



The Gold Standard Institute

Central Bank folly

Mike (Mish) Shedlock brought the following piece of central bank (Sweden's Riksbank) folly to our attention.

Sweden Cuts Deposit Rate to **NEGATIVE** .25%

<http://globaleconomicanalysis.blogspot.com/2009/07/sweden-cuts-deposit-rate-to-negative-25.html>

Jack Ludwig has written an interesting commentary on the Riksbank below.

Commentary by Jack Ludwig

Did we really expect anything sensible to come from an institution which created the "Nobel" Prize in Economics and gave it to Merton & Scholes in 1997?

1. Alfred Nobel NEVER left his endowment for such a thing as the "Nobel" Prize in Economics. He only left his endowment for the Nobel prizes in fields such as the Sciences, Arts and Peace. The "Nobel" Prize in Economics was, and is the invention of the Riksbanks. I believe it was created sometime in the early 1990's, using the Nobel name in the prize, but the prize doesn't actually have anything to do with the Alfred Nobel endowment, other than the use of the man's famous name.

2. Merton & Scholes are the two clowns that received this prize from the Riksbank in 1997, for their work in their Options Pricing Modelling. They ended up creating a Hedge Fund, which applied their theories, called Long Term Capital Management. I'm sure those on this e-mail list knows what Long Term Capital Management was. This fund blew up in 1998, losing something on the order of US\$200 billion, causing a massive crisis, which was papered over.

Now, if an institution, that is, the Riksbank, steals the name of Alfred Nobel to create and pay for a prize in Economics and then give it away to two people who failed so spectacularly, it is NOT surprising to know that they have now cut Swedish deposit rates to minus 0.25%. As they say, "you are only as good as your last performance", and if that last performance was miserable, then chances are high that your next performance will also be miserable. The Riksbank is that case in point.

In fact, before this GFC is over, I would expect more stupid decisions, like this, to come from all the self-important clowns in all the central banks and national capitals around the world. Meddlers know no bounds to the amount of meddling they will do. No matter how dire the consequences of their meddling, they will continue to meddle because their blinkered existence knows no bounds in its hubris. Like Einstein stated: "Two things are infinite: the universe and human stupidity".

This decision by the Riksbank is most probably just the hors d'oeuvres before the entree... someone, with time on their hands (not many on this list I would guess), should document all of the stupid decisions made by the meddlers from all around the world since this GFC started in earnest in February 2007.

Continued on the following page

This was the time period where Professor Fekete noted the spike in CDSwap prices for formerly reputable firms and when Carlyle Capital's two Hedge Funds collapsed. These 2 events were the catalyst for this latest financial crisis.

I believe that one possible unseen consequence from this decision, is that Swedes will merely stash cash in their "mattresses and pillows", to borrow a common phrase. Why pay a fee in order to save money? Why lend when it is too risky because debt levels are already high, and risk of default is rising? Common sense dictates that a proportion of Swedish Krona's (SEK) sloshing around the Swedish economy will simply vanish out of circulation and the banking system, when savers ask themselves the previous two questions. Do you think this may lead to more negative deflationary feedback loops in Sweden? The very thing the Riksbank wishes to avoid? The probability is reasonable. Most meddlers don't realise that their meddling ends up creating the very thing they wish to stop.

Another potential consequence is that if irredeemable fiat currencies, such as the SEK, can no longer gain a rate of interest, and in fact one must pay a fee in SEK's, in order to save SEK's. In other words, it pays no interest and costs you money to hold. Then what difference is there between this arrangement and that of Gold? Gold pays no interest, and costs you money to hold it. Do you think a sane and reasonable person would choose SEK's over Gold under this scenario?

Who will hold SEK's, which now pays no interest and costs you money to hold it, and is just a piece of paper with some legal tender legislation forcing people to accept it as payment and is a Liability on the balance sheet of the Riksbank, when you can hold Gold, which also pays no interest, costs you money to hold it, but is NO ONE'S Liability as it is the ONLY financial asset which is not a liability on a counterparty's balance sheet? What may happen in this scenario, when savers push the currency away and do not wish to save in it? The opportunity cost of holding the currency is too high for a saver to consider, therefore they do not hold it. This is very similar to the currency event which Jim Sinclair talks about ie. a 'cost push' currency event, which is a particular form of hyperinflation which Mr. Sinclair describes.

It is obvious that the playing field between monetary metals and fiat irredeemable currencies is starting to level, just a little bit, at least in Sweden. Both pay no interest. Both cost you money to hold. But only one of them is no one's liability.

Now, we just need the removal of legal tender laws, and the opening of the mints, and the field will be truly levelled. So that the real competition, for the prize of what should be considered money, can start in earnest. Hmmm...

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