Why Is Gold Over $1700 an Ounce?

The easy answer is fear, loss of confidence, and uncertainty. A credit rating agency has taken away the United States' top-tier AAA rating on its bonds, the spreading debt crisis in the Eurozone has now reached Italy and Spain, and the assumptions tying the financial system together are beginning to be questioned. In its report entitled "On the Coming Gold War," Redburn Partners says a "rising gold price is a warning signal: it casts doubt on the US economy.... Gold is the only asset to outperform in periods of either uncontrollable inflation or deflation: the US economy is on the knife-edge between the two … gold is a vital barometer."

When Congressman Ron Paul questioned Fed Chairman Ben Bernanke on the question of gold, the exchange was revealing:

> Paul: When you wake up in the morning, do you care about the price of gold?
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> Bernanke: Well, I pay attention to the price of gold, but I think it reflects a lot of things. It reflects global uncertainties. I think the reason why people hold gold is protection against … really really bad outcomes. And to the extent that the last few years have made people more worried about the potential for a major crisis, then they have gold as a protection.
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> Paul: Do you think gold is money?
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> Bernanke: No.
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> Paul: Even if it has been money for 6,000 years, that somebody reversed that… and eliminated that economic law?
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> Bernanke: Well, it's an asset. I don't think it's money. Would you say Treasury bills are money? I don't think they're money either, but they're a financial asset.
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> Paul: Why do central banks hold it?
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> Bernanke: It's a form of reserves.
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> Paul: Why don't they hold diamonds?
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> Bernanke: Well, it's tradition… long term tradition
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> Paul: Well, some people still think it's money.

It's clear that the Bernanke either doesn't know his history, or didn't want to admit it in public. As Professor Murray Rothbard wrote in "What Has Government Done to Our Money?":

> Historically, many different goods have been used as m[oney]: tobacco in colonial Virginia, sugar in the West Indies, salt in Abyssinia, cattle in ancient Greece, and grain, beads, tea, cowrie shells,

> and fishhooks. Through the centuries, two commodities, *gold* and *silver*, have emerged in the free competition of the market, and have displaced the other commodities.
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> A most important truth about money emerges from our discussion: money is a commodity. Learning this simple lesson is one of the world's most important tasks. So often have people talked about money as something much more or less than this. Money is not an abstract unit of account, divorceable from a concrete good; it is not a useless token only good for exchanging; it is not a "claim on society": it is *not a guarantee of a fixed price level*. [Emphasis added.]

It is useful to remember that the price of gold fluctuates in accordance with supply and demand. It has no intrinsic value in and of itself — it's value is only that which is placed on it by individuals operating in the marketplace. Economist Gary North reminds us that the price of gold has changed enormously over the years: "Pro-gold commentators speak of gold's intrinsic value when [what they really] mean [is its] historic value. Gold has generally held its price down through the ages. This price has varied. Gold fell from over $800 per ounce ($2,100 in today's purchasing power) in January, 1980 to just over $250 in 2001. Then it rose to today's price."

Gold's greatest benefit over time has been its "continuity of value": It is always worth something in exchange for something else, even many years in the future. It is dependable, reliable, safe. This is especially true when an individual sees the inevitable destruction of his paper money taking place through the machinations of a central bank, and wants something outside the reach of such machinations. As North explains:

> The typical father in India buys gold for his daughter's dowry, just as his father did, and his grandfather did, stretching back through time….
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> The simple farmer in India may not be able to read, but he will buy gold for his daughter in confidence that a piece of gold is worth more than all the collected assurances of stability issued by all of the Federal Reserve Chairmen.

Another one of those chairmen, Alan Greenspan, explained years ago what the present Federal Reserve chairman is unwilling to admit: Any attempt to use gold as money gets in the way of funding the welfare state. As he wrote in July, 1966, in "Gold and Economic Freedom", long before he became chairman:

> This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the "hidden" confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard.

That increasing understanding will continue to propel the price of gold higher — albeit, maybe in fits and starts — until the entire paper edifice of central banking and fiat currency is exposed and replaced with real money.