**Larry Parks: Everything You Ever Wanted to Know About Money Metals**
Sunday, April 28, 2013 by Anthony Wile - www.thedailybell.com

The Daily Bell is pleased to present this exclusive interview with Dr. Lawrence Parks.

**Introduction:** *Lawrence Parks holds a Ph.D. in Operations Research from the Polytechnic Institute of New York University and is the Executive Director of the Foundation for the Advancement of Monetary Education (FAME). Dr. Parks was a student of free-market economist Murray Rothbard and has studied monetary issues for more than 30 years. He is the author of* What Does Mr. Greenspan Really Think?*, a popular book on the workings of the US monetary system. He has authored and produced more than 200 videos on topics dealing with the US monetary system, more than 50 of which are posted to www.LarryParks.com. His writings have appeared in* Pensions & Investments, The Economist, Washington Times, The Freeman, American Outlook *and* National Review.

**Daily Bell:** Larry, perhaps more than almost anyone for the past 18 years at least, you've been devoting yourself to **changing the monetary system.** On the face of it this sounds like an impossible task, given that the entire planet has now adopted fiat money, what you call political money. Before we go further, take a moment to please explain what you mean by political money and how people are coerced into accepting it.

**Larry Parks:** Quite simply, political money is money that has value in the marketplace because politicians decree it so. In the literature this is most times referred to as **fiat money, meaning arbitrary money.**

The way politicians do this is they take an intrinsically worthless item, i.e., something that costs almost nothing to produce, such as a piece of paper, gussy it up with seals and signatures and pass a law making it **legal tender** for all debts public and private.

Legal tender is a concept that virtually everyone in the United States knew about up until the turn of the last century. Since that time, the concept has been taken out of the textbooks. Even though the phrase appears on every one of our pieces of paper money, hardly anyone knows what it means or why it is important.

Let me digress for a moment with a little bit of history.

The concept of legal tender morphs from a concept called forced tender. In the middle of the 13th century, when Marco Polo went to China, one of the things he noticed and remarked about was that the Chinese emperors had become fabulously rich issuing paper money. When Marco Polo returned to Europe and told the Europeans about paper money, they were disbelieving.

Why, they asked, would anyone accept a piece of paper in exchange for his goods and services? The answer was that if one did not accept the emperor's money he would kill you. With legal tender you don't get killed, but if you don't accept it in payment of a debt by law you are not entitled to be paid.

**Legal tender is the coercion in the monetary system.** This is to say, irredeemable paper ticket money is not a free-market innovation. But in this instance coercion is not enough. There is also nondisclosure and misrepresentation of material information.

**Daily Bell:** When you talk about nondisclosure and misrepresentations, aren't you in fact talking about fraud? Please explain a little more about that.

**Larry Parks:** You hit the nail right on the head and in fact our monetary system is demonstrably a fraud on the people. Here is some evidence:

I owe a great deal of this explanation to Dr. Edwin Vieira, the author of the magnificent ***Pieces Of Eight: The Monetary Powers And Disabilities of The United States Constitution*****.**

It is certainly a tragedy that the history and basics of the United States monetary system are no longer taught anywhere. As a result, hardly anyone in the United States, and certainly not any place in the rest of the planet, has any idea about **what a dollar is.**

Virtually everyone believes that the pieces of paper that we carry around with the inscription "Federal Reserve Note" along with the image of George Washington or another president, the word "dollar," and a whole bunch of signatures and seals are in fact real dollars. In fact, none of these pieces of paper are dollars.

Consider, the word **dollar is used in the Constitution in two places but it is not defined in the Constitution.** It used in connection with the slave tax, which is no more, but much more importantly, it's used in the **Seventh Amendment**. That's the amendment that guarantees you a right to a trial by jury for any dispute $20 or more.

In order for the Seventh Amendment to have objective meaning, the word dollar has to have objective meaning. And so the question arises: What is a "dollar" as used in the Constitution, which, as everyone should know, is the overriding law of the land. **Every law has to be in conformity with the Constitution or else it is not a law.**

If one looks at the history of money in the Colonies prior to the Revolution, one will find that the Spanish Milled Dollar was ubiquitous. Spaniards had built mints in many places and the Spanish Milled Dollar, the silver coin sometimes referred to as a Real and other times as a **Piece of Eight**, was the unit of account for most commercial transactions. Here is an image:


At the time of the Revolution, when the Colonies organized under the Articles of Confederation, the Articles gave the general government the power to issue paper money, at the time called emitting bills of credit, which were denominated in Spanish Milled Dollars. Here is an example:


One can see from the inscription they are to be redeemable into Spanish Milled Dollars or an equal sum in gold or silver.

After the Revolution and after the Constitution was ratified, the United States wanted to have its own coinage and did not want to rely on the Spanish mints. In other words the United States wanted to mint its own dollars.

In 1792, Alexander Hamilton, then Secretary of the Treasury, wrote the Coinage Act of 1792. **Here we see the first definition of a dollar: 371.25 grains of fine silver.** Question: Where did Hamilton get that crazy number? If he was arbitrarily defining a dollar, why not choose 350 grains or 400 grains of silver?

The answer is that the government could not define an entirely new coinage because all of the pre-existing contracts were already denominated in dollars. **A small complication was that Spanish Milled Dollars did not have a consistent weight,** depending upon which of the Spanish mints produced them. That is, there were slight variations in the amount of silver in each coin.

**The solution was to weigh, say, a thousand of the Spanish Milled Dollars and take the average weight. That's where the 371.25 grains of silver came from. Another way of looking at this is that all Hamilton did was to put into law what was already a fact. The definition of a dollar has never been changed. It cannot be changed.**

Here's an example of the United States dollar that is in conformity with the Constitution pursuant to the Coinage Act of 1792:

This is silver money. It is in fact and in law a one dollar coin as provided for by the Coinage Act of 1792. **It is the dollar referred to in the 7th Amendment to the Constitution.**

As one might imagine, it's more than inconvenient to carry around any quantity of United States silver dollars. They are heavy, bulky, and just a bother. The solution was to deposit these dollars in a safe place, usually a bank, because a bank would have a big and secure vault, and **take in exchange promissory notes from the bank or from some other depository.** One would then carry around and transact using the promissory notes that promised to *pay* silver dollars instead of the actual silver dollars.

Here is an example of what one of these promissory notes looked like:


**This is not a dollar. It is a promise to pay a dollar.** (The words under Washington's image read: "Will Pay To The Bearer On Demand ONE DOLLAR")

In time, people did not redeem their promissory notes for silver dollars. They left the silver dollars at the depository. Because they trusted the depository, they circulated the promissory notes. Why would they redeem? What would they do with the silver dollars once they had them? **The same state of affairs applied to promissory notes whereby gold was the promised coin.**

Eventually, the issuer of the promissory notes realized that people were not redeeming. The issuers in most cases were banks. And so when people applied at a bank for a loan, the bank would issue them promissory notes redeemable on demand for gold or silver for which the bank did not have gold or silver. **The jargon for this is called fractional reserve lending.** It is *enormously profitable* for a bank to loan someone a piece of paper and charge 8% interest on the nominal amount.

Leaving out a great deal of history, eventually there came a time when the issuing authorities were asked to redeem their promissory notes. Because they had over issued, **they didn't have enough specie. In fact, they were bankrupt. What to do? (Bank run by depositors of gold and silver unveiled the inherent bankruptcy of fractional reserve banks).**

With the connivance of politicians who some suggest were bribed with what are euphemistically called campaign contributions, banks defaulted on the promissory notes. They then issued pieces of paper, still called notes even though they were not notes, but left off the promise to pay dollars. Incredibly, they got away with misrepresenting these *defaulted* promises to pay dollars, *as if* they were dollars.

In other words, **the broken promises to pay dollars became dollars.** This is a gross misrepresentation. As a practical matter, people were precluded from objecting, because by law these pieces of paper were deemed to be legal tender. Here is what these broken promises look like:


This is a broken promise to pay a dollar. (The phrase under Washington's image "ONE DOLLAR" is a misrepresentation. This is neither in fact nor in law a dollar. Even though it says NOTE, it is not a promissory note.)

**Daily Bell:** I see what you mean. Why don't people object? How did it happen that people all over the world got tricked by this?

**Larry Parks:** I'll get into that more in just a moment. I want to first tell you another story that will shed some further light on this. I refer to an article written by perhaps the most admired, revered and respected Wall Street personality on the planet, Warren Buffett.

In a recent terrific book about Warren Buffett and his writings, *Tap Dancing to Work: Warren Buffett on Practically Everything, 1966-2012*, by Carol Loomis, Buffett writes about stocks having four classes of shareholders: A, B, C and D shareholders.

"Investors in American corporations already own what might be thought of as a Class D stock. The Class A, B, and C stocks are represented by the income-tax claims of the federal, state, and municipal governments. It is true that these "investors" have no claim on the corporation's assets; however, they get a major share of the earnings, including earnings generated by the equity buildup resulting from retention of part of the earnings owned by the Class D shareholders.

"A further charming characteristic of these wonderful class A, B, and C stocks is that their share of the corporation's earnings can be increased immediately, abundantly, and without payment by the unilateral vote of any one of the "stockholder" classes, e.g., by congressional action in the case of Class A. To add to the fun, one of the classes will sometimes vote to increase its ownership share in the business retroactively — as companies operating in New York discovered to their dismay in 1975. Whenever the class A, B, or C "stockholders" vote themselves a larger share of the business, the portion remaining for class D – that's the one held by ordinary investor— declines."

This raises an interesting question with regard to our monetary system. **Since the monetary authorities claim the power, at their whim, to increase the money supply, in Mr. Greenspan's exact words, "without limit," thereby depreciating the purchasing power of money that exists as well as the purchasing power of money that's been promised for future payment, why is this materially different from politicians unilaterally declaring for themselves, or rather the government they represent, a larger share, or all of, the accumulated savings of the entire population?**

The principal difference, in my view, is that in theory politicians are answerable to the people at election time, whereas the monetary authorities are *independent*. That is to say, as a practical matter the monetary authorities can do whatever they want whenever they want. **The issue in hand is sovereignty**, who is ultimately in charge.

This is not the way our government is supposed to be constituted according to the Constitution.

Very importantly, for the government to distribute, spend, or otherwise authorize payments, transfers, or gifts to anyone, there is supposed to first be a bill offered in the House of Representatives and approved, and then confirmed by the Senate and sent to the president. The president may then veto the bill, at which time the Congress has an opportunity to override his veto. Or, if the president does nothing, after a period the bill automatically becomes law.

When it comes to distributions of money by the monetary authorities, as President Nixon's H. R. Haldeman might have said, the Constitution is no longer operational.

**Daily Bell:** So what you seem to be saying, **Larry, is that the Constitution has been usurped in order to facilitate what is clearly a fraud on the people with regard to our money.**

**Larry Parks:** Absolutely.

**Daily Bell:** So how does this get fixed?

**Larry Parks:** I would like to spend the rest of this interview outlining what I believe is a clear roadmap of the steps needed to change the monetary system both at home and abroad and how to implement those steps.

When I organized FAME, the Foundation for the Advancement of Monetary Education, a 501c3 public charity in 1995, my original concept was that the media, especially the mainstream media, *de facto* puts issues on the national agenda primarily with op-eds, articles and analysis. It is very clear that this is not enough.

While there were more than 40,000 downloads of my What Does Mr. Greenspan Really Think? book and wide distribution over the Internet of articles that I and many others wrote about the monetary structure, at least up until the financial meltdown in 2007-2008 hardly anyone was questioning the long-term efficacy of the US dollar.

These days, there is a lively debate at home and abroad that James Rickards has characterized as currency wars in his book *Currency Wars: The Making of the Next Global Crisis*.

**Daily Bell:** Let me interrupt you. Mindful of what you say, with some minor exceptions such as Malaysia, and perhaps mentions of gold by Russia's Mr. Putin and Mr. Medvedev, there's not a lot of action. Please get down to specifics.

**Larry Parks:** Okay. Working backwards, in order to change the monetary structure, or any important social change, **there needs to be legislation. In order to get legislation enacted in the United States, there needs to be lobbying.**

I have first-hand primary source confirmation that the United States Congress does not take up legislation on its own. With the possible exception of legislation resulting from some kind of emergency, pretty much all legislation is proposed by lobbyists who have been retained by special interests.

Let me describe the process.

The first step is referred to as **buying academic cover.** The notion is that before any legislation can be proposed there needs to be intellectual justification, i.e., a case for the legislation has to be made.

As Murray Rothbard pointed out years ago, the function of intellectuals in society is to **legitimatize ideas**. That's what they do. But what Murray Rothbard did not say, and which is crucially important, is that the **intellectuals must be paid.**

In other words, intellectuals have secular needs that must be met before they can do their work. They have families, mortgages, car payments and all the baggage that other people have. Even if they wanted to it would be highly unusual if they could work for free.

The financial sector has this process down, in my view, better than any other sector. For more than 100 years the financial sector has been buying academic cover with a combination of prizes, endowed chairs, honorariums, research grants, consulting assignments, etc.

For example, the so-called Nobel Prize in economics is not one of those prizes endowed by Alfred Nobel. It came in 1968 and the endower is the Central Bank of Sweden. It's a bank prize. It is not given to someone who questions the efficacy of irredeemable paper ticket money or the legitimacy or the honesty of central banking.

The Federal Reserve, as another example, has over the years hired as consultants or as Visiting Scholars virtually all of the monetary economists in the country, as related to me by Dr. Robert Auerbach, the author of the superb *Deception and Abuse at the Fed: Henry B. Gonzalez Battles Alan Greenspan's Bank*.

When he was one of the principal legislative aides for Henry Gonzalez, when Henry Gonzalez headed the House Banking Committee, Auerbach collected 305 consulting agreements that the Federal Reserve entered into with academic monetary economists.

At the time, he showed some of these agreements to a journalist, Stephen Davies, then and perhaps now a journalist for the *American Banker* and the *Bond Buyer*, two establishment publications. Davies wrote an article entitled "Some Lawmakers Claim Fed Keeps Critics at Bay with Jobs." He quotes from the contracts that these academic monetary economists entered into whereby they promise not to say anything bad about the Federal Reserve.

Wrote Davies:

"Moreover, in the case of the Federal Reserve Board, all contractors are required to sign a non-disclosure statement promising to keep all information confidential. The statement is broadly worded to prohibit the release of any information 'relating to past, present, or future activities' that can be considered 'damaging to the board.'"

Henry Gonzalez is quoted in the article:

"The Fed is simply buying off potential critics by holding out contracts that offer academics extra money and use of the Fed's facilities. No agency that has to justify its spending would dream of this kind of extravagance and waste."

I could go on and on with this and fill the entire interview with stories about how the financial sector has acquired academic cover to legitimatize irredeemable legal tender paper ticket money.

**Daily Bell:** What's the next step?

**Larry Parks:** The empirical evidence has conclusively shown that it's not enough to develop incontrovertible evidence in support of an issue and expect that evidence to be acted upon. **Our own experience of putting this evidence onto the Internet and somehow expecting people to find it and act on it illustrates the point.**

There must be distribution so that it is picked up by mainstream media and especially by the *New York Times* and or/the *Wall Street Journal* and/or the *Financial Times* and by the major television broadcasters.

To get this done there are two principal distribution channels: **public relations agencies and think tanks.**

The role of public relations agencies is to get placed in mainstream media op-eds, articles, exposés, book reviews, investigative reports and the like. Public relations agencies do this by hiring as staff people who were formerly editors or journalists for mainstream media publications, and former producers and other former senior employees of major television broadcasters.

What these folks bring to the table are relationships with current editors, producers etc. who then publish the materials created by the intellectuals.

Think tanks also serve as a distribution channel and, in addition, they sometimes provide intellectual legitimacy for possible legislation. Think tanks many times hire as staff people who have hands-on policy experience and, as opposed to pure academics, have worked and/or published in fields in which they are considered expert.

Typically, think tanks will be engaged to prepare studies, position papers, proposals and the like after which they hold conferences as well as publish these materials. As with public relations agencies, think tank experts may also have relationships with the major media.

At conferences, where think tank research may be presented, the media is invited. Many times conferences are held at a swank resort location. At panel discussions, experts, who may be experts only because they are the ones who have been awarded the prizes or the endowed chairs or who, as a result, become Head of Department, or who are acknowledged by the industry as being the top people, also give forth with intellectual ammunition arguments, narratives and the like that will lead to the desired legislation.

**Daily Bell:** If I understand you correctly, what you are suggesting is that after **intellectuals have legitimatized ideas, by retaining public relations agencies and think tanks these ideas somehow make it into the mainstream media. Do I have that right?**

**Larry Parks:** Yes. I'm describing how an issue gets onto the national agenda. **Now comes the more difficult**

**part: how to translate an issue that's on the national agenda into legislation.**

This is where the lobbyists come in. My source for how this works is a wonderful book that was authored in 2010 by Robert Kaiser entitled *So Damn Much Money: The Triumph of Lobbying and the Corrosion of American Government*. Robert Kaiser, by the way, is the former managing editor of the *Washington Post*. The book relates how Washington lobbying has evolved as told through the eyes of Gerald Cassidy, arguably America's premier lobbyist.

The lobbyists have two functions: first, to facilitate campaign contributions to our elected representatives and, second, with the help of industry representatives, to craft and coordinate with congressional staff proposed legislation.

It's the campaign contributions that our elected representatives are most interested in. To be fair, in order for these folks to be reelected they need to buy television time, which is costly. So if they don't somehow acquire significant funding, which today many times means millions of dollars, they are out!

After the legislation is proposed, in order for the politicians to vote for it there needs to be what's known as political cover. What this means is that in support of proposed legislation hearings will be held and experts will be invited to testify either in support of or in opposition to the legislation. In this way, if things don't turn out as hoped or as planned, the fallback position for the politicians is that they relied on the experts.

Who do you suppose those experts testifying in support of proposed financial legislation are going to be? In almost all cases they will be the same academics to whom those interested in passing legislation have provided the prizes, endowed chairs, research grants, consulting assignments, etc. along with think tank experts who they have also retained.

That's the process.

**Daily Bell:** Okay, that makes sense. So tell us, in the case of changing the monetary system, where are we in the process? Is there academic cover? Are there any think tanks that support changing the monetary structure? Have any lobbyists been retained?

**Larry Parks:** In many ways it may appear that we're not even at the starting gate. In addition, as you pointed out at the start of this interview, irredeemable legal tender paper ticket money is in use worldwide. Moreover, the financial sector has had virtually 100% success in co-opting the world's monetary economists.

On March 11, 2009, the *Financial Times* ran a fairly lengthy article entitled "Fifty who will frame a way forward," by Lionel Barber, about the 50 most influential people who will be called upon to fix the world's economy. The 50 people consisted of bankers, central bankers, heads of financial institutions, financial economists, academics who have legitimatized the paper money, politicians and only three people from industry. Labor was not represented.

When I saw this article my first reaction was that the same people who are responsible for the catastrophe the world is experiencing, to say nothing of the debacle that's coming when the irredeemable paper ticket money finally collapses, are going to be called upon to suggest remedies.

But what is unstated is that the financial sector, which these people represent, has a conflict of interest with almost everyone else, including industrialists, workers, small countries and ordinary people everywhere.

**What almost everyone wants in their lives is stability: stable purchasing power for their savings, stable and secure pensions, stable housing prices, stable interest rates, stable foreign exchange rates, stable balance sheets and so on. Parenthetically, they want declining prices and increasing quality for consumer items.** That's what an increasing standard of living means.

The financial sector, because it makes so much of its profits from trading, does not want stability. It wants volatility.

Tragically, the structure of the world's monetary system has been left in the hands of financial players. They have rigged that system for their own benefit and to the detriment of everybody else.

**Daily Bell:** You have outlined in a credible way the steps needed to change the system, but as a practical matter, you need to fill in some of the blanks about how all of this can be implemented. I agree with you on all the steps but you have left out something critically important: Every step you've described is going to have to be paid for. Who is going to finance this?

**Larry Parks:** In my view, logical funders are those who have the most to gain in the very near term. That would include gold producers and those who have large positions in gold equities and/or in gold.

**Daily Bell:** Are you suggesting this because you think, as do many others, that the gold standard is a remedy not only for this financial mess but also for bringing government spending on a worldwide basis back into line with what people can afford, and without having a monetary system whereby the authorities can create out of nothing unlimited amounts of new money?

**Larry Parks:** No. **The gold standard is a dead-end and for several reasons.** Allow me to digress for a moment to explain. It's important to define exactly what is meant by the so-called gold standard. Sometimes you'll see in the literature qualifications such as a "pure" or a 100% gold standard. This just adds to the confusion**. In general, the gold standard is a piece of paper that is redeemable into, pegged to, backed by, or somehow linked to gold.**

First of all, the gold standard is not a free-market innovation. It is an invention of the Bank of England. Its purpose was to allow that bank to leverage up on a small amount of gold to provide pieces of paper, which were nominally all redeemable into gold to help King William III finance his war against France in 1694.

Second, the gold standard is invitation to fraud. **The reason is that the issuing authorities always issue more receipts for gold than for which they have gold by promising that receipts, a.k.a. banknotes or the like, may be redeemed for specie on demand.**

At best that is a **contingent promise and not an absolute promise.** That is not disclosed. Depending upon how much confidence note holders have in the issuing authority, there is a tendency for the issuing authorities to over issue. Indeed, that is the history of the gold standard; there always comes a time when the temptation to over issue is so overwhelming that the authorities cannot resist. The Catholic Church has a line for this and the Catholic Church has this exactly right: "In the face of temptation reason succumbs."

Third, the gold standard is not authorized by the United States Constitution. While today for most people the Constitution is a dead letter, people should pay more attention, in my view, to the benefits of the rule of law.

**Fourth, empirically the gold standard is a failed system**. As Lord Keynes pointed out in what is perhaps his best book, *The Economic Consequences of Peace*, the gold standard is a barbarous relic. It was for good reason that it was abandoned worldwide. This is well understood and agreed upon by those who have studied the issue.

As an interesting aside, Dr. Mark Skousen reported that at the last national American Economic Association annual meeting there was only one issue that had unanimous support among all of the economists present: that we should not return to the gold standard.

In sum, it makes no sense to advocate for a system that is statist, an invitation to fraud, not authorized by the Constitution and which has empirically failed.

**Daily Bell:** So if it's not a return to the gold standard why should gold producers have an interest in changing the monetary system?

**Larry Parks:** The reason is that gold as money is and has been throughout history the free-market choice for money when gold is available. A little caveat here: Gold is not and has never been convenient for small day-to-day purchases. Its most important use is for transferring wealth, especially large transactions, over time. For day-to-day transactions a subsidiary coinage, or even tokens or paper, such as a New York City Metrocard, would be better than gold or silver money.

Tokens, however, without legal tender coercion, and with full disclosure and no misrepresentations of material information, would not be accepted for securing future payments, such as pensions or rents. For that one needs real money.

**Daily Bell:** Certainly you are not suggesting that people will walk around with coins.

**Larry Parks:** No, of course not. As in prior years people will deposit their gold or their silver or other coins and receive promissory notes in exchange, or alternatively, as is done now, people will pay for goods and services using credit cards, checks, or something similar.

**Daily Bell:** But aren't you coming back to a *de facto* gold standard? What is the difference between what you envision and the gold standard?

**Larry Parks:** The difference is that **the free market disallows legal tender. Also, and vitally important, there must be full disclosure, e.g., that the notes are not money, and no misrepresentations.** In that case, for example, what we call Federal Reserve Notes would be labeled "Federal Reserve Tokens." That has a little bit of a different ring to it, don't you think?

Just as a check is not money, as illustrated above, a piece of paper that is a promise to pay money is not money. Howard Katz, the author of *The Paper Aristocracy*, had a clever metaphor to illustrate this.

Imagine that you go into a restaurant, check your coat and receive in exchange a coat check. Then, the restaurant steals your coat. When you present your coat check, they tell you that the coat check is a coat. You object. And then you are informed that the coat check is legal tender for a coat. It sounds absurd, and it is absurd, but that's exactly how our present monetary system evolved.

Without legal tender people reject political money for future payment in favor of real money. As an aside, and I'm getting a little bit ahead of myself here, after Congressman Dr. Ron Paul proposed his first Free Competition in Currency Act, which, among other things got rid of legal tender, he wrote Alan Greenspan, then Chairman of the Board of Governors of the Federal Reserve, to ask if he would support the bill.

Mr. Greenspan wrote back—I have a copy of his letter; it is appended to my congressional testimony, and here -- where he wrote that as long as we have fiat money we have to have legal tender. That's right. If you want to have political money, you're going to have to force people to use it.

We should note the concept of legal tender is something that in years past was repugnant for ordinary people. For example, after the Revolution Thomas Paine, sometimes referred to as the Father of the Revolution on account of his widely read pamphlet *Common Sense*, wrote that any member of Congress who proposed legal tender should be put to death!

At the end of the 19th century the American Labor Movement was still complaining about legal tender. During the election of 1896, when William McKinley ran against William Jennings Bryan, in the *American Federationist*, Labor asked the exact right questions about legal tender: If our money is good and would be preferred by the people, why must they be forced to use it? If our money is *not* good and would *not* be preferred by the people, why *should* they be forced to use it?

**Daily Bell:** In our day many pundits, such as Peter Bernstein in his book *The Power of Gold: The History of an Obsession*, made the claim that people buy gold out of "stupidity and cupidity." But you seem to be saying something else. It sounds like your position is that people choose gold as money for good and rational reasons. Please expand on that a little more.

**Larry Parks:** Sure. There are two reasons why society chooses gold as money when gold is available.

First, there's an important principle which was well understood at the turn of the 20th century and written about by Carl Menger, later on by Ludwig von Mises and by Murray Rothbard. These days that principle has been taken out of the textbooks.

Sometimes it's called marketability or salability. What it teaches is that if you line up all of the commodities that could possibly be used for money, such as gold, silver, copper, salt, cattle, tobacco and so on, and offer ever-increasing amounts of each into the marketplace, the commodity for which the buy/sell spread increases the least is the most efficient medium of exchange for transferring wealth over time. That commodity is gold.

Empirically, cross-culture, cross-time and cross-geography, no matter where you drop in on the planet, in the eighth century in China, in biblical times in the Mideast, in Renaissance times in Europe, you find gold being used as money when gold was available. How was that possible? Did a directive somehow come down from the heavens?

Another way of looking at this is that with gold as money you have the least amount of waste for transferring wealth over time. For example, if you used cups of coffee as money and passed around the cups, you would have spillage. With gold as money there is no spillage.

Second, with the minor exception being silver, and silver is today irrelevant as a monetary metal, only gold has more than a year's worth of production above ground. For example, for gasoline there is a three-week supply, for oil a six-month supply, for platinum a six-month supply and so on. With gold there is more than 70 years' worth of production above ground that could easily be brought to market.

The benefit from a monetary system point of view is that if new gold mines are discovered or present ones close down, on account of the large amount of gold already above ground, pricing relationships into the future will remain stable. No other commodity offers that benefit.

It is for these two reasons that one can be confident that if all the facts are on the table and there is no coercion free people will again choose gold as money.

**Daily Bell:** Well said. I remember you telling me that when you first started FAME it had been your view that gold producers would embrace your program and provide the funding. That never happened. So explain why, after all this time, gold producers may take a different view of repositioning gold away from jewelry back to its monetary uses.

**Larry Parks:** Times change. Today there has been almost a complete turnover in the chief executives of the major gold producers. More importantly, what is really catching their interest in the last several years has been the incredible divergence between the price of gold and the market capitalization of their companies.

Up until a few years ago buying shares in a gold producer gave one positive leverage on the price of gold. No more. In fact, as the price of gold has increased the market capitalization of almost the entire industry has *decreased*.

The chairman of one of the very largest gold producers, after spending nearly an hour with me, told me that he viewed the divergence as a shift in investment from gold equities to the gold ETF in order to avoid political, operational and geographical risk.

Other top industry people, in addition to pundits, newsletter writers, fund managers and analysts, theorize that the lack of appreciation or rather the depreciation in gold equities has mostly to do with the misallocation of assets. In other words, inept management in allocating resources is at root responsible for the poor showing in gold equities. Part of the remedy, in their view, is to change management, which accounts in part for the CEO turnover.

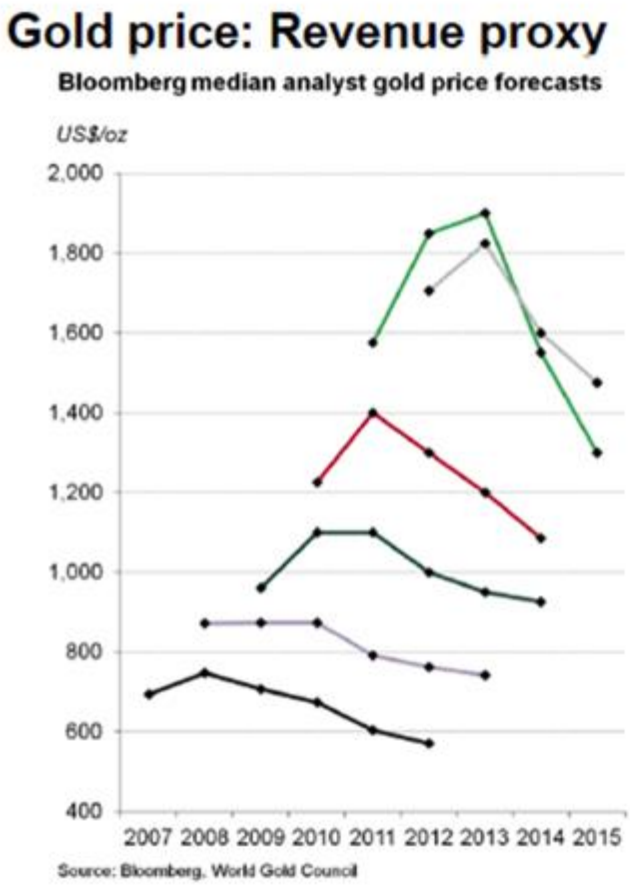
**Daily Bell:** But you have a different point of view. I can't wait to hear about it.

**Larry Parks:** Before explaining this I want to of acknowledge another debt I owe to a man who is arguably the best investor on the planet: Warren Buffett. In addition to Mr. Buffett's investment genius, he is also a better wordsmith and I will ever be.

In his writings, particularly in his Berkshire Hathaway Annual Report letter to shareholders, he very succinctly describes what he believes drives share appreciation: the expected return on assets. Another way of looking at this is that the trend in earnings is an indicator for future earnings. So it's not just current earnings that determine market capitalization. As many have pointed out, the stock market is a forecasting mechanism for what can be expected in the future.

How does this apply to gold producers?

One of the most brilliant executives in the gold business, maybe the most brilliant, is Pierre Lassonde, now the chairman of Franco-Nevada. Here is a chart that he put up last year at the Denver Gold Conference and then again a few months ago at a conference hosted by Jim Grant.




It shows the Bloomberg median projections for the price of gold as calculated by sell side analysts. Each of the lines, starting with the line on the lower left, which starts with the year 2007, shows the price of gold projections for the next several years. The line on the top of the 2007 projections shows the five-year projection beginning in year 2008, and so on.

Two observations jump out of the plot: First, the forecasted price of gold estimates by the sell side analysts have been consistently wrong for the past six years and second, they are consistently bearish on the future price of gold.

Here's another example of lowball price assumptions, this one by Morgan Stanley from November 20, 2012.

| Period | Gold | | |
|---|---|---|---|
| | Bull | Base<br>US$/oz | Bear |
| 2012e | 1,734 | **1,683** | 1,641 |
| 2013e | 2,223 | **1,853** | 1,575 |
| 2014e | 2,016 | **1,800** | 1,584 |
| 2015e | 1,925 | **1,750** | 1,575 |
| 2016e | 1,705 | **1,550** | 1,395 |
| 2017e | 1,485 | **1,350** | 1,215 |
| LT | | **1,189** | |

Some industry observers now believe that on average the all-in cost of producing gold is about $1,100 an ounce. It has also been suggested, correctly in my view, that by sell side analysts forecasting the future price of gold approaching $1,100 an ounce, they are de facto forecasting the demise of the gold mining industry.

Returning to Buffett's insight, by sell side analysts projecting lower future prices for gold they are, in effect, projecting lower returns on assets for gold producers.

**Daily Bell:** I get it. What you're saying is that the lowball forward estimates of the price of gold by the sell side analysts imply a lower return on assets for gold equities, and that gets reflected in lower market capitalizations today than if the forward estimates were for a higher price of gold.

**Larry Parks:** Exactly.

**Daily Bell:** So the key to this, it seems to me, is that the divergence between the price of gold and the market capitalization of gold producers has almost entirely to do with these empirically wrong forecasts by the sell side analysts.

**Larry Parks:** Right. Let me put a little more flesh on this argument as a segue into why I believe the gold producers will support our program to reposition gold.

**Daily Bell:** You have my complete attention.

**Larry Parks:** It used to be, going back as recently as seven years, that the market capitalization of gold producers had four components: 1) a value assigned to current production; 2) a value assigned to proven and probable gold reserves – in fact, investing in a gold producer was viewed by some as an unexpiring call option on gold in the ground; 3) a value assigned to measured and indicated gold in the ground; and 4) a value assigned to the possibility, or probability, of an increase in the proven and probable, either by new discovery of gold on the property or because measured and indicated reserves could be reclassified as proven and probable.

By lowballing the future price of gold, sell side analysts are discounting almost all value to be assigned to the proven and probable, to the measured and indicated, and to the possibility of increasing proven and probable either by discovering new gold on the property or by measured and indicated becoming economic. In effect, they are primarily valuing current production and severely discounting the other factors.

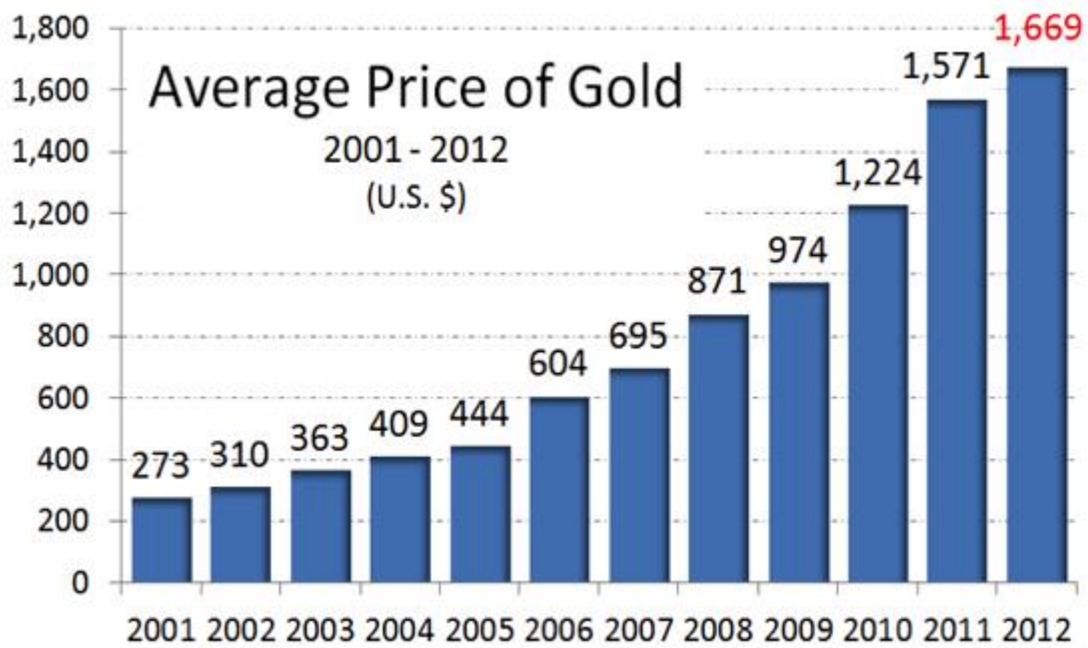
**Daily Bell:** Very interesting. But how does this relate to support from gold producers for FAME's program to change the monetary structure?

**Larry Parks:** Thank you again for asking the exact right question. The issues for the gold producers should be: How do sell side analysts arrive at these consistently wrong estimates for the forward price of gold; and, what can be done to cause them to change whatever methodology they are currently relying on?

Because the sell side forward price estimates are many times accompanied by a great deal of verbiage about the economy, expected interest rates, gold offtake for jewelry, investor purchases of bars, official sector selling or buying gold, projections of future costs of getting gold out of the ground and many other factors, investors cannot be faulted for thinking that the resulting price of gold estimates are based on careful analysis and have information value.

None of this is true. I have done considerable research over a two-year period into how these estimates are arrived at. I have it now from multiple primary sources that these estimates are nothing more than moving averages of the price of gold. In other words, there is virtually no information value added.

Here is a chart showing the average price of gold for each year from the year 2000 to 2012.




One does not have to be a mathematical genius to recognize that, as the price of gold has increased every year for the past 12 years, if at any point one takes an average going forward, the price for the forward year is always going to be less than the peak year.

Further, as the price of gold accelerated in 2010 and 2011, the forward estimate is going to be a steep decrease. That is precisely what Mr. Lassonde's chart shows.

**Daily Bell:** Okay. I see this and it makes perfect sense. But you have not yet made the case why the gold producers should embrace FAME's program to reposition gold.

**Larry Parks:** This means there needs to be repositioning of gold from its primary use being adornment to its primary use being money. In that case, gold offtake for jewelry is irrelevant.

**The argument for gold as money is overwhelmingly bullish for the relative valuation of gold. I hope I am not going into too** much detail for your readers. I still want to cover why I believe that Organized Labor will help provide the lobbying muscle to get the required legislation passed.

**Daily Bell:** Can you give us an estimate of the upside for gold producers were they to support FAME's program to reposition gold?

**Larry Parks:** Yes. Back of the envelope, very quickly, consider the valuation paradigm that was used, say, 10 years ago. Consider the price of gold today is about $1,600 an ounce. The market capitalization of the entire gold-mining sector is about $250 billion. The all-in cost of producing gold on average is thought to be about $1,100 an ounce. The proven and probable for the industry is roughly 1.1 billion ounces – call it 1 billion ounces. Calculating the value of a proven and probable ounce is simply $1,600 minus the all-in cost of production of $1,100, or $500.

Thus, before discounting for political, operational and geographical risk, the proven and probable has a market value of about $500 billion. I would suggest that discounting this $500 billion by 50% is too much and that even at the current price of gold the industry has left something on the order of $200 billion of market capitalization on the table.

To drive home the absurdity of current valuations, **let me just take a moment to give you an example with what might be the stellar exploration company, Seabridge Gold.** This is a company in a politically safe jurisdiction in Canada, with roughly 46 million ounces of gold proven and probable whose **gold is being valued at roughly $10 an ounce.** It may very well be that the company may never be acquired by a major producer, as hoped for by current shareholders, and the mine may never go into production.

**In my view, to discount that possibility by 98% makes no sense.** But the market is saying that, based on future projections for the price of gold, Seabridge does not have a future. If the forecast for the future price of gold was, say, $5,000 an ounce, for which a very good case can be made, in my view, I think one can conclude that the market capitalization of Seabridge would be a multiple of where it is today.

**Daily Bell:** What you say makes a lot of sense but I think you have your work cut out for you to make this case to the gold producers. I want to come back to something you alluded to earlier when you suggested that Organized Labor might lobby for legislation that would lead to changing our monetary system. Talk to that issue.

**Larry Parks:** Contrary to what some who advocate for changing the monetary system believe, there is no magic bullet, no switch that can be flipped, and absent a complete collapse of the dollar, no quick legislation that can be passed. I think it's fair to say that presently there is no significant constituency for changing our monetary system. There are, however, rumblings about this, especially in Russia, East Asia and a little bit in Latin America.

In the last century there have been maybe two or three dozen currency collapses. The loss of savings, pensions, jobs and suffering notwithstanding, all of the countries involved have somehow muddled through and are thought to be at some stage of recovery.

It's important to recognize, however, that in every case they had an alternate currency. That alternate currency was the dollar. When the paper ticket legal tender irredeemable dollar finally meets the fate of all political money, which is that its purchasing power approaches its cost of production, which is near zero, here in the United States we have no alternate currency. Then what?

As a practical matter, mindful that it is virtually impossible to redefine the dollar, it is urgent that we enable an alternate currency. We need at all costs to avoid a discontinuity. If we can develop an alternate currency, there is the possibility of a transition.

The way to do that is to legislate what Congressman Dr. Ron Paul called his Free Competition in Currency Act. In January of this year Congressman Dr. Paul Broun reintroduced the Free Competition in Currency Act of 2013, HR 77. It needs a little bit of redrafting.

Ideally, this act should have three components: First, repeal legal tender. Second, get rid of all taxes on gold and silver. This provision is crucial because as things stand today, even though the Congress has passed legislation making it legal for one to enter into a gold clause contract, and even though the Congress has authorized $50 United States gold Eagles, and even though Congress has made these coins legal tender, the Internal Revenue Service through its tax rules has defeated this legislation.

The third component should be to open the mints to free coinage. What this means is that, if society concludes that the money supply needs to be increased, more gold and/or silver will be mined, one will take the specie to the mint and the mint will produce the coins.

**Daily Bell:** This is all very interesting and informative but I still haven't heard why Organized Labor might be attracted to this legislation.

**Larry Parks:** Please excuse the digression; I need for you to understand where this is leading and what the endgame is. The hot button for Organized Labor is not changing the monetary structure. It is making sure that promises of pensions and benefits are kept and that working people will not become destitute when they retire and are no longer able to work.

Already, millions of steel workers, textile workers, airline workers and others have had their promises of pensions and benefits defaulted. All over the country defined benefit pension plans are under attack. We don't have time in this interview to explore all of the manifestations of these attacks and what to do about them.

What I have already brought to the attention of some of the very top people in Organized Labor – and they are paying attention – is that their pension plans for a very long period have been, and continue to be, managed for the benefit of Wall Street and not for the benefit of pensioners. In effect, Wall Street has been looting defined benefit pension plans, legally, of course.

**Daily Bell:** Tell us how you tie this in with gold.

**Larry Parks:** The essence of the argument has to do with the fees that Wall Street garners, augmented by a bogus asset allocation methodology, called Modern Portfolio Theory, which, in order to maximize fees to Wall Street, has resulted in an almost nonexistent allocation to gold, according to Shayne McGuire who runs the gold unit for the Texas Teachers Retirement System, the fifth-largest retirement system in the United States.

**Daily Bell:** Talk first about the fees.

**Larry Parks:** Broadly speaking, there are three main fee categories: asset allocation fees, which are paid to consultants, money management fees for stock/security picking and transaction fees.

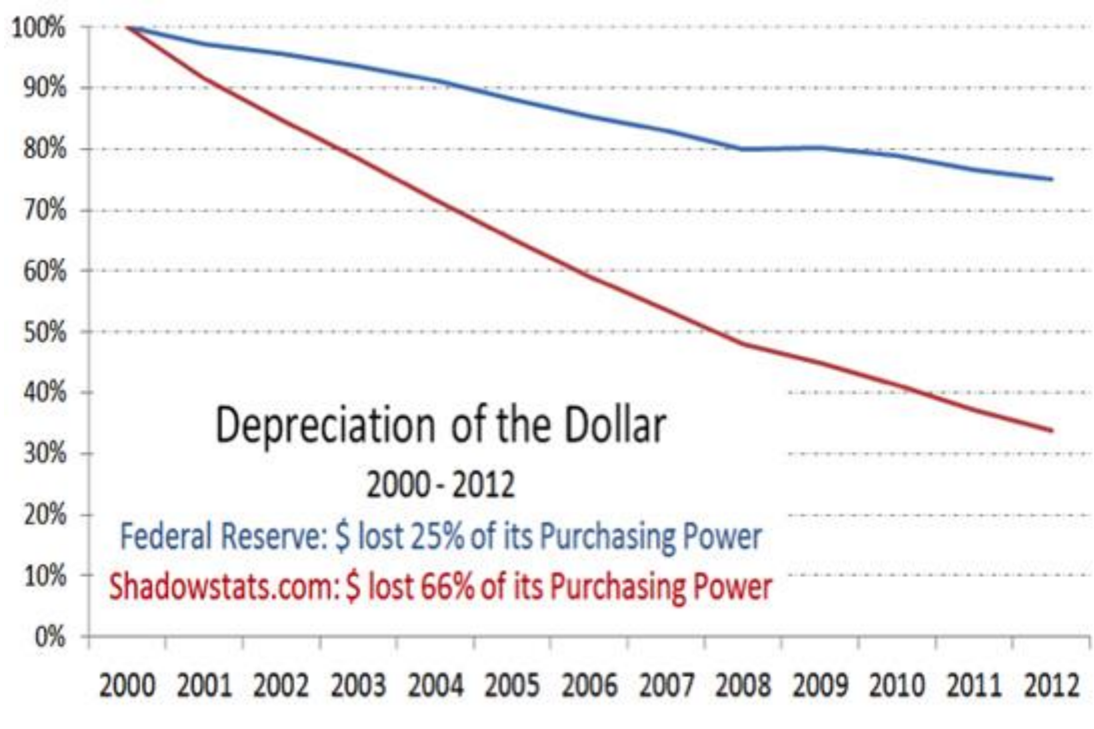
Depending upon the amount of money in a pension fund, and the same the structure applies to endowment funds and other kinds of funds, fees range from 60 or maybe 70 basis points for a very large fund, such as CALPERS or the Common Fund in New York, to as much as 400 basis points for a very small fund.

For example, I have audited financial statements from a million-dollar fund whereby the asset allocator alone charges 150 basis points, i.e., 1.5% per year. The assets are allocated to mutual funds, which charge an additional 100 basis points for stock selection. Some of these mutual funds also have an expense ratio of 125 basis points, some of which is forgiven.

And finally, although generally not disclosed, there are transaction costs, which, according to a study at the University of Virginia, average approximately 144 basis points. So all in, for this million-dollar fund, yearly fees are on the order of 4% per year.

This means that after 10 years, depending upon the amount of money in a particular fund, Wall Street garners fees somewhere between 7% and 40% of the fund. But as they say in the infomercials, wait, there's more!

Every year, on account of new money being created out of nothing, our money loses purchasing power. Best case, according to the Federal Reserve, going back to the year 2000, the dollar has lost 25% of its purchasing power. This calculation uses for depreciation the Consumer Price Index as calculated by the Bureau of Labor Statistics and as illustrated in the plot below.




Many observers, including and especially Bill Gross who heads PIMCO, the largest fixed income money manager in the world, suggest that the calculation of the CPI is, in Mr. Gross's exact words, "near fraudulent."

Perhaps a more realistic estimate of the loss of purchasing power of the dollar is calculated by Mr. John Williams who publishes his findings on an Internet website called Shadowstats.com.

According to Mr. Williams, using the same methodology that was used in the 1980s to calculate the CPI, since the year 2000 the dollar has lost 66% of its purchasing power. I think you'll agree that it's fair to ask, after experiencing this loss of purchasing power and all the fees paid to Wall Street, what has been the benefit to the fund?

The answer is virtually no benefit at all. In fact, since the year 2000 the equity markets are flat. Had pension plan assets been allocated to gold, as can be seen from the plot above, plan assets would have benefited from a more than 600% increase in the value of gold against the dollar. Very significantly, for gold there were no down years!

**Daily Bell:** That's pretty amazing. So tell us more about the justification for there being no allocation to gold. From the chart I can see that one would not have had to wait the entire 12 years but that at any point along the way an allocation to gold would have greatly improved the performance of pension plan assets.

**Larry Parks:** Here's where Modern Portfolio Theory comes in. What Modern Portfolio Theory teaches is that for a given level of risk it's possible to maximize the return on assets, and for a given level of return it's possible to minimize the level of risk. Before one can do that, one needs to have a benchmark for risk against which to measure.

That benchmark is called the riskless rate of return. By definition it is the return one gets on United States 90-day or sometimes 30-day Treasury Bills. The fly in the ointment is that Modern Portfolio Theory uses a measure of risk that is virtually meaningless to pensioners.

Warren Buffett, again perhaps the clearest thinker on these matters in the world, has put his finger on the critical factor. When Wall Street talks about risk it is talking about volatility. In an excerpt from his Berkshire Hathaway Annual Report, appearing in *Fortune Magazine* on February 26, 2012, Mr. Buffett wrote:

The riskiness of an investment is not measured by a Wall Street term encompassing volatility and often used in measuring risk, but rather by the probability – the reasoned probability – of that investment causing its owner a loss of purchasing power over his contemplated holding period.

Assets can fluctuate greatly in price and not be risky as long as they are reasonably certain to deliver increased purchasing power over their holding period.

And as we will see, a nonfluctuating asset can be laden with risk.

Investments that are denominated in a given currency include money-market funds, bonds, mortgages, bank deposits, and other instruments.

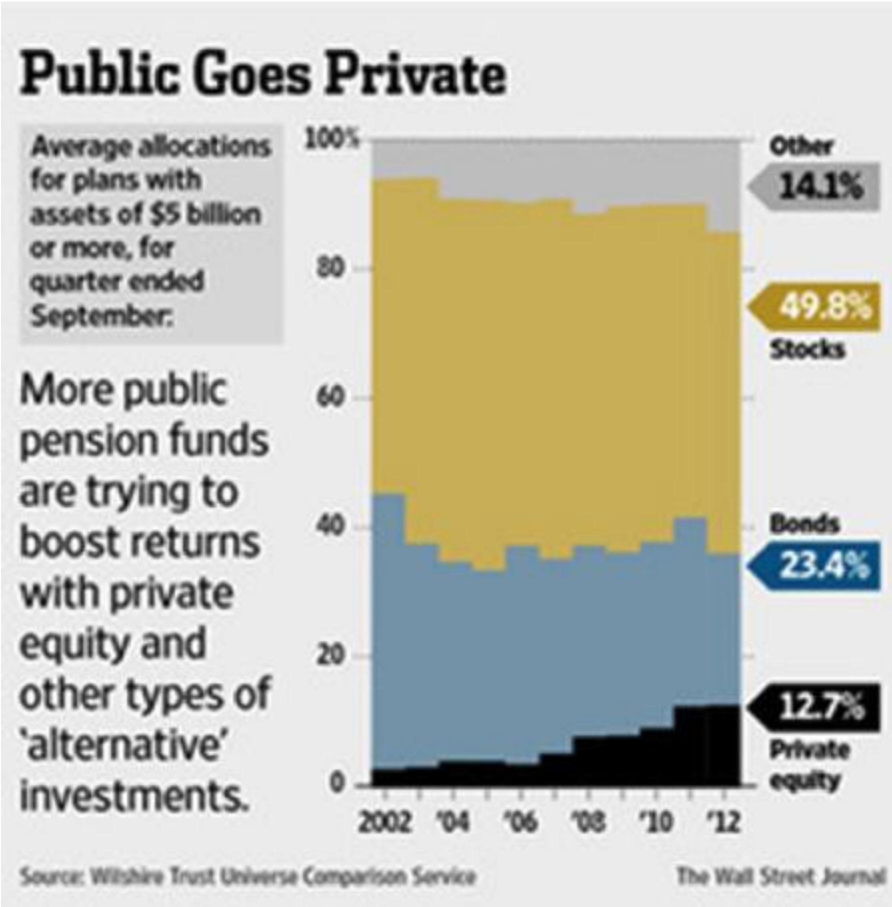
Most of these currency-based investments are thought of as 'safe.' In truth they are among the most dangerous of assets.

Over the past century these instruments have destroyed the purchasing power of investors in many countries, even as these holders continued to receive timely payments of interest and principal.

To be sure, Mr. Buffett is no fan of gold. Parenthetically, that's because he doesn't recognize its utility as money. Further, in my view, if one is going to position gold with its principal use as jewelry for adornment, then, as Mr. Buffett suggests, gold is indeed useless.

For me, the fact that Mr. Buffett suggests that an allocation to bonds can be laden with risk, and that bonds are among the most dangerous of assets, clearly illustrates that an allocation to United States bonds as being the result of the bogus allocation methodology which, to repeat, ignores the loss of purchasing power of United States dollars.

To drive this point home, here is a plot that appeared in the Wall Street Journal on January 31, 2013:




According to the *Wall Street Journal*, the average allocation to United States bonds for pension plans with assets of $5 billion or more is 23.4%. So why did Modern Portfolio Theory allocate to a guaranteed loser, and ignore an allocation to the biggest winner for the past 12 years, which was gold?

The answer is that the entire Wall Street money management industry, if one could call it that, is geared toward generating fees. If the clients get a good result, that's a happy accident.

If funds are allocated to gold, except for a possible one-time fee for acquiring the gold, the fee stream stops!

I think you can see why this kind of presentation could easily result in allocations to gold in defined benefit pension plans.

These plans currently have something on the order of $10 trillion in assets. So even a small percentage allocated to gold would not only be a signal to the rest of the world that this is a prudent thing to do; it would also greatly increase the fortunes of the gold sector, while providing added security for pensioners.

**With significant gold in their pension plans, Labor would have, as they say, skin in the game. There would be, in my view, a strong self-interest in supporting HR 77, the Free Competition In Currency Act.**

**Daily Bell:** Very nice. I'm convinced. Larry, what you've described here is a *tour de force*. Having known you for more than 10 years, I am confident that you could add a lot more to this.

This has been an interesting and relevant interview. On behalf of our readers I want to thank you for taking the time.

**Larry Parks:** It's been my pleasure. Thank you for the opportunity to present my views to Daily Bell readers.

## DAILY BELL AFTER THOUGHTS

A great interview. We thank Larry Parks for being so giving of his time and knowledge. Having studied with Murray Rothbard himself, Larry is formidably educated in free-market economics and has been at the forefront of the educational movement to explain how the current system needs to change.

One of the most noteworthy points in this interview (among many) is Larry's insistence that a "gold standard" is not the solution to the current disastrous economic environment. We're in agreement with this, having often stated that a state-mandated gold standard is merely another kind of price-fix. Larry makes a lot of good points.

**Money competition is the answer.** Gold and silver would probably be among the solutions, as they have been throughout recorded history ... but gold and silver within a free-market environment, evolving naturally as money stuff, as they have before.

Bankers hate gold – or certainly in the hands of the masses. Even now they are seemingly colluding to bring the price down in order to generate a wave of panic selling and also to generate conditions in which they can buy more for less.

The antidote to various kinds of money mischief is available in interviews like this one. **But at root, it is the simplest thing: End monopoly central banking.** This modern plague upon the Earth is responsible for horrible price inflation, ruinous unemployment and endless centralization of industry and political power.

The longer monopoly central banking is able to create first booms and then destructive busts, the more authority accrues to Leviathan. The power to print money at will is an awesome one that makes certain people virtual gods on Earth.

The wars, poverty and social dysfunction plaguing the West all spring from this disease of fiat money issuance – unchecked and uncontrolled. We are sure that sooner or later the reality of central bank dysfunction will sink in and the public will begin to reject this pernicious practice. We see signs of that already.

Education is key here, and we are very grateful in this regard for Larry Parks's efforts via FAME and for his general eloquence – and practical simplicity – when it comes to issues that can seem daunting and even incomprehensible. Of course, not everyone, including ourselves, will agree entirely with every aspect of what Larry is suggesting but here is a sentiment that we are sure will be shared by many visitors to these pages: "Keep up the good work!"