HINDE CAPITAL

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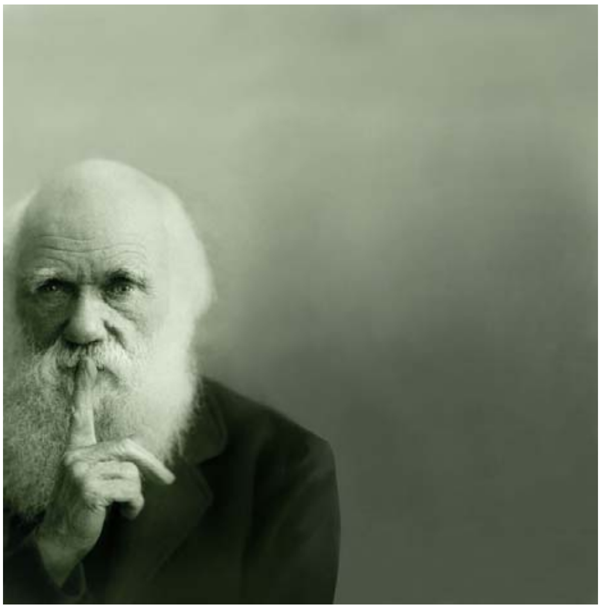
The Origin of Specie: Money Darwinism



Never give advice, a wise man doesn't need it and a fool won't heed it (Anonymous)

These past three months whilst driving to work I have been subliminally hypnotised by Radio 4's references to Darwin. In truth like most of us "surviving and for some capitalising" in this turbulent time I have been oblivious to my social life. Cultural visits, social events have been stymied by a preoccupation with the fund and our participation in this period of financial evolution. Yet the words "Darwin" and "evolution" gnawed away at my subconscious for weeks.

"Of course! Daaaarwin It's 200yrs on!", like the proverbial light bulb flicking on in my head, Homeresque in my revelation; no not of Greek origin but of the Simpson variety. We are celebrating 200yrs since the birth of the great Naturalist, Charles Darwin, (1809-1882). The Natural History Museum is presently viewing an exhibition to his great work.

We are on the "cusp of a New World Order" as Sean Corrigan (Diapason Commodities Management) put it. On the precipice of a mind bogglingly fast financial and hence economic descent, the re-appraisal of Darwin's thesis "Survival of the Fittest" appears so readily apt. In truth the phrase "survival of the fittest" was coined by the classical liberal economist and political theorist of the time, Herbert Spencer. In his Principles of Biology (1864), Spencer drew parallels to his economic concepts with that of Darwin's theory of evolution, namely natural selection.

With an insolvent public and no foreign demand for Treasuries, the world's Central Bankers will monetize debt to finance their continued bailouts and economic stimuli. This is purely created capital pumped right into the system. This is not anything new for them, especially for the Federal Reserve Bank of the US (The Fed). The Fed, for the past two decades, has kept interest rates artificially low and created massive artificial wealth in the form of malinvestment and debt financing. In the past, the Fed has been able to funnel the inflationary effects of its expansionary monetary policy into equity values with its low rates, which discourage saving, causing bubble after bubble. The excess liquidity was soaked up by the stock market, which gave the appearance of economic growth. With inflation being funnelled into equity and real estate over the last two decades, illusory wealth was created and the public remained oblivious to the inflationary risk and the great disparity between real returns and nominal.

How did finance evolve to this?

Niall Ferguson in his illuminating book *The Ascent of Man, A Financial History of the World* wrote

I remain more than ever convinced that until we fully understand the origin of financial species, we shall never understand the fundamental truth about money…

It is commonly said that finance has a Darwinian quality. “Kill what you eat” and “Survival of the fittest” are clichés that have rung out for years on trading floors. Aggressive traders survive. They win. Indeed the notion that the Darwinian process maybe at work in the economy has been developed further, under the now well established sub-discipline “Evolutionary economics”. Thorstein Veblen first posed the question “Why is Economics Not an Evolutionary Science?” in 1898 and one of the best known Austrians Joseph Schumpeter (1883-1950) characterised industrial capitalism as “an evolutionary process” in his now renowned book Capitalism, Socialism & Democracy (1943):

This evolutionary character…is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action; this fact is important and these changes (wars, revolutions and so on) often condition industrial change, but they are not its prime movers. Nor is this evolutionary character due to quasi-autonomic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organisation that capitalist enterprise creates…The opening up of new markets, foreign or domestic, and the organisational development from the craft shop and factory to such concerns as US steel illustrate the same process of industrial mutation-if I may use the biological term-that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism

Schumpeter’s Process of Creative destruction is (1942) otherwise known as the Schumpeter’s Gale;

“[The process] must be seen in its role in the perennial *gale of creative destruction*; it cannot be understood on the hypothesis that there is a perennial lull.”

In his book Ferguson provides stark facts to support this concept. Around 1 in 10 US companies disappear each year. Between 1989 and 1998, an average of 611,000 businesses a year vanished out of 5.73mm firms. 10 per cent is the average extinction rate in the US. Even more illuminating the UK Dept. of Trade and Industry reports 30 per cent of tax-registered businesses fail after three years. This is all well and good but how does this relate to the theory of financial evolution. Evolution, is fact, not theory:

Richard Dawkins of “God Delusion” fame says, *'One thing all real scientists agree upon is the fact of evolution itself. It is a fact that we are cousins of gorillas, kangaroos, starfish, and bacteria. Evolution is as much a fact as the heat of the sun. It is not a theory, and for pity’s sake, let’s stop confusing the philosophically naive by calling it so. Evolution is a fact.'*

Let’s just clarify what evolution is and make the case for the similarity between Darwinism and financial evolution.

Evolution is change in the inherited traits of a population of organisms from one generation to the next.

Two major mechanisms drive evolution. The first is *natural selection*, a process causing heritable traits that are helpful for survival and reproduction to become more common in a population, and harmful traits to become more rare. This occurs because individuals with advantageous traits are more likely to reproduce, so that more individuals in the next generation inherit these traits. Over many generations, *adaptations* occur through a combination of successive, small, random changes in traits, and natural selection of those variants best-suited for their environment.

The second major mechanism driving evolution is *genetic drift*, an independent process that produces random changes in the frequency of traits in a population. Genetic drift results from the role probability plays in whether a given trait will be passed on as individuals survive and reproduce. Though the changes produced in any one generation by drift and selection are small, differences accumulate with each subsequent generation and can, over time, cause substantial changes in the organisms. This process can culminate in the emergence of new species. Indeed, the similarities between organisms suggest that all known species are descended from a common ancestor (or ancestral gene pool) through this process of gradual divergence.

Evolution: Baboon, or Mutation? Take Your Pick

New traits arise in two main ways: either from *mutations* in genes, or from the transfer of genes between populations and between species. In species that reproduce sexually, new combinations of genes are also produced by genetic recombination, which can increase variation between organisms. Evolution occurs when these heritable differences become more common or rare in a population.

Having set the basis for Darwinism, what are the common features shared by the financial species and a true evolutionary system?

Ferguson suggests six:

1.“Genes”, in the sense that certain business practices perform the same role as genes in biology, allowing information to be stored in the ‘organisational memory’ and passed on from individual to individual or from firm to firm when a new firm is created.

2. The potential for spontaneous *mutation,* usually referred to the economic world as innovation and primarily, though by no means always, technological

3.Competition between individuals within a species for resources, with the outcomes in terms of longevity and proliferation determining which business practises persist.

4. A Mechanism for *natural selection* through the market allocation of capital and human resources and the possibility of death in cases of under-performance, i.e. "differential survival"

5. Scope for *speciation*, sustaining biodiversity through the creation of wholly new species of financial institutions.

6. Scope for *extinction*, with species dying out altogether.

Financial history is possibly the result of institutional mutation and natural selection. Random "drift" (innovations/mutations) and "flow" (when banks adopt each others practises). Interactions between organisms can produce both conflict and co-operation. In nature when the interaction is between pairs of species, such as a pathogen and a host, or a predator and its prey, these species can develop matched sets of adaptations. Here, the evolution of one species causes adaptations in a second species. These changes in the second species then, in turn, cause new adaptations in the first species. This cycle of selection and response is called *co-evolution.*

Co-evolution can also be symbiotic, when different financial species work and adapt together (like hedge funds and prime brokers). In practice market selection is the real driver. Financial species are in competition with one another for finite resources - intellectual and financial capital. Broadly speaking the law of the survival of the fittest applies. "Institutions with a 'selfish gene' that is good at self-replication and self-perpetuation will tend to proliferate and endure."

I for one find the financial species evolution concept very plausible. After all finance is an open-ended system constructed by homo sapiens who are constantly evolving. Thus it stands to reason all human systems are undergoing constant adaptive and mutating behaviour in an evolutionary process. We like to believe we have streams of consciousness and a value-based system that differentiates us from "animalistic behaviour". All well and good; but surely in order to contemplate financial species and whether or not our monetary system has evolved we need to understand the "production" of finance - that of money. Indeed what is money? Without money we would not have financial species such as banks, insurance companies, mutual and hedge funds. So I would rather state that in order to understand financial species and its evolution we need to comprehend what money is?

In our appreciation of money I want to follow a train of thought from Marxist philosophy to the Austrian School.

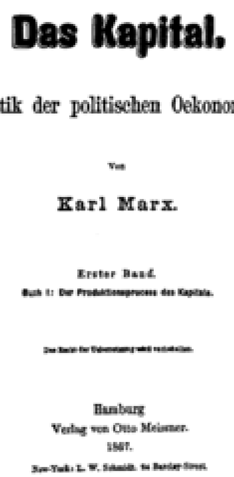
"Bread, cash, dosh, dough, loot, lucre, moolah, readies, the wherewithal: call it what you like, money matters." Ferguson presents his case for Ascent of Money. I agree with him, but imagine a world with no money. Christians propose the love of it is the root of all evil, whilst revolutionaries, encompassing Communists, anarchists, reactionaries, religious fundamentalists and hippies dream of just that.

Maybe "Marxism"- Friedrich Engels and Karl Marx were right. Money was and is merely an instrument of capitalist exploitation and alienation of labour. It replaces all human relationships and undermines those within the family. Their extensive treatise on political economy (1867) Das Kapital: Kritik der politischen Okonomie (Capital, A critique of political economy) and the notion of a moneyless society has been constantly revisited. In the 1970s this understandable Utopian desire was expressed in Socialist works such as - 'A World without Money', Socialist Standard (1979) *Un Monde sans Argent: Le Communisme:*

Money will disappear…Gold can be reserved in accordance with Lenin's wish, for the construction of public lavatories…In communist societies goods will be freely available and free of charge. The organisation of society to its very foundations will be without money…The frantic and neurotic desire to consume and hoard will disappear…It will be absurd to want to accumulate things: there will no longer be money to be pocketed nor wage-earners to be hired…The new people will resemble their hunting and gathering ancestors who trusted in a nature which supplied them freely and often abundantly with what they needed to live, and who had no worry for the morrow...

This is where my empathy ends. I do not advocate socialism, or communism: public or state ownership and administration of the means of production and distribution of goods. So by definition I do not desire a "no money society". I do however desire equal opportunities, but via meritocracy not an egalitarian method of compensation.

Socialism or communism are mostly totalitarian regimes. Unlike authoritarianism such regimes attempt to mould the private life, soul, and morals of citizens to a dominant ideology. The term has been applied to many states, including: the Soviet Union, Nazi Germany, Fascist Italy, Shōwa Japan, German Democratic Republic (East Germany), Socialist Republic of Romania, People's Socialist Republic of Albania, Ethiopia, People's Republic of China, Democratic Kampuchea, Democratic People's Republic of Korea (North Korea) and Communist Czechoslovakia.


Das Kapital.

Kritik der politischen Oekonomie.

Karl Marx.

Erster Band.

Hamburg
Verlag von Otto Meissner.
1867.

But I digress a little - What of money?

The Austrian School was the first group of classical liberal economists to challenge Marxian economics and philosophy. Eugen von Bohm-Bawerk (1851-1914) wrote extensive critiques of Marx in the late 1800s. Successive Marxists have tried to portray this as a bourgeois reaction. However it seems they have neglected to realise that Bohm-Bawerk, a pupil of Carl Menger (1840-1921), was merely expounding Menger's *Principle of Economics,* which incidentally was actually written at time of Marx's Das

Capital. The Austrian's believe in the concept of free market money- Gold.

Whether it's capitalism or communism, any regime or system that allows too much control by one person or entity is open to corruption. As George Orwell wrote in Animal Farm- *Power corrupts all*

Equality of "knowledge" can help prevent this. Those deficient of financial knowledge stand to lose most (and they are) and "those who get it" stand to gain most. By understanding money and our relationship with it, we can better understand ourselves and its and our evolution.

In understanding money and its role in society I have come to appreciate the Austrian form of economic thought. The Austrian thought process purveys my monetary and hence social values. "Tu ne cede malis sed contra audientor ito" (Yield not to misfortunes, but advance all the more boldly against them.) The Austrian School is the intellectual standard bearer for the free society.

Click here to read more on the Austrian School:

What is Austrian economics?
http://mises.org/about/3223

Ludwig von Mises (1881-1973) developed the earlier works of Menger and his pupil Boehm-Bawerk in his Theory of Money Credit (1912). But it was his work Human Action (1949) that has become the economic treatise that defines the school (aka the Mises Institute):

Liberty, Property, Peace

Everyone carries a part of society on his shoulder…no one is relieved of his share of responsibility by others. And no one can find a safe way for himself if society is sweeping towards destruction. Therefore everyone, in his own interest, must thrust himself vigorously into the intellectual battle.

All very high minded rhetoric I hear you say. So be it, but one to which we have great affinity for.

THE ORIGIN OF SPECIE
Money in a Free Society
Gold is Money

Specie backed money is money distributed, normally as paper money, that is assigned value based on valuable minerals tied to the paper money. (Specie money is commonly referred to as "Hard money" or coins as opposed to paper money.) The idea is that with specie backed money, though the paper itself holds no true value, it represents whatever mineral is held in reserve, historically gold and silver. Holders of the paper money could theoretically exchange their bills for the gold or silver that it represented. This way, the money held a true value, while not being as bulky or tough to carry around as say gold, silver, or cows. Specie backed money has generally given way to fiat money, money that is not backed by any valuable resources. Today most currencies are fiat currencies, with values assigned by the governments issuing the bills, and holding no true values.

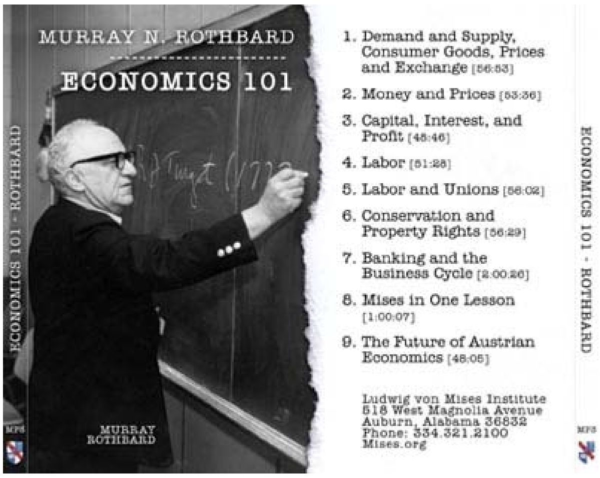
Even Marx espoused money was metallic (hard) money, such as gold, and its value is the labour time necessary to produce it (mine it, smelt it, etc.). Gold and silver are conventionally used as money because they embody a large amount of labour in a small, durable, form, which is convenient. Paper money is a representation of gold or silver, almost without value of its own but held in circulation by state decree.

Paper money is a token representing gold or money. (Capital, I, Chap III, section 2, part c.)

Origin of Money

Monetary theory is one of those subjects that (1) appeals to no one, (2) must be understood by everyone, and (3) is in fact roundly misunderstood by most of the so-called monetary experts. What is the basis for this claim? (1) Try talking to your friends about fiat money, commodity money, and fractional reserve banking sometime. If they don't tune you out right away it's only because they' are your friends. (2) Money, in an advanced society, is involved on at least one side of almost every transaction. Liberty, prosperity, and peace will not be around long if our ideas about money are flawed. (3) That industrialized societies have been subject to economic crises since the inception of the Industrial Revolution suggests that the most influential minds are influencing us in wrong ways.

Murray N Rothbard (1926-1995), a protégé of Mises, an economist who help define modern libertarianism wrote arguably the most brilliant introduction to monetary theory ever written. He explored the foundation of monetary theory and the role of the state in the degeneration of monetary system. He first wrote *What has Government Done to Our Money? (1963) And the Case for 100 per cent Gold Dollar?(essay 1962*). It has been edited and re-printed several times the last in 2005. The book gives an extraordinarily succinct understanding of how money emerged, and how it's been corrupted by government and banking. It helps one understand why central banking is a polite name for central counterfeiting and why an autonomous gold standard is the only monetary system compatible with civilization. Rothbard's book is an easy and concise read. So much so I have fully plagiarised the opening pages as a definitive on What is Money?



Rothbardian Ruminations

On the free market, everyone earns according to his productive value in satisfying consumer desires. Under statist distribution, everyone earns in proportion to the amount he can plunder from the producers (Power & Market)

Money in a Free Society

HOW DID MONEY BEGIN? Clearly, Robinson Crusoe had no need for money. He could not have eaten gold coins. Neither would Crusoe and Friday, perhaps exchanging fish for lumber, need to bother about money. But when society expands beyond a few families, the stage is already set for the emergence of money.

To explain the role of money, we must go even further back, and ask: why do men exchange at all? Exchange is the prime basis of our economic life. Without exchanges, there would be no real economy and, practically, no society. Clearly, a voluntary exchange occurs because both parties expect to benefit. An exchange is an agreement between A and B to transfer the goods or services of one man for the goods and services of the other. Obviously, both benefit because each values what he receives in exchange more than what he gives up. When Crusoe, say, exchanges some fish for lumber, he values the lumber he "buys" more than the fish he "sells," while Friday, on the contrary, values the fish more than the lumber. From Aristotle to Marx, men have mistakenly believed that an exchange records some sort of equality of value—that if one barrel of fish is exchanged for ten logs, there is some sort of underlying equality between them. Actually, the exchange was made only because each party valued the two products in different order.

Why should exchange be so universal among mankind? Fundamentally, because of the great variety in nature: the variety in man, and the diversity of location of natural resources. Every man has a different set of skills and aptitudes, and every plot of ground has its own unique features, its own distinctive resources. From this external natural fact of variety come exchanges; wheat in Kansas for iron in Minnesota; one man's medical services for another's playing of the violin. Specialization permits each man to develop his best skill, and allows each region to develop its own particular resources. If no one could exchange, if every *man were forced to be completely self-sufficient, it is obvious that most of us would starve to death, and the rest would barely remain alive. Exchange is the lifeblood, not only of our economy, but of civilization itself.*

2. Barter

Yet, direct exchange of useful goods and services would barely suffice to keep an economy going above the primitive level. Such direct exchange—or barter—is hardly better than pure self-sufficiency. Why is this? For one thing, it is clear that very little production could be carried on. If Jones hires some laborers to build a house, with what will he pay them? With parts of the house, or with building materials they could not use? The two basic problems are "indivisibility" and "lack of coincidence of wants." Thus, if Smith has a plow, which he would like to exchange for several different things—say, eggs, bread, and a suit of clothes—how can he do so? How can he break up the plow and give part of it to a farmer and another part to a tailor? Even where the goods are divisible, it is generally impossible for two exchangers to find each other at the same time. If A has a supply of eggs for sale, and B has a pair of shoes, how can they get together if A wants a suit? And think of the plight of an economics teacher who has to find an egg-producer who wants to purchase a few economics lessons in return for his eggs! Clearly, any sort of civilized economy is impossible under direct exchange.

3. Indirect Exchange

Indirect exchange becomes more necessary as division of labour increases and wants become more refined

The Theory of Money & Credit, Ludwig Von Mises 1934 English Translation

But man discovered, in the process of trial and error, the route that permits a greatly-expanding economy: indirect exchange. Under indirect exchange, you sell your product not for a good which you need directly, but for another good which you then, in turn, sell for the good you want. At first glance, this seems like a clumsy and round-about operation. But it is actually the marvellous instrument that permits civilization to develop. Consider the case of A, the farmer, who wants to buy the shoes made by B. Since B doesn't want his eggs, he finds what B does want—let's say butter. A then exchanges his eggs for C's butter, and sells the butter to B for shoes. He first buys the butter not because he wants it directly, but because it will permit him to get his shoes. Similarly, Smith, a plow-owner, will sell his plow for one commodity which he can more readily divide and sell—say, butter—and will then exchange parts of the butter for eggs, bread, clothes, etc. In both cases, the superiority of butter—the reason there is extra demand for it beyond simple consumption—is its greater ***marketability****. If one good is more marketable than another—if everyone is confident that it will be more readily sold—then it will come into greater demand because it will be used as a* ***medium of exchange****. It will be the medium through which one specialist can exchange his product for the goods of other specialists.*

Now just as in nature there is a great variety of skills and resources, so there is a variety in the marketability of goods. Some goods are more widely demanded than others, some are more divisible into smaller units without loss of value, some more durable over long periods of time, some more transportable over large distances. All of these advantages make for greater marketability. It is clear that in every society, the most marketable goods will be gradually selected as the media for exchange. As they are more and more selected as media, the demand for them increases because of this use, and so they become even more marketable. The result is a reinforcing spiral: more marketability causes wider use as a medium which causes more marketability, etc.

The greater the marketability of the goods first acquired in indirect exchange, the greater would be the prospect of being able to reach the ultimate objective without further maneuvering. Thus there would be an inevitable tendency for the less marketable of the series of goods used as media of exchange to be one by one rejected until at last only a single commodity remained, which was universally employed as a medium of exchange; in a word, money.

Eventually, one or two commodities are used as general media—in almost all exchanges—and these are called money.

Historically, many different goods have been used as media: tobacco in colonial Virginia, sugar in the West Indies, salt in Abyssinia, cattle in ancient Greece, nails in Scotland, copper in ancient Egypt, and grain, beads, tea, cowrie shells, and fishhooks. Through the centuries, two commodities, gold and silver, have emerged as money in the free competition of the market, and have displaced the other commodities. Both are uniquely marketable, are in great demand as ornaments, and excel in the other necessary qualities. In recent times, silver, being relatively more abundant than gold, has been found more useful for smaller exchanges, while gold is more useful for larger transactions. At any rate, the important thing is that whatever the reason, the free market has found gold and silver to be the most efficient moneys.

This process: the cumulative development of a medium of exchange on the free market—is the only way money can become established. Money cannot originate in any other way, neither by everyone suddenly deciding to create money out of useless material, nor by government calling bits of paper "money." For embedded in the demand for money is knowledge of the money-prices of the immediate past; in contrast to directly-used consumers' or producers' goods, money must have pre-existing prices on which to ground a demand. But the only way this can happen is by beginning with a useful commodity under barter, and then adding demand for a medium for exchange to the previous demand for direct use (e.g., for ornaments, in the case of gold). Thus, government is powerless to create money for the economy; it can only be developed by the processes of the free market.

A most important truth about money now emerges from our discussion: money is a commodity. Learning this simple lesson is one of the world's most important tasks. So often have people talked about money as something much more or less than this. Money is not an abstract unit of account, divorceable from a concrete good; it is not a useless token only good for exchanging; it is not a "claim on society"; it is not a guarantee of a fixed price level. It is simply a commodity. It differs from other commodities in being demanded mainly as a medium of exchange. But aside from this, it is a commodity—and, like all commodities, it has an existing stock, it faces demands by people to buy and hold it, etc. Like all commodities, its "price"—in terms of other goods—is determined by the interaction of its total supply, or stock, and the total demand by people to buy and hold it. (People "buy" money by selling their goods and services for it, just as the "sell" money when they buy goods and services.)

4. Benefits of Money

The emergence of money was a great boon to the human race. Without money—without a general medium of exchange—there could be no real specialization, no advancement of the economy above a bare, primitive level. With money, the problems of indivisibility and "coincidence of wants" that plagued the barter society all vanish. Now, Jones can hire laborers and pay them in . . . money. Smith can sell his plow in exchange for units of . . . money. The money-commodity is divisible into small units, and it is generally acceptable by all. And so all goods and services are sold for money, and then money is used to buy other goods and services that people desire. Because of money, an elaborate "structure of production" can be formed, with land, labor services, and capital goods cooperating to advance production at each stage and receiving payment in money.

The establishment of money conveys another great benefit. Since all exchanges are made in money, all the exchange-ratios are expressed in money, and so people can now compare the market worth of each good to that of every other good. If a TV set exchanges for three ounces of gold, and an automobile exchanges for sixty ounces of gold, then everyone can see that one automobile is "worth" twenty TV sets on the market. These exchange-ratios are prices, and the money-commodity serves as a common denominator for all prices. Only the establishment of money-prices on the market allows the development of a civilized economy, for only they permit businessmen to calculate economically. Businessmen can now judge how well they are satisfying consumer demands by seeing how the selling-prices of their products compare with the prices they have to pay productive factors (their "costs"). Since all these prices are expressed in terms of money, the businessmen can determine whether they are making profits or losses. Such calculations guide businessmen, laborers, and landowners in their search for monetary income on the market. Only such calculations can allocate resources to their most productive uses—to those uses that will most satisfy the demands of consumers.

*Many textbooks say that money has several functions: a medium of exchange, unit of account, or "measure of values," a "store of value," etc. But it should be clear that all of these functions are simply corollaries of the one great function: the medium of exchange. Because gold is a general medium, it is most marketable, it can be stored to serve as a medium in the future as well as the present, and all prices are expressed in its terms. (*Money does not "measure" prices or values; it is the common denominator for their expression. In short, prices are expressed in money; they are not measured by it.) Because gold is a commodity medium for all exchanges, it can serve as a unit of account for present, and expected future, prices. It is important to realize that money cannot be an abstract unit of account or claim, except insofar as it serves as a medium of exchange.*

5. The Monetary Unit

Now that we have seen how money emerged, and what it does, we may ask: how is the money-commodity used? Specifically, what is the stock, or supply, of money in society, and how is it exchanged?

*In the first place, most tangible physical goods are traded in terms of weight. Weight is the distinctive unit of a tangible commodity, and so trading takes place in terms of units like tons, pounds, ounces, grains, grams, etc. (3 Even those goods nominally exchanging in terms of volume (bale, bushel, etc.) tacitly assume a standard weight per unit volume.) Gold is no exception. Gold, like other commodities, will be traded in units of weight. (*One of the cardinal virtues of gold as money is its homogeneity—unlike many other commodities, it has no differences in quality. An ounce of pure gold equals any other ounce of pure gold the world over.)*
It is obvious that the size of the common unit chosen in trading makes no difference to the economist. One country, on the metric system, may prefer to figure in grams; England or America may prefer to reckon in grains or ounces. All units of weight are convertible into each other; one pound equals sixteen ounces; one ounce equals 437.5 grains or 28.35 grams, etc.

Assuming gold is chosen as the money, the size of the gold-unit used in reckoning is immaterial to us. Jones may sell a coat for one gold ounce in America, or for 28.35 grams in France; both prices are identical.

All this might seem like laboring the obvious, except that a great deal of misery in the world would have been avoided if people had fully realized these simple truths. Nearly everyone, for example, thinks of money as abstract units for something or other, each cleaving uniquely to a certain country. Even when countries were on the "gold standard," people thought in similar terms. American money was "dollars," French was "francs," German "marks," etc. All these were admittedly tied to gold, but all were considered sovereign and independent, and hence it was easy for countries to "go off the gold standard." Yet all of these names were simply names for units of weight of gold or silver.

The British "pound sterling" originally signified a pound weight of silver. And what of the dollar? The dollar began as the generally applied name of an ounce weight of silver coined by a Bohemian Count named Schlick, in the sixteenth century. The Count of Schlick lived in Joachim's Valley or Jaochimsthal. The Count's coins earned a great reputation for their uniformity and fineness, and they were widely called "Joachim's thalers," or, finally, "thaler." The name "dollar" eventually emerged from "thaler."

*On the free market, then, the various names that units may have are simply definitions of units of weight. When we were "on the gold standard" before 1933, people liked to say that the "price of gold" was "fixed at twenty dollars per ounce of gold." But this was a dangerously misleading way of looking at our money. Actually, "the dollar" was defined as the name for (approximately) 1/20 of an ounce of gold. It was therefore misleading to talk about "exchange rates" of one country's currency for another. The "pound sterling" did not really "exchange" for five "dollars." (*Actually, the pound sterling exchanged for $4.87, but we are using $5 for greater convenience of calculation.) The dollar was defined as 1/20 of a gold ounce, and the pound sterling was, at that time, defined as the name for 1/4 of a gold ounce, simply traded for 5/20 of a gold ounce. Clearly, such exchanges, and such a welter of names, were confusing and misleading. How they arose is shown below in the chapter on government meddling with money. In a purely free market, gold would simply be exchanged directly as "grams," grains, or ounces, and such confusing names as dollars, francs, etc., would be superfluous. Therefore, in this section, we will treat money as exchanging directly in terms of ounces or grams.*

Clearly, the free market will choose as the common unit whatever size of the money-commodity is most convenient. If platinum were the money, it would likely be traded in terms of fractions of an ounce; if iron were used, it would be reckoned in pounds or tons. Clearly, the size makes no difference to the economist.

6. The Shape of Money

*If the size or the name of the money-unit makes little economic difference; neither does the shape of the monetary metal. Since the commodity is the money, it follows that the entire stock of the metal, so long as it is available to man, constitutes the world's stock of money. It makes no real difference what shape any of the metal is at any time. If iron is the money, then all the iron is money, whether it is in the form of bars, chunks, or embodied in specialized machinery. (*Iron hoes have been used extensively as money, both in Asia and Africa.)*

Gold has been traded as money in the raw form of nuggets, as gold dust in sacks, and even as jewelry. It should not be surprising that gold, or other moneys, can be traded in many forms, since their important feature is their weight.

It is true, however, that some shapes are often more convenient than others. In recent centuries, gold and silver have been broken down into coins, for smaller, day-to-day transactions, and into larger bars for bigger transactions. Other gold is transformed into jewelry and other ornaments. Now, any kind of transformation from one shape to another costs time, effort, and other resources. Doing this work will be a business like any other, and prices for this service will be set in the usual manner. Most people agree that it is legitimate for jewelers to make ornaments out of raw gold, but they often deny that the same applies to the manufacture of coins. Yet, on the free market, coinage is essentially a business like any other.

Many people believed, in the days of the gold standard, that coins were somehow more "really" money than plain, uncoined gold "bullion" (bars, ingots, or any other shape). It is true that coins commanded a premium over bullion, but this was not caused by any mysterious virtue in the coins; it stemmed from the fact that it cost more to manufacture coins from bullion than to remelt coins back into bullion. Because of this difference, coins were more valuable on the market.

7. Private Coinage

The idea of private coinage seems so strange today that it is worth examining carefully. We are used to thinking of coinage as a "necessity of sovereignty." Yet, after all, we are not wedded to a "royal prerogative," and it is the American concept that sovereignty rests, not in government, but in the people. How would private coinage work? In the same way, we have said, as any other business. Each minter would produce whatever size or shape of coin is most pleasing to his customers. The price would be set by the free competition of the market. The standard objection is that it would be too much trouble to weigh or assay bits of gold at every transaction. But what is there to prevent private minters from stamping the coin and guaranteeing its weight and fineness? Private minters can guarantee a coin at least as well as a government mint. Abraded bits of metal would not be accepted as coin. People would use the coins of those minters with the best reputation for good quality of product. We have seen that this is precisely how the "dollar" became prominent— as a competitive silver coin.

Opponents of private coinage charge that fraud would run rampant. Yet, these same opponents would trust government to provide the coinage. But if government is to be trusted at all, then surely, with private coinage, government could at least be trusted to prevent or punish fraud.

It is usually assumed that the prevention or punishment of fraud, theft, or other crimes is the real justification for government. But if government cannot apprehend the criminal when private coinage is relied upon, what hope is there for a reliable coinage when the integrity of the private market place operators is discarded in favor of a government monopoly of coinage? If government cannot be trusted to ferret out the occasional villain in the free market in coin, why can government be trusted when it finds itself in a position of total control over money and may debase coin, counterfeit coin, or otherwise with full legal sanction perform as the sole villain in the market place? It is surely folly to say that government must socialize all property in order to prevent anyone from stealing property. Yet the reasoning behind abolition of private coinage is the same.

Moreover, all modern business is built on guarantees of standards. The drug store sells an eight ounce bottle of medicine; the meat packer sells a pound of beef. The buyer expects these guarantees to be accurate, and they are. And think of the thousands upon thousands of specialized, vital industrial products that must meet very narrow standards and specifications. The buyer of a 1/2 inch bolt must get a 1/2 inch bolt and not a mere 3/8 inch.

Yet, business has not broken down. Few people suggest that the government must nationalize the machine-tool industry as part of its job of defending standards against fraud. The modern market economy contains an infinite number of intricate exchanges, most depending on definite standards of quantity and quality. But fraud is at a minimum, and that minimum, at least in theory, may be prosecuted. So it would be if there were private coinage. We can be sure that a minter's customers, and his competitors, would be keenly alert to any possible fraud in the weight or fineness of his coins.

Champions of the government's coinage monopoly have claimed that money is different from all other commodities, because "Gresham's Law" proves that "bad money drives out good" from circulation. Hence, the free market cannot be trusted to serve the public in supplying good money. But this formulation rests on a misinterpretation of Gresham's famous law. The law really says that "money overvalued artificially by government will drive out of circulation artificially undervalued money." Suppose, for example, there are one-ounce gold coins in circulation. After a few years of wear and tear, let us say that some coins weigh only .9 ounces. Obviously, on the free market, the worn coins would circulate at only 90 percent of the value of the full-bodied coins, and the nominal face-value of the former would have to be repudiated. If anything, it will be the "bad" coins that will be driven from the market. But suppose the government decrees that everyone must treat the worn coins as equal to new, fresh coins, and must accept them equally in payment of debts. What has the government really done? It has imposed price control by coercion on the "exchange rate" between the two types of coin. By insisting on the par-ratio when the worn coins should exchange at 10 percent discount, it artificially overvalues the worn coins and undervalues new coins. Consequently, everyone will circulate the worn coins, and hoard or export the new. "Bad money drives out good money," then, not on the free market, but as the direct result of governmental intervention in the market.

Despite never-ending harassment by governments, making conditions highly precarious, private coins have flourished many times in history. True to the virtual law that all innovations come from free individuals and not the state, the first coins were minted by private individuals and goldsmiths. In fact, when the government first began to monopolize the coinage, the royal coins bore the guarantees of private bankers, whom the public trusted far *more, apparently, than they did the government. Privately-minted gold coins circulated in California as late as 1848.*

Reading Rothbard's work we can see how the introduction of metal coins marked a step or bridge in the evolution of money from usable commodities to symbolic forms of it. Although metal had a use value of its own, coins were accepted in trade for their symbolic value as a medium and standard measure for exchanging other goods and services of value rather than for utilization of the metal they contained.

Mises referred to this as *Commodity* money.

Misesian Muse-ING

It is the mission of the Mises Institute to restore a high place for theory in economics and the social sciences, encourage a revival of critical historical research, and draw attention to neglected traditions in Western philosophy. In this cause, the Mises Institute works to advance the Austrian School of economics and the Misesian tradition, and, in application, defends the market economy, private property, sound money, and peaceful international relations, while opposing government intervention as economically and socially destructive.

Rothbard developed and extended the works of the brilliant Ludwig von Mises. Mises has become the modern day face of the Austrian School. Rothbard Ruminations outlined earlier were developed from Mises' The Theory of Money & Credit translated from the German original (*Theorie des Geldes und der Umlaufsmittel.)* The German word Umlaufsmittel literally translates as "means of circulation" and was translated into the text of the English version as "fiduciary media". However, the translator Lionel Robbins (English economist) thought the unusual terminology would irritate readers and substituted "money and credit" in the title, thereby losing some of Mises original meaning.

Economics deals with society's fundamental problems; it concerns everyone and belongs to all. It is the main and proper study of every citizen.
(Human Action, 1949)

If money arose as a commodity money, how did it become fiat money? Mises discusses how money substitutes (paper titles to commodity money) were developed- *fiat* money and *credit* money. Fiat money is that which comprises a special legal qualification and credit money constitutes a claim against any physical or legal person.

The step to a legal concept of money occurred via what has become to be known as *representative* money. As Mises wrote

Before an economic good begins to function as money it must already possess exchange-value based on some other cause than its monetary function. But the money that already functions as such may remain valuable even when the original source of its exchange-value has ceased to exist.

It is at this point in the social evolution of money that the state slowly but surely usurped control of money from the free market. The system of commodity money in many instances evolved into a system of representative money. This occurred because the "state bank" would issue a paper receipt to their depositors, indicating that the receipt was redeemable for whatever precious goods were being stored (usually gold or silver money). It didn't take long before the receipts were traded as money, because everyone knew they were "as good as gold". Representative paper money made possible the practice of *fractional reserve banking*, in which bankers would print receipts above and beyond the amount of actual precious metal on deposit. Later this became effectively credit money with no claim. (see our past letter Nothing New in Banking to explore the evolution of this form of money and banking)

http://www.hindecapital.com/images/downloads/hindegoldinvestorletteraugust2008.pdf

Fiat Money & Tinker Bell

But how was the state able to enforce its controls on money? By a device known as *legal tender laws*.

The money itself was given value by government *fiat* (Latin for "let it be done") or decree, enforcing *legal tender laws*, previously known as "forced tender", whereby debtors were legally relieved of the debt if they (offer to) pay it off in the government's money.

Fiat Money is used for payment of past debts, as well as for present "cash" transactions. With the name of the country's currency now prominent in accounting instead of its actual weight, contracts began to pledge payment in certain amounts of "money." *Legal tender laws* dictated what that "money" could be. When only the original gold or silver was designated "legal tender," people considered it harmless, but they should have realized that a dangerous precedent had been set for government control of money. If the government sticks to the original money, its legal tender law is superfluous and unnecessary. On the other hand, the government may declare as legal tender a lower-quality currency side-by-side with the original. And this is what has happened time and time again. The government or state engenders an association of "sound money" and then introduces a *medium of exchange which is neither a commercial commodity, a consumer, or a producer good, nor title to any such commodity: i.e. irredeemable paper money.*

So today's money is all a question of confidence or FAITH. The term fiat money relates to types of currency or money whose usefulness results ONLY from a government's order (fiat) that it must be accepted as a means of payment.

Black's Law Dictionary (the definitive legal resource for lawyers, law students and laypeople alike.) defines the word "fiat" to mean "a short order or warrant of a Judge or magistrate directing some act to be done; an authority issuing from some competent source for the doing of some legal act"

For example, Federal Reserve Notes, the fiat money of the United States, are backed by the "full faith and credit of the U.S. government"—the government's ability to levy taxes to pay its debts. Because the notes are legal tender, they are "backed" by all the goods and services in the U.S. economy; they have value because the public may exchange them for valued goods and services in the U.S. economy.

Fraud I hear you cry. Tinker Bell I respond!

It is fraud but Tinker Bell is really to blame. The ***Tinker Bell effect*** describes those things that exist only because people believe in them. The effect is named after - yes you guessed it - Peter Pan's very own fairy Tinker Bell. The very same fairy that is revived from near death by the **belief** of the audience.

Society wants to believe in the "Monetary Order", in the value of a nation's money. It wants to believe in a FIAT system, because to believe this is to believe in a CIVIL society and the rule of law. Such belief is misguided as is being revealed by events now.

In fact Mises concluded that the only viable economic policy for the human race was a policy of unrestricted laissez-faire, of free markets and the unhampered exercise of the right of private property, with government strictly limited to the defence of person and property within its territorial area. This means sound money not fiat money.

For Mises was able to demonstrate (a) that the expansion of free markets, the division of labour, and private capital investment is the only possible path to the prosperity and flourishing of the human race; (b) that socialism would be disastrous for a modern economy because the absence of private ownership of land and capital goods prevents any sort of rational pricing, or estimate of costs, and (c) that government intervention, in addition to hampering and crippling the market, would prove counter-productive and cumulative, leading inevitably to socialism unless the entire tissue of interventions was repealed.

Holding these views, and hewing to truth indomitably in the face of a century increasingly devoted to statism and collectivism, Mises became famous for his "intransigence" in insisting on a non-inflationary gold standard and on laissez-faire.

On a positive note there has been a growing awareness of the "sh+t" state of affairs we have found ourselves in. Lily Allen in the lyrics of her song "The Fear" encapsulates everything that has gone wrong in an UNSOUND monetary system. Freely available credit has turned us all into…a weapon of massive consumption and it's not my fault it's how I'm programmed to function…

An unlikely MUSE for MISES, but one we hope he would approve of.

Lily's Lyrics:

I want to be rich and I want lots of money
I don't care about clever I don't care about funny
I want loads of clothes and fuckloads of diamonds
I heard people die while they are trying to find them

I'll take my clothes off and it will be shameless
'Cuz everyone knows that's how you get famous
I'll look at the sun and I'll look in the mirror
I'm on the right track yeah I'm on to a winner

[Chorus]
I don't know what's right and what's real anymore
I don't know how I'm meant to feel anymore
When do you think it will all become clear?
'Cuz I'm being taken over by The Fear

Life's about film stars and less about mothers
It's all about fast cars cussing each other
But it doesn't matter cause I'm packing plastic
and that's what makes my life so fucking fantastic

And I am a weapon of massive consumption
and its not my fault it's how I'm programmed to function
I'll look at the sun and I'll look in the mirror
I'm on the right track yeah we're on to a winner

Chorus
I don't know what's right and what's real anymore
I don't know how I'm meant to feel anymore
When do you think it will all become clear?
'Cuz I'm being taken over by The Fear

[Bridge]
Forget about guns and forget ammunition
Cause I'm killing them all on my own little mission

Now I'm not a saint but I'm not a sinner
Now everything's cool as long as I'm getting thinner
[Chorus]
I don't know what's right and what's real anymore
I don't know how I'm meant to feel anymore
When do you think it will all become clear?
'Cause I'm being taken over by fear

http://www.youtube.com/watch?v=q-wGMlSuX_c

Our value system has been corrupted by fiat and credit money. But how could this illusion of wealth have evolved and taken hold for so long. Here I turn to an economist more in the mold of Keynes, to enlighten us; Hyman Minsky (1919-1996). In 1974 he wrote

..that the financial system swings between robustness and fragility and these swings are an integral part of the process that generates business cycles

Minskyian Melodies

Humans have a great "emotional volatility". I once studied a piece of work on the Politics of Multiculturalism. I learnt something quite profound and obvious. We are all a mirror-image of one another's perceptions. Our behaviour reinforces our being. It is no wonder that financial markets are like the mirror of mankind, revealing every hour of every working day the way we value ourselves and the resources of the world around us. Hyman Minsky's insights support this observation and his ideas have never been more salient than they are today.

Purists of the Austrian School may consider it "heretical" to consider his work. Although he can be considered a neo-Keynesian, Minsky was greatly influenced by the Austrian thinker Joseph Schumpeter. Minsky developed JMKeynes "*investment theory of the cycle" to include finance investment*, the most important source of the instability found in the economy. Unlike Keynes he did not believe in "fine-tuning" of aggregate demand, promoting investment, and instituting "welfare-statism" to provide a safety net. He believed fine-tuning was impossible and relying on investment-led growth to increase living standards generates destructive instability and inflation; whilst welfare (pump-priming) is inflationary and merely institutionalises unemployment. In fact Minsky explains how Roosevelt's Reforms preceded the appearance of Keynes's General Theory and his work has not really been taken up by ruling economic theory and policy analysis; rather the essence "that our economic destiny is controllable" has been.

Minsky in his life's work described the reinforcing dynamic of speculative finance, decreasing debt quality and economic volatility that has come to characterise our times. In his book *Stabilising an Unstable Economy* he explains how our global economy is so liable to fluctuations and how the obvious stability has been contained. Until now. As he said in the preface to the book:

Periods of stability (or of tranquillity) of a modern capitalist economy are transitory.

He explained how the bullish rise in employment, investment, and profits tends to confirm in the minds of business leaders and banker, the soundness of an approach that ultimately fosters volatility and unacceptable risk. Or put another way, in an investment boom, profits would be increasing along with investment. This added credence to his proposition that the fundamental instability in the capitalist economy (as it stands) increases until it reaches a speculative frenzy. He cautioned against *balance sheet engineering.* Think ENRON or the UK government's banking insurance program aka off balance sheet hocus pocus.

In a very prescient piece in 1987 he predicted the explosion of home mortgage securitisation that led to the subprime crisis last year. He understood that mortgages could be packaged into a variety of risk classes. Investors could then choose the desired risk/return trade-off based on the different pricing offered to cover risk. The alphabet soup of credit packages helped create financial paper freed from national boundaries, i.e. a globalisation of finance. For example a German investor with no direct access to US homeowners could buy mortgage-backed securities originating in the US real estate markets. The depression free expansion post WWII had created a global glut of managed money seeking returns. (I would also argue excessively low interest rates by central banks fostered this need for yield.) This is clearly central to his thesis that periods of stability gradually lead to a build up in over-confidence for investments.

He also fully acknowledged that the delineation between commercial and investment banks had all but disappeared due to global competition and a relaxing in regulatory standards. This fostered a greater degree of financial assets indulging in speculative investments and endangering savings.

His analysis of the financial evolution from stability to instability is rather melodic. He writes:

There are three types of financing of positions in assets that can be identified in the financial structure of our system:

Hedge, speculative, and Ponzi finance. These financing regimes are characterised by different relations between cash payment commitments on debts and expected cash receipts due to the quasi-rents earned by capital assets or the debtor contractual arrangements on owned financial instruments.

Hedge financing units are those which can fulfil all of their contractual payment obligations by their cash flows: the greater the weight of equity financing in the liability structure, the greater the likelihood that the unit is a hedge financing unit.

Speculative finance units are units that can meet their payment commitments on 'income account' on their liabilities, even as they cannot repay the principal out of income cash flows. Such units need to 'roll over' their liabilities — issue new debt to meet commitments on maturing debt.

For Ponzi units, the cash flows from operations are not sufficient to fill either the repayment of principal or the interest on outstanding debts by their cash flows from operations. Such units can sell assets or borrow. Borrowing to pay interest or selling assets to pay interest (and even dividends) on common stocks lowers the equity of a unit, even as it increases liabilities and the prior commitment of future incomes.

It can be shown that if hedge financing dominates, then the economy may well be an equilibrium-seeking and containing system. In contrast, the greater the weight of speculative and Ponzi finance, the greater the likelihood that the economy is a deviation-amplifying system.

Over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system. In *particular, over a protracted period of good times, capitalist economies tend to move to a financial structure in which there is a large weight to units engaged in speculative and Ponzi finance.*

When investors have cashflow problems due to spiralling debt they have incurred in order to finance speculative investments, a major sell-off begins…as no counterparty can be found to bid at the high asking prices previously quoted, leading to a sudden and precipitous collapse in market clearing asset prices and a sharp drop in liquidity.
(coined by some as a MInsky Moment)

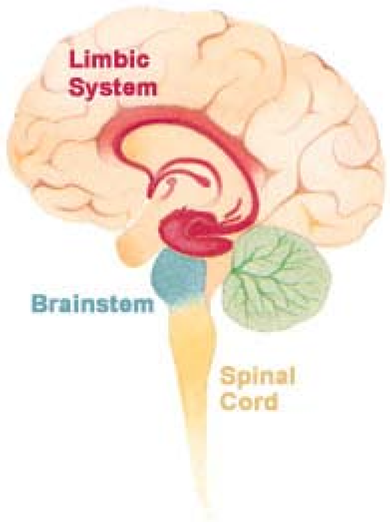
Minsky fully embraces that the central bank as lender-of last-resort although momentarily stabilising the system sows the seeds for further instability, as it validates the innovation, ensuring persistence of new destabilising practices. Think Greenspan Put.

Sexy Son Syndrome & Sexual Selection

In a more light-hearted look at our financial evolution theme I have stolen a few passages from William Bonner & Lila Rajiva's riotous book *Mobs, Messiahs and Markets-Surviving the Public Spectacle in Finance and Politics.* It is a modern day version of Mackay's 1841 Extraordinary popular delusions & the madness of crowds in which Mackay describes how Tulip bulbs traded at a higher price than gold in the Tulip mania of 1624. Both sets of authors explain the "Law of Mass Action:" When it comes to the effect of social behaviour on the intelligence of individuals, 1+1 is often less than 2, and sometimes considerably less than 0!!

Bonner et al. rather mischievously implies our financial evolution is driven by Darwin's theory of sexual selection; aka the "mating game". Darwin defined this theory as the effects of the "struggle between the individuals of one sex, generally the males, for the possession of the other sex".

You see, romance, like a market bubble or a war, seems to come from deep down in the more primitive part of a man's brain….the rational man debates how to pursue happiness in the lateral prefrontal cortex. The limbic system is what drives his reactions.



(The limbic system operates the brain's pleasure centre, which drives one's sexual appetite…Or in other words his d*ck makes the decision)

The problems of our heavily debt laden society boils down to one thing and one thing only, SEX. Bonner explained the phenomena of the Hummer and why the USA has a large current account deficit.
Suddenly the roads were crowded with Hummers. Would anyone if he was using his lateral prefrontal cortex want to drive around in a big, awkward, ugly, expensive car when a small, cheap one would get him where he was going just as well? No. Then Why do they do it? Because their limbic system tells them to "maximise their inclusive fitness"

Big cars help the owners get noticed. Hummers are like long, bright tail feathers on a bird or a rack of antlers on a deer….Its all about superiority…you want to impress the woman….

The trillion dollar deficit exists *because Americans want to buy things they can't afford. Why do they want to buy things they can't afford? To pretend to be richer than they are. Why do they want to appear richer than they are? Because it gives them higher social status? Why…So they will have better access to the opposite sex.*

The debt bubble. The real estate bubble. The trade deficit bubble. The American Empire..its all comes from the showing the opposite sex that the animal is fit for procreation and a bit of hanky panky.

It gets worse; experts on genetic selection put it more simply. Bonner writes

Our modest, clearheaded monkey ancestors got less sex than their overconfident rivals…

So where is the female in all this. Well goes Bonner

In order to spread her genes as widely as possible, a woman needs offspring, particularly males, who are high-ranking. So she needs to marry a high ranking male and the high ranking man is the one with all the feathers.

This is known as the ***sexy son hypothesis***. A concept from evolutionary biology, proposed by P. J. Weatherhead and R. J. Robertson in 1979. It posits that a female animal's optimal choice among potential fathers is a male whose genes will produce male with the best chance of reproductive success. In particular, the sexy son hypothesis implies that a potential mate's capacity as a caregiver or any other direct benefits the male can offer the female (e.g. nuptial gifts, good territory) are irrelevant to his value as potential father of the female's offspring.

The idea is that if females choose "attractive" males, they will get "attractive" sons, and thus more grandchildren, because choosy females will prefer the "attractive" sons. Interesting is the fact that the theory will work with any trait that females choose, as long as it is heritable, as choosing the trait makes males attractive, and not the trait in itself. The sexy son hypothesis is one of several possible explanations for the highly diverse and often astonishing ornaments of animals. Like the peaCOCK! Cue Mr corporate/banker CEO. They are all the bright feather guys, who with a good line of talk and a confident air get the job and the chick.

What will get you a job as a leader in the corporate world is the same thing that will get you a woman in the mating game-outsize confidence.

But the man has to prove himself the big bird so he has to keep up the spending or pretence of his sexual fitness and his ability to provide for her offspring. Now the woman is no dummy, and she knows the McMansion and Hummer with no money down is an illusion. But here the battle of sexes starts and with this so does the debt bubble. The man spends more to convince her he is the fittest, whilst she has to lavish herself with cosmetics and paraphernalia to look the most attractive female. So spend and spend and sex and sex. And then the bubble bursts. Does the procreation stop I wonder?

Oh I forgot that explains why most corporate and banking CEOs are blockheads. They are the one's who shout most to get the chick. Inflate or die! As Richard Russell says. Inflate that chest a bit more, puff it out and the money merry go round goes on; which brings us neatly to our next topic. The Financial Darwin awards.

HindeSight's Financial Darwin Award

http://www.darwinawards.com/

The Darwin Awards salute the improvement of the human genome by honouring those who accidentally remove themselves from it.

I couldn't help provide an example of a traditional award:

(20 April 2008, Atlantic Ocean, Brazil) *A Catholic priest recently ascended to heaven on a host of helium party balloons, paying homage to Lawn Chair Larry's aerial adventure. Larry, the beloved survivor of a Darwin-worthy fiasco, attached 45 helium weather balloons to his lawnchair, packed a picnic lunch, and cut the tether--but instead of drifting above the Los Angeles landscape as planned, he was rocketed into LAX air traffic lanes by the lift of the weather balloons. Astoundingly, Larry survived the flight.*

Adelir Antonio, 51, was not so lucky.

His audacious attempt to set a world record for clustered balloon flight was intended to publicize his plan to build a spiritual rest stop for truckers. But, as truckers know, sitting for 19 hours in a lawn chair is not a trivial matter even in the comfort of your own backyard. The priest took numerous safety precautions, including wearing a survival suit, selecting a buoyant chair, and packing a satellite phone and a GPS. However, the late Adelir Antonio made a fatal mistake. He did not know how to use the GPS.

The winds changed, as winds do, and he was blown inexorably toward open sea. He could have parachuted to safety while over land, but chose not to. When the voyager was perilously lost at sea, he prudently phoned for help--but rescuers were unable to determine his location, since he could not use his GPS. He struggled with the unit as the charge on the satellite phone dwindled.

Instead of a GPS, the priest let God be his guide, and God guided him straight to heaven. Bits of balloons began appearing on mountains and beaches. Ultimately the priest's body surfaced, confirming that he, like Elvis, had left the building.
The kicker? It's a Double Darwin. Catholic priests take vows of celibacy. Since they voluntarily remove themselves from the gene pool, the entire group earns a mass Darwin Award. Adelir Antonio wins twice over!

Now for our version.

HindeSight's Financial Darwin award salutes those who improve the financial genome by accidentally removing themselves from it.

And we proudly announce Chuck Prince as the recipient of this most coveted award.


Chuck Prince formerly Pigsy from cult TV series Monkey?

On July 10, 2007 Chuck Prince proudly announced

When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing!

On the November 7, 2007 Chuck resigns:

News Alert a few days prior-

Charles Prince, the beleaguered chief executive of Citigroup Inc., is planning to resign at a board meeting on Sunday….Just a few weeks ago, board members including Robert Rubin, the influential chairman of Citigroup's executive committee, expressed support for Mr. Prince and said that his job wasn't in jeopardy. "I think Chuck's going to be here for a lot of years," Mr. Rubin said in an interview last month.

Any change of heart may also have been spurred along this week after the board of Merrill Lynch & Co. ousted its embattled CEO, Stanley O'Neal.

In reporting its third-quarter earnings, Citigroup warned that it endured a surge in late payments on consumer mortgages in September, costing the bank $3 billion in higher losses and reserves against future bad loans and hurting the value of loans Citigroup hopes to sell to investors.

Citigroup also booked $1.56 billion in pretax losses tied to loans and subprime mortgages that were to be repackaged and sold to investors.

Equally important, the bank said its capital levels had dwindled to below the company's internal target ratios. Executives said the company would stop repurchasing its own shares until it rebuilt its capital, a process it hopes to complete by early next year. Some analysts and other experts think Citigroup will have to take more drastic actions, such as selling off assets or slicing its dividend payouts.

Roll forward-Thursday 5th March Citigroup shares trade below $1,00. Good job Chuck. You Schmu…ck.

So is that it? Do we have to comprehend that "Peacocks" have aspired to control of money to their own end, so as to ensure their survival. Conspirators have argued the US has engendered a great global crash in order to usurp the World finance in the future. Either way they have played out to the tenets of natural evolution but at the same time perhaps hindered the evolutionary process of man.

The maelstrom that is finance and economics is today undergoing less a Darwinian evolution but a cultural or Lamarckian adaptation or a very aggressive mutation. We are perhaps on the cusp of a revolution in societal values and belief systems.

So it seems that an analogy between the evolution of man and that of money into specie or "hard currencies" is not totally disingenuous. And by understanding what money is we can see how financial species have evolved. Nonetheless I would contend the evolutionary analogy is far from perfect as we appear to be coming full circle in what we consider true money - commodity money - Gold. As we speak the masses around the world are gradually converting their fiat money into this free market money. This growing paradigm shift will have immense repercussions for all our lives from this day forth.

In the next few letters to come I will expand on how history shows that fiat paper systems are inherently unstable and that their demise will lead to a loss of liberty and even peace.

A celebration of 200yrs: A Darwinian appreciation of the "Evolution of Money". This was a primer beginning a trilogy on money and finance. We hope our three part series will help illuminate and possibly be informative to our readers about the development of money: from commodity money to fiat paper systems, their inevitable Crack Up Booms, and the progression from Aurophobia to Gold Standards.

P.S.The English word "money" dates to c.1290, "coinage, metal currency," from old French *moneie*, from Latin *monēta* "mint, coinage," from Monēta = "she who warns", a title of the Roman goddess Juno, as money was coined in or near the Capitoline Temple of Juno in Rome. (*Brewer's dictionary of Phrase & Fable)*

P.S.S. Are you an Austrian?

http://mises.org/quiz.aspx

Investment in Hinde Gold Fund through SIPPS (UK)

Most SIPP providers have set up HGF as an investment security on their platforms and although some of our investors have used this tax efficient method for their investment we are trying to encourage more in the future.

SIPPs have become far more standardised now than in the past and the government is encouraging these DIY pension plans in light of the real possibility of a shortage of state funding in our lifetime. They have become easy to set up and the charges of set up and maintenance are now very low in comparison to the big pension providers not to mention the increased transparency and on-line access for asset value and dealing.

A £50,000 cash amount can be paid into a SIPP which is deemed net of basic rate tax. The SIPP claims 6 weeks later or so £14,100 from HMRC ((50/0.78)-50) and now the total in the fund is £64,100. That is the gross amount so clients basic rate tax band is extended by that, and if they have earned say in excess of £100,000 they then get a tax rebate of 18% of the gross amount. A cheque or tax saving of £11,540 ((64.1kX 40%)-(14.1k rebated into SIPP)
Note. Next week basic rate goes down to 20% which makes a difference on what gets added in tax direct from HMRC but not the net effect to investor.

Also many people who have worked in city or other institutions that have paid into a separate company pension scheme for many years can transfer all of these monies from each plan into one SIPP and manage it themselves accordingly. Again the costs of transfers have dropped dramatically recently making this a more compelling plan for everyone.

If you have any questions on these matters please call one of team at Hinde Capital Ltd. Our Website is www.hindecapital.com. All documentation on Fund and how to subscribe can be accessed there. Or alternatively please send all subscription requests to info@hindecapital.com