

# Gold and the Great Inflations

*“Civilizations are fragile, impermanent things.”*

**Joseph A. Tainter**, ‘The Collapse of Complex Societies’, 1988

*“Unseen, in the background, Fate was quietly slipping the lead into the boxing glove.”*

**PG Wodehouse**, ‘Jeeves and the Old School Chum’, 1930

Forget CPI, PPI or even CSI. Inflations that really matter - some of them ‘hyper’, most irreversible – are now breaking out all over. They’re devaluing life as we know it. And they’re making the world a scarier, dumber though funnier place. And it’s to these evil eruptions that gold has been responding and will continue to respond. While we’ve chosen to bury our head in the sand, there’s been a golden thermometer stuck in our rectum.

## Gold and the Great

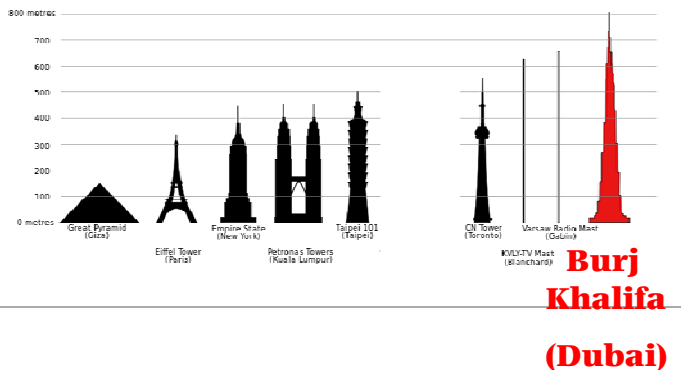


Andy Smith

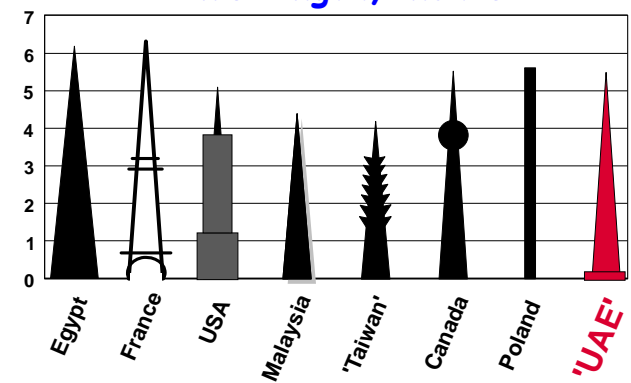
Dubai Precious Metals Conference 2013

Dubai – which will be nice when it’s finished – needs no reminding about inflation. After all, it’s home to the biggest erection in the world. Totemic projects like these tend to be either a celebration of virility, or compensation for the lack thereof. Some delicate research reveals neither is obviously the case in Dubai. Only the UAE’s ‘measurement’ is available, but this is actually ‘medium’ (or ‘commendable effort’).

### Great... Height, metres



### Great... erections Penis length, inches



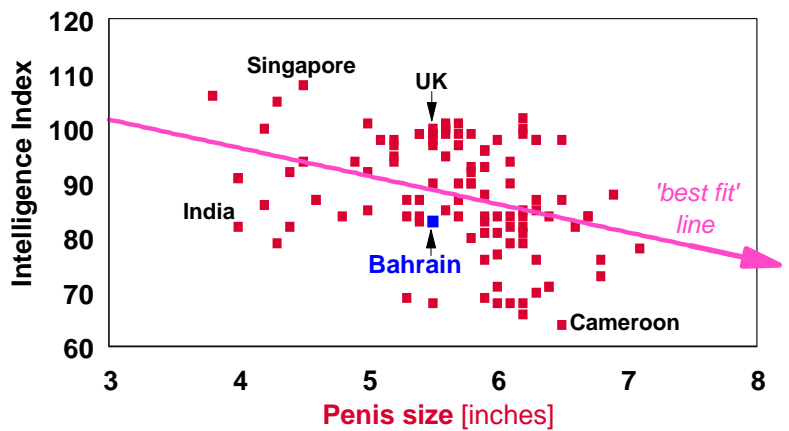
Source: targetmap.com

However, the symbolism of placing one of the world's shortest men on top of the world's tallest building is confusing. Perhaps King Kong was not available? We'll revisit this pr...ecocious personality later.



Speaking of egos – weren't we? – we are in fact statistically correct in suspecting what a big 'ego' hides. (Bahrain is the nearest I could get to a local measure of intelligence to accompany 'manhood'.)

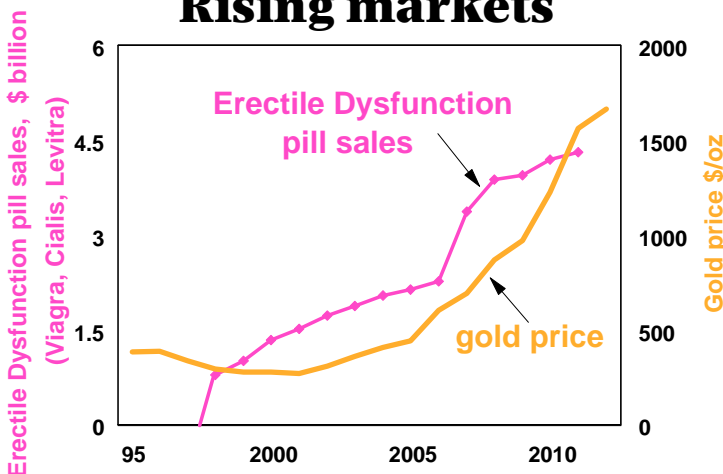
### Size matters?



Source: <http://www.targetmap.com/viewer.aspx?reportId=3073>

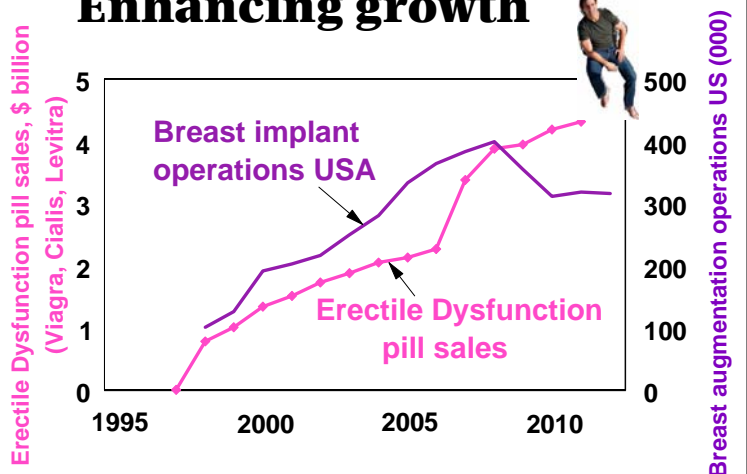
Some will pay anything to appear to have a bigger 'ego' - almost \$5 billion at last count. It's a vanity, a pill-popping flight from reality - one of many - duly noted by gold. To get a hand[le] on this, consider cause and effect – could male 'enhancement' pills be a response to an outstanding female 'augmentation'? We live in a surgically-enhanced world of mutually-assured inflation. It looks (more than) fine. But it doesn't feel right. To cut to the chase: "when you borrow a lot of money to create a false prosperity", as Michael Lewis put it ('Boomerang', 2011), "you import the future into the present. It isn't the actual future so much as some grotesque silicone version of it."

### Rising markets



Sources: 10k reports Pfizer, Eli Lilly, Bayer

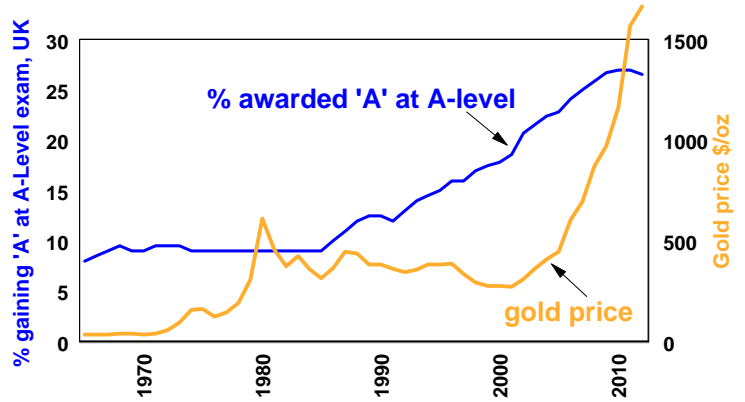
### Enhancing growth



Sources: 10k reports Pfizer, Eli Lilly, Bayer  
American Society for Aesthetic Plastic Surgery

## Off 'The Gold Standard'

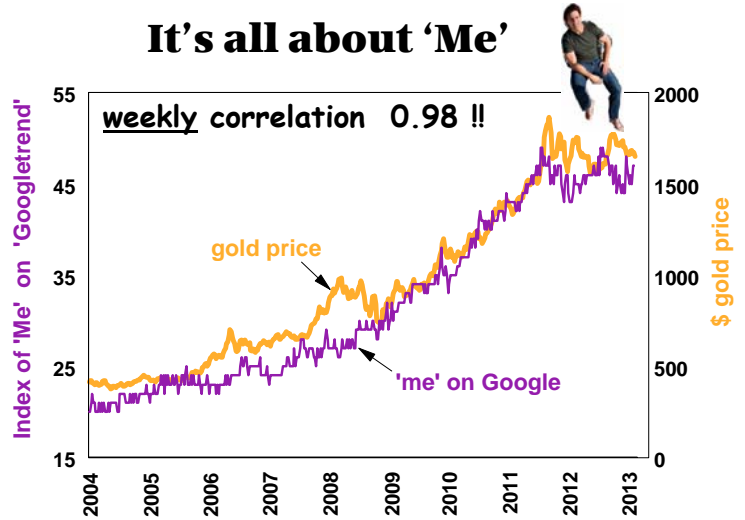
In a world where appearances matter so much, every Johnny must have a prize. Witness the devaluing of the 'Gold Standard' of the English education system. With so many now winning an 'A' at A-level - and remember, breast enlargement studies is probably on the syllabus these days - what *is* the 'standard' for labour productivity? It's like some cruel credit rating agency has run amok and given everyone 'Triple A' – welcome to sub-prime youth.



Source: University of Buckingham

Most of which feels 'entitled'. Whose only 'issues' are psycho-babble denials of responsibility, not the Encyclopaedia Britannica. Whose perception of 'risk-taking' extends to losing an I-phone, I-pad, or I-tune. A 'Me, Me, Me' generation who wants it all, now, on credit, or, better still, free. "We've sacrificed the high art", Aldous Huxley lamented in 'Brave New World', but "we have the feelies and the scent organ instead." The only 'failure' in this award inflation is shrinking growth potential, a withering of the backbone that's supposed to keep us upright when the 'leaded glove of Fate' slaps us in the face. And we've been here before - as Edward Gibbon recorded in 'The Decline and Fall of the Roman Empire': "the decline of genius was soon followed by the corruption of taste."

## It's all about 'Me'

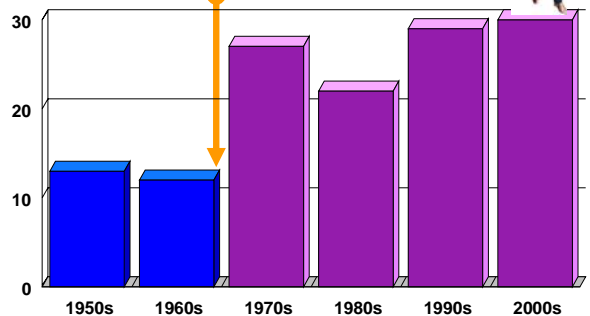


And lo! Almost everybody is famous. Is it a coincidence that this inflation in 'celebrity' - here Halls of Fame established in the USA - followed our departure from *the* 'Gold Standard'? Honest opinion has gone the way of honest money. Hard to come to grips with 8 wrestling Halls of Fame, isn't it? And, fittingly for the Left Coast, there's now a California Social Work Hall of Fame. Roger Kimball, in 'The Fortunes of Permanence', perhaps describes this eulogy of non-entity best: "It might ...be worth asking what had to happen in English society for there to be such a thing as 'Sir Elton John'." Coming soon - a 'Precious Metal Conference' hall of fame? Another perch for Mr Cruise?

## 15 minutes for all!

Halls of Fame opened in USA by decade

Gold price freed



Source: derived from [http://en.wikipedia.org/wiki/List\\_of\\_halls\\_and\\_walks\\_of\\_fame](http://en.wikipedia.org/wiki/List_of_halls_and_walks_of_fame)

We're dumbing down our children into babies almost as fast as we're regressing adults into children – soft, irresponsible over-emoters who expect and vote that everything is done for them. ‘Super-nanny’, the world’s most sustainable bubble, the inexhaustible Big Government teat – the biggest breast enlargement in history – will provide. My gut feel is that at least entrails make provision for the elimination of waste. ‘Big Gov’ is about the least efficient form of grand larceny. It makes Mr Madoff look like an engaging amateur.

## Obama-care...



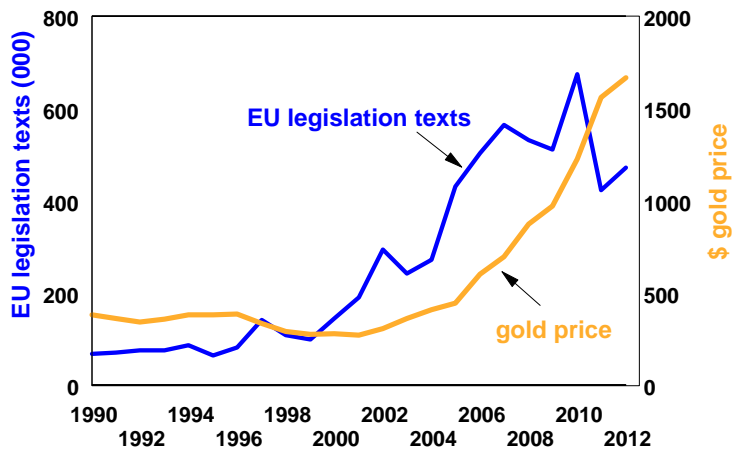
## Obama-care... entrails



Take (please) the Babel that is ‘Europe’. It charges a ‘spread’ or (as the European Court of Auditors has put it, for 18 straight years) a “material error” of 3.9% on average, at last guess. But that’s OK, this skimming only affects spending in the “agriculture market and direct support; rural developments, environment, fisheries, and health; regional policy, energy and transport, employment and social affairs as well as research and other internal policies”. That’s ‘Eurospeak’ for ‘the whole schmeer’.

And there’s nothing the EU can teach the US about public waste. There the government runs 50 different programs for the homeless across eight agencies, 23 programs for housing aid through four agencies, 26 programs for food and nutrition aid through six agencies, 27 programs on teen pregnancy, 130 programs for ‘at-risk’ youth, 10 agencies to promote exports, 342 programs for economic development, plus 47 different job-training programs. Welcome to Brussels on the Potomac.

## Government (toilet) paper

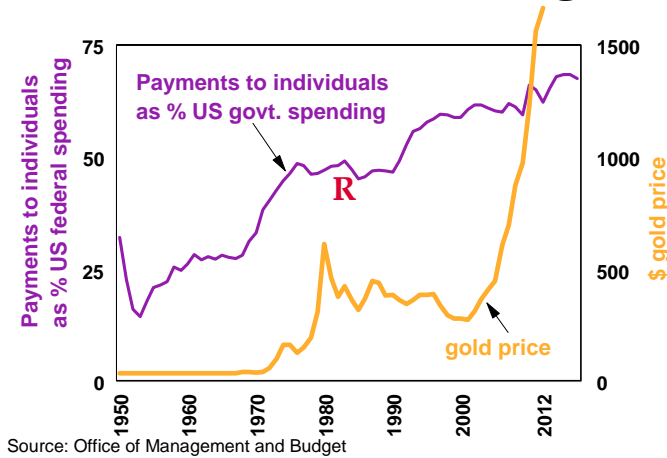


Source: <http://eur-lex.europa.eu>

Remember Reagan’s nine scariest words in the English language? “I’m from the government and I’m here to help.” A warning posted (‘R’ in the chart below) when ‘payments to individuals’ – ie. pay-offs levelling the wealth playing field to ‘scorched earth’, turning the ‘work ethic’ to the ‘shirk ethic’ - still counted for less than half US government spending. But the ‘Great Communicator’ was only echoing another president, fifty years before: “Continued dependence [on government support] induces a spiritual and moral disintegration fundamentally destructive to the national fibre. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit.” That was the Father of Big Gov, FDR, in his State of Union in 1935.

And here we are: from Great Communicator to Great Entitleist. In a hole, in one... or at least two terms.

### When the going gets tRough...

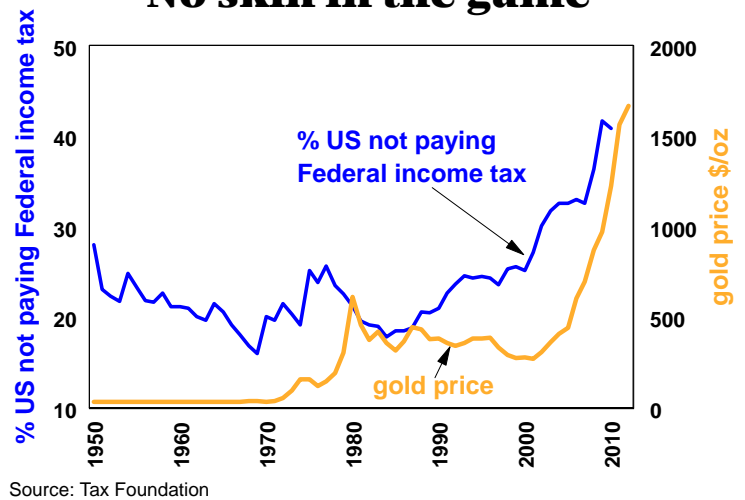


...the  
tRoughers  
get golfing



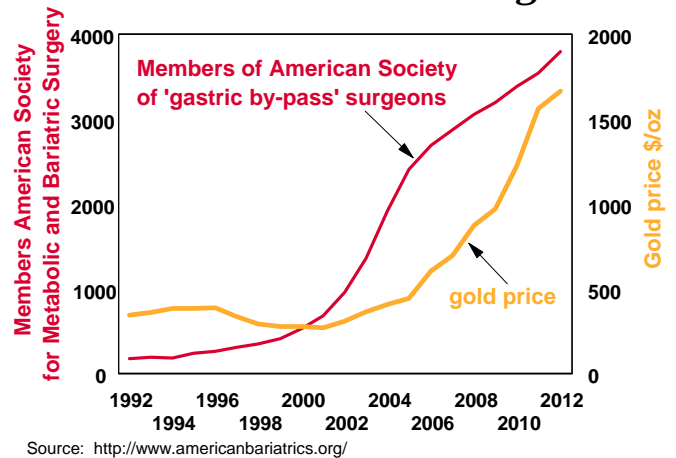
A century before FDR, Alexis de Tocqueville ('Democracy in America') had his finger on this something-for-nothing US public drip-feed: "As the great majority of those who create the laws have no taxable property, all the money that is spent for the community appears to be spent for their advantage, at no cost of their own... In other words, the government of the democracy is the only one under which the power that votes the taxes escapes payment of them." Result: "the public treasure was exhausted in order to relieve indigent citizens or to supply games and theatrical amusements for the populace." The arithmetic of dependent democracy doesn't add up, to anything but penury.

### No skin in the game

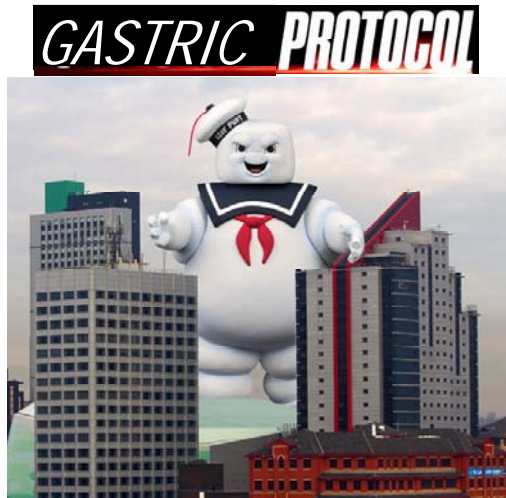
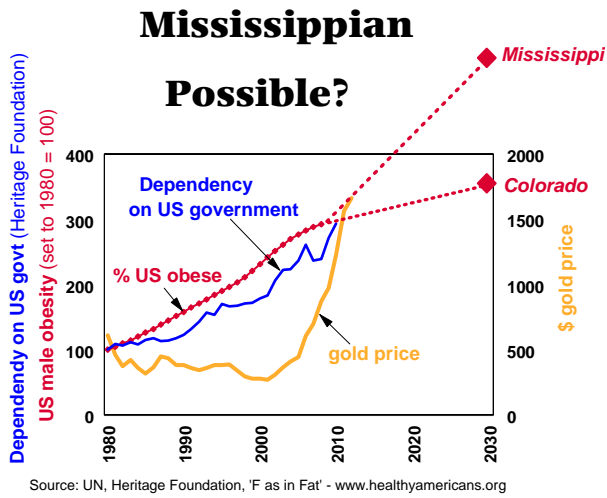


But aren't Americans too big to fail, as the inflation in the gastric by-pass surgical community implies? As you weigh this productivity-squishing over-consumption, this addiction to comfort food over hard choices, as you witness the first nation that actually does march on its stomach, the irony of there being too MUCH skin in the game will not be lost on you. The World Health Organisation calculates that world obesity doubled from 1980 to 2008, but half of that was added from 2000 to 2008, gold's charging bull market.

### Too much skin in the game

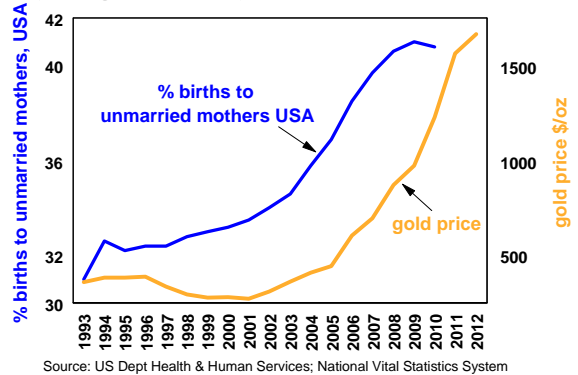


Obesity-related treatment was one fifth of US health spending in 2005. No surprise that it's gastrically linked to The Heritage Foundation's measure of 'government dependency' (an index weighted 30% housing, 25% health and welfare, 20% retirement, 15% education, 10% rural and agricultural services) which has tripled since 1980. We are all Mississippians (66% obese) soon, beeping as we reverse into socialised medical care? As we speak Mr Cruise is probably bulking up for a sequel, perhaps his biggest picture.



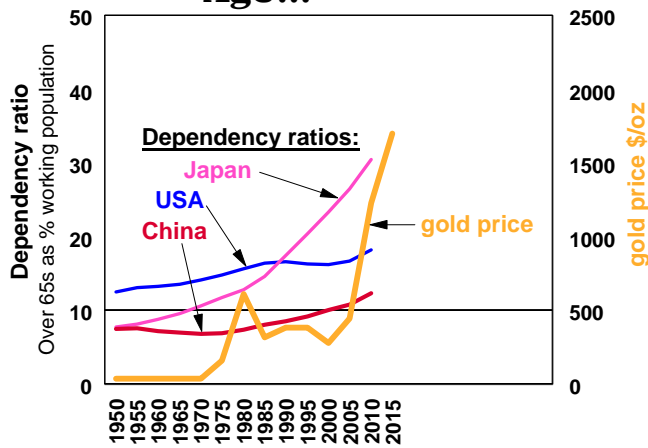
But enough good news. As Mark Steyn put it (National Review, 29 March): "The most reliable constituency for Big Government is single women, for whom the state is a girl's best friend, the sugar daddy whose checks never bounce. A society in which a majority of births are out of wedlock [true in the US for women under 30] cannot be other than a Big Government welfare society."

### (Illegitimate) birth of a nation

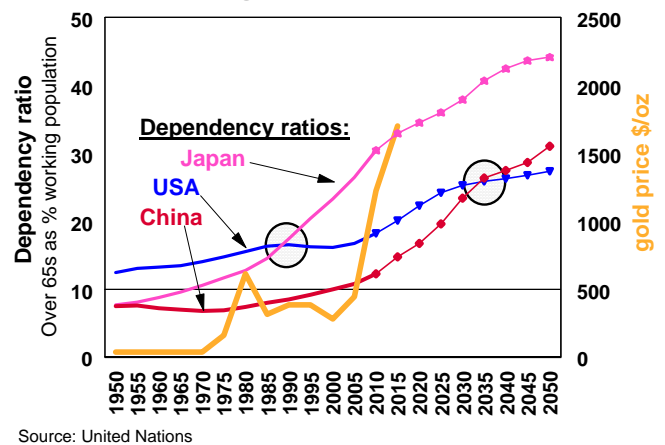


At the other end of the demographic spectrum, it's a grey area. But that – the 'Great Age Inflation' - is another expanding part of the problem. As we extend the shelf-life of the average Pillsbury Doughboy, by begging those left standing, the underbelly of our economies becomes softer. Japan lost two decades (and counting) after the ratio of its geriatrics to working population overtook that in the US. China, the maker of most that's cheap and disinflationary in the world, is about to reach that crossroads, signposted 'Go Slow' or 'Public Purse'.

### Age...



### Age...concern



# GERIATRIC PROTOCOL

Rumour has it the ubiquitous Mr Cruise is working on this script too.

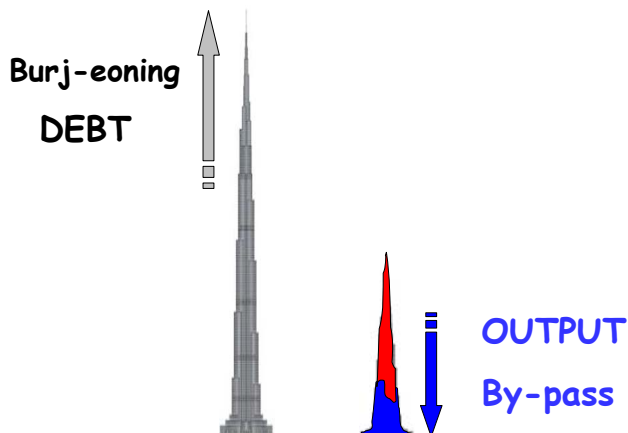
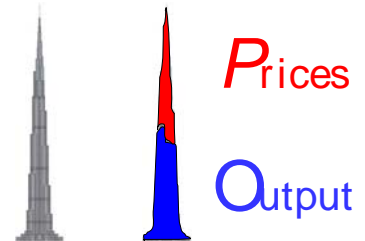


The upshot is algebra even an ‘A’ level student could understand. (Though we now see why the young have to be dumbed down – they are about to be robbed blind.) The Big Beast of government swallows responsibility and defecates a self-perpetuating, growth-eroding, public debt dependency. Hard choices are as quaint as hard money. “The welfare state is a kind of zoo”, as English commentator Malcolm Muggeridge put it, “which provides its inmates with ease and comfort and unfits them for life in their natural habitat.” Plato noted that “in democracy there’s no compulsion either to exercise authority if you are capable of it, or to submit to authority if you don’t want to”, and quipped “it’s a wonderfully pleasant way of carrying on in the short run, isn’t it?”

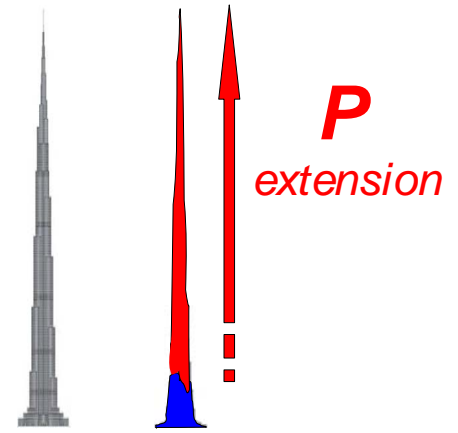
In the long run Plato would recognise that the ancient Olympian ideals of ‘faster, higher, stronger’ flip to ‘fatter, older, dumber’. Public debt (**D**) expands inexorably, by choice, democratically – ‘depend’ on it! *And* real output (**O**) waddles and withers so grows more slowly. All that’s left to balance the Debt/GDP ratio, ie as  $D \uparrow / (P * O \downarrow)$ , is more  $P \uparrow$ : inflation. Which happens to rob savers to help debtors, aka ‘the majority’ in most democracies, who return governments with the fastest hands on the printing press. Onward, upward!

## A Towering Problem

Public DEBT    GDP



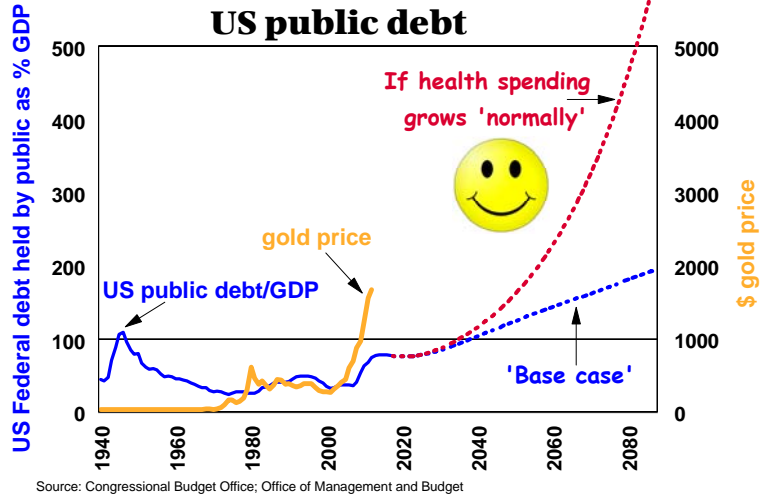
Dumber, fatter, illegitimatier, older, bigger governmenter...



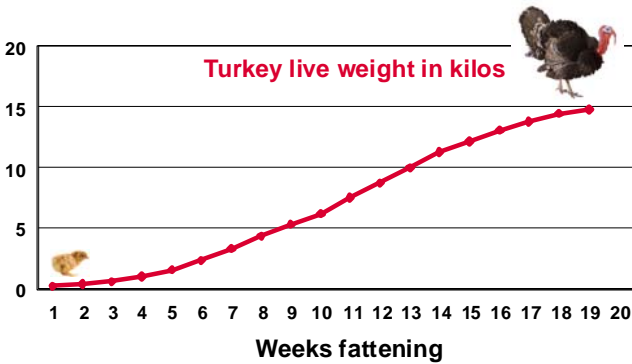
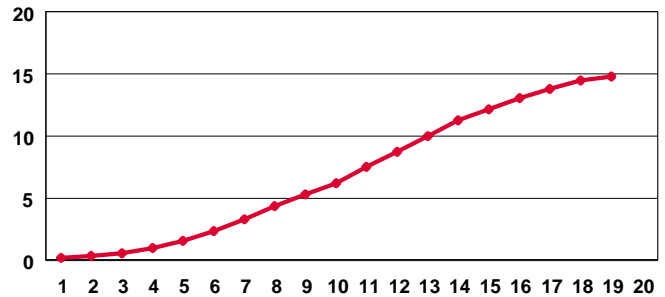
...requires ‘P extension’, and QE, and worse

If we're lucky. According to official exponential projections of US public debt/GDP – basis health spending grows 'normally': belly laugh now – erecting inflation isn't easy. So, along the way, enjoy 'financial repression' by QE; cosmetically depressed interest rates so The Big Beast can be fed cheaply. Or worse. FDR confiscated Americans' gold, remember? How could those who were almost robbed of their "guaranteed" Cyprus bank deposits by the Brussels Gang forget? Oh, and this wheel of misfortune is only likely to miss a turn through crises... which always beget even bigger government!

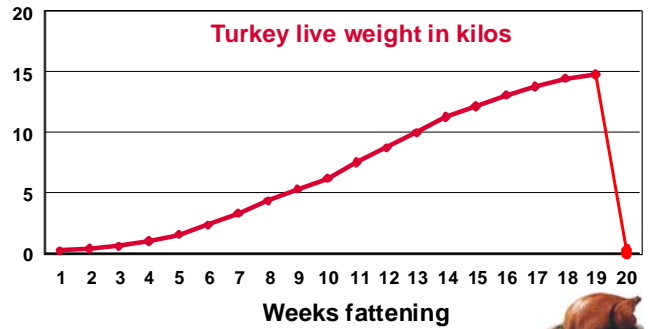
## Beast Augmentation US public debt



But if it ain't broke – equity markets at all time highs, after all – why fix it? Well, consider (right) this familiar, perpetual-looking upward motion. Turkeys don't see Christmas coming, much less vote for it – they have no choice.



Source: 'Growth evaluation of turkey heavy hybrid by means of asymmetric S-function' Z. Skrtic, G. Kralk, Z. Gapevic, 2007



Source: 'Growth evaluation of turkey heavy hybrid by means of asymmetric S-function' Z. Skrtic, G. Kralk, Z. Gapevic, 2007



# House of European History:

Work started November 2012

Unlike European elites, we should not count our turkeys, or chickens. Work has just begun on a ‘House of European History’, celebrating the perpetual ‘progress’ of the European project. In 1913 the Peace Palace was completed in The Hague, *avant le déluge*. Halls of *Infamy*.



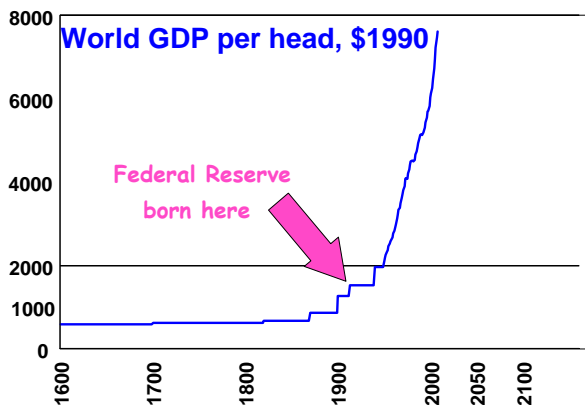
# The Peace Palace:

Completed 1913

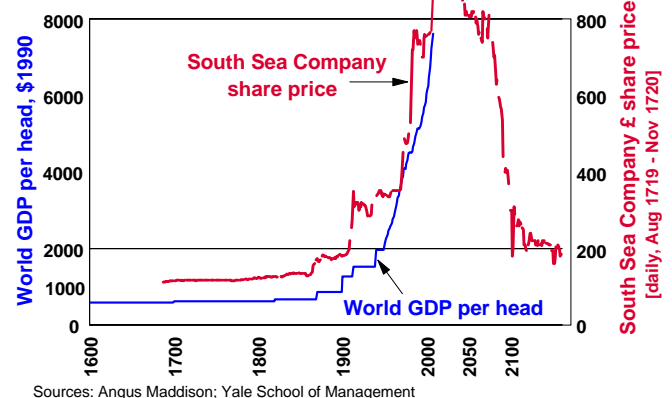


Surely not all our turkeys will come home to roost (and be slaughtered) simultaneously? The remarkable inflation in living standards since the Federal Reserve was hatched is more than mere monetary magic, isn't it? Superimpose the rise and fall of the stock of the South Sea Company, albeit on a daily scale 1719-1720, and you'll see that exuberance is timelessly irrational. How wise was Wodehouse ('Something Fresh', 1915): "It is curious how frequently in this world our attempts to stimulate and uplift swoop back on us and smite us like boomerangs." And how timely Tainter: "the citizens of modern complex societies usually do not realize that *we* are an anomaly of history....It is little surprise that collapse is viewed so fearfully." Statistically, civilised life as we know it is a multiple standard deviation blip.

## Erectile...



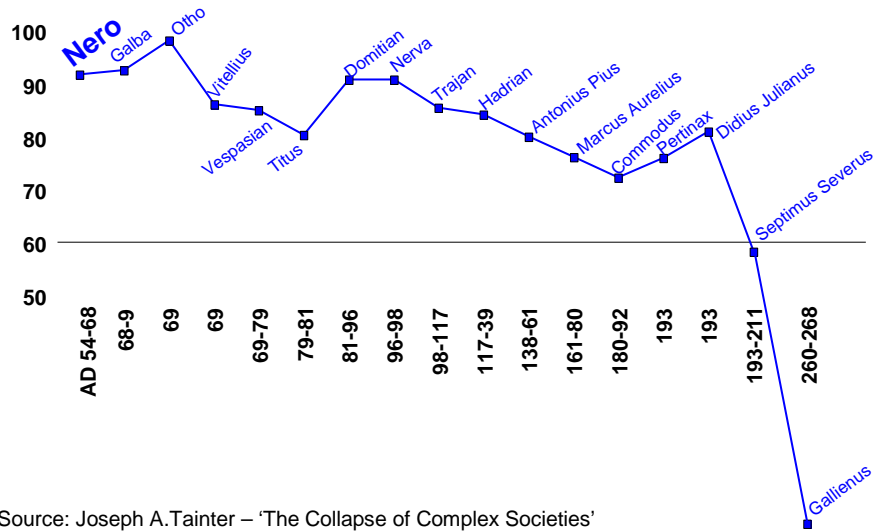
## Erectile...Dysfunction



Arguably all that's missing from a perfect parallel between our and Rome's decline are the orgies – though if you brave any English town centre on a Saturday night you may disagree. Tainter is pretty explicit (about Rome's demise, not the orgies): "Emperors, upon accession, were often faced with an insolvent government". They adopted the same 'cure': "debasing the currency".

This had “the politically expedient advantage of shifting to some indefinite point in the future the cost of the current crisis...the inflation that would inevitably follow would tax the future to pay for the present, but the future could not protest.” Why ‘politically expedient’? Because “those who lived off the treasury were more numerous than those paying into it.” Nero’s fiddling was only the start. Emperor Nerva established a “public system for the care of Italian orphans” (Obamacare, The Early Years?). And Gibbon records more generally that “a large portion of public and private wealth was consecrated to the specious demands of charity.”

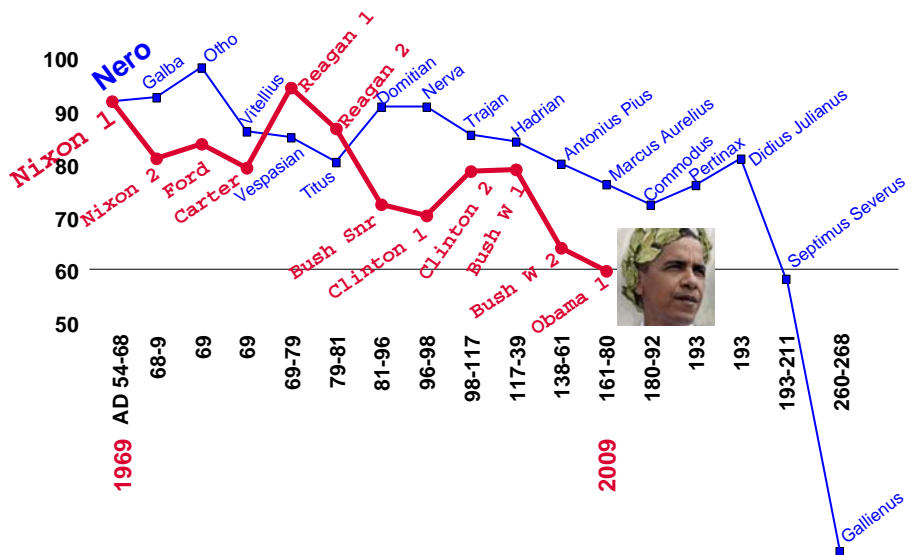
## Emperors... Denarius silver percent



Source: Joseph A. Tainter – ‘The Collapse of Complex Societies’

Compare and contrast the debasement of the dollar under presidential regimes since the ‘bread and circuses’ began (with Nixon welching on the promise to back the dollar with gold). In less than half the time (Nixon to Obama) America has achieved twice the debasement of Rome. Perhaps we’re asking the wrong question – ‘when will it end in tears’? “Instead of inquiring why the Roman empire was destroyed,” Gibbon argued, “we should rather be surprised that it had subsisted for so long.”

## Emperors... with no clothes Denarius silver percent; \$index normalised to Nero



So, what can you do faced with these Vandals, the inflating tribes of The Obese, The Ageing, The Stupid that will not be denied, the gathering ‘Clan of Dependency’ over-running democracy to rape and pillage your wealth? Get a powerful friend, maybe? Why not try out for the lucrative position of Mr Cruise’s next sidekick? This will be difficult - you’d have to be smaller than Mr Cruise (under 5’ 7”). But one part at least is easy - you only need to be less dominant on a global scale.

For example:

The Head of the German School of Bariatric Surgery (5’ 5”) probably has the guts for it.

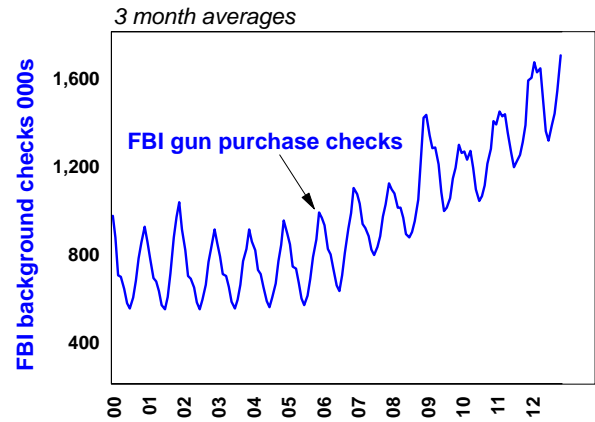
Argentina’s leading cosmetic surgeon (5’ 4”) would (nip and) tuck in nicely.

And for a ‘buddy/buddy’ movie, why not this Iranian nuclear option, a (5’ 2”) pocket rocket?

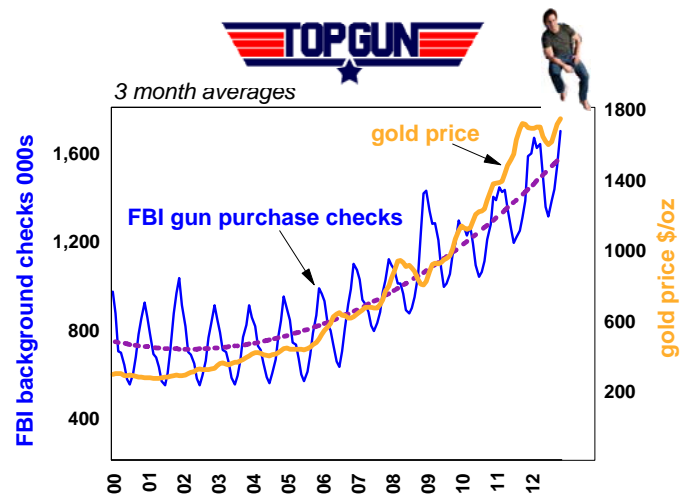
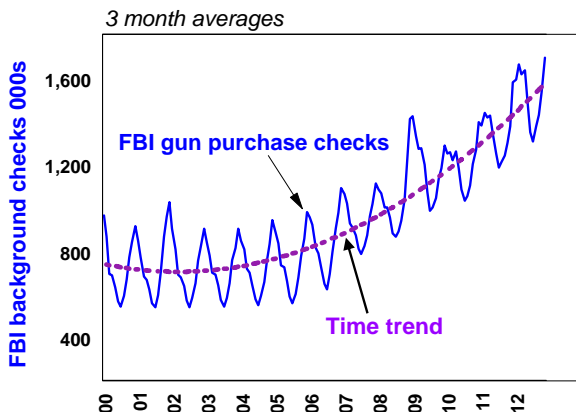


Or maybe, in such a scary world, there’s nothing for it but to pass the ammunition? P.J. O’Rourke (‘Don’t Vote’, 2010) astutely calls his .38 Special his “MasterCard of the future.” If you join the bullet holes to make a trend, you’ll see that it’s...golden.

### How many Bullet Points ...

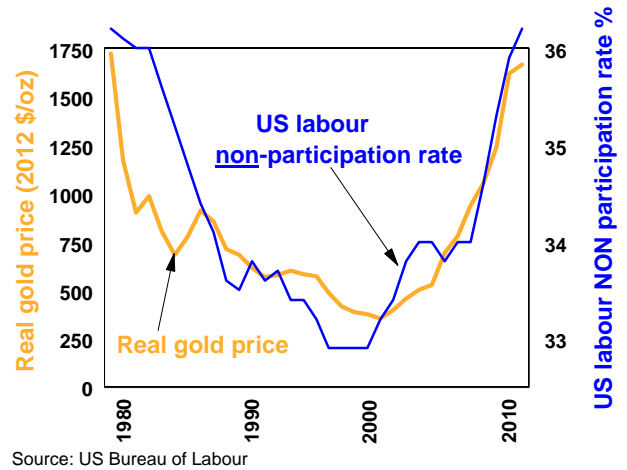


### How many Bullet Points ...make a trend?



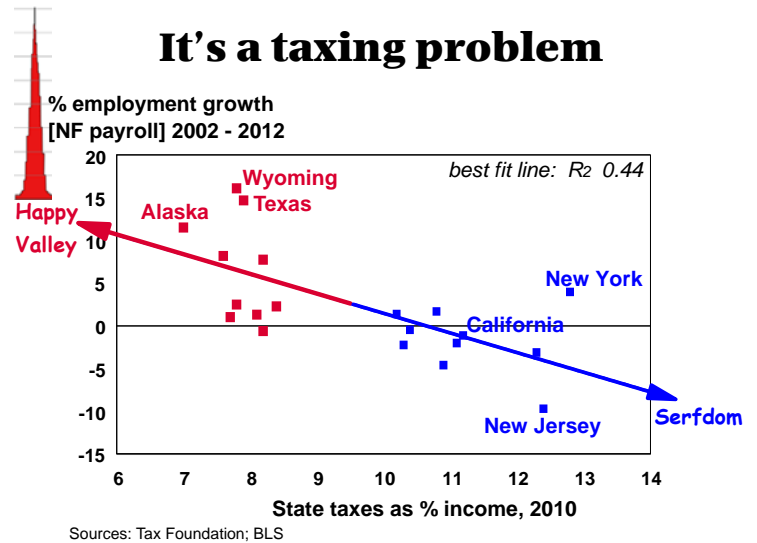
Alternatively, suppose Edmund Burke was right three hundred years ago; that “all that is necessary for the triumph of evil is that good men do nothing”. Then how much worse can it get when ‘good men’ head for hills? Their votes with their feet (and skills) out of the labour force, leaving our benighted A-levellers at the wheel of stalling economies, are being counted by the (real) gold price.

## Head for the Hills?



In Plato’s day The Have-Nots, the “class of thriftless idlers...drones”, found The Haves “a plentiful and most convenient source to extract honey from.” In 1955 Ayn Rand (‘Atlas Shrugged’) imagined such men of substance would leave the “looters” to their unhappy lot (Hayek called it ‘Serfdom’) by escaping to a Hidden Valley. Her nightmare is now reality in the flight from high- to low-tax American states. There can hardly be a clearer sign of the desperation of The Haves than Belgium being chosen as a hide-away by the French-tax-fleeing Gerard Depardieu. (Maybe gastric by-passes are cheaper in Brussels?) Surely Dubai has more than a sporting chance to become a haven of choice?

## It’s a taxing problem



Your mission, should you decide to accept it, is to build it – a meritocratic, low tax, small government temple (neither western-style democracy nor record-breaking height required!). And they, the ‘good men’ with their assets and ideas, will come.

But if you do go for height, you’d also provide a place for their gold safe from prying eyes.



## Andy Smith

(I am grateful to Nicola Shiels of JefferiesBache and to Ted Arnold for their comments on this tall story.)