

# OPUNTIA

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**MAKING THE WORLD ROUND AGAIN**

by Dale Speirs

### **The Flat World And My Uncle Norman.**

My mother's older brother Norman died in August 2007. He had spent 42 years with the Canadian Imperial Bank of Commerce (CIBC) before retiring in the middle 1980s. He rose through the ranks from a teller in rural village branches to head the Loans Dept. of southern and rural Alberta, headquartered in Calgary. He was the epitome of a cautious banker, constantly shaking his head at the over-optimistic nature of clients, and guarding the vaults against the barbarian hordes. He did not live to see the Panic of 2008, but having been a child during the Great Depression, he would not have been surprised that the foolishness of human nature had repeated itself.

When he and my mother were young, everyone in central Alberta was close to the land or only a generation removed from it. Oranges were a luxury item seldom seen. Towns were supplied by market gardens around them. When I was old enough to think upon these things, I knew my food came from California or southeast Asia, and oranges were too cheap to meter. The market gardens were long gone by then, destroyed by imports hauled thousands of kilometres from California. As a horticulture student in university during the 1970s, I learned that it was uneconomical

to grow tropical plants in Alberta greenhouses because they could be trucked in at less cost from Florida. Roses were flown in daily from Ecuador at a price that undercut our rose growers despite the cost of air freight. It seemed economic madness to me, but the facts stood there and what was to be done?

By the 1990s, that economic madness had a name: globalization. Factories moved to Asia in search of cheap labour, and goods were shipped around the world in nonsensical patterns. Pundits declared the world was flat, and North Americans would henceforth be competing with people who made 25 cents an hour and no benefits. But sometime between 2005 and 2008, world oil production peaked. (The exact moment depends on which set of statistics you use, but all agree that it has happened in the very recent past.) Cheap oil disappeared. It spiked to \$147 a barrel, then tailed off to about \$75 by late 2009. Everyone felt relieved that oil was cheap again, forgetting that in 2005 when oil first reached \$50 everyone was fretting about how expensive it had become. \$75 oil was and still is expensive, and the Panic of 2008 was intensified by that expensive oil.

I've done very well in my investments, never having bought publicly traded stocks, and sticking to dull but safe Canadian bank bonds, private-equity oil, physical gold and silver, and, most important of all, having zero debt. I greeted Peak Oil with the hope that as petroleum increased the cost of transport, then local

industries would revive and the market gardens return. I wasn't the only one thinking this way. So was Jeff Rubin, a former CIBC man whom Uncle Norman would have been pleased to meet. Rubin didn't just think about it; he wrote a book about the flat Earth and local economies, titled WHY YOUR WORLD IS ABOUT TO GET A WHOLE LOT SMALLER (2009, hardcover).

**There Is No God But Peak Oil, And Hubbert Is His Prophet.**

Rubin begins with the example of salmon, supplied to the Canadian table from Norway fishermen via fish processing plants in China. The cost of shipping frozen fish back and forth across the world was made possible by cheap oil, but that oil has gone away. We still have lots of oil, but it is not cheap, easy oil. It is offshore oil, Arctic oil, and Athabasca tar sands. The Saudis now pump millions of litres of seawater per day into their oil fields to keep them pressurized. The world's economy runs on oil. Not natural gas, not coal, not nuclear power, and certainly not ethanol, not even in Brazil. No oil means no diesel. Everything you own was delivered to you or the store you bought it from by a diesel truck over the last kilometre. Those ethanol-powered cars in Brazil still need oil in the engine sump to lubricate the engine; animal tallow doesn't do it.

Rubin immediately sets himself up as a prophet crying in the wilderness for having predicted \$50 oil in the year 2000. He may well have but I don't recall that he was the leader of the pack back then. He does acknowledge the famous geologist M. King Hubbert, who in 1956 correctly predicted that continental USA oil production would peak in 1970. Rubin also makes the point that in 2000, the big oil companies did not agree with Peak Oil, even though new discoveries were not compensating for declining production from old wells. My suspicion then and now is that the big companies are well aware of Peak Oil but because they are publicly traded, cannot have their executives damaging the stock price. That way lies lawsuits from disgruntled shareholders.

Rubin then goes on to imply he thought of the Export Land Model invented by Jeffrey J. Brown, which states that oil export nations stop exporting (net exports, as there is still cross-border trade) within five to nine years of hitting peak production. This is because they need the oil for themselves and their people, so while gross production figures may seem to show all is well, the netback is more alarming. Mexico's oil production has fallen by half in the last five years, as the giant Cantarell oil field peaked. No new giant oil fields have been discovered anywhere in the world since the 1970s, when Cantarell was first drilled. (Recent mass media reports about "giant" offshore discoveries are misleading; a decade ago those fields would have been considered small.) Offshore fields in the Gulf of Mexico and off Brazil have been

touted as saviors, but those that do the touting don't understand that these fields are not an addition to existing oil production, they are only compensating for declining production and not even fully at that. Even when oil was above \$100, world production remained flat, and the Saudis were unable to swamp the market as they did in the 1980s. They can only keep their oilfields producing because they pump millions of litres of seawater per day into them to keep the pressure up.

Rubin points out that Peak Oil does not mean endlessly higher prices. Instead, we will see price spikes followed by economic crashes, and oil prices falling due to demand destruction. As he mentions, even after the Panic of 2008 the price of oil never went below \$30 and soon recovered into the \$70 range while the stock market stayed down, unemployment rose, and factories closed. The worst economic decline since the Great Depression has not sent oil back to \$10, because there is no \$10 oil left in the world. The Saudis admitted in late 2008 that they could not produce oil economically at \$10 because their cheap easy oil is gone. They now pump heavy crude that needs waterflooding to keep up reservoir pressure, and expensive refineries to make it flowable. The Athabasca Tar Sands need \$75 oil on a sustained basis to justify building new plants. It costs billions of dollars to float an oil rig out to an offshore site, and no new ones will bring in oil unless the price stays up.

The current decline in world oil production is about 4 million barrels per day over the course of a year. For comparison, the USA uses about 20 megabarrels per day. Alaskan oil production has declined 1 megabarrel since Prudhoe Bay began pumping. The Gulf of Mexico, despite hundreds of rigs offshore, will be lucky to reach 2 megabarrels per day by 2010, assuming no more of them are taken out by hurricanes, an unlikely assumption. It doesn't help that 40% of American refineries are within target range of hurricanes along the coast. Hurricane Ike scored a direct hit on major Texas refineries in 2008, which sent gasoline prices up to \$5 per gallon. Worse yet, because Gulf oil is so expensive to drill for, the platforms use multiple horizontal drilling from a given platform to get more oil faster, which drains the fields sooner. Offshore reserves are increasingly deeper and deeper, meaning the drill pipe goes down kilometres.

Rubin constantly hammers at the Red Queen's Race dilemma of oil companies, that they have to drill more just to replace existing production. Economists refuse to take this into account, despite the fact the \$100+ oil in 2008 did not bring a net increase in supply and world production plateaued. OPEC quotas are now meaningless because most of its members can no longer cheat on their production even if they wanted to. The oil companies have the further problem that in most of the world the oil is under the control of a government-run oil company, collectively known as the nationals. Countries such as Russia, Venezuela, and the

various central Asian republics have not hesitated to abrogate agreements with private oil companies and seize their oil. One reason why the Athabasca Tar Sands are so popular with oil companies is that Canada has rule of law and will not evict them at the first sign of a profit. The worst case is Nigeria, where at any given moment up to 1 megabarrel of oil is offline due to the ongoing war. At least in Venezuela or Russia no one blew up the pipelines.

Economists also fail to understand that demand for oil is not uniform around the world. Americans and Europeans, who pay world prices, were quick to respond to the price spike of 2008 and reduced driving. In Dubai, where oil is too cheap to meter, there exists an indoor ski hill which uses 3,500 barrels a day of oil to refrigerate the place and produce real snow. The reduced driving by Americans is immediately offset by this obscene misalignment of economic behaviour. Iran has to subsidize gasoline prices by selling it at pennies per litre because the last time it tried to raise prices, rioting almost toppled the government. Venezuela and Saudi Arabia are well aware of that incident so they too subsidize gasoline. The governments of China and India are not going to tell their subjects they can't live like Americans, so their consumption is steadily increasing.

One misunderstanding about oil production statistics is that they do not tell the story of actual oil sent for exports. In the 1960s,

oil exporters in the Arabian Gulf region had small populations and kept back little of their oil for home use. Since then, their populations have grown enormously; Saudi Arabia alone went from 6 million people to 30 million today. Electricity is generated by burning oil or natural gas at heavily subsidized rates (\$3 per barrel) to run huge numbers of air conditioners. Petrochemical plants are being built in OPEC countries because it is more efficient to ship plastics and other chemicals from near the feedstock source, and, most importantly to Arabic eyes, keep the jobs at home. Desalinization plants are essential since Saudi Arabia passed Peak Aquifer Water a decade ago, and cannot support its population without them. It is said that no foreign army has to invade Saudi Arabia. All they have to do is destroy the desalinization plants and oilfield seawater pumping stations by aerial attack, and then sit back and wait for the surrender.

OPEC net exports of oil have been declining over the past few years. Indonesia was a member of OPEC but dropped out a couple of years ago after it became a net importer of oil. What kept world supplies temporarily higher were Russian exports, but they too are declining. Mexico is the second largest supplier of oil to the USA after Canada, but Cantarell is down by half in the past few years, with no replacement waiting in the wings.

After the first oil price shock in 1973, cars became more fuel efficient, more houses were converted to natural gas heating, and

industrial processes were redesigned. Contrary to what economists thought would happen, demand for oil only dropped briefly, then climbed back. It is now understood that energy efficiency does not permanently reduce demand, because people can then afford to use more energy for the same price. If a car could go twice as far on a tank of gas, drivers didn't reduce their driving, they doubled it. Passenger aircraft became more fuel efficient and carried more passengers at a cheaper price. The result was that while the per-plane use was lower, there were now 150% more flights so the absolute consumption of fuel increased. The situation was worsened by the decade-long recession of the 1980s when the Saudis flooded the market with \$10 oil in order to put their OPEC enemies in their place. Under such circumstances, the rise of the SUV, large-screen television sets, and the suburban McMansion was inevitable. Laptops, cellphones, iPods, and handheld videogames did not consume much electricity individually, but when added up by the billions, there was a massive absolute increase in electricity use. The generation that grew up during the 1980s to early 2000s took cheap energy for granted.

After the second oil price shock of 2007, biofuels became the fad de jour. Corn-based ethanol requires 8 barrels of oil for every 10 barrels of ethanol produced, because corn is an intensive crop that requires huge amounts of diesel equipment and chemical fertilizer to produce.

Even then it is not viable without huge government subsidies and, worse yet, is no more environmentally friendly in car engines than gasoline. Biofuels also divert cropland away from food production, raising the price of food.

### **Distance Is Money.**

Rubin begins this section of the book with an anecdote about Belgrade during the Balkan wars of the 1990s, when gasoline, if you could get it at all, cost \$8 per litre (for my American readers, that's roughly \$36 per gallon). The streets were quiet, with few vehicles, but the air was clear and pedestrians could socialize on the sidewalk without their conversation being drowned out by traffic noise. The advent of Peak Oil means that the next generation of North Americans do not need all those freeways. Public transit won't be used all the time but will be more often than now. This will require necessary increases in capacity, which means more expenditure on rapid transit. It also means that most suburbs will gradually start to dwindle if they are only liveable with cars. There won't be any sudden crashes like the survivalists expect. Rather the suburban houses within four blocks of a major shopping mall or a bus route with direct access to the downtown will hold their value, while those with a 15-minute drive to the nearest convenience store will gradually revert to rental houses and eventually vacant lots.

The much touted electric car will have the problem that there is no infrastructure to support massive numbers of them. The current North American electrical grid can barely support all the air conditioners and forced-draft furnaces we have now. Electric cars can be charged overnight when there is low demand, but if Toronto is having a hot muggy night, all those air conditioners are going to keep running. If Calgary has -30°C weather, everyone's furnace will be running continuously, and all those fans will be sucking up electricity instead of electric cars.

It means more power plants but what kind? Solar doesn't work at night, wind only runs about a third of the time, little hydroelectric potential is left, and nuclear power is incredibly expensive. Alberta and most of North America gets most of its electricity from coal-fired plants (nobody burns oil for electricity here), which gets the environmentalists in a tizzy. The result, as Rubin suggests, is that we will walk more, ride bicycles, or take the bus.

In the past, even with cheap oil most manufactured goods were domestically produced because of tariffs protecting local industries. Western Canadians can particularly relate to this because for the first 125 years of Confederation we were forced to buy most of our manufactured goods from Ontario and Quebec, yet had to sell our grain and oil at reduced rates. That is why western Canada so strongly supported NAFTA, to ensure that eastern Canada could never again loot us of \$50 billion as they did

during the infamous days of the National Energy Policy (brought in by Pierre Trudeau, which is why even today the Boomer-age Albertans still hate his guts).

The rise of free trade meant that goods could be manufactured elsewhere more cheaply, which cost jobs in North America but lowered living costs enough to compensate. North Americans shopped themselves out of jobs, as factories moved overseas. At first few complained other than the laid-off workers because the price of all those must-have electronic goods fell faster than wages stagnated. People moved into service jobs, and it was said that North America and Europe would do the big-money jobs like computer software or financial transactions, while leaving the grunt work to the rest of the world. But someone discovered that the Chinese and Indians could do those jobs as well.

## **Carbon.**

Peak Oil has proven to be an unexpected messiah, come to save us. The vast majority of cargo around the world today is moved by giant container ships burning bunker oil, which is crude oil left over from the refining process. As long as bunker oil was cheap, so was cargo transport, but the rise in petroleum prices has created an obvious problem. Suddenly those low prices started to go up, but the wages of the customers stayed low. By 2007, before the financial panic started, manufacturers were thinking seriously

about relocating from China to Mexico in order to service the NAFTA market. By 2008, when oil spiked over \$100, manufacturers were thinking seriously about relocating back to the USA and Canada. Just as the world started to flatten, the Wall Street banksters were caught playing the fool and wrecked the world economy, making it almost impossible for manufacturers to get credit to build those new factories at home and for customers to buy the goods.

Rubin considers the politics of carbon dioxide, and points out that while developed countries are reducing their carbon outputs, they are canceled out by developing nations such as China which are increasing their output even faster. Since 2006, China has surpassed the USA as the largest emitter of carbon dioxide, and is commissioning one new coal-fired electrical generation facility every three days. Asia is a low carbon dioxide emitter on a per-capita scale, but that ignores the fact that there are far more Asians than North Americans and Europeans. Asia is now the largest emitter of carbon dioxide on an absolute scale. It is the absolute value that matters, not the relative value. This is why so many people got into trouble during the Panic of 2008. Their income or assets were relatively high and declined with the market, but their debts are absolute money that are still owed.

Rubin emphasizes that this unfair advantage will have to be met by carbon tariffs, the so-called cap-and-trade quotas.

If North American and European manufacturers have to pay to reduce carbon emissions, then so must the Asians. This means imposing carbon taxes on their imported goods, which has the effect of leveling the playing field and encouraging more domestic industry. He suggests that North America impose tariffs of up to 40% depending on the type of goods. I can see Canada getting away with this because we are not a debtor nation, but the USA could never do this to China, which holds the majority of its debt. China would retaliate by dumping dollars, probably by rushing out and bidding up the price of all commodities, not just slowly as they are doing now, but in a grand cataclysm. This would inconvenience China (and Canada) but wreck the American economy with double-digit inflation, depression-level unemployment, and a stock market crash that would make the Panic of 2008 look like a walk in the park.

**Economics.**

Although the recent panic was exacerbated by all the toxic paper churned out by the Wall Street banksters, Rubin argues that the main trigger was the spike in oil prices, as indeed it was in the last four recessions. Some countries did have banks that bought too much American toxic paper, but many that were not seriously affected nonetheless still went into recession. Ontario, the centre of Canada's automobile industry, was crippled by the collapse in car sales, not just in the USA but even within Canada. Those sales

were driven down by gasoline selling at \$1.40 per litre, laughably low to Europeans, but big bucks to North Americans. Even those who never venture outside the city and use public transit were still affected because all goods are delivered to the city by trucks, airplanes, and ships burning petroleum.

Europe and the USA exported their money to oil-producing nations, who mostly squirreled their money away or bought things from China. This had the net effect of reducing the money supply in the importing nations, which could only be dealt with either by collectively living within one's means or by borrowing more money. We know which one the majority chose. The average savings rate in OPEC nations is about 50%, while in most consuming nations it went negative (debt payments greater than income). Cheap imported goods made possible by cheap oil allowed inflation to decline to the point where interest rates fell to 1% by 2003. When world oil production peaked circa 2005, oil began climbing in price, and so did interest rates. By 2006, rates were 5% or more, just as all those adjustable mortgages came due for rollovers. The American and European housing markets collapsed and the stage was set for the Panic of 2008.

The response of most governments has been to print more money, although these days it is just electrons on a computer screen. You can't become a billionaire by writing a cheque to yourself for \$1



billion, but that is actually how governments do it. The problem is that all that government fiat money will eventually get into circulation and trigger double-digit inflation. In the past, American debtors liked this because it traditionally reduced their debt while increasing their income with wage rises. That was possible only because 90% of the debt was held by American creditors. Today the majority of American debt is held by sovereign nations outside the country, and any attempt to deliberately inflate away debts will result in an economic war.

Peak Oil is causing another problem with world economies. Oil supplies are steadily dwindling but after the Panic of 2008, demand fell even faster. Motorists did not have long to celebrate lower gasoline prices, because those who were not laid off noticed that prices never actually fell back to what they used to be. Whenever oil demand creeps up even slightly, the price of oil increases faster, killing any hope of a sustained recovery. This oscillation is slowly ratcheting up prices consumers will pay for everything. The oscillation also makes it impossible for petroleum suppliers to plan ahead with oilsands or offshore supplies. Alberta lost 4 megabarrels of proposed oilsands expansion after the Panic. Since demand comes back up instantly but it takes five years to bring oilsands or offshore oil on-line, this will act as a brake on the economy. After the 1970s oil shock, oil never went back to \$2 a barrel; it stayed at \$7. During the 1980s recession, oil did not fall back from \$35 to \$7; it stayed at \$10.

After the Panic of 2008, oil did not collapse to \$10; it bottomed out at \$35 and then quickly went back up to the \$70 range as China and other countries began to stockpile it at what is now perceived as a bargain price. Five years before, \$50 oil was considered expensive, but by early 2009 it was considered cheap.

### **Good News For Modern Man.**

Rubin finishes up his book by discussing the impending death of what he calls the barista economy, the service sector that depends on cheap oil to transport coffee beans and steel pipe from another hemisphere to your town. \$5 coffee with a bit of flavoured foam on it is untenable as the price of oil slowly ratchets up and local economies slowly ratchet down. Local manufacturing will revive, and the baristas of the future will be working as our grandparents did, actually making useful things for their fellow citizens. That is how it used to be, and is how it will be again.

Much of the land that once supported market gardens in North America and Europe has been destroyed by urbanization. (The farm I grew up on near Red Deer, Alberta, is now an industrial district.) We haven't noticed this loss because our lamb comes from New Zealand, the blueberries from California, tuna from Thailand, and much of our junk food from China. Peak Oil is simultaneously destroying far-flung suburbs and crippling food imports.

As a result, many failed suburbs are starting to revert back to nature. This isn't just doomsaying; many American cities are already being depopulated and experiencing just this. The future of distant suburbs can already be seen in cities such as Detroit and Cleveland, where the houses are disappearing and the land reverting back to nature. Distance will cost money in the future. People will grow more food in their backyards, and abandoned vacant lots will become allotment gardens. It will no longer be taken for granted that we can have fresh tropical fruits any time of the year, and even our own fruits will become seasonal again. Our grandchildren will be eating more root crops in winter, just as our grandparents had a steady diet of potatoes, turnips, carrots, and beets back when. The local food will not be cheaper though; modern agriculture depends on 10 calories of diesel fuel for every calorie of food produced. Rubin remarks that Peak Food will not be far behind Peak Oil.

In fact, Peak Everything will not be far behind. Local manufacturers can't supply computer chips just for a local market, so the cost of shipping in computers will increase. Just-in-time inventory will be abandoned because it depends on cheap fuel, and manufacturers will revert to having large inventories nearby in case of disruption. The cost of everything will increase, which will act as a check on the consumer society gone mad. Restaurants will dwindle in number because the cost of eating out will be too high for even the average wage earner. Airplane travel

in its present form needs oil to stay below \$80 per barrel. Seat sales and half-empty flights will be replaced by fuel surcharges and no service to smaller cities. You may fly from Toronto to Calgary and finish your trip to Red Deer via bus or train.

Tourism will take a major hit, as far-flung safari tours to Africa or trips to Australia die out. Fishing lodges in Yukon depend on cheap fuel for their American guests to reach them. They will dwindle away as it becomes too costly to fly in. People will vacation locally and get to know their own province or state better, instead of rhapsodizing about sunsets over the Hawaiian islands or the quaint sidewalk cafes of some French town. I don't consider this a problem. For decades, I have been spending my time off in the Rocky Mountains adjacent to Calgary and know the trails well. My friends have a few faded memories of Thailand or Hawaii, but I can visualize many parts of the Rockies in my mind's eye as if I were standing there now. Whenever I book my vacation time at work, people ask me automatically "Where are you going?" and are surprised that I will stay at home. I have to remind them that it is not a law or social obligation to book a flight for one's vacation. The decline of long-range tourism will be a death knell for many economies such as Hawaii.

With the economic dislocations resulting from Peak Oil, migratory labour will slow or even reverse. Locals who turned up their

noses at menial jobs will reconsider when there is nothing else available and reduce the demand for immigrants, illegal or legit. Remittance economies such as the Philippines will suffer. Third-world exports will drop, sending many of their people back into poverty. Rubin makes the point that while North Americans and Europeans will be discomfited by having to go back to their grandparents' lifestyle, the transition will be far worse in Africa and Asia. The cut-flower trade from Africa and South America will dwindle, as will sales of coffee, New Zealand lamb and kiwifruit, and other cash crops.

### Summing Up.



Rubin's book is a good introduction to the effects of Peak Oil for people who know little or nothing about it. The book is also a wake-up call for those who think the oil crisis is just due to speculators and we still have lots of oil if only we would drill enough. The

worst effects of Peak Oil will not be felt by the Baby Boomers but by their children. Rubin is writing for the parents, but it is the children he is thinking of.

## THE GOLD BUG VARIATIONS

by Dale Speirs

### Introduction.

More and more people are waking up to the advantages of owning gold since the Panic of 2008 demonstrated that most paper investments are only worth their value as scrap paper. Many saw the disaster coming. Since 2006, for the first time in human history, private individuals own more gold than governments. THE GOLDWATCHER by John Katz and Frank Holmes (2008, hardcover) discusses gold's history and investment potential. The book contents are well written, but the chapters could have been better organized, as they tend to jump back and forth between subjects. My review, therefore, will not be in strict order as read.

Although humans have used gold as the bedrock of their financial systems for 5,000 years, and often strayed from it to their regret, it wasn't until 1850 that a formal international gold standard was established. 59 major nations used it, except China, which preferred the silver standard. Experiments with bimetallism, using both gold and silver as currency, usually came to grief on the question of what ratio of gold to silver to use, since it varies annually with mine production. Governments have a love/hate relationship with gold. They hate it because it imposes fiscal discipline.

Gold cannot be churned out in infinite amounts to pay the bills like fiat currency (paper money). They have to accept gold because 5,000 years of history have proven it to be the only stable basis for currency in the long term.

**The Gold Standard.**

The pure gold standard, where gold was money and every country exchanged its paper banknotes for gold on demand, reached its pinnacle in the late 1800s and ended in the aftermath of World War One. Thereafter, governments would only exchange notes for gold with other governments, and the lumpenproletariat could not exchange the paper money. In 1971, Nixon took the USA off the gold standard altogether and the rest of the world was forced to quickly follow or else see their gold bleed away to the cheaters. All fiat currencies then began to inflate to double-digit inflation by the early 1980s as they depreciated against gold. There were calls to return to some form of gold standard, but the main stumbling block then and now was that politicians did not want to give up their ability to create currency out of thin air.

The authors of this book spend a lot of chapters discussing American economic history such as the pre-millennium dollar deficit, the cost of the second Iraq war, mortgage-backed derivatives, and the consequences of becoming the world's largest debtor. A steady inflation rate of 4% or so per year results in fiat

currencies losing half their value in 15 years, but gold still buys what it used to buy. Inflation is good for debtors, who can repay debts in depreciated money, but bad for creditors and rentiers (people who live off income from rents, bonds, or pensions). Since the government is the biggest debtor in any country, they thus prefer low inflation. People don't realize this. A million dollars was an astounding amount of money back in the 1960s, but now that debt has been inflated into petty cash. A billion dollars used to be big money even just a few years ago, but is now minor compared to trillion dollar debts. A few years ago, American citizens fussed because the Shrubbies looked to be spending \$500 billion on the Iraq war, but now the Federal Reserve has trumped it several times over.

**Gold Supply And Demand.**

You may have heard of Peak Oil, but few know that annual world gold production peaked in 2001 at 2,650 tonnes, and has been slowly declining since then. Despite the increasing price for gold, mines have not been able to ramp up production to take advantage. China overtook South Africa as the world's largest gold producer in 2007. The global petroleum trade is based on US dollars, which in turn depreciate against gold. Gold and oil prices therefore tend to move together, even though they are in different sectors of the market.

Game Over -- You Win

X

Gold	in them	thar	hills
0	26	26	26
0	52	52	52
0	78	78	78
0	104	104	104



OK

The gold market has been distorted for more than a century by the interference of governments and central banks. After its price soared in the 1970s when the world went off the gold standard, this proved to be an embarrassment to central banks, since it indicated that citizens would rather trust gold than fiat currency. For the next two decades, the central banks began selling their gold reserves at a steady pace in order to drive its price down. They managed to get it down to US\$252 per ounce by July 1999, but were never able to push it lower. In fact, the demand for private gold steadily increased by that time to the point where private investors were able to beat the central banks at their own game. After the Panic of 2008 the central bankers saw the light,

and many central banks are now buying back gold.

### Types Of Investments.

In the second half of the book, the authors finally get around to discussing how to invest in gold. The recommendation of most advisors is not more than 10% of your assets in physical gold (coins and bars). Buy on dips in prices; usually gold declines seasonally in the summer and increases in the winter and early spring. Don't pay a numismatic premium for collector coins because you won't get it back; only the bullion value matters. Retail dealers will add a 5% to 10% premium for their cost of handling and profit margin, which is only fair. Gold coins under one ounce tend to be more expensive. Buy the gold coins of your country because there is a stronger demand for them on re-sale. Canadians should buy Maple Leafs, while my American readers are better off buying Eagles from the U.S. Mint.

I consider gold to be only the physical form, but every book on gold also discusses paper investments in gold mining stocks, index funds, options, and derivatives, if only to fill up the pages. It must be remembered that you are not buying gold when you invest in gold mining stocks, you are buying stocks. Gold index funds and derivatives are not gold, they are paper, and could just as easily be for copper, oil, or pork bellies.

Index funds known as ETFs (exchange traded funds) first began trading in gold in 2003 and were instantly successful. One share of a gold ETF is set equal to one-tenth of an ounce of gold, and the ETF managers promise to back their shares with physical gold. ETFs are popular with investors such as pension funds or mutual funds who want to own gold but are often prohibited by law from possessing actual physical commodities. Other investors don't want the hassle of vault storage for millions of ounces. The idea is that ETFs should track the physical price and provide high liquidity (easy to sell or buy). Smaller investors may be confused and think that owning ETF shares allows them to redeem them for physical gold, but the fund owns the gold, not the investor. Many gold bugs are suspicious of ETFs as a long-term investment because the funds are not audited to prove they own as much gold as they say they do. Day traders don't mind, though, as they expect to jump in and out in a matter of hours or a few days.

Gold mining companies grow their stock prices faster than the price of gold itself. The best new sites are in politically unsafe countries, so there is a heightened degree of risk. The safest stocks are the established producers who have several mines, and the most risky stocks are exploration companies who may not be able to get their discoveries into production if the generalissimo decides to nationalize the mine. Those who want to speculate in gold mining stocks should never bet more than they are prepared to lose.

## WHATEVER HAPPENED TO CRAD?

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by Dale Speirs

You will not be surprised to learn that I take a number of investment newspapers, one of which is the BULL & BEAR FINANCIAL REPORT. Reading the November 2009 issue, I glanced at the classified ads, mostly peddling on-line investment newsletters and gold stocks. My eye fell on an ad in the Miscellaneous section which read: "*Funniest writer in the English language.* [www.cradkilodney.net](http://www.cradkilodney.net) or <http://cradkilodney.wordpress.com>". I almost fell out of my chair.

Crad Kilodney will only be remembered by zinesters who were around in the late 1980s/early 1990s. He lived in Toronto at the time and sold his chapbooks and zines on the downtown sidewalks. He also carried a hidden tape recorder on him and published cassettes of some of his conversations. Some were unexpected remarks by his customers, others were part of opinion polls he did (such as "Why does the Earth have seasons?"), one was a famous incident in which he got into a fistfight while the tape recorder was still running. Crad tired of being a street hustler, and announced he was going to disappear from the zine scene, and so he did. What surprises me is not his re-appearance but why he would be advertising himself in an investment newsletter, the last place one would expect him to appear.

## SHERLOCKIANA: PART 5.

by Dale Speirs

[Parts 1 to 3 appeared in issues #63.1B to #63.1D respectively. Part 4 appeared in issue #67.1D.]

### Higher Criticism.

SHERLOCK HOLMES WAS WRONG (2008, hardcover) is a detailed criticism by Pierre Bayard of the novel THE HOUND OF THE BASKERVILLES, in which he concludes that Holmes messed it up, let the real murderer go free, and missed another murder. In the past I've criticized Trekkies for having too much free time for nitpicking episodes where a character confused a photon torpedo with a phaser beam, so I guess as a Sherlockian I'll have concede them their fun. Bayard is a Frenchman at the University of Paris who reads Holmes in translation, always a dangerous thing in literary criticism.

Bayard starts off with a general summary of the plot, and then discusses Holmes' methodology, that of observation, comparison, and reasoning backwards from a effect (the crime) to the cause (the perpetrator). Within each category Holmes used an analysis of material and psychological clues. Bayard points out that this methodology does not eliminate all but the true cause, for it is entirely possible that a logical chain of deduction can lead to more

than one cause or even to no result whatsoever. In many of the Holmes stories, he either does not succeed in explaining everything or comes to a wrong conclusion.

From there, Bayard goes on to discuss a type of literary criticism he calls detective criticism, basically the idea that many authors are wrong about who the murderer really was, and that a close reading of the text will reveal the true murderer. He uses as examples Agatha Christie and Shakespeare. In the latter, he considers that Hamlet got the wrong murderer. (Stephen Leacock, back in the 1930s, also wrote an essay analyzing the play as a murder mystery.) As he notes in the Baskerville story, the case against the hound and its master was so weak until the denouement that Holmes himself admitted they could bring nothing to a judge; they would be laughed out of court.

Getting to the actual novel, Bayard starts off with the dog itself, and considers it to have been unfairly maligned. He acquits it of the first two deaths. The hound was seen attacking the third victim, but only after it had been wounded by a bullet, so that could fairly be said to be self-defense in the heat of the moment.

In the next chapter, he considers the character Stapleton, who lived out on the moors and was the villain of the piece. He points out that it would be unlikely for someone to move about with a large hound and not be noticed,

Holmes	Watson	Lestrade	Moriarty
0	26	26	26
0	52	52	52
0	78	78	78
0	104	104	104

OK



as well as many other discrepancies. This, I think, is because Doyle was a city slicker, and like those who grow up in cities where it is easy to be anonymous, they don't understand that in a village or rural area, it is difficult to hide. Being a farm boy, I know that even the most reclusive survivalist will be the subject of gossip. Come the collapse of civilization, rural denizens in need of supplies and ammo would simply band together and pick off the survivalists one by one. City slickers also do not realize that farmers can recognize individual cattle or horses quite well, and we all knew whose dog was whose. If someone had trouble with a coyote killing spring calves, the menfolk would band together on a hunting expedition. I don't know the moors of

England, but I'm sure the rural inhabitants would set up a vigilante group in the face of the Baskerville murders, not cower in their rustic huts.

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Bayard goes on to consider the interaction between the characters and the reader. For those who think fanboys are a new thing and date to the arrival of the Trekkies, he points out that when Doyle first killed off Holmes, there was a terrible uproar from the public, and he was forced to bring him back. Young fans wore black armbands in the streets of London to mourn Holmes's passing. Doyle came under tremendous pressure to revive Holmes and did so with ill grace and sloppy writing.

When Bayard attempts to psychoanalyze Holmes he fails because he was reading the translation, which was not accurate for characterization and motivation. When he gets back to the plot, which is safer to analyze in translation, he then comes up with one of the most ridiculous ideas in literary criticism. He tries to exonerate Stapleton by claiming the villain coated the hound with phosphorous (presumably a compound thereof, not the actual pure element) in order to keep track of the dog when taking it for walkies at night, not to terrorize victims with a glowing hell hound. From there he goes on to identify who he thinks was the real murderer, using copious amounts of supposition. All told, Bayard's book is literary criticism gone berserk.