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Poor Tim Harford

"The world is moving step by step towards a *de facto* Gold Standard, without any meetings of G20 leaders to announce the idea or bless the project."

- Ambrose Evans-Pritchard, The Daily Telegraph.

Few publications have the capacity to enrage like the Financial Times. On the one hand, it carries thoughtful, well written and engaging commentary from the likes of John Kay, Luke Johnson and Gillian Tett. On the other hand, it regularly publishes Martin Wolf. The latest weekend edition does not disappoint. Tim Harford, hitherto unobjectionable, publishes what can only be an elaborate ironic joke against gold, 'The Bundesbank takes back its doughnuts'..

For anyone that missed the news, Germany's central bank is in the process of moving 54,000 gold bars from the US Federal Reserve and the Banque de France back to Frankfurt. What is that all about ? Tim Harford:

"There is no thinking behind that. This is gold we're talking about, so we're entering the asylum."

Strike One.

But gold has been a good investment – if one can call it that – over the past decade. Tim Harford:

"It's been an excellent investment. But there's no logic behind the gold bubble."

Strike Two.

Perhaps he could be more expansive. Tim Harford:

"..gold is a bubble because its investment value isn't connected to the stream of income it produces. Housing produces rent. Bonds produce interest payments. Shares produce dividends, or at least the prospect. But gold doesn't produce any income stream.. Therefore it is a bubble. It may remain an excellent investment: any bubble that has persisted for 4,000 years has to be pretty resilient."

Strike Three. You're out.

It takes either guts or self-delusion to call yourself an economist when you plainly don't understand money. JP Morgan once said that gold was money, and everything else was just credit. To us, that isn't a bad definition. And money – in the form of US dollars, British pounds, Euros or Yen – doesn't produce any income stream either. A dollar bill or a five pound note are, like gold, economically inert. They only produce income when they are transformed into bank deposits – a transformation that in the process exposes the holder to the credit risk of the depositing institution. But at the moment, cash deposits are effectively yieldless, meaning that savers are now exposed to return-free risk. A flight into real assets at this juncture would be grounded on reason.

Tim Harford is, of course, free to insult savers in gold, just as Martin Wolf is free to insult Austrian economists – of a school of thought he recently described as "an American disease" (words which we suspect will come back to haunt him) – who understand that field more profoundly than he does. But the debate is only valid in the first place if the insult contains at least a germ of underlying truth. Implying that people, and central banks, are mad to hold gold also implies that we should hold our savings in the form of conventional, fiat currency instead. How has that worked out as a store of value ? Since 1913, when the US Federal Reserve (a private banking cartel as opposed to an arm of the US government) was established, the US dollar has lost 98% of its purchasing power. With state money printing now accelerating to a level never seen before in world history, is the purchasing power of paper money likely to be enhanced, or further degraded relative to hard assets ?

The bubble is not in gold, it is in paper. There is admittedly something rather endearing about the concept of a 4,000 year old bubble. But most professional investors would use a more pragmatic definition of the word. A bubble, by definition, pops. Has gold popped ? Every paper currency in the history of mankind has burst. Every single one. Which store of value has the better long term claim ?

Gold 'bugs' are not irrational. It is a fairly unusual bubble that enjoys such little participation from investors: private institutional ownership of gold worldwide is almost non-existent. And it is paper money unbacked by anything of tangible value that we would be mad to use to the exclusion of all else. There is a fundamental illogic to Tim Harford's criticism of central banks for holding gold and repatriating it, when he simultaneously grants them validity in controlling conventional fiat money. They cannot at the same time be mad in using gold as a store of value and sane for the issuance, management and manipulation of the supply of unbacked fiat, can they ?

Over at the Cobden Centre, Detlev Schlichter demolishes the case for the $1 trillion platinum coin, a proposal that highlights the desperate absurdity at the heart of modern western central banking. It is critically important that investors and savers understand the desperate absurdity driving monetary policy and currency debauchery:

"In the US and Britain, the central banks are the largest holders of their respective governments' debt and the largest marginal buyers. The Bank of England has monetized about 30 percent of outstanding debt and now has more UK Gilts (government bonds) on its balance sheet than the entire UK pension and insurance industry combined. Under its current programme of 'open-ended' QE3 (or QE4, or QEwhatever) the Fed buys $85 billion worth of new Treasuries and other securities every month.

"Let's get this straight: The whole raison d'etre of central banks is that they print money to fund the state. The Bank of England – the mother of all central banks – was set up specifically for this purpose in 1694. Since then a whole list of elaborate excuses has been drawn up for why central banks are needed and useful, a list that looks more ridiculous by the day: Central banks control inflation and guarantee monetary and economic stability? The exact opposite is true: Central banks create inflation and cause monetary and economic instability. There is no escaping the conclusion that they are organs of state planning and systematic market manipulation and thus fundamentally incompatible with the free market. But one true purpose remains: funding government. Increasingly, it is the dominant function of the ECB, the Bank of Japan, the Bank of England, and the US Federal Reserve to secure cheap credit for their respective governments and their out-of-control spending programmes..

"While the central bankers try to convince the public that their buying of government debt is a special case, an exception, a temporary policy measure, and that they could still defend the value of paper money if circumstances require, the politicians have other plans. They already consider central bank buying a permanent source of funding – unlimited and ever-lasting. I have long maintained that the central banks have no 'exit strategy', that they will simply not be allowed to reverse course. This is now becoming part of the official narrative, and central bankers who maintain otherwise are either hopelessly deluded or simply lying.

"The deficits are here to stay and they will be funded by the printing press. No limit, no end, no exit.

"Will this lead to inflation? Well, unless you are a fully signed-up member of the Church of Modern Monetary Theory, you know the answer."

The ghoulish problem that we face is that we know that this system will unravel, but we do not know when. The pragmatic response, then, is simply to hold one's wealth in those forms of saving and investment that are least likely to depreciate in real terms – and which also hedge against the widest possible range of potential economic and political outcomes – for the duration of this long emergency. That need not mean gold exclusively. But it's certainly a fine place to start. Tim Harford would disagree – and that would also be an excellent argument in its favour. Sell economic ignorance; buy gold.

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