

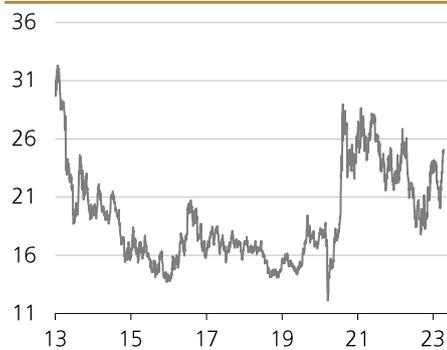
13 April 2023

Economics · Finance · Precious Metals

## USD per ounce of gold



## USD per ounce of silver



## EURUSD



Source: Refinitiv; graphs by Degussa.

## OUR TOP ISSUES

This is a short summary of our fortnightly **Degussa Marktreport**.

In the past, the Fed's emergency loans were followed by strong gold bull markets

Fed loans to 'depository institutions & others' (USD bn) and gold price (USD/oz)



Source: Refinitiv; graph Degussa.

Last data points: Loans 5 Apr 23, gold price 12 Apr 23.

## THE “CAUSE OF THE CRISIS” THAT MUST NOT BE NAMED

I.

The truth can be uncomfortable. And it can be so scary that you don't want to speak or hear about it. Like in Harry Potter, where nobody dares to utter the name of the evil wizard Voldemort. Witches and wizards refer to him as “He Who Must Not Be Named” instead. Perhaps a telling analogy, as many economists refuse to speak openly and truthfully about the root causes of financial and economic crises.

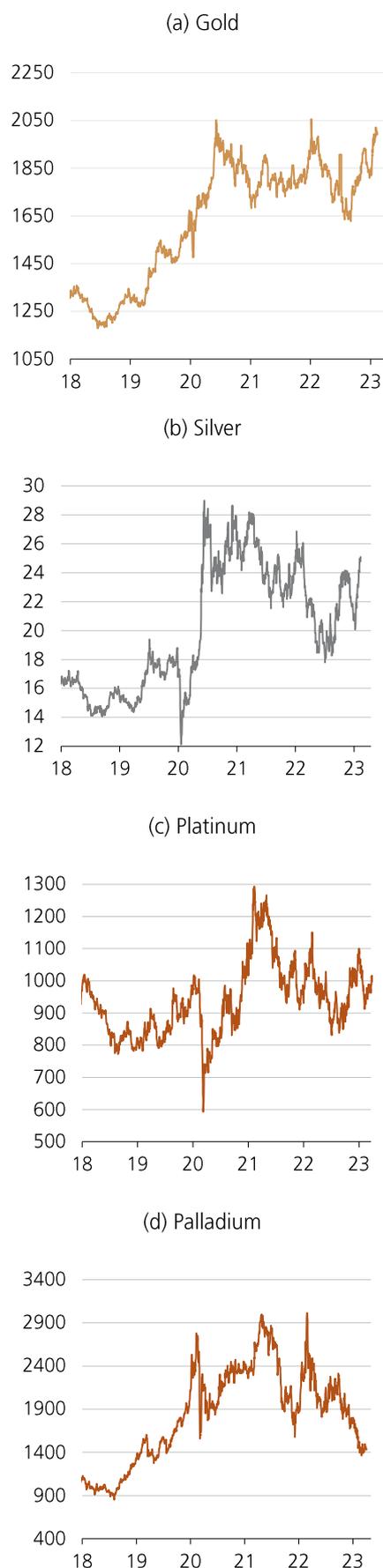
Let's ask: What caused the most recent turbulences in the international banking market in March 2023? What caused the global financial and economic crisis of 2008/2009? What caused the “New Economy Hype” to burst in 2000/2001? If you ask economists these (and other economic and financial crisis-related) questions, you will probably hear an entire range of different answers of the following type:

### Precious metals prices per ounce

	Actual (spot)	Change against (in per cent):		
		2 W	3 M	12 M
<b>I. In US-dollar</b>				
Gold	2.009,1	1,6	10,1	5,9
Silver	25,3	9,1	5,7	11,4
Platinum	1.018,3	4,2	-4,8	9,4
Palladium	1.470,9	3,9	-18,0	-36,6
<b>II. In euro</b>				
Gold	1.826,9	-0,6	7,2	1,6
Silver	23,0	6,8	2,9	6,7
Platinum	926,0	2,0	-7,3	4,3
Palladium	1.338,0	1,5	-20,1	-39,3
<b>III. Gold price in other currencies</b>				
JPY	267.889,0	3,6	12,0	8,8
CNY	13.808,3	1,7	9,7	10,2
GBP	1.609,2	-0,5	6,7	6,7
INR	164.663,4	1,9	9,1	13,5
RUB	163.437,8	6,9	23,6	22,8

Source: Refinitiv; calculations by Degussa.  
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### Precious metal prices (USD/oz), last seven years



Source: Refinitiv; graphs Degussa.

For instance, that investors were too greedy; that there was too much speculation, risk appetite and “moral hazard”; that hedge funds have gone wild; that banks were too poorly regulated; that monetary and fiscal policymakers failed (that they have done too much (or too little and/or had bad timing); that the free market system failed; that capitalism will inevitably end in disaster; etc.

Established economists hardly ever mention central banking, the issuance of unbacked money (or fiat money) through the creation of bank credit and “fractional reserve” banking, as the source of major financial and economic crises. Hardly anyone is blaming the government’s monopolization of money production as the root cause for boom and bust cycles, for recurring debacles in the financial and economic system.

This is not too surprising, as it has become common practice to use observations (experience) as the source of scientific knowledge in “modern” economics and as a means of validating the truth value of theories on the basis of observations made. It is the direct result of applying a specific method of gaining knowledge about reality based on the ideas of positivism-empiricism-falsificationism.

Positivism is an (ideological) doctrine that states that all scientific knowledge can only come from measuring real-world phenomena. Empiricism holds that experience is the only source of scientific knowledge. And falsification (a term closely related to Karl R. Popper (1902–1994)) teaches that we can never verify a proposition, that all we can hope for is to not falsify it for the time being, but that we can never be sure whether we have obtained true knowledge.

The scientific method based on positivism-empiricism-falsificationism is pursued in the natural sciences, and quite successfully so (just look at the scientific advances in this field in the last, say, 70 years). However, it is entirely out of place and cannot be applied without causing logical contradictions in the realm of economics – which is a part of the science of human action. Why is this so? This all-important question deserves a detailed answer.

II.

Natural science mostly deals with with inanimate objects – molecules, rocks, and planets –, things that have no goals or preferences, which do not choose between alternative modes of action. Humans, on the other hand, are categorically different. Because humans act, they have goals and preferences and choose among alternative courses of action. The important insight is that “humans act”.

The proposition that humans act may sound trivial, but, epistemologically speaking, it is not. Because the statement “humans act” cannot be denied without causing a logical contradiction. When you say, “humans do not and cannot act”, you are acting – and denying what you just said, causing a logical contradiction, thus stating something false. The proposition “humans act” is a priori true: its truth value cannot be denied without presupposing its validity.

From this, we can deduce that there are no (quantitative) constants in human action; there is – in sharp contrast to natural science – no “If A, then B” or “If A increases by x per cent, then B changes by y per cent”. Because in contrast to observations made in a laboratory experiment, every human action is unique. Human action takes place under certain conditions at particular times. Human action is a non-repeatable event, not comparable with any other human action at any other time. Why?

Humans have the capacity to learn (Lernfähigkeit), something we cannot deny without creating a logical contradiction (thus saying something false). When claiming "Humans cannot learn", you presuppose that humans can learn (otherwise, you would not be saying what you just said) and are provoking a performative contradiction. And when you say, "Humans can learn not to learn", you create an open contradiction because you deny what you just said.

The proposition that humans have the ability to learn is a priori true. And if we cannot deny that humans have the capacity to learn, we must conclude that people's knowledge – which is what ultimately drives their actions – changes over time. This, in turn, means that we cannot know an actor's future knowledge and thus his/her actions in the present. Because if we could, we would assume, at least as far as the future is concerned, that people would no longer be able to learn. However, this would be a logical contradiction.

We conclude that people have the capacity to learn that their knowledge changes over time, and, therefore, we cannot sustain the notion that there might be behavioural constants (or: quantitative regularities) in the field of human action. If humans have the capacity to learn, we simply cannot claim that humans respond to a given stimulus in a consistent way.

Therefore, the scientific method used in natural sciences cannot be applied to the field of human action. If you apply methods of natural science in economics, you risk arriving at the wrong results. For instance, you might diagnose behavioural constants where none exist, overlook or deny existing causal relations between economic variables, and produce false predictions and policy recommendations.

In contrast, the logic of human action makes us understand the qualitative consequences of certain modes of action; provides a priori explanations of economic phenomena like money, credit, time preference, the originary interest rate etc.; reveals the effects government interventions in the free market system entail. All of which becomes understandable through logical deductions from the a priori of human action.

III.

Applying the scientific method of human action to economics, we can fully understand the impact the issuance of new money through the expansion of bank circulation credit (that is, credit not backed by real savings) has on overall economic developments – something that cannot be understood if the analysis is limited to collecting and interpreting data; in fact, something that may be even swept under the rug.

First, the increase in bank credit is lowering the market interest rate below what it would be had there been no such bank credit expansion. Suppressed market interest rates, in turn, make people save less, consume more, and increase their investment demand, leading to the economy living beyond its means. The increase in the fiat money supply created through bank credit expansion initially leads to a boom.

However, the boom must turn into a bust. Why? The boom, during which the market interest rate is artificially suppressed, makes people save less, consume more, and demand resources for additional investments. This implies that the boom leads to overconsumption, and it also leads to malinvestment: This means that additional investments are encouraged, in particular in time-consuming, i.e., capital-intensive production.

Once the additional injection of bank credit and money has worked its effect through the economy – raising goods prices and wages, and raising goods prices in the capital industries more than in less-time consuming industries, i.e. consumer goods industries – the boom comes to an abrupt halt. The market interest rate, artificially subdued during the boom, begins to rise.

As a result, people reduce consumption, save more, and investment demand drops. Entrepreneurs are finding that the surge in demand for their goods was temporary, not permanent, and inventories are building. Businesses realize that they have invested too much and/or in production lines proving unprofitable. They stop and liquidate investment projects and reduce their staff. People's incomes start to decline.

A growing number of firms and private households default on their debt. Banks suffer losses and grow reluctant to extend new credit and are unwilling to re-finance maturing customer loans. The economy contracts, goods prices and wages adjust accordingly. They are aligned to levels that ensure production caters to the most pressing customer needs.

IV.

Clearly, the observations we can make in a bust include business failures, bank closures, rising unemployment, falling asset prices, declining market liquidity, credit crunch, spiking borrowing costs, etc. And following a simplistic positivist-empiricist-falsificationist interpretation, people could all too easily blame these observations in one way or another for causing the crisis, the bust.

However, based on the logic of human action, the observations just mentioned are merely symptoms of the root cause of the crisis, namely bank credit expansion (not backed by real savings) and the associated issuance of unbacked money balances. The logic of human action also reveals that the boom is when misallocations occur and that the bust period is when they are corrected.

These effects can only be correctly understood through logical thinking, rigorously applying the method of the logic of human action (which Ludwig von Mises called praxeology) in economics. Contrary to the positivistic-empiricist-falsificationist method, the logic of human action reveals that issuing unbacked money through bank credit expansion leads to overconsumption and malinvestment, eventually resulting in a bust.

It explains without any epistemological doubt that governments' monopolization of money production, central banking, money creation out of thin air via bank credit expansion, and 'fractional reserve banking' are the root cause of economic and financial crises, of boom and bust, of chronic inflation and the debasement of the purchasing power of money as we have to come to know them today.

While empirical evidence may potentially blame all sorts of factors for a crisis, human logic, using rigorous a priori reasoning, identifies the issue of money creation out of thin air as the root cause of boom and bust. This is, of course, a rather inconvenient truth for mainstream economist thinking. Because it would unmask today's government-sponsored fiat money for what it really is: an economically and socio-political destructive scheme.

V.

This is a truth that does not go down well with economists on the governments' payrolls or funded by firms, organizations, and politicians thriving on the fiat

money regime. Clearly, uncovering the truth about the fiat money regime could cost them their career, income, prestige, and societal status. But it may not just be fear or a lack of intellectual courage that keeps many economists from exposing the fiat money system for what it is.

Many might simply be unfamiliar with the logic of human action as the appropriate scientific method in economics. Undoubtedly, looking at empirical data, building sophisticated models, and engaging in testing hypotheses – as economists do according to the positivistic-empiricistic-falsificationistic method – would leave much, if not all, of the problems that come with the fiat money regime in the dark.

“The cause of the crisis that must not be named” amounts to a paradigm for shirking the truth of fiat money – and is morally and ethically unacceptable. The key to fully understanding the workings of fiat money and its economic and political consequences is to accept the logic of human action as the appropriate scientific method in economics. This is where progress must be made to overcome false economic thinking and the societal aberrations it causes.

\* \* \*

*Literature:* Mises, L. v. (1996), *Human Action. A Treatise on Economics*, Scholars Edition, Ludwig von Mises Institute, Auburn, US Alabama. | Mises, L. v. (1956), *Theory and History. An Interpretation of Social and Economic Evolution*, Ludwig von Mises Institute, Auburn, US Alabama. | Hoppe, H. H. (1983), *Kritik der kausalwissenschaftlichen Sozialforschung. Untersuchungen zur Grundlegung von Soziologie und Ökonomie*, SZS, Vol. 55, Opladen. | Polleit, T. (2022), *Der Weg zur Wahrheit. Eine Kritik der ökonomischen Vernunft*, Finanzbuch Verlag, München.

## PRECIOUS METALS PRICES

In US-Dollar per ounce

	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>2008,3</b>		<b>25,3</b>		<b>1018,1</b>		<b>1471,8</b>	
II. Gliding averages								
10 days	1995,3		24,5		993,5		1461,4	
20 days	1977,1		23,5		985,2		1439,2	
50 days	1902,4		22,3		970,3		1477,5	
100 days	1868,8		22,8		997,8		1630,0	
200 days	1790,5		21,2		953,3		1844,1	
<b>III. Estimates for end 2023</b>	<b>2200</b>		<b>29</b>		<b>1250</b>		<b>1450</b>	
<sup>(1)</sup>	10		15		23		-1	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
<sup>(1)</sup>	1900	2360	23,3	32,9	1060	1380	1300	1670
	-5	18	-8	30	4	36	-12	13
V. Annual averages								
2020	1753		20,2		878		2180	
2021	1804		25,5		1095		2422	
2022	1798		21,7		956		2154	

In Euro per ounce

	Gold		Silver		Platinum		Palladium	
<b>I. Actual</b>	<b>1826,5</b>		<b>23,0</b>		<b>926,0</b>		<b>1338,6</b>	
II. Gliding averages								
10 days	1831,0		22,5		911,6		1341,0	
20 days	1827,8		21,7		910,8		1330,6	
50 days	1771,5		20,8		903,7		1376,0	
100 days	1747,7		21,3		933,5		1526,0	
200 days	1727,7		20,4		920,0		1789,9	
<b>III. Estimates for autumn 2023</b>	<b>2100</b>		<b>28</b>		<b>1200</b>		<b>1392</b>	
<sup>(1)</sup>	15		21		30		4	
<i>Band width</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
<sup>(1)</sup>	1820	2300	22,4	31,6	1010	1320	1240	1600
	0	26	-3	37	9	43	-7	20
V. Annual averages								
2020	1535		18		769		1911	
2021	1519		21		921		2035	
2022	1704		21		905		2041	

Source: Refinitiv; calculations and estimates Degussa. Numbers are rounded.

<sup>(1)</sup> On the basis of actual prices.

## BITCOIN, PERFORMANCE OF VARIOUS ASSET CLASSES

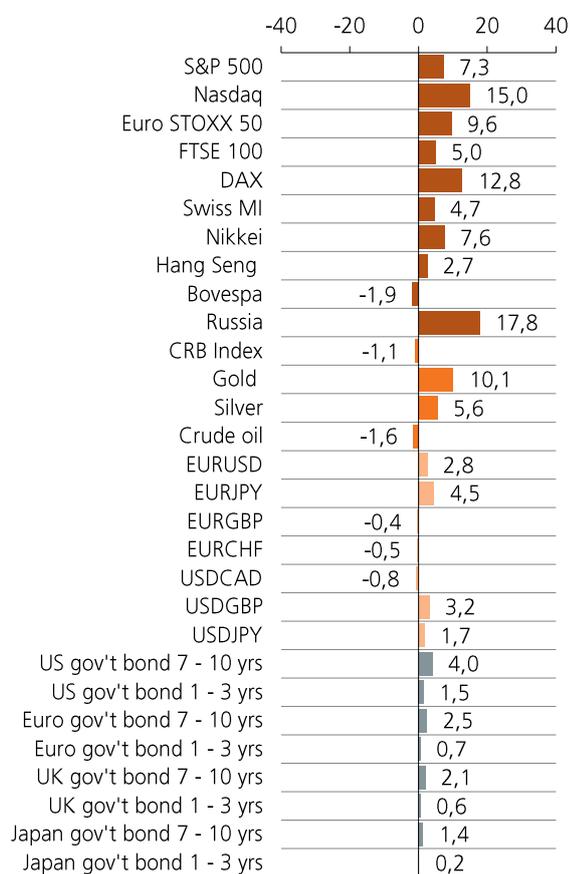
### Bitcoin in US dollars



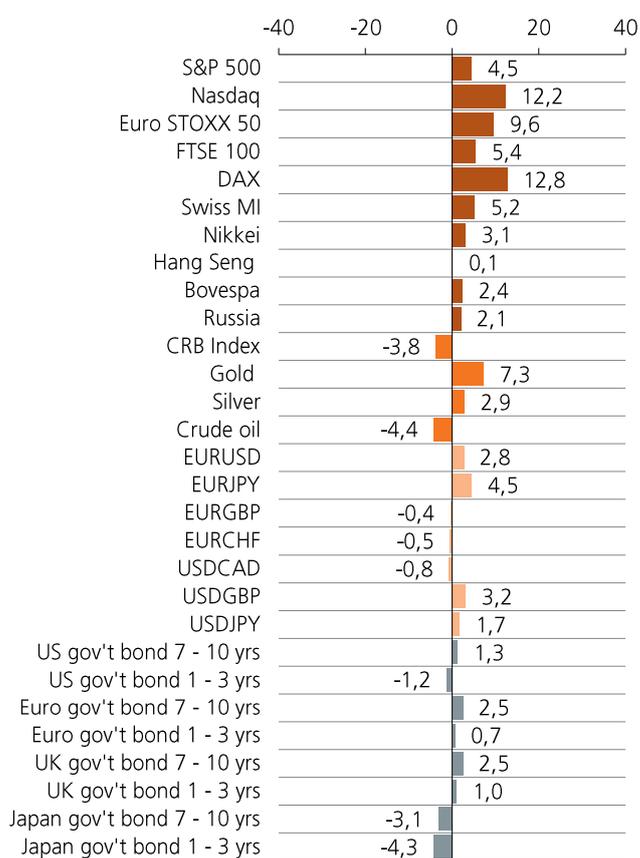
Source: Refinitiv; graph by Degussa.

### Performance of stocks, commodities, FX and bonds

(a) In national currencies



(b) In euro



Source: Refinitiv; calculations by Degussa.

## Articles in earlier issues of the *Degussa Market Report*

Issue	Content
13 April 2023	The "Cause of the Crisis" that Must Not Be Named
30 March 2023	Not Over Yet. Hold Gold And Silver
16 March 2023	Why Not Higher?
16 February 2023	Staying Power Pays Off For Gold Holders
2 February 2023	You Think the Global Economy Is Brightening? Beware: The Big Hit Is Yet To Come ...
19 January 2023	Outlook 2023: Keepy Buying Physical Gold And Silver
22 December 2022	Central banks' propensity for inflation is a very good reason to hold at least some gold
8 December 2022	Some Thoughts About Central Banks' Renewed Interest In Gold
24 November 2022	Some Thoughts About Central Banks' Renewed Interest In Gold
10 November 2022	Investing In An Inflationary Regime: Keep At Least Some Gold
27 October 2022	Fasten Your Seatbelt: The Fed Replaces Monetary Inflation With Monetary Deflation
13 October 2022	Proposal in the US Congress: Reintroduction of Gold Backing For the US Dollar
29 September 2022	Capital Markets Have Become A Dangerous Place
15 September 2022	Inflation, High Inflation, Hyperinflation
1 September 2022	Everything you always wanted to know about ... MONEY (but were afraid to ask)
18 August 2022	Sky-High Inflation Is Just One Reason To Hold Physical Gold
4 August 2022	Excessive Money Growth Leads To Super-High Inflation
21 July 2022	Dollar Dominance Brings Yen And Euro To Their Knees
7 July 2022	I'm Sorry To Say, But It Doesn't Look Good. Hold At Least Some Gold
23 June 2022	On The Future Of Markets And Money
9 June 2022	Interest Rates Rise. Financial Repression Continues
26 May 2022	Crisis Risk On The Rise. Gold As Insurance
12 May 2022	The Fed Makes Boom & Bust, And What It Means For Gold
28 April 2022	The Fed's Boom And Bust Cycle – And What It Means For Your Money
14 April 2022	Do You Know What Inflation Really Is? Then Hold Gold And Silver
31 March 2022	How Not To Get Battered
17 March 2022	There is no Return to Normality. The Case for Gold and Silver
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3 February 2022	The Bigger Gold Picture
20 January 2022	Outlook for Gold and Silber brighter than you think it is
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21 October 2021	At A Crossroads. It Is Time For Gold And Silver
7 October 2021	Here Comes The Inflation Beast
23 September 2021	Evergrande: China's Potential 'Lehman moment'?
8 September 2021	It All Depends On The Fed's 'Safety Net'

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