

# Gold Enough

by

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This essay was first completed on Friday, December 14, 2007 and was most recently revised on Sunday, November 22, 2015.

The essay is approximately 1,899 words long.

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*caveat lector*

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Many years ago, while I was studying with the Constitutional Patriots, I was told by a friend in that movement that many of the problems in our economy would be solved if we stopped using paper for money. I responded that I didn't care what kind of money we used, just so long as it worked. He then proceeded to explain to me how paper doesn't work very well as money. I considered his arguments and then recalled the characteristics of money<sup>1</sup>, as taught to me by my father. I also recalled Gresham's Law, as taught to me by my father<sup>2</sup>. Some time later, another friend, also working with the Constitutional Patriots, commented that 100 years ago a man with one ounce of gold could afford to buy an entire suit of clothes and, today, a man with one ounce of gold can still afford to buy an entire suit of clothes. That's why, he continued, gold is money and paper isn't. After some consideration, I decided that my two friends were correct. I decided that I needed to change my position regarding money. Since then, I've advocated a gold standard.

People sometimes object to a gold standard by claiming that there isn't enough gold in the world to conduct all of the transactions that must be conducted. Consider the following little story that was told to me by my father. It went something like this.

A man went into a bar to borrow \$100 from the bartender, who was a close friend. Just as the bartender handed him the cash, two newcomers walked in the door. One of the newcomers saw the \$100 in the hand of the borrower and grabbed it, saying, "Hey! That's the \$100 you owe me! Now we're even!"

The second newcomer grabbed the \$100 from the first newcomer and said, "Yeah, and **that's** the \$100 that **you** owe **me!** Now **we're** even!"

The original borrower, recognizing the second newcomer as a man who owed him \$100, grabbed the \$100 back, saying, "And **that's** the \$100 that **you** owe to **me!** Now we're **all** even!"

The original borrower then turned to the bartender and said, "Well, I needed this to pay off a debt but that's paid now so I don't need it any more. Here it is back again so I don't owe you anything." He handed the \$100 back to the bartender.

Thus, the same \$100 paid \$400 in debts as it circulated from hand to hand. The point is that the value of the gold in the world doesn't need to exceed, or to equal, or to even come close to the value of the transactions that must be conducted. The same piece

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1 See my essay *Money*.

2 **Gresham's law**.... The theory holding that if two kinds of money in circulation have the same denominational value but different intrinsic values, the money with higher intrinsic value will be hoarded and eventually driven out of circulation by the money with lesser intrinsic value. [After Sir Thomas GRESHAM.] —*The American Heritage Dictionary of the English Language*

## Gold Enough

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of gold can accommodate a total value of transactions many times its own value as it passes from hand to hand.<sup>3</sup>

There's an even better reason why the amount of gold in the world is adequate. The value of anything will, if allowed to do so, adjust itself according to the amount of it that's available in comparison to the amount of it that's needed. If that doesn't happen in the case of gold, then it isn't because of a lack of gold but because of an excess of regulation of its value. Lacking interference by governments, the value of gold will change appropriately and spontaneously. If gold becomes too scarce then its value will increase as much as is necessary to insure that a sufficient value in gold is available. What difference does it make if the value of gold becomes too high to allow its use for normal transactions? That just means that a little gold will buy a lot of stuff. People can use gold for large purchases and use silver, copper, brass, nickel, or whatever else happens to have an appropriate value in the marketplace for small purchases.

Of course, the value of gold can't adjust itself as appropriate if governments insist upon arbitrarily defining its value.<sup>4</sup> The main problem, then, is the practice of arbitrarily defining the monetary value of the coins. Rather, the monetary value of coins should never be arbitrarily defined by any institution of government or of commerce. That is, the coins should never show a declared value in dollars (for example). They should, instead, show only a declaration of weight and content. The monetary value should be determined by the availability of the coins compared to the need for them. That's true for any coins made of any metal that's used for money and not just for gold coins. I have a United States coin that bears the statement, "1 OZ. FINE SILVER - ONE DOLLAR". Several years ago, a friend checked the price of silver and discovered that, at that time, silver was worth \$5 per ounce. Thus, it's nonsense to declare that a coin containing one ounce of silver is worth \$1. When that sort of thing happens, then the value of the coins in the marketplace becomes distorted. I recall an example from my college days. An acquaintance of mine at that time, whose name I have since forgotten, went to a hardware store to buy some washers. He discovered that the washers cost 7¢ each. Instead of buying the washers, he went home and drilled holes in nickels. At that point in time, washers were better than coins as a use for the metal. By using the nickels as washers instead of as money, my friend put the metal to a better use in the existing marketplace and saved himself 2¢ per washer in the deal.

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3 The little story is also an illuminating revelation of the inherent fallacy of counting accounts receivable as an asset, a universal failure of accounting systems.

4 (The Congress shall have power....) To coin money, **regulate the value thereof**, and of foreign coin, and fix the standard of weights and measures;

—U.S. Constitution, Article I, Section 8, clause 5  
<emphasis added>

Transactions should not be conducted in dollars (for example) but in ounces, in grams, or in whatever other unit of measure becomes accepted. Whatever unit is used is irrelevant so long as it declares the content of the coin and not some arbitrarily declared monetary value of the coin. The market value of the metal will insure that the metal is always put to its best use (coins, washers, whatever) and that there's always a sufficiency but never an excess of coins of each type.

The value of such coins will be more stable than the value of paper. My friend was correct. The problem of unstable prices results from dealing in an economy based on paper, the value of which is inherently unstable. If coins are used instead of paper, and if the coins show the content instead of an arbitrarily assigned monetary value, then it will be more difficult for the various governments and their various lackeys to manipulate the value of the currency. The value of the coins will be more stable than the value of paper. The value of the coins won't change unless the value of the metal in them changes. Merchants dealing in an economy based on real money probably won't have to change the prices of their products even once in a decade, if that often. The coins will be truly global money, largely immune to tampering by politicians, bankers, economists, or the various other kinds of thieves.

Indeed, I don't believe that governments should ever coin money at all. If they do, then at the very least they shouldn't have a monopoly on the process. Anybody who has metal should be able to coin money or to have it coined at either a private mint or at a government mint. In that kind of a situation, governments might be useful for purposes of assay. That is, a government could offer, for a fee, an assay service that would objectively evaluate coins. There shouldn't be anything to prevent any other party besides the government from offering a similar service. There shouldn't be anything to prevent people or private mints from using whichever assay service they like, or none at all. However people decided to handle the situation, they'd have available to them a way to prove the value of their coins if they wanted to do so.

Thus, my father and my two Constitutional Patriot friends were correct. The use of metal money instead of paper would solve many if not most of the problems in our economy.

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