial terms there was no demand for the lifeboats. When the liner hit an iceberg the situation instantly changed. Nothing had more utility than the lifeboats. Many of the passengers were very rich. Many of those passengers would have owned millions in stocks and bonds. If they had had the certificates with them they could not have sold them to any of the passengers who were cold and fearing for their lives on the main-deck. At that moment those investments were totally useless and, therefore, without any demand and as a result they were totally worthless. Nothing they owned was more valuable at that minute than a lifeboat, and nothing they owned could buy them a place on the lifeboat.

In a financial crisis many tangible assets become more valuable because the demand for them grows. The distinct difference with paper assets is that they can not be conjured into

existence out of thin air. It is this very reason that makes bull markets in tangible assets very powerful. But none is vilified like gold. Every other commodity has a distinct use, and most commodities are not viewed as being a store of wealth even though they can fulfill that role. Silver is used in photography, in soldered connections, in wires etc. Copper is used in pipes and cables. Real estate can be lived in. But gold is a financial lifeboat. It has almost no use in industry. It is a unique commodity in that respect. When people are buying gold it is because they have seen there is a hole below the waterline of the US Financial System. Why is it gold that people want? Why not Picassos, rare wine, exotic cars? Well, on the Titanic a large suitcase could have been acceptable to save yourself, or a large wooden table. But would you take the risk if you had the chance of being in a lifeboat instead?

It can be argued that fiat currencies, bonds, general equities have no intrinsic value. But the reality is that while people want to accumulate them they have value by virtue of the insatiable demand being greater than supply. A luxury liner is no longer a luxury liner when it has a hole below the water line. Suddenly the desire to be onboard this prestigious vessel vaporizes. And a lifeboat, that was useless, instantly becomes the most desirable thing imaginable.

The secret of gold is that it is useless most of the time, just like an airbag, or a lifeboat. But what the establishment does not want you to know is that when it is needed there is NO SUBSTITUTE. Most people do not need a lifeboat most of the time, it is useless, but when everyone wants a lifeboat it is of the utmost utility. And when everyone wants a lifeboat there can only be one inescapable reason....THE SHIP IS SINKING.

This is why gold is despised by the establishment. If the price of other commodities is rising there can always be a positive spin. If the price of oil is rising it is spun as not being due to inflation but due to the healthy economy needing more energy. When the demand for gold, the financial lifeboat, is rising there is only one story. Gold is the proverbial canary in coal mine.

Ron Paul asked Greenspan in his last testimony before the House Banking Committee on November 3, 2005 why we don't just sell all the US gold and the IMF gold if it has no use. Greenspan replied that "in times of extreme economic crisis gold has been the only means to settle accounts". This quite stunning. In other words there are always going to be a time when people will no longer accept paper as payment. In such times the only acceptable payment is gold. The world's most influential Central Banker testified that gold IS the financial life-boat. Note that Greenspan didn't say that they could keep "safe-haven" T-bonds in case of financial crisis instead of gold! As children we don't hear bedtime stories about discovering a pot of T-Bonds at the end of the rainbow. The legendary King Midas did not have a gift of turning anything he touched into T-Bonds! Because the gold cartel has been very good at intervening in the market at times of major geo-political events there has been much talk in the press that gold has lost its "safe-haven" status. Not so. Greenspan tells us that gold is the ultimate safe-haven in times of crisis.

Greenspan's testimony highlights the difference between the honest money advocates and the fiat money issuing Central Bankers. Greenspan has admitted that gold is still required to be kept on hand even in a fiat money system. He has admitted that we still need to have financial lifeboats. The difference is that, just like the Titanic, he believes that you only need a few lifeboats, just enough for the first class passengers, perhaps? The Central bankers believe that the fiat system is unsinkable, just like the naval architects who designed and built the Titanic. The honest money advocates want there to be a lifeboat for every man, woman and child because they know all fiat systems are unseaworthy.

It is actually even worse than many imagine. Due to the fact that all those useless lifeboats have been hanging around doing nothing, many of them have been leased into the market and sold but USS Global Economy still has all the lifeboats present and correct on the ship's log!

This is an unspeakable act of deception to sell or lease lifeboats to give the impression to the passengers that these items are of little utility! Would you sell the fire extinguisher in your kitchen because you haven't used it for 20 years?

There are not enough life-boats onboard USS Global Economy. It is first come, first served.

As I look at the state of the global economy I see the ship is listing to the bow and there is ice all over the main-deck. Gold \$500/oz is signaling an "ABANDON SHIP", but the debate that rages is "should we really get in the lifeboats? May be this is a false alarm."

And the band over on the Wall Street Deck seems to be playing a lot louder these days or am I just imagining things?

Adrian Douglas

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