How Many Mistakes Will Fit Into One Sentence?

Greg Allport writes, "Gold has provided a return of almost 17.9% in seven months, or an annualized return of over 30% – on something real, of intrinsic value, and which has been used as a store of value for 5,000 years."

Like three circus clowns riding on a moped, Mr. Allport has managed to fit three mistakes into one short sentence:

1) In *Gold Does Not Have Intrinsic Value* I write, "The fundamental contribution of Hayek's *Prices and Production* was that higher-order goods (farther from the consumer) are more volatile than lower-order goods. Mining, being the highest of Hayek's five stages of production (mining, refining, manufacturing, distributing and retailing), is the most volatile of all. Mainstream economists have rejected Hayek's five stages, preferring only two, labeled "production" and "consumption." But they would not dispute the fact that production goods are more volatile than consumption goods. I have criticized Hayek at length, but I would not disagree with this basic observation either."

   Gold is mostly used in the manufacture of electronic devices. But, after being mined, the metal must be refined, the devices manufactured, shipped across the Pacific ocean, distributed to consumer electronics stores and finally sold to consumers. This takes considerable time, making gold one of the *most* volatile commodities. Its value plunges up and down as investors try to predict years into the future how many electronic devices will be needed.

   So it is not in the least bit surprising that Allport has found a seven-month period in which the price of gold rose 17.9%. (Mr. Allport penned these immortal words on 22 October 2007.) It fell by 24% in the two weeks from the 10th to 24th of October of this year. With a recession looming, stores are now over-flowing with electronic gadgets, most of whose purchase is highly discretionary – nobody really *needs* the latest beeping toy. Thus, electronics manufacturers are not (currently) calling for more gold. In time, they will again; demand for commodities is volatile. I've even written a poem about its volatility.

2) Gold does not have intrinsic value. *Nothing* does. Allport is making the same mistake as Robert Murphy. In Hayek's and Rothbard's Production Theory of Value, I write:

   "Murphy writes, 'the consumer's good is always the 1st order, regardless of how far back we push the analysis, even if we go back to axes carved by prehistoric men' (Murphy, p. 6). *How far back we push the analysis???* That sounds like we are speaking from the perspective of the owner of the final product looking *back* on his costs of production. Think about it: When did copper axes exist? Past, present or future? Obviously, they existed in the past. So why does Murphy, who claims to believe in the subjective theory of value, care about them?

   "What sort of analysis is Murphy doing that requires knowing the cost of copper axes in millennia past? For that matter, what sort of analysis is he doing that requires knowing the cost of a load of lumber I purchased from Home Depot last week? Maybe it was wisely bought or maybe it was a stupid purchase, but Home Depot is not going to take it back, so what is done is done. Those boards are valued now, according to the subjective theory of value, only for the value attached to the consumer goods they can be made into, discounted for time preference. If my architectural dreams come to naught and I wind up feeding the boards into my stove, then they are valued for no more than I would value a load of firewood. It does not matter how much I paid for them or how much labor was expended at the sawmill cutting them into the proper dimensions.

   "I insist, 'The perspective that we want is from right now, at time zero, looking forward into the future. Thus, the DWCS [Distribution of Wealth over the Capital Structure] is defined from zero to positive infinity… The DWCS includes all wealth currently in existence, which was (of course) all manufactured in the past. But its date of manufacture is irrelevant since its value is determined entirely by considerations of the future. By the subjective theory of value, all goods are valued for their contribution towards *future* consumption, not for their *past* cost of production' (Aguilar, p. 8, 7).

3) Gold has not been a store of value for 5000 years. For most of that time, cattle were money. Gold coins were tokens for cows in a rancher's herd in the same way that, thousands of years later, banknotes would be tokens for gold coins in a bank's vault. In the context of the cow standard, gold coins are fiat money just as, in the context of the gold standard, dollars are fiat money.

   I discuss the origin of money in my Answer to Stephen Zarlenga.

Finally, Allport writes, "Americans [are] forced to literally borrow money – money created from thin air – from a privately-owned central bank (as our government does now) and then pay interest on it as part of the national debt."

Denouncing the Fed as "privately owned" is just standard socialist claptrap. In my Critique of Mathematically Perfected Economy, I write:

"The basic flaw in the logic of modern socialists (Montagne, Cook, Zarlenga, etc.) is confusion between motivation and capability. '*He's privately controlled!*' the socialist sneers at the Federal Reserve chairman, the unspoken assumption being that, were the socialist put in charge, he would immediately open the floodgates of wealth and prosperity for us all. It would be a veritable socialistic paradise, if only the Benevolent One were given the authority to print money! But, the fact is, the Fed is in a box. If a socialist were put in charge, he would be in the same box."

In conclusion, Allport demonstrates four problems common to soapbox economists:

1) He does not understand that higher-order goods (farther from the consumer) are more volatile than lower-order goods. This includes gold.

2) He gives lip-service to the theory of subjective value while claiming that gold has intrinsic value and seeing value in past costs of production, even pushing his analysis back to "axes carved by prehistoric men."

3) He claims that gold has been a store of value for 5000 years when, in fact, gold coins were tokens for cows during most of that time. In the context of the cow standard, gold coins are fiat money just as, in the context of the gold standard, dollars are fiat money.

4) He aligns himself with the socialists, who never tire of denouncing the "privately controlled" Fed chairman, making the unspoken assumption that, were a socialist put in charge, he would immediately open the floodgates of wealth and prosperity for us all.