

Thursday, February 19, 2009

Goldbugs should be careful what they wish for: they'll lose big in a return to gold-backed currency

With gold nearing that psychological \$1000/oz mark once again with a full head of steam, the USD dollar looking very topy and a bond collapse all but assured now, gold investors and even mainstream media are occasionally talking about "gold standards". With the likes of Peter Schiff and Marc Faber getting some respect in the mainstream media, joe-six pack is hearing phrases like "return to a gold backed currency" in passing over CNBC et al.

It's not being discussed seriously, it's just that the sound money pundits are actually able to get the words out of their mouths now without being ripped off camera by a grappling hook or laughed out of the studio by expert pundits who have the sense to stay more "on message".

I have seen numerous figures bandied about for what a return to a gold back USD would do to the price of gold, but they vary widely as they are dependent on the actual amount of reserves the US has on-hand and what the size of the money supply will be if they ever tried it. I've seen numbers from \$5,000/oz to \$100,000/oz and everything in between.

Goldbugs get excited at the prospect of this. Fortunately, I don't see it happening, ever but if it did, they are overlooking something obvious:

Any return to a gold backed dollar will be accompanied by wholesale gold confiscations and a ban on private ownership of gold

This is such a no-brainer that I have to shake my head when I see goldbugs gleefully predicting an inevitable return to a gold standard that will make them wealthier than Warren Buffett overnight. It won't. They'll be paupers because the day before it happens Uncle Sam will come calling and take away their gold, all of it. Same goes for all the G7 nations as the mining companies will be gleefully nationalized and private gold ownership banned. Anybody who squirrels away a private stash will find themselves unable to sell any except on the black market, which would be the same thing as money laundering: you'll see pennies on the dollar at best.

In the lead-up to this, expect to see some hysteria casting gold owners as the new villains of the economic collapse: last year it was short sellers, someday it'll be those nasty goldbugs. There will be "windfall taxes" on sales of bullion and mining shares. You had the sense to buy Kinross at \$5/share? Well when you sell it at \$500 watch as some obscene slice like 90% of it will be taxed away because "you didn't really earn it" and you're damaging the economy!

I'm sure there will be some exceptions and loopholes that will enable the likes of Dick Cheney to sit on a private horde of bullion somewhere, but for the peons like us, forget it.

Posted by Mark Jeftovic in Forecasts from the Fringe at 10:06

You are probably right. The only thing is that a gold standard is not the answer, but gold (real) money. If people were to learn that paper money is the problem they should demand real money such as gold or silver, but unfortunately, they don't preach that on American Idol or Law and Order.

The media is a front for the establishment, that's for sure. You talk bad about Chaney, but it was the Progressives who stole the American peoples gold to begin with in 1933 and will be Obama this time. It was Republicans who gave us back the "privilege" (we no longer have rights) to own gold.

Anonymous on May 11 2009, 06:35