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Don't go Dutch

"I've listened to enough of your crap ! You're a ******* git !" – And then he began firing.

- Michael Lewis' account of Irishman Gary Keogh throwing rotten eggs at the chairman of Allied Irish Bank, in his Vanity Fair article 'When Irish Eyes Are Crying'.

"We have so much unemployment, it is so undercounted. The free market economists report that there is probably 22% of unemployment. They [the Fed] pumped in $4 trillion, they should have added a lot of jobs, but how much did it cost us, and that of course is the price inflation that will come. We are moving into another 30 year period where we are going to see a reversal of interest rates, and we are going to see a crashing of the bonds like we saw 30 years ago and it's going to last a long, long time. The Fed deserves the blame for the inflation, and for the unemployment."

- US Congressman Ron Paul.

Mention 'Holland' to people and you conjure up a variety of associations. Some think of a longstanding and spicy relationship of trading and military sparring with Britain that was formally salved with the Glorious Revolution of 1688. Some think of an impressively cultured and polyglot race. Some of us think of about two full school terms devoted to the Dutch Revolt that never actually featured in our History A-Level Exam, so thanks for that, Oxford and Cambridge Board. Now we can add another facet to this colourful and otherwise learned country: the quasi-fascistic bullying of an innocent pension fund.

Website Zero Hedge reports that De Nederlandsche Bank went to court and forced the glassworkers' pension fund to sell most of its holdings in gold. The court sided with the central bank and ruled that the glassworkers' pension fund, with a 13% allocation to bullion, was investing in a way "inconsistent with the interests of the participants". Dutch pension funds are apparently, on average, invested in commodities to the order of 2.7%. Whether gold should even be viewed as a commodity is open to question. We would, of course, argue: No, it's natural money, and always has been. But at a time when central banks globally are busily depreciating their currencies (translation: stealing from their own citizens), what is extraordinary about the ruling is De Nederlandsche Bank's belief that ***the price of gold fluctuates too much for it to be classified as an investment.*** If the price of gold fluctuates, what about the value of paper currency ?

Not only developing nations but western governments have form when it comes to stealing from their own citizens. Putting to one side recent raids on pension funds (the UK, France, Ireland) the most notorious and pertinent comparison with the current Dutch ruling was the US' Executive Order 6102 of 5th April 1933, under which President Franklin Roosevelt forbade the hoarding of gold coin, bullion and certificates by American citizens.

We checked with an informed source [hat-tip and thanks, Eric] and the Dutch story and ruling appear to be correct (if not necessarily moral or legitimate in a broader sense). The ruling hinges on whether gold is money or currency (which the pension fund argued), or merely a commodity. But the upshot is that the fund is now forced to sell the majority of its (highly profitable) holding in bullion and replace it with government bonds, which one might fairly call instruments of confiscation in themselves.

Man has used a variety of things as money during our relatively brief economic history – including cattle, shells, nails, tobacco, cotton, copper, silver and gold. Invariably, precious metals have been selected over the alternatives on account of their scarcity, durability, divisibility and beauty. The most important point, though, is that they were never forced on us. Through a gradual process of free choice, precious metals won against all other media of exchange in a free market. Man grew to using precious metals as money out of what Jörg Guido Hülsmann calls

"the spontaneous convergence of many individual choices, a convergence that was prompted through the objective physical characteristics of the precious metals."

Jörg has written a definitive history of 'The Ethics of Money Production' and this fascinating book contains the equally fascinating observation that in no period of human history has paper money ever spontaneously emerged in a free market. "No western writer before the eighteenth century seems to have even considered that the existence of paper money was possible." The history of pure paper money (unbacked by anything of tangible value) is a history of government coercion, of the adoption of paper money through government-sponsored breach of contract and violations of private property rights. Monopoly paper money requires a police force and judiciary to compel its use and the abandonment of all other legitimate alternative monies.

So the Dutch ruling touches on a wider existential problem for investors. The Dutch courts and central bank have evidently successfully argued that only government-sanctioned monopoly currency is true money, and the likes of gold and silver – which have been in use as natural money for up to 6,000 years – mere commodities. But by defining our wealth and assets in the form of unbacked paper currency which is guaranteed to depreciate in real terms through government manipulation, we are essentially being forced into a monetary arena of value destruction.

Jörg's central argument, in which we wholly concur, is that government-sponsored paper money, in conjunction with the fractional reserve banking system operated globally to the advantage of the banking lobby, is an inherently inflationary construct. Of course, under the Austrian definition, we have been living with inflationary conditions since the financial crisis broke, in the sense that the money supply has been aggressively inflated in the western (insolvent) economies. The "inflationary" rise in the prices of goods and services is merely the inevitable second stage outcome of the original money printing. Jörg argues that the main reason monetary institutions were created was to

"allow an alliance of politicians and bankers to enrich themselves at the expense of all other strata of society."

And of course the febrile climate of hostility to banks and bankers persists, despite the somewhat token efforts of politicians to defuse it. The bankers' tin ear to criticism surely stems from an equally existential sense that to acknowledge the legitimate anger of taxpayers and non-bank workers is to acknowledge the essential truth of Jörg's argument – that the fix is in, that the people are slowly waking up to the fact, and that the monetary and financial system forced on us by the sly collusion of political and banking interests may be facing its Waterloo.

It would be ironic indeed if just as the people of Tunisia and Egypt were overthrowing despotic leaderships and struggling towards democracy, the citizenry of the impoverished western economies were abandoning a failed democratic and economic model in search of something plainly more honest and ethical. The likely outcome of the Dutch pension case is that investors throughout the UK, the US and the Euro zone will think increasingly hard not just about the ***composition*** of their portfolios, but where they would like those same assets to be ***safely custodied*** beyond the grasping and ever-acquisitive hand of their own government. If western governments really wanted to see huge asset outflows toward fundamentally stabler economic and banking regimes, the bell has just been rung by the Dutch courts. No doubt a growing number of pension trustees will soon be spending a lot more time examining their trust deeds in fine detail.

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