Is Gold Money?

Money is anything that is commonly accepted as a medium of exchange, with government interjecting itself into the equation by designating certain notes as "legal tender." Historically, mediums of exchange have included gold and silver as well as other forms of what might be called commodity money. Yet, you cannot pay your electric bill or your mortgage with a gold bar or even gold coins. You have to sell your gold for cash in order to use it to pay for things. Of course, at one time gold coins were used as money, but they aren't today. And there was a time when paper money was backed by gold or silver. Paper money was then redeemable in gold and silver at a fixed price. Those of us who are seniors remember the time when dollars were silver certificates. Now they are backed by the "full faith and credit of the government." But with government borrowing trillions of dollars in order to spend trillions of dollars, that "full faith and credit" is about to go down the drain.

Article One, Section 8 of the U.S. Constitution states that Congress shall have the power "To coin Money, regulate the Value thereof, and of Foreign coin, and fix the Standard of Weights and Measures." But when the Federal Reserve System was created by an Act of Congress in 1913, it gave the power to coin money and regulate its value to the Fed. The ostensible purpose of the Fed was to regulate the money supply, regulate the banking system, and prevent recessions and depressions. Yet, even Fed Chairman Benanke has admitted that it was the Fed that caused our Great Depression. Nor has the Fed prevented recessions and bank failures, including the very latest.

Money serves three purposes: it is a means of exchange; it's a storage of wealth; and it is a measure of value. Our present fiat money is based on nothing but the government's "full faith and credit." Inflation has made it an unsafe storage of wealth. And that is why thousands of Americans are buying gold, because they are seeking a safe storage of wealth and fiat paper can never perform that important function of money. And so, we can now measure the value of the inflated dollar by the rise in the price of gold, from $350 an ounce to now almost $2000 an ounce.

If we go back into history, we can trace the development of what we call money. In the most primitive economy, if you wanted something that you yourself could not make, you exchanged something you had for something somebody else had that you wanted. That's called barter, and it is even practiced today among barter societies or clubs. Your dentist might be willing to accept ten pounds of sirloin steak for a cleaning or a filling. But there has to be agreement between the traders on the values of what they are exchanging. Back in primitive times, one cow might be worth 50 chickens. Or one sheep might be worth a cooking pot. Values were involved even then, and there must have been much haggling over what something was worth.

But as economies grew in complexity, it became very inconvenient for traders to deal with live stock or other commodities for purposes of exchange. And so the idea took hold that some sort of precious object, such as gold, could be used as a means of exchange. Gold was easily portable, it was in great demand, it was scarce, it was not perishable like a cow, it did not have to be fed, and you could hold it as long as you wanted before you saw something you wanted to buy. In other words, gold was not only a convenient means of exchange, it was also a very good storage of wealth.

But even gold was subject to fluctuation in value. A new discovery of gold might make it more easily available and thus cheaper. This would encourage gold miners to try to limit supply by forming cartels and thereby keeping its value as high as possible.

Paper money came about when traders did not want to carry around bags of gold that could be easily stolen. So they began depositing their gold for safekeeping in banks which issued gold certificates redeemable for the amount of gold on deposit in the bank, less a payment for storage. This system worked very well in an agricultural economy. But when banks made bad loans based on gold on deposit, their banknotes became worthless because that gold had been redeemed by the deadbeat borrowers. The original depositor's gold was no longer there.

Indeed, this situation was so common in mid-19th century America, that the *Farmer's Almanack* up to 1863 actually listed "Worthless and Uncurrent Bank Notes in New England." Thirteen banks in Boston alone were listed as having worthless bank notes.

Actually the dollar was convertible into gold at a fixed rate until 1971, when President Nixon took us off the gold standard. What was the rationale behind that move? It was said that gold-backed currency could not meet the demands of a greatly expanding industrial economy. So while gold was limited in supply, the Fed had an unlimited supply of paper and ink. Thus, our paper money has become our legal means of exchange and a fluctuating measure of value, dependent on the Fed's printing press.

So while gold is not our common means of exchange, it has become, at present, a much safer storage of wealth than paper. It should be recalled that during a previous monetary crisis the price of gold went up to $800 an ounce, but then declined to about $350 an ounce when the crisis subsided. So, for a while gold did not serve as a dependable storage of wealth for those who bought it at $800 an ounce. But if they held onto the gold until today, where the price is about $2,000 an ounce, they would be enjoying a great increase in their gold's value.

Value is at the heart of the money problem. Supply and demand determine value. And of course paper money fluctuates in value. What you could buy for one dollar last week may now cost two dollars because of inflation. When governments control the value of their fiat currency by how much paper they print, they can devalue their currency at will. And if these governments acquire huge debts, they can pay them off with devalued paper. Of course, this is dishonest.

But under capitalism, values can be stored in tangible assets, which also fluctuate in value. Stocks and bonds fluctuate in value. A Picasso painting will fluctuate in value. Value is created by what a person is willing to pay for an object and what the seller is willing to accept as payment. An auction is a place where values are determined by the buyers, not the sellers.

Fiat money has also been used to create a tremendous expansion of bank credit through the issuance of credit cards, which has created our huge consumer economy. People are now encouraged to buy what they want, not just what they need. Thus, many average Americans have large credit card debts that they may never be able to pay off. To them, money is a plastic card.

To others who use the Internet to trade in stocks and bonds, money is simply numbers on a screen. They can make profits in seconds by buying and selling stocks in seconds. No cash needed. No gold needed.

But the real trick in getting rich is not in juggling numbers on a computer screen, but creating value. For example, J.K. Rowling, the author of the Harry Potter books created value by writing books that millions wanted to read. She is now one of the richest women in the world. She created value by entertaining millions of readers.

In America, thousands of inventors have created value by their ingenuity. They've created everything from safety pins, to electric light bulbs, to parlor games, to carburetors, to toasters, and all of the everyday things in our homes and cars we take for granted. Somebody had to invent them, get them protected by patents, find investors to manufacture them, advertise them, sell them, and in the end make a profit from all of this effort. Our free-enterprise system made all of this possible. We call it capitalism, capital being what is needed to finance the manufacture and sales of all of these great products.
But for those of us, who work at a variety of skills to make money and accumulate a modicum of wealth, we have to do it the hard way: we have to earn it, whether it winds up as cash in our pockets or numbers on a computer screen or bank statement.

Many Americans have become addicted to buying rather than creating value. The creation of value is the key to our prosperity. But you need a government that does not stand in the way of creating value. Politicians do not create value. They simply think up ways of using somebody else's value for their own benefit. That is why government has become so corrupt and incompetent. When you have budget in the trillions of dollars, no one misses a few misappropriated million or two. A trillion of anything is simply beyond public comprehension.

Would there ever have been enough gold-backed dollars to pay for the kind of economic extravaganza we now have? Would it have encouraged the widespread abuse of easy credit? A gold-backed dollar would indeed serve the three essential functions of money best: as a means of exchange, as a storage of wealth, and a measure of value. Meawhile, our corrupt government has turned our paper money into anything it wants. Through deliberate inflation, the government has destroyed half the dollar's value in recent years, thereby destroying the savings of millions of Americans.

A fiat currency inevitably leads to abuses that distort our economy and makes all of us victims of government corruption. In the hands of liberal-socialist thugs, we are being robbed blind. But until average Americans understand basic economics and call for a return to a gold-backed dollar, they will be easily victimized by the greatest thieves in the history of mankind.