Ben Bernanke to Ron Paul: Gold Is Not Money

The man once credited with staving off a second Great Depression persists as dogmatically as ever in his faith in the Federal Reserve money machine's power to cure, or at least to palliate, all economic ills, in spite of mounting evidence that — as Ron Paul and others have been insisting — the Fed's inflationary "solution" to the economic crisis has only made things worse.

In a most extraordinary series of comments during an exchange with Congressman Ron Paul at a hearing this week, Bernanke admitted that he did not view gold to be money, as reported by the Toronto *Globe and Mail*:

MR. PAUL**:** But very quickly, if you could answer another question, because I'm curious about this — you know, the price of gold today is $1,580 [U.S.]. The dollar during these last three years was devalued almost 50 per cent. When you wake up in the morning, do you care about the price of gold?

MR. 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 people are — the reason people hold gold is as a protection against what we call tail risk, really, really bad outcomes. And to the extent that the last few years have made people more worried about potential of a major crisis, then they have gold as a protection.

MR. PAUL: Do you think gold is money?

(Pause.)

MR. BERNANKE: No. It's not money, it's a precious metal…

MR. PAUL: Even if it has been money for 6,000 years, somebody reversed that and eliminated that economic law?

MR. BERNANKE: Well, it's — you know, it's an asset. I mean, it's the same — would you say Treasury bills are money? I don't think they're money either, but they're a financial asset.

MR. PAUL: Well, why do — why do — why do central banks hold it if it's not…

MR. BERNANKE: Well, it's a form of reserves. It's a form…

MR. PAUL: Why don't they hold diamonds?

MR. BERNANKE: Well, it's tradition, long-term tradition.

MR. PAUL: (Chuckles.) Well, some people still think it's money. I yield back. My time is up.

The fact that Bernanke, the former head of the Department of Economics at Princeton University, does not have a clear understanding of the nature of money speaks volumes not only about the competence of those who supposedly act as wise stewards over the nation's money supply, but also about the state of economic understanding even among elite economists.

For the record, Mr. Bernanke, there are three basic kinds of money: commodity money, fiduciary money, and fiat money. This basic taxonomy reflects the kinds of things that can be used as money, and the modes of their production and use. Commodity money is any commodity — metal, grain, tobacco, or whatever — that is used as money. Most commonly gold, silver, and copper have been used as commodity monies, although various grains and even beans have also served this purpose, especially in the ancient Middle East and in South Asia. Fiduciary money, a more modern invention, is any form of certificate or claim on redeemable commodities. What used to be called "bills of credit" and all forms of paper money tied to a pledge to redeem in gold or silver are examples of fiduciary money. Fiat money is money produced from some cheap, abundant non-commodity, which is not tied to any commodity like gold or silver, and whose supply can be expanded at will, via governmental or bank "fiat." Modern paper money is all fiat money, as are computer entries made by central and commercial banks pyramiding new credit atop old.

What Chairman Bernanke is attempting, like most of the high priests of economics are wont to do, is to parse phraseology in the interest of evading an honest response. No, technically, gold is not just money; it has a range of other uses. But what Bernanke was loath to admit is that he does not believe gold should be used as money — in defiance of the accumulated wisdom of several millennia of monetary experience. Like most other bankers and modern economists, Bernanke doubtless believes that gold should be held primarily by banks and governments, as a final line of defense against those wicked money markets, with their penchant for penalizing governments that — like the U.S. Federal Government — irresponsibly devalue their own currency.