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# From Money to Gold

***"If there are so few people today, even among my own colleagues, who grasp the deepest essence and workings of the capital market and the banks that control it, it is only because the knowledge of money is so bitterly lacking today."***

**Alfred Lansburgh, alias "Argentarius"**

**Key Takeaways**

- **The book *Vom Gelde* ("About Money") describes money as an immaterial legal claim to an economic output preceded by an equivalent output.**
- **Money can only arise from daily economic transactions. No state or authority is able to create money. To artificially multiply monetary units – a process called inflation – is an unlawful manipulation of an economy.**
- **A commercial effort must have been made in the economy, from which effort a good was created that in itself carries the guarantee of the greatest possible stability of value. Only such a claim to goods is a genuine, legally created means of payment.**
- **Gold's unique physical properties enable it to represent this greatest possible stability of value.**

***About the Author:*** *Maik Enders, a dedicated proponent of Austrian economics, is an investment consultant, professional speaker, and risk profiler. For more than twenty years he has been engaged with the challenges of the monetary system, financial-market history, and economics. He wants to publish the first English version of Vom Gelde ("About Money") to bring the knowledge gained from it to a wider readership. Further information can be found at www.maikenders.com.*

**Some books fundamentally transform entire scientific fields.** Adam Smith's *Wealth of Nations* and Charles Darwin's *On the Origin of Species* are two of the most famous examples.

**However, the work presented here, which its author describes as a "complete monetary theory"[1], is still largely unknown.** Alfred Lansburgh, alias "Argentarius", wrote it in the 1920s during the days of the Weimar Republic. His "Letters of a Bank Director to His Son" – that is the book's subtitle – have the potential to become a fundamental work of monetary theory.

First, Lansburgh discusses the praxeological fact that people have been exchanging goods and services since the earliest times. If such transactions take place in complete agreement on all parameters, they are called barter transactions. But even in such primitive transactions, there has rarely been a mutual agreement on the values of the goods offered, the place of exchange, or the time of the transaction. For this reason, in the beginning, the equivalent value of a good or service was often deferred in whole or in part. Credit is thus as old as human economic transactions.

*It is the economic effort that creates money, not the state.*
**Argentarius, About Money**

Here the abstract (or immaterial) character of money is immediately revealed. Because one or a few open transactions can be remembered by the acting parties, no physical means of payment is required. The two actors' knowledge that they have agreed that payment will be deferred is the only prerequisite for the creation of money.

## The Optimal Means of Payment

**A short example will serve as an illustration.** In a traditional society, a fisherman needed a new boat. A carpenter made one for him after one week of production time. In exchange, he asked for a hundred fish. However, this quantity was not suitable for immediate consumption, so this situation demanded a different solution. Thus an agreement was reached that the fisherman would hand the carpenter ten fish every week for ten weeks to pay his outstanding debt peu à peu. As long as this transaction was not completed in full, the carpenter's claim to the outstanding consideration remained.

*Those who do not understand the past do not really understand anything.*
**Stefan Zweig**

The faster the population grew, the more the society flourished, and the more the economy developed based on the division of labor. As a result, credit became increasingly common. Thus, in the interest of maintaining clarity, a trustworthy accountant was chosen by the society's members to record these open transactions in writing. But even this solution quickly reached its limits. Consequently, a standardized pledge was developed, which at the time of the exchange was given by the buyer to the seller as collateral for the outstanding consideration. The monetary unit or means of payment – not the money itself – was created.

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[1] *See* Lansburgh, Alfred: *Valuta*, 1921, Introduction

*Never have the world's moneys been so long cut off from their metallic roots.*
**Murray Rothbard**

The introduction of an optimal monetary unit was the prerequisite for credit's no longer appearing outwardly as such, without depriving it of its function in commercial transactions. The legal claim to the outstanding consideration was thus secured by this physical instrument that is now commonly called "money". However, we must call it a monetary unit. Any existing monetary unit means that someone has not yet received the counter value to which he has a claim.

**Therefore, every time a good is exchanged for a monetary unit, a new right to receive goods is created – that's the sale.** Such a right expires in the same transaction – that is, in the purchase, the handing over of the means of payment. The legal claim securitized in money is objectivized by the means of payment and circulates in the national economy. In this way, the monetary unit enters eternal circulation.

The means of payment provisionally replaces the outstanding consideration. It is therefore usually regarded as the consideration itself. Paradoxically, this often leads to the view that money is a commodity that can and should be increased or reduced according to plan. However, there is never too much or too little money. **Rather, the correct amount of money corresponds exactly to the number of open transactions in an economy.**

*There is always just as much money circulating in a country as there are acts of exchange that have been carried out but not completely settled, but that rather remain in abeyance, so to speak.*
**Argentarius, About Money**

**As is well known, throughout history, states and central banks have made countless attempts to control the amount of the means of payment.** The regular failure of this approach can be compared with the attempt to eliminate a housing shortage by adding entries in the land register and the cadaster of houses. For no one is in a position to increase or decrease an abstract right. The housing shortage remains as long as no new houses are built. Likewise, the prosperity of a nation does not increase through issuing new legal claims on goods and services that have not been produced.

Courtesy of Hedgeye

**This is illustrated by observing a patron handing over his coat at the cloakroom of a theatre.** He receives a token in return. With this token, he can exercise his right to claim the deposited garment after the performance, and the claim thereby expires. But what is the actual value here? If the theatre were to tell the guest that he would not get his property back in exchange for his token, that would be fraud.

**In today's financial system, this type of fraud is omnipresent.** This is because governments, in conjunction with central and commercial banks, are using the fractional reserve system to create new monetary units out of thin air in the form of fiat money. Artificially and arbitrarily created means of payment are, however, legal titles for the receipt of consideration without prior equivalent consideration and thus are counterfeit. Such a procedure results in the partial expropriation of all existing monetary units. A redistribution of wealth via the Cantillon effect arises.[2]

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[2] *See* "Cantillon effect describes unequal distribution of newly created money", *In Gold We Trust* report 2013; Taghizadegan, Rahim, Stoeferle, Ronald, and Valek, Mark: *Austrian School for Investors: Austrian Investing between Inflation and Deflation*, 2014, pp. 135ff.

## The “Value” of Money

*Acquiring gold is not an investment. It is a conscious decision to REFRAIN from investing until an honest monetary regime makes rational calculation of relative asset prices possible.*
**Andreas Acavalos**

What is the “value” of money in this consideration? As an abstract right, money cannot have a concrete “value”. In the example of gold coins, it is not the money or the right to receive goods that have the value, but the metal. If a money’s value were to be derived from its property as money, then paper money and gold money with the same face value would always have the same exchange value. However, historical evidence does not support this posited relationship.

**This was established by Ludwig von Mises with his famous “regression theorem”.**[3] According to Mises, the optimal monetary unit must have had an exchange value even before it acquired its function as a means of facilitating traffic and accelerating the development of a global society based on the division of labor. For money is a legal claim to consideration that is preceded by an equivalent consideration. This definition is in stark contrast to the effortless creation of new banknotes or credit entries on a computer.

*By issuing monetary units, the state does not create new money, but taxes one part of the population in favor of the other.*
**Argentarius, About Money**

**The main purpose of money is to secure the full value of a commercial effort rendered until the day consideration for that effort is demanded.** However, the legal claim of money cannot be based on a fixed amount of goods and services; it only corresponds to a very specific part of all existing claims to goods and services. A constantly changing demand-and-supply structure for individual goods and services inevitably also changes the purchasing power of money. Money as an abstract right is powerless against this. This moment of uncertainty, however, takes a back seat to the guarantee of being able to acquire a fixed proportion of all existing claims on goods and services.

*The decline of its currency is probably the greatest misfortune that can strike a people. Even a war that is lost does not bring them as much immediate harm as the ruin of their monetary system.*
**Argentarius, About Money**

**The metaphor of apportioning a cake and of the value of a single piece of cake makes this clear.** This value can only be determined when the size of the cake and the number of pieces are known. To arrive at this conclusion in a national economy is, as Friedrich August von Hayek correctly pointed out, a *pretense of knowledge*. It is impossible to gather the total amount of goods and services in an economy. It is also hopeless to calculate the money supply – that is, the number of transactions still open – and the preferences of individual market participants. For all these components are subject to daily and sometimes severe fluctuations.

## Money in Use and Idle Money

Velocity of circulation is decisive for the effectiveness of money. However, the following difference in types of circulation of money is of utmost importance. Money can circulate idly; that is, it can be used for unproductive purposes, such as the purchase of long-standing assets (real estate, shares of stock). On the other hand, money can circulate in use. In this case, new capital and consumer goods, for example, are created for productive use. The price mechanism serves to regulate these two components of money circulation. **A low price of production forces**

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3 *See* “Regression theorem explains why gold equals money”, *In Gold We Trust* classic

**the flow of money toward new goods to be produced; a high price means that the money is repelled from this market.**

Thus, in the case of constant competition between new and old forms of production, manufacturers are forced to produce cheaply and thus in large quantities, which leads to an increase in the effective velocity of money in circulation. The more goods a producer manufactures and sells, the more claims on other goods and services are available and the more he/she can consume. The increase in the company‘s production consequently leads to an increase in general production. More and more economic output is created, which results in more and more claims on goods and services. But since a claim on goods and services is nothing other than money, the increase in production generates the money necessary for the coverage of the increase itself. In other words, the circulation of money and goods is identical. It is only for reasons of convenience and to facilitate proof of ownership that the abstract rights to purchase goods and services become an independent, concrete economic factor – money.

**The following illustration summarizes this phenomenon. Production and consumption are the rising and falling piston of the economic machine.** Money is the flywheel, which is set in motion by the piston, first in a slow, then in a fast movement, which corresponds to the speed of circulation. The piston, not the wheel, which is merely a technical aid, drives the machine. It is more advantageous to let the piston act on the motion of the machine not directly but through the flywheel, but it is not strictly necessary. An economy without a flywheel is a natural economy; one with it is the much more efficient money economy.

*The relative stability of the value of gold money is rather due to the fact that the production of such money is beyond the arbitrary control of the state.*
**Argentarius, About Money**

**So why has gold developed as the optimal means of payment over a centuries-long selection process?** A commercial effort must have been made in the economy, from which a good was created that in itself carries the guarantee of the greatest possible stability of value. Only a claim to goods that relates to this particular item is a genuine, fully fledged, legally created means of payment. Gold‘s unique physical properties enable it to represent this greatest possible stability of value. It is expressed, among other things, in its stock-to-flow ratio; that is, that the annual global gold mine production of 3,000–3,500 tonnes is less than one-sixtieth of the world's above-ground gold reserves**. In other words, the annual percentage increase in gold is comparable to the increase in the world population and has been so for many centuries without major fluctuations. This ensures that the amount of the means of payment follows an extremely stable and therefore predictable path.**[4]

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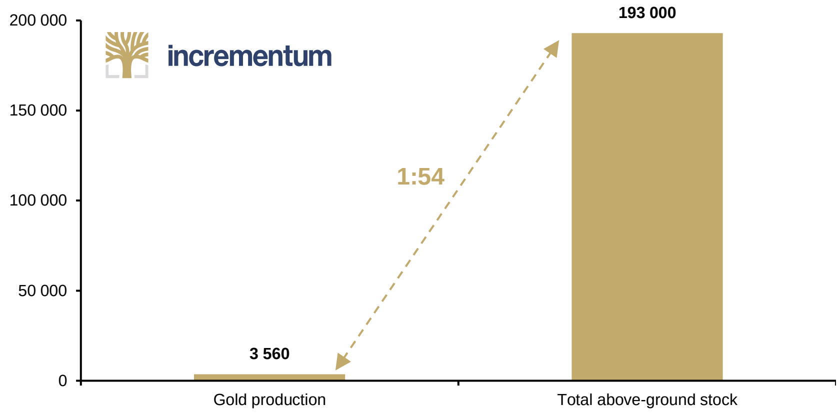
4 *See* Macleod, Alasdair: "Gold's outlook for 2020", GoldmoneyInsights, January 2, 2020

**Stock-to-flow ratio of gold, in tonnes, 2019**




Source: USGS, World Gold Council, Incrementum AG

This view of the nature of money has profound implications for other issues in commercial transactions. What role does the rate of interest play? What are the driving forces behind the valuta – that is, the value of money abroad? Is a healthy and sustainable monetary system even achievable at present? And if so, what practical measures, apart from explaining the theoretical background of this monetary theory, must be taken to achieve this?

## Conclusion

*Money is a right and should not become an injustice. Therefore, the state must never take the liberty of creating or destroying money arbitrarily, because it creates or destroys with it well acquired claims on goods.*
**Argentarius, About Money**

The thread running through the complex set of concepts and interrelationships in the monetary and economic system is the simple recognition that money is an abstract right to receive goods and services – one that is in its essence immune to any attempt at manipulation. Measures by the authorities to control the monetary system, which are without exception disadvantageous to the broad masses, always arise only at the level of the external form – the monetary unit or means of payment.

When knowledge of the inherent nature of money as an abstract claim on goods and services becomes more widespread, the number of people who are able to recognize the destructive impact of inflation will increase significantly. **Even John Maynard Keynes once warned forcefully of that impact:**

> *"There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*[5]

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[5] *See* Keynes, John Maynard: *The Economic Consequences of the Peace*, 1920, chapter 6

# About Us

## Ronald-Peter Stöferle, CMT

**Ronnie is managing partner of Incrementum AG and responsible for Research and Portfolio Management.**

He studied business administration and finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation he joined the research department of *Erste Group*, where in 2007 he published his first *In Gold We Trust* report. Over the years, the *In Gold We Trust* report has become one of the benchmark publications on gold, money, and inflation.

Since 2013 he has held the position as reader at *scholarium* in Vienna, and he also speaks at *Wiener Börse Akademie* (the Vienna Stock Exchange Academy). In 2014, he co-authored the international bestseller *Austrian School for Investors*, and in 2019 *The Zero Interest Trap*. Moreover, he is an advisor *for Tudor Gold Corp*. (TUD), a significant explorer in British Columbia's Golden Triangle, and a member of the advisory board of *Affinity Metals* (AFF).

## Mark J. Valek, CAIA

**Mark is a partner of Incrementum AG and responsible for Portfolio Management and Research.**

While working full-time, Mark studied business administration at the Vienna University of Business Administration and has continuously worked in financial markets and asset management since 1999. Prior to the establishment of Incrementum AG, he was with Raiffeisen Capital Management for ten years, most recently as fund manager in the area of inflation protection and alternative investments. He gained entrepreneurial experience as co-founder of *philoro Edelmetalle GmbH*.

Since 2013 he has held the position as reader at *scholarium* in Vienna, and he also speaks at *Wiener Börse Akademie* (the Vienna Stock Exchange Academy). In 2014, he co-authored the book *Austrian School for Investors*.

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