

# THE GOLD & SILVER SAGA



4 A QUEST FOR REAL MONEY

JEAN-YVES GICQUEL



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# THE GOLD & SILVER SAGA

A Quest for Real Money

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To Zarina Abu Bakar,  
With my best wishes!

*Gicquel*



Jean-Yves Gicquel

PUSTAKA PERDANA



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**THE GOLD & SILVER SAGA**  
**A Quest for Real Money**

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# Introduction

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*“I work all night, I work all day,  
to pay the bills I have to pay.*

*Ain't it sad.*

*And still there never seems to be a single penny left for me.*

*That's too bad.*

*Abba - Money, Money. Money (1976)*

Money takes up a central place in our life. We set up our alarm clock to rush to our place of work each morning to “earn a living”. Our daily life is planned around our business and career. We feel rewarded for our efforts when our employer or our customers pay us money and we feel depressed when we don't have enough of it to pay our bills or to buy what we fancy. In short, money makes us happy, successful and gives us a sense of worth in society. But the lack of it is a source of much frustration and distress.

While love has been the theme of thousands of paintings, poems, novels, songs, movies and dramas, money on the other hand, has seldom inspired artists, philosophers or thinkers. It is hardly a topic of conversation in family dinners. We often shun from the subject in our social dealings. Asking someone about his financial situation makes us look outright boorish. Our school curriculum only covers the matter succinctly and superficially.

Yet, in all societies throughout history, money has played and continues to play an essential role in human interactions. To a great extent, it has controlled, regulated and ordered human relationships from the early days of mankind. Whether in the shape of seashells, beads, cattle, coins, bank notes or credit cards, it has helped us to exchange our goods and services with our fellow men in such a way that all parties felt encouraged to trade.

In prisons, cigarettes become a sort of currency which inmates trade for food stuff or other items. On the school playground, kids may use football player cards as medium to exchange toys or comic books. When your favorite store gives you a \$10 bonus voucher for being a loyal customer, they have created money; you can redeem it later for goods or you can give it to a family member or friend who can use it in that same store. Anyone of us can create “money” to trade with our fellowmen. Humans

didn't wait for the government or the banks to create money for them. It appeared spontaneously and naturally from the early days of Homo sapiens. Money whatever its form, serves as a medium of exchange. It helps ensure that both parties in a transaction are satisfied. Like oil in the engine, money smoothens and facilitates exchanges among people.

Cowries served as money in Ancient China, cattle in Africa, furs in North America... However, metal coins soon become the standard and common form of money once communities and tribes grew into nations and empires. Gold and silver coins and incidentally bronze coins turned out to be the most accepted currencies. Gold was always the most favored of all forms of money. Compared to a herd of goats or cows, it is easier and more practical to carry coins on oneself for an equivalent exchange value. It is easy to divide it in various coin sizes.

When did human beings start using money in their daily life? No one can say with certainty. Like language, money was not invented by a specific individual or group at a specific time, but evolved naturally and organically over time. In the same way that no one “invented” the English language with its complex grammar rules and rich vocabulary, no one can claim credit for the appearance of money in society. We now know that money did not evolve from barter as earlier believed. Rather, it was used as a way of recording debts people owed to each other.

According to anthropologists, cattle and grains were commonly used as early forms of money in commercial dealings. They served as means of exchange as well as reliable and trusted measures of value. They were also the standard gifts people brought to the temple as offering to the gods. Archaeologists have discovered clay tablets more than 5000 years old from the Sumerian people recording debts and credits. It seems that credits existed even before any form of money was coined. Merchants and traders kept accounts of what people owed them. Once the debtor paid back his debts, the tablet was broken as a sign that the private debt had ceased to exist. Those tablets could even be exchanged among people as an early form of money.

Earliest metal coins unearthed are the Lydian currencies from the 15th-14th centuries BC in Asia Minor and made of electrum, a mixture of gold and silver found on river banks. We have all heard the legend of King Midas. He was a very rich king who reigned over Lydia. He had all the luxury he could dream of and had a beautiful daughter. In spite of his great fortune, he had developed an insatiable desire for more riches and spent all his free time counting his gold. One day, he was visited by Dionysus, the God of Wine who, grateful for the hospitality received, granted the king a wish. Midas thought for a while after which he told the god "I hope everything I touch becomes gold". The next day after waking up and wanting to find out if his wish

had been granted, he touched his table which instantly turned to pure gold. He then touched a chair that also transformed at once to gold. Overjoyed, he decided to have some food and grasped some grape but before he could bring it to his mouth, it was already hard as a rock. The same happened to the glass of wine he wanted to drink. Overcome with regret and fear, he cried so loud that his daughter heard him and rushed to embrace him, and changed to gold right away. That's when Midas begged the gods to have pity on him and reverse the spell. Dionysus asked him to go to the nearest river and wash his hands to have the spell removed. Immediately after, everything returned to normal including his daughter who regained her natural splendor. Midas then decided to share all his wealth with his town friends after discovering that no amount of gold could make him happier than his precious daughter.

Children story books still tell this story to teach kids that money is not the only and final goal of our existence but only a means to acquire everyday things and that above all, happy relationship with relatives and friends is the most desirable of all pursuits.



# Our eternal fascination with gold

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*“By your wisdom and understanding you have gained wealth for yourself and amassed gold and silver in your treasuries.”*

Book of Ezekiel 28:4

We all feel attracted to gold. It is unique among all minerals. Precious and scarce, it's a most appealing material. All civilizations and cultures have been fascinated by this mysterious metal. It has played a major role in the history of nations. Men have used it to glorify and worship their gods. Artists have been inspired by it to create the most beautiful artworks. Kings have been obsessed by its brilliance and have waged countless wars to amass it. It has contributed to the rise and fall of empires.

The fascination for gold goes back to antiquity. It is a metal that reminds us of the sun for its radiance. It comes from

the belly of the earth. Since the early days of civilization, its supernatural beauty has captivated our ancestors. No other element possesses such a luster. With it, goldsmiths have fashioned the most precious and refined pieces of ornament and jewelry. Its value springs from its rarity. From the early dawn of civilization, men have been lured by its exquisite radiance. Gold has a timeless eminence. It reflects our own yearning for eternity and immortality. In many ancient cultures, it was reserved as a gift to the gods. In Egypt, it was believed to originate from the sun and belonged only to the gods and the pharaoh, their representative on earth. It has always been a symbol of power and wealth.

Almost all the gold that has ever been dug from the ground or panned from the rivers is still among us today. It is continually refashioned and reused to make new objects. The wedding ring at your finger may have been mined centuries ago during the reign of Croesus, king of Lydia in the 6th century B.C or at the time of the pharaohs in ancient Egypt. If we could gather all the gold in existence around the world today, we would be able to melt it into a cube of about 20 m by 20 m with an estimated weight of 170,000 tons.

Gold displays remarkable and unique properties. It can be flattened into extra thin gold leaves for gilding. It is so malleable that an ounce of gold suffices to produce an

80 km long filament. It neither rusts nor fades and does not deteriorate whatever the environment and climatic conditions. Even buried for thousands of years, it will continue to shine like on the first day. No wonder our ancestors believed in its sacred and supernatural powers. Since it is eternal, we place great trust in its value, particularly in times of crisis. We know it will preserve its character and splendor for ages to come.

When government started to mint their own coins, they often named the coins according to their weight in precious metal. As each coin had the same weight and the same content of metal, they therefore had the same value. People could trade with full confidence that they were getting what they expected. Often the king or the emperor engraved his image on the coin. Before the existence of newspapers and other media, this enabled the leader to make himself known and accepted by the population throughout the land.

In the 21st century, gold has not lost any of its shine and magic. It is still a favorite gift at weddings as a symbol of undying and eternal love. When the groom passes the ring to his bride's finger, gold still whispers the words every woman wants to hear "I love you forever".

## **Gold, the next bull market**

Beside its use in jewelry, gold has always played a role as storage of value. It is particularly sought after as refuge and insurance in time of crisis and uncertainties like today. For over 100 years from 1792 to 1932, gold was priced at \$20 per ounce with very few variations. It stayed at below \$40 per ounce for the next 40 years until 1971, but its price in dollars has kept on increasing ever since to stand at about \$1,100 per ounce in 2016. Yet, many gold investors consider it to be highly undervalued. They explain this undervaluation in part by the excessive issuing of ETFs (Exchange-Traded Fund) or paper gold certificates that create an artificial and simulated increase of gold reserve. ETFs are suspected of being highly leveraged with dozens of certificates issued for the same ounce of physical gold, resulting in suspicions of price manipulation by some occult powers. Some precious metal experts estimate that the real price of gold should be between \$15,000 and \$20,000 to reflect its true value. Gold trader Jim Sinclair goes even further and predicts \$50,000 per ounce within the next ten years. Obviously, the days of gold are far from over and the “golden rule” remains that he who owns the gold, rules.

## **Silver, the other gold**

Sometimes called the people’s gold, silver is the other

precious metal that has been cherished and valued since the early days of civilization. As the moon reflects the glow of the sun, silver mirrors the radiance of gold. Like the yellow metal, silver has an illustrious history in jewelry and art objects. Being more affordable than gold yet as glamorous, it is often the preferred choice of young people looking for a romantic gift.

As a commodity, silver has become an indispensable metal in the industrial sector. It is highly malleable and resists corrosion and oxidation. It possesses unique properties to reflect heat and to conduct electricity. Like petrol, it has thousands of industrial uses, including in the making of nuclear reactors, batteries, semiconductors, photovoltaic solar panels, nanotechnology...It is also more and more used in the medical, health and even garment sector thanks to its anti-bacterial properties. We utilize infinitesimal quantities of silver in manufacturing water filtration systems, under garments, dentures, surgical devices. With such a strong standing as a commodity, the price of silver will continue to be led by the increasing global demand, making it a smart and astute investment in order to preserve and protect our wealth in the years to come.

In fact, at below \$20.00 per ounce and with a gold-to-silver ratio at about 70 to 1 at the end of 2016, silver is even more

undervalued than gold. Lower supply and higher demand should ensure that prices go up. Unfortunately, futures and ETFs have largely contributed to its low price by absorbing much of the demand for the metal. Right now, investing in silver is not for short term gain and speculation. It is more of a medium to long term insurance against the possible risks of monetary crisis, particularly pertaining to the US dollar. It is indeed a great time to buy silver and to accumulate enough of it while it is most affordable. With a little patience and discipline, anyone betting on silver stands a high chance of striking gold when the hour of reckoning comes.

## Aristotle, the theoretician of money

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*“Money has no essence. It’s not “really” anything; therefore, its nature has always been and presumably always will be a matter of political contention.”*

David Graeber – Author of *“Debt: The First 5,000 years”*

None of us goes shopping with gold or silver coins anymore. Nowadays, we pay with cheap metal coins, paper banknotes or plastic cards. We seldom stop and think about the real nature of money. What is money? What makes it valuable?

One of the earliest treatise on the nature of money was written by the Greek philosopher Aristotle (384 BC-322 BC) who was a student of Plato, himself a disciple of the famous Socrates in Athens and the teacher of Alexander the Great who created one of the largest empire from Greece to northern India. He is one of the greatest thinkers the

world has ever known and penned down his research and reflections in classic texts that have remained essential readings to this day.

In his book “Politics”, he dwells on economics and particularly on the nature and role of money in human society. He explains that money serves as a medium to help compare the value of goods and services with each other: “For money was brought into existence for the purpose of exchange...”

Aristotle set the basis and fundamental principles of his monetary view. He stated that money serves as a medium of exchange: “as the benefits of commerce were more widely extended, the use of a currency was an indispensable device. As the necessities of nature were not all easily portable, people agreed for purposes of barter, mutually to give and receive some article, which, while it was itself a commodity, was practically easy to handle in the business of life, some such article as iron or silver, which was at first defined simply by size and weight; although finally they went further and set a stamp upon every coin to relieve them from the trouble of weighing it...”

He listed some of the characteristics of money: It must be durable over time so that people can save it for future transactions. It must be convenient to carry around. It must

be possible to add it, subtract it, multiply it and divide it to allow a multiplicity of operations. Finally, it must have an intrinsic value independent of the substance it is made of.

He described money not as a natural entity but rather as a legal creation. Money is a product of a human decision; it is what people in authority say it is, as explained in his *Nicomachean Ethics*: “All goods must therefore be measured by something... but money has become by convention a sort of representative of demand; and this is why it has the name “money” (*nomisma*) because it exists not by nature but by law (*nomos*) and it is in our power to change it and make it useless.” He adds in *Ethics* “... money then acting as a measure makes goods commensurate and equates them... There must then be a unit, and that fixed by agreement.”

In short, Aristotle considers the value of money to be determined by law and not by its commodity value. This is the philosophical basis for fiat money or paper money that is used all over the world today, as fixed by governments through central banks.

Apart from Aristotle, few philosophers have written on the nature and role of money. Most thinkers have considered money a necessary evil not deserving of any deep thinking. They have dwelt on the iniquities of greed, cupidity and

materialism caused by the chase of money and profit. Influenced by the religious ideas of their days, they have by and large underlined its negative aspects. Money has mostly been discussed within the field of economics. John Maynard Keynes and Milton Friedman are two major contemporary economists who have dominated the debate on monetary policies in the 20th century and whose works remain a reference for policy makers today.

## China, the inventor of paper money

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*“There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.”*

John Maynard Keynes (1883-1946) – British economist

China was the first country to use paper or fiat money, the Jiao Zi (交子) around the 10th century AD during the Song Dynasty (宋朝 960-1279 AD). Paper money continued to be used in China during the Yuan Dynasty (元朝 1271-1368). In his book retracing his adventures “The Travels of Marco Polo”, the 13th century Venetian adventurer (1254-1324) described this practice of doing business with paper money with amazement: “All these pieces of paper are issued with as much solemnity and authority as if they were of pure gold or silver... Anyone forging it would be punished by death. And the Khan causes every year to be made such a vast quantity of this money, which costs him nothing that it must equal in amount

all the treasure of the world... And indeed everybody takes them readily, for wheresoever a person may go throughout the Great Khan's dominions he shall find these pieces of paper current, and shall be able to transact all sales and purchases of goods by means of them just as well as if they were coins of pure gold. Furthermore all merchant arriving from India or other countries, and bringing with them gold or silver or gems and pearls, are prohibited from selling to anyone but the emperor... and the emperor then pays a liberal for them in those pieces of paper. The merchants accept his price readily... And with this paper money they can buy what they like anywhere over the empire while it is also vastly lighter to carry about on their journeys.”

Contrary to the Song dynasty earlier, the Yuan dynasty created a unified paper money system that was not backed by gold or silver, the Chao (钞). Unfortunately, cupidity is a human trait that can overpower the fear of punishment even death. In spite of many efforts by the authorities to stamp the bills with multiple seals, counterfeiting led to an inflation of banknotes in the system, making them worthless and resulting in people losing all confidence in it. Paper money ceased to be in circulation after 1455, thus ending 650 years of experience with fiat currency. The term “fiat” is a Latin word that appears in the Latin Vulgate Bible in Genesis 1:3 “fiat lux” meaning “Let there be light”. Applied to money, it refers to money

created out of nothing by official order or decree.

China reintroduced silver coinage and was the last country to abandon silver standard in favor of a fully fiat money system in September 1935. Some economists credit silver standard for having protected China from the Great Depression that hit the Western World in the 1930s.

Marco Polo's description of what he had witnessed in China later led European countries to also adopt paper money, sometimes for good and other times for bad results. To operate smoothly and effectively, fiat money requires the people's trust, and trust is built on honesty, integrity and transparency. Every time there was a trust deficit in paper money, countries fell into financial crisis leading to economic calamities. It happened in 17th century France with the monetary experiment carried out by John Law which will be covered later in the book. Over the last decade, we have experienced a similar financial disaster with the 2008 financial crisis in USA which spread all over the planet and destroyed millions of companies in its trail. Some economists and financial analysts predict another financial crisis is in the making within this decade that will dwarf any crisis we have known in our lifetime. This should incite us to better understand what money is and how to preserve its value when the next financial tsunami hits us.



## Precious metals as money

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*“Money is gold, and nothing else.”*

J.P. Morgan – American financier (1837-1913)

In the early days of civilization, commodities like cattle or grains became accepted as medium of exchange thanks to their recognized value, their divisibility, their transportability and their capacity to maintain their value over time. Thus commodity money was born. Gold and silver coins originated from that tradition. We call commodity money any form of money consisting in objects or material having value in themselves as well as in their use as currency. We include in such a category all kinds of items that have been used at some times in history as mediums of exchange like salt, tea, shells, cocoa beans, cowries, barley, animal fur, with metal coins in gold, silver, copper and bronze having been the most popular forms of money.

We often refer to those mediums as having “intrinsic” value, even though value is always subjective and relative to people’s desire for those items. Water for example has no “intrinsic” or objective value in itself even if it is recognized by all as a daily necessity. A glass of water may be extremely desirable and valuable in the middle of the desert but has negligible value next to a fountain of cool spring water. The same goes for gold that some people covet and others ignore.

Until 1971, all the world currencies, even banknotes, were commodity by nature in the sense that they were fully or partially redeemable for gold or silver. Metal coinage first appeared in the various states around the Mediterranean Sea under the authority of the political rulers of antiquity. It ensured uniformity in the weight and value of each coin within a territory. By stamping the mark of the ruler on each coin, it helped to control the quantity of currency in circulation. However, throughout history, gold and silver coins have faced the same challenge of preserving people’s trust and honesty as in the case of fiat money.

Today, we live in a fiat money system that is partially a commodity system since all central banks keep some reserve of gold to partly back up their paper money with metal that people trust more. Yet, we can only speculate over the real quantity of gold various countries keep. The Federal Reserve

of USA for example has never been audited and we have no way of knowing for certain how much gold is kept in the vaults of Fort Knox (U.S.A.). All other banks keep their real gold reserve a secret. Citizens are simply expected to trust the bankers that all is well with their country's financial institutions.

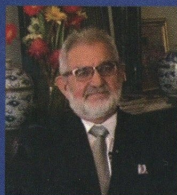
# THE GOLD & SILVER SAGA

## A QUEST FOR REAL MONEY

We are living in uncertain times. The subprime crisis a decade ago provoked major financial and monetary tremors that reverberated throughout the world, the impacts of which are still felt today. Some economists are warning us that a new crisis is brewing that could surpass the 2008 crisis. Astronomical debts in developed countries together with abysmal public deficits threaten once again the stability of our international financial system, endangering our hard-earned savings.

**THE GOLD & SILVER SAGA** explores the historical foundation of our monetary and banking system, revealing its Achilles heel. It also explores possible solutions for the future. Written in a lively and entertaining style, it makes a complex subject easy to understand for everyone. In the book, the author examines:

- What is money?
- Why do we trust gold and silver?
- How does inflation steal your money?
- How do banks create money?
- What role for crypto and digital money?



**JEAN-YVES GICQUEL** was born in Brittany, France in 1955. His professional life has taken him to several countries in Europe and America and he has spent over 30 years in Asia. His keen interest in the nature of money and the way it should be used for social wellbeing has motivated him to share his research and insights.

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