Top Ten Reasons why fiat currency is superior to gold (or silver) money

In the spirit of the holidays and hope for a more prosperous 2017, I thought Insight readers might appreciate a little holiday humor. So please don’t take this edition too seriously. But if you happen to stumble across a ‘paperbug’ or two over the holidays, perhaps you could share some of the points made here as it will help them to realize just how hopelessly misguided they are. Cheers!

Number 10: There is not enough gold (or silver) in the world to serve as money

Let’s begin with the obvious. We know that central banks the world over have printed money at exponentially growing rates for years. There is now so much paper and electronic money floating around the world that gold (or silver) cannot possibly be expected to keep up. You can’t print gold, after all, you need to find it, dig it out of the ground, refine it, etc, a hugely expensive and time-consuming process which practically ensures a stable rather than exponentially growing supply of the stuff. Of course, we know that an exponentially growing supply of money is a good thing. How else can an economy hope to grow, especially one bearing an exponentially rising debt burden! We need all that new money to pay all that new interest, don’t we? And don’t forget, most things keep getting more expensive, like food and fuel. Don’t we need more money to pay for all that too? What about government entitlements that keep growing in size? If
we didn’t have a constant flow of new money, how on earth would we pay for all of that? It is essential that we keep the printing presses rolling.

NUMBER 9: GOLD AND SILVER ARE OLD-FASHIONED, CUMBERSOME MONEY

Here’s another obvious one for you: Gold is HEAVY! Who wants to carry gold coins around? They might be nice and shiny, but to me, gold looks even prettier around a lady’s neck or wrist. The more you think about it, in an age of electronic, plastic, internet or blockchain money, the whole concept of coinage begins to seem a bit anachronistic. Who even uses small denomination coins anymore, except as household poker betting tokens? I suppose larger coins are still of some use, but let’s face it folks, even those are almost worthless anymore. Coinage is just so passé. Sure, coins used to have some value. When I was young and I watched Little House on the Prairie and The Waltons I was amazed that at the general stores or other retail establishments a penny actually bought a range of items and with a few nickels and dimes you could purchase much of what was on offer! But why bother with coins today? I use plastic or electronic money for almost everything. Sure, that money still references dollars, or euros, or sterling, or yen balances of a bank account. But hey, it would be just so barbaric to reference a gold or silver account instead, wouldn’t it? As if banks even hold enough cash on hand for large withdrawals anymore, much less gold or silver. Oh and an ounce of gold, at a whopping $1,150 is just way too expensive for most commerce. So not only is there NOT ENOUGH gold in the world as per Number 10 above; what gold there is, is TOO EXPENSIVE to serve as a useful money! Oh I suppose we could use fractions of ounces of gold instead of full ounces, but most people struggle with fractions, including me. Silver might be more useful, but at some $16/oz, it wouldn’t really work for making change now, would it?

NUMBER 8: GOLD RESTRAINS GROWTH

OK, this reason is a little bit wonkish, but if you’ll bear with me I’ll explain why gold-backed money would put the brakes on the healthy growth the world has been experiencing all through this prosperous modern period of an exponentially rising money supply and might even send us back to the poor house. We already touched on this with Number 10 but let’s go off on a tangent here. You see, back when gold was money, people were poorer. Way poorer. And economic growth was often much weaker. I mean, before the industrial revolution, we didn’t even have machines to do basic work like farming, so people had to have loads of children just to get basic work done, resulting in a cycle of poverty. Sure, a handful of landed aristocrats held most of the
wealth, and they did just fine, but really, do we want to go back to that sort of wealth disparity?

Oh and as for the industrial revolution, it was such a fluke. Sure it led to the most rapid economic growth in history in most of Europe, North America and Japan, but it would probably have been way more rapid had money growth been exponential instead of stable at the time. That said, inflation didn’t actually work out so well in France, where exponential money growth destroyed much of the economy in the late 18th and early 19th centuries. But hey, how else to finance that Revolution of theirs? The American Revolution was also hugely inflationary, you know, those worthless continentals and all. But wasn’t it a huge overreaction for the US federal government to choose silver coinage as the inaugural US federal money?

For that matter, had Napoleon just kept on inflating, rather than paying his soldiers in silver coin to earn their confidence and loyalty, he might have won the wars against those Brits and others who refused to inflate their currencies. And why did the Americans experiment with gold- and silver-backed money for so long? Imagine how much faster they would have industrialized had they just kept on printing continentals instead! Ah well, hindsight is 20:20. Perhaps technology wouldn't exactly regress if we went back to gold- or silver-backed money but you never know. Some people talk like that. And certainly most of the innovations of modern times would never have taken place had we been on gold-backed money. Think about all those green technologies that promise to solve our energy problems someday. Things were just fine before we started consuming all the carbon stuff and now we've got to get back on track. Only exponentially growing money can fund these programs that aren't yet profitable. Imagine what would happen if money were gold? Or silver? We would be dependent on energy and other technologies that actually made fundamental economic sense. No, that would be a huge mistake.

NUMBER 7: THE GOLD STANDARD CAUSED THE GREAT DEPRESSION

This is related to the above but hugely important in its own right so I'm treating it as a separate critique of gold- or silver-backed money. Milton Friedman is famous in part for blaming the Federal Reserve for causing the Great Depression. This runs contrary to what many believe, however, that the gold standard itself caused the Depression. Of course, they are right. Let me show you why by way of a little historical background. We all know that WWI was hugely inflationary as Britain, Germany and other belligerents went off the gold standard in order to finance the war by printing money. Following years of printing, in Europe prices for just about everything skyrocketed.
It didn’t help, of course, that much industrial capacity was destroyed by the war, limiting supply. In Russia, most of the capital stock was seized by the government as part of their anti-capitalist revolution. So there was loads more money chasing far fewer goods in Europe, which is one way Milton Friedman and other so-called ‘monetarists’ like to explain inflation. In some places like Weimar Germany, interwar Austria and Hungary, there was outright hyperinflation and currency collapse in the 1920s.

Impoverished, these countries ended up with highly competitive labor costs, similar to various poor emerging markets today. Britain, however, had gone back on the gold standard in 1925 and thus had the strongest currency in Europe. This made British labor highly uncompetitive, resulting in persistently high unemployment and massive strikes, some turning violent. In 1927, the Bank of England kindly requested that the US Federal Reserve stimulate demand for UK exports by expanding the US money supply. The Fed obliged. This contributed to a huge stock market bubble in the US, but unfortunately it crashed under its own weight in 1929. Meanwhile, Britain’s economy remained mired in a depression unknown to most Americans today. Finally, in 1931, Britain decided to devalue its currency. The US was already slipping into depression at the time and suddenly found it had by far the least competitive wages in the world. It was now in a situation comparable to Britain in 1927, yet without another country to which it could turn for help.

The Federal Reserve had already accumulated a huge amount of gold from Britain but, as Milton Friedman observed, didn’t do as it was supposed to do and expand the domestic money supply in line with the swelling gold reserves. Why? No one knows. Perhaps the Fed was spooked by the stock market boom and bust that it had created in 1927-29 and didn’t want to risk a repeat. But whereas the 1927 monetary expansion was not linked to an inflow of gold reserves, in 1930-31 the Fed could have hugely expanded the money supply in line with growing gold reserves, thereby preventing many bank failures. To make matters worse, President Hoover was advised by some prominent, proto-Keynesian economists of the day that a drop in aggregate demand had to be avoided at all costs and that the best way to accomplish this was to support wages, notwithstanding rising unemployment. As a result, US wages were by far the highest in the world by 1931, labor was uncompetitive, and unemployment was thus far higher than it would otherwise have been, had Hoover left things alone.

So, it is blindingly obvious that the gold standard was the cause of the Great Depression. Not WWI. Not the massive inflation to pay for WWI. Not the widespread destruction of European industry. Not the Russian Revolution and industrial collapse. Not the 1920s hyperinflations and revolutions in central Europe. Not the Fed’s stock
It didn’t help, of course, that much industrial capacity was destroyed by the war, limiting supply. In Russia, most of the capital stock was seized by the government as part of their anti-capitalist revolution. So there was loads more money chasing far fewer goods in Europe, which is one way Milton Friedman and other so-called ‘monetarists’ like to explain inflation. In some places like Weimar Germany, interwar Austria and Hungary, there was outright hyperinflation and currency collapse in the 1920s.

Impoverished, these countries ended up with highly competitive labor costs, similar to various poor emerging markets today. Britain, however, had gone back on the gold standard in 1925 and thus had the strongest currency in Europe. This made British labor highly uncompetitive, resulting in persistently high unemployment and massive strikes, some turning violent. In 1927, the Bank of England kindly requested that the US Federal Reserve stimulate demand for UK exports by expanding the US money supply. The Fed obliged. This contributed to a huge stock market bubble in the US, but unfortunately it crashed under its own weight in 1929. Meanwhile, Britain’s economy remained mired in a depression unknown to most Americans today. Finally, in 1931, Britain decided to devalue its currency. The US was already slipping into depression at the time and suddenly found it had by far the least competitive wages in the world. It was now in a situation comparable to Britain in 1927, yet without another country to which it could turn for help.

The Federal Reserve had already accumulated a huge amount of gold from Britain but, as Milton Friedman observed, didn’t do as it was supposed to do and expand the domestic money supply in line with the swelling gold reserves. Why? No one knows. Perhaps the Fed was spooked by the stock market boom and bust that it had created in 1927-29 and didn’t want to risk a repeat. But whereas the 1927 monetary expansion was not linked to an inflow of gold reserves, in 1930-31 the Fed could have hugely expanded the money supply in line with growing gold reserves, thereby preventing many bank failures. To make matters worse, President Hoover was advised by some prominent, proto-Keynesian economists of the day that a drop in aggregate demand had to be avoided at all costs and that the best way to accomplish this was to support wages, notwithstanding rising unemployment. As a result, US wages were by far the highest in the world by 1931, labor was uncompetitive, and unemployment was thus far higher than it would otherwise have been, had Hoover left things alone.

So, it is blindingly obvious that the gold standard was the cause of the Great Depression. Not WWI. Not the massive inflation to pay for WWI. Not the widespread destruction of European industry. Not the Russian Revolution and industrial collapse. Not the 1920s hyperinflations and revolutions in central Europe. Not the Fed’s stock
market bubble of 1927-29. Not the Fed’s failure to allow the money supply to expand naturally with gold reserves in 1930-31. Not the artificial wage supports introduced by President Hoover and continued by FDR. No, the gold standard caused the Great Depression. Really. It did.

**NUMBER 6: RULES CAN BE BROKEN**

Returning to the obvious, this reason is so simple a child can understand it. Rules are nice on paper but we all know they can be broken. Just because a country is on a gold standard doesn’t mean it can’t just devalue and leave. Britain and Germany did so in 1914 and inflated like crazy to pay for WWI as explained above. The US devalued the dollar some 60% versus gold in 1934 and left the gold standard entirely in 1971. Let’s face it, if rules can be broken, what’s the point having them in the first place? The claim that gold or silver money is stable and prevents runaway inflation is just hogwash. Whenever governments choose, they can ditch gold money, devalue and create as much inflation as they desire. They can even hyperinflrate if they like. What’s to stop them? They set the rules. Gold advocates are just so naïve!

**NUMBER 5: GOLD (OR SILVER) MONEY FAVORS THE US VERSUS THE REST OF THE WORLD**

Now for those of us residing outside the USofA, we’re sometimes concerned that the US has the largest gold reserves in the world. If the world went back on a gold standard, then the US would be even more powerful than it already is. It would throw its weight around even more, use that gold to pay for an even larger military and open up more bases abroad, including where they aren’t even wanted, like in Bulgaria. The US might even start more wars, as if it hasn’t started enough already, financed as they are with the Fed’s printing press. Now history does suggest that war and inflation go hand in hand. Certainly this was the case in the 20th century. The French Revolution and Napoleonic Wars were hugely inflationary in continental Europe. The 30years’ war was hugely inflationary too, ruining the previously prosperous Habsburg economies. Then there was the American Revolution, financed with those paper continentals. But today things are different. Really, they are. If the world again used gold as money there would be more wars, notwithstanding that these would be far more difficult to finance. On another note, the US economy imports far more than it exports. Wonks call this a ‘trade-deficit’. Really wonkish types have a more expanded term called a ‘current-account deficit’. If the world went back to gold money then the US would need to use its gold reserves to pay for net imports, instead of just printing more dollars. And at current gold prices, the US would not even be able to cover one year of its current-account deficit! Imagine, the US would be unable to keep importing
more than it exported! It would be forced to become a more competitive economy and it would need to save and produce more and consume less! The horror!

We all know that the US consumer is the only thing keeping the global economy afloat. To whom would China or others export if not to the US consumer? What a ridiculous idea! Well, it’s just not going to happen. Keynesians like Paul Krugman know that there is just no other way to grow economies than with exponential money growth to finance excessive consumption. Saving is the quick road to the poor house. Borrowing your way to prosperity has worked so well in the past, why would anyone possibly want to stop now? After all, savings is the four-letter word of Keynesian economics. Let’s just not go there.

**NUMBER 4: GOLD FAVORS GOLD MINING COUNTRIES OVER OTHERS**

Here’s another simple one: If you go back to gold- or silver money, you are providing a huge subsidy for those countries producing the money. Why give them the printing press, when we can keep it for ourselves? Remember, the power to print exponentially rising amounts of fiat currency is the key to economic prosperity. We don’t want countries rich in natural resources to benefit at our expense now, do we? Sure, many countries rich in gold are in Africa or other underdeveloped regions. They’re poor. They’re backward. Some are near-dictatorships. Many dictators depend on us and our foreign aid, financed as it is with our printing presses. Why, if we could no longer print that foreign aid into existence, these poor countries would have to help themselves instead! No, they’re just too backward for that.

Imagine that the value of gold and silver mines in Africa and other poor parts of the world soared as these metals were re-monetized. Why it would be like what happened to the Persian Gulf countries when oil became a highly valuable commodity back in the 1970s. They became rich! Today those economies are among the wealthiest in the world. They mostly export far more than they import and they have built up huge sovereign wealth funds for the future. But Africa being as screwed up as it is, they can’t be expected to spend their wealth responsibly. They need the US, UK and other countries to show them how to do it. Like what gas-guzzlers to buy. Or how many flat-screen TVs per McMansion to have. Or how to administer a post office, or a national railway system, or quality state education. No, rebalancing global wealth toward Africa and other poor regions is bad enough. Giving them control over their own wealth is just plain irresponsible. We shouldn’t do it and so we shouldn’t return to gold money. (Please don’t think I’m racist BTW. Really. I’m sure the same is true of all those politicians and bureaucrats who believe that, without foreign aid, many African countries would end up like Argentina or Venezuela. Or Greece even.)
NUMBER 3: GOLD FAVORS THE RICH

Notwithstanding the observation above, that gold or silver money would bestow greater wealth on countries rich in those particular natural resources, the fact is, today most gold and silver privately held is in the hands of the wealthy. They’re already rich, why should we make them even more so? Wealth inequality is a serious problem, why make it worse? We all know that exponential fiat money growth in recent decades has helped to prevent even greater wealth disparity. Sure, in the US, the wealth of the top 1% has risen exponentially relative to the middle-class since the 1970s, when the US went off the gold standard and the age of exponential money growth began, but that is mere coincidence. It is true that real wages grew quickly under the gold standard, which created the largest middle-class in history, but even then there were those nasty Robber Barons who became richer than they deserved. Some of them were enlightened enough to realize this, like Andrew Carnegie, who gave away most of his fortune. Economic progress is OK as long as people don’t get too rich from it. So let’s keep creating wealth by printing money but make certain that those that get too rich give it away. Or else.

We shouldn’t be too concerned that the banks and owners of capital are the primary beneficiaries of money expansion, as they have first access to the new money. After all, we want our undercapitalised banks to start lending again so we can continue on our borrowing and consumption binge. How else are the banks going to lend us money if we don’t create it in the first place? Sure we have to pay them interest on it, but rates are low so we shouldn’t care. Yes, inflation is historically associated with wealth disparity and sound money is associated with a growing middle class. But that was before we came up with the modern welfare state that automatically transfers money from the wealthy to the poor, that is, unless the wealthy find ways around the tax code by creating trusts and endowments, purchasing tax-exempt securities or acquiring assets that tend to rise in price with inflation. But they don’t really want to avoid tax, do they? Warren Buffett, for one, says he wants to pay more tax. Of course he is allowed to do that, as the IRS has a special facility for those who wish to pay more than their mandated share. Sometimes I wonder why he doesn’t. He could dump his tax-exempt munis and hold taxable bonds, for example. Or he could pay out dividends, taxed as ordinary income, rather than purchasing outstanding shares through buy-backs. Or he could live in a state with high taxes, rather than in low-tax Nebraska.

Given the complexity of the tax codes in most developed countries, I suspect there are thousands of ways that Warren or other rich people could pay more tax if they wished. Maybe actions speak louder than words. Of course middle-class families don’t have access to fancy tax planning, as it tends to be rather expensive. Really fancy tax
planning requires writing new items into the tax code, something that tax lobbyists
do full-time on behalf of the wealthy. No, middle-class folks just have to pay up to
compensate for all those loopholes that most never hear about until the government
decides that they are no longer politically expedient. In practice, this means that the
welfare state is primarily a redistribution from the middle-class to the poor. But no,
I don’t think this is the reason for the shrinking middle class. I think it is because,
notwithstanding clearly heroic attempts, we are still not printing enough money.

**NUMBER 2: PHDS KNOW WHAT’S GOOD FOR US**

Back to the obvious, we all know that someone with a PhD is smarter than we are.
They’ve got the degree to prove it. Some PhDs even have degrees in economics, which
is unbelievably complicated. How else could one understand how exponential money
growth creates wealth? How you can borrow your way to prosperity and save your
way into the poor house? How importing more than you export is sustainable? How
coercive central planning is superior to voluntary, free-market exchange? Let’s face
it, we may all be equal, but PhDs are more equal than others. If we didn’t have them
telling us what the price of money should be—or the rate of interest if you prefer—we
would just lurch from one economic calamity to the next. The Great Depression would
seem a cake walk by comparison, as would our current economic malaise, which they
say isn’t a depression, even if it feels like it to most.

If you need more proof, just look at those fancy buildings that central bankers work in.
They’re impressive. So are the headquarters of the big private banks. These guys are
obviously successful and important, so there is no good reason why they shouldn’t be
telling us what to do. They even have a name for what they tell us to do: Free-Market
Capitalism. I’m not entirely sure what the ‘Free’ part of that means, as most things
aren’t free, except of course those provided by the government. The problem with
gold or silver money, you see, is that the PhDs would no longer have the ability to
manipulate our money for our benefit. And since they know precisely what the supply
of money should be, we shouldn’t be concerned that they might create too much of it,
or too little for that matter. The exponential amounts they’ve been creating since 2007
are ‘just right’, as Goldilocks might say. Also, PhDs have all sorts of fancy statistics that
only they understand. This is because they create them in the first place. PhDs are
smart enough to do that, you see. So when they tell you that consumer price inflation
is 2.43%, they don’t mean 2.42%. Or 2.44%. No, they mean 2.43%. This precision is
important as it determines how many billions of new money they need to give to the
banks to ensure price stability and full employment. If they’re having trouble doing
that, however, it’s not their fault. They’re PhDs.

Speaking of ‘price stability’, since when is 2.43% growth in prices ‘stability’? Wouldn’t
that be 0.00%? They designed the statistics, so why on earth did they choose to set ‘stability’ at 2.43%? I suppose I would need a PhD to understand that.

**NUMBER 1: IF GIVEN A CHOICE, WE WOULD ALL PREFER FIAT OVER GOLD OR SILVER MONEY**

As I’m not a PhD, I’m not qualified to go around telling people what to do. Sure, I make suggestions from time to time, because I have a Master’s degree. I even make strong recommendations on rare occasion, because I have an honors degree. (If I only had an undergraduate degree, I wouldn’t even make suggestions. Without any degree, I suppose I wouldn’t open my mouth.) One suggestion I wouldn’t make, however, is that people be allowed to choose the money they use. I mean, what would be the point of that? We might all choose to use a different money, no one would accept these monies from each other, and so we would never engage in commerce except through direct barter. We all know how inefficient barter is. It is why money was created in the first place. And who created money? Well seeing how they control it, I suppose it must have been PhDs. There were no doubt PhDs in ancient Lydia, where coinage originated, no? The Lydian PhDs may have had the original idea but it was the Greek PhDs who supplied most of the coinage for the Hellenistic world. They knew just how much to mint. Even non-Greeks used the Greek coinage, because they liked it. (Here’s a puzzle: Were the myriad non-Greeks who chose to use Greek coinage also PhDs? If they were so clever, why didn’t they mint their own coins instead? Are some PhDs cleverer than others? I’ll have to revisit this at some point when I haven’t been drinking wine.)

Then there were the Romans. Now these guys were clever. So clever that they built a huge empire, with lots of impressive buildings, roads and aqueducts. They were so clever they even discovered how to manipulate money through debasement. This really got going in the 3rd century, which happens to correspond with their decline. But that’s just coincidence. My more educated readers might know that the Roman Empire eventually split in two and that while currency debasement continued in the Western Empire, which all but collapsed entirely by the 5th century, the Eastern Empire maintained sound coinage and lasted until the Turkish siege of Byzantium in 1453, roughly a thousand years later. But that’s just coincidence too. Empires that debase money tend to last longer. Really.

Anyway, back to this topic about choice in money. We really don’t need it. We also don’t want it. If we did, we wouldn’t have legal tender laws that prevent choice in money in the first place, would we? After all, is choice a good thing? I try to do some shopping for my family once a week. My wife makes out a helpful shopping list with various staple items like ‘butter’. Then I go to the market and find my way to the butter section and suddenly I’m facing a wall of butter. It’s unbelievable. There’s salted and unsalted; Irish,
British or Continental. There’s varying sizes, shapes, qualities, type of cow involved, oh my. And all my wife wrote was ‘butter’. So now I’ve got to get on the phone, I’ve got to ask her to be more specific, and so I call her and she’s changing the baby’s nappy, and she can’t talk, and she’s tired and can’t believe that this is the umpteenth time I’ve gone to do the shopping and yet I always call asking for some clarification, be it for ‘butter’ or ‘detergent’ or ‘kitchen roll’ or God knows what. Look, I’m not a PhD and my wife knows it. So why does she expect me to be able to read her mind? Anyway, I’m sure I’ve made the point clear that choice is a bad thing. It is just a source of confusion. So in the same way that my wife should just tell me what to purchase (as long as she is specific BTW) the government should tell us what money to use.

But just for the sake of argument, let’s entertain the fantastical notion that legal tender laws were repealed and we could use whatever we desired as money. Nothing would change. I mean, come on, we would just go on using dollars, or euros, or pounds, or yen, or whatever. Who in their right mind would actually bother to evaluate the relative merits of all of these different currencies, or of gold and silver as alternatives? Are some better stores of value than others? Perhaps. But I tell you, for most of us it would be just like looking at that intimidating ‘butter wall’ in the supermarket. We would take one look at it, shudder, and walk away.

Quantitative easing changes nothing. Remember, the PhDs are in charge of our economies and they know exactly how much our money should be worth. Those of us concerned that our money might lose purchasing power are just being paranoid. Choice is dangerous. Think Adam and Eve and you’ll get my point. Those arguing in favor of monetary freedom, of choice in money, of repealing legal tender laws, they’re just like that nasty snake Lilith in the Garden of Eden, the source of all trouble I tell you. So there you have it. Nowhere would choice be so harmful to commerce as with money itself. Even if legal-tender laws were repealed no doubt we would all continue using the stuff we already are. So for all you gold bugs out there, go ahead and purchase some gold or silver jewelry for your loved ones as holiday gifts. But please, drop all the nonsense about using it as money. Imagine you gave your spouse, or your children, or your relatives, gold and silver coins instead. They wouldn’t be able to use them as legal tender; they wouldn’t be able to wear them as jewelry. Their only ‘use’ would be as that four-letter word for Keynesians: Saving. What a way to show a lack of holiday spirit. ‘Tis the season to borrow and spend folks, as indeed it has been since August 1971.
The views and opinions expressed in this article are those of the author(s) and do not reflect those of Goldmoney, unless expressly stated. The article is for general information purposes only and does not constitute either Goldmoney or the author(s) providing you with legal, financial, tax, investment, or accounting advice. You should not act or rely on any information contained in the article without first seeking independent professional advice. Care has been taken to ensure that the information in the article is reliable; however, Goldmoney does not represent that it is accurate, complete, up-to-date and/or to be taken as an indication of future results and it should not be relied upon as such. Goldmoney will not be held responsible for any claim, loss, damage, or inconvenience caused as a result of any information or opinion contained in this article and any action taken as a result of the opinions and information contained in this article is at your own risk.