The Gold Standard

The journal of The Gold Standard Institute

The purpose of The Gold Standard Institute is to promote an unadulterated Gold Standard.

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Editorial

Welcome to the 60th edition of The Gold Standard.

The call for a return to Gold by some of the GOP candidates has brought forth a predictable response from the liberal media who automatically oppose any suggestion of economic freedom.

In more tolerant quarters, much has been written about the social levelling effect of Gold in circulation. The following paragraphs were written in 1851[1] at the beginning of the Australian Gold rush. They make clear that this benign process begins even before Gold circulates…

"Nothing, indeed, can have a more levelling effect on society than the power of digging gold, for it can be done, for a time, at least, without any capital but that of health and strength; and the man inured to toil, however ignorant, in on more than equal terms with the educated and refined in a pursuit involving so much personal hardship."

and…

"The effect it has had on society is strange and unprecedented in history; men, who, until this time, had never been masters of five pounds, are now worth thousands; a new aristocracy has sprung up…wool is no longer the staple of the colony, it has been superseded by gold… [The discovery] has been ruinous to the grazier and agriculturist… Many have, therefore, abandoned their former pursuits, and are now digging for gold in conjunction with their former servants."

[1] History of the Australian Gold Rushes by Nancy Keesing

1851 marked the beginning of the end of the English class system in Australia. Have a great Christmas.

Philip Barton
President, Gold Standard Institute
Dawn of Gold

News

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Reuters: India is starting to lean heavily on the temples. Devotees do not want their Gold donations melted down and do not trust the government. There is trouble brewing here.

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Gulf News: After at least four thousand years of continuous mining, Sudan (Nubia) continues to produce Gold.

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Gulf News: A Sharia standard for Gold is in the making

Fed News

There is a bill in the house aiming to limit the powers of the Fed. That it will either fail or, if passed, be vetoed by President Obama, is a given. What is more important is that it should lay to rest the red-herring that the Fed is an independent, privately owned and run organisation.

H.R. 3189: Fed Oversight Reform and Modernization Act of 2015

Full Title:

To amend the Federal Reserve Act to establish requirements for policy rules and blackout periods of the Federal Open Market Committee, to establish requirements for certain activities of the Board of Governors of the Federal Reserve System, and to amend title 31, United States Code, to reform the manner in which the Board of Governors of the Federal Reserve System is audited, and for other purposes.

Monetary Innovation is the Path Forward

There is no shortage of sound money conferences. They're regularly put on by think tanks, and dutifully attended by all the free market academics who can get travel budget. But I have a premonition. The move to the gold standard won't be led, or driven by these events.

Many of their presentations are all but free of free-market money ideas. For example, the Cato Monetary Conference in November had numerous central bankers promoting updated versions of the same old monetary central planning. Some independent intellectuals promoted new variations. For example, Scott Sumner is widely known for his idea that the dollar should be planned, not by CPI and unemployment, but by nominal GDP. This year he proposed a futures market in nominal GDP forecasting, to help the planners.

The Jackson Hole Summit (at which yours truly spoke about the false alternative to choose between cherry or strawberry flavored cyanide) was notably better. Even so, the marginal utility of such conferences is declining.

For these reasons, I was excited to help put together a different kind of event. The first two Monetary Innovation Conferences (there will hopefully be more events, if we get enough donations) took place, in Washington DC and Phoenix in November. We had support from the National Economics Club, and the Wharton Club. The point of these conferences is not to tell the world that we need the gold standard. The point is for entrepreneurs and innovators to talk about real problems, and their solutions. In Arizona, we had some folks from the government attend, including Representative Mark Finchem who spoke about why he has sponsored gold legal tender legislation. This is how I think we will move to the gold standard.

Adam Trexler talked about one incentive for governments to issue gold and silver coinage: *seigniorage*. Historically, when most governments issued previous metal coins, they set a legal monetary value above the value of the bullion contained in them. His company, Valaurum, makes a 0.1 gram gold currency that is a thin layer of gold sandwiched in between two layers of plastic. It's slightly smaller than a dollar bill.

The Aurum

Valaurum seeks deals with governments of small countries with gold mining activity. These governments can make a large profit by offering legal tender gold currency. Whereas no one really wants the irredeemable paper currencies issued by such governments, they will eagerly buy up the currency issue because it's gold. This puts small-denomination gold currency (0.1g gold is worth about $3.75) into the hands of people who would otherwise not own any gold.

Guillermo Barba came up from Mexico to talk about seigniorage in a different light. He spoke about the proposal by Hugo Salinas Price for silver coin circulation in Mexico. There are two key ideas. One, stamp only a weight on each coin, not a legal tender value. This is because the price of the metal is always changing in the market, and generally rising over long periods of time.

Two, the government publishes a legal tender value higher than the metal value in the coin. It has to be higher, otherwise people hoard—this is called *Gresham's Law*. It is updated whenever the price of the metal rises. People can get these coins without risk, because if the metal value falls then the government will take them back at face value. If the metal value rises, then the coin is revalued higher in terms of the peso.

At the conference, I talked about a key enabler of the rise of civilization: interest. Without interest, there is no lending. Without lending, there cannot be a business enterprise larger than a family workshop. Unfortunately, we are now at the end of decades of the Fed's war on interest. The disappearance of interest slams the process of civilization into reverse. I am working to offer investors gold interest on their gold.

Speaking of zero interest, how is someone supposed to live in retirement? There's a risk of outliving your money, no matter how conservatively you spend. John Skar talked about a simple gold annuity that pools the longevity risk over many individuals. Some people die earlier, and leave their money in the pool for others who live longer. This creates a *mortality yield*. It works, even if without a gold interest rate.

Josh Crumb and Stefan Wieler spoke about Bitgold. Bitgold makes it easy for people to buy gold in small quantities. Bitgold enables them to spend their gold using the ubiquitous merchant payment network for credit and debit cards. Perhaps more importantly the company is fully compliant, so customers do not have to choose between having gold and staying on the right side of the law. Or, to put it another way, Bitgold is fighting one battle, but not trying to compound the difficulty by fighting another at the same time. They are working towards the use of gold as money (which is the stated purpose of the Gold Standard Institute) without also taking on the regulatory state.

Speaking of the regulatory state, the crisis of 2008 showed us that highly regulated companies, with highly regulated auditors, and credit ratings published by highly regulated agencies can experience Sudden Bankruptcy Syndrome. Every financial intermediary may have to comply with regulations, but that offers you little comfort if you trust the wrong counterparty and lose your deposit. Norbert Michiel at the Heritage Foundation, and Reggie Middleton talked about using the *blockchain*—this is the secure public ledger technology underlying bitcoin—to offer people new alternatives. Reggie's company, Veritaseum, is offering a trading platform in which parties need not trust each other. *Smart contracts* assure that the full amount is paid on all trades.

Adam Stradling talked about a new technology called *Provable Solvency*. Like a realtime audit, it would allow a company to publish its true current position and net worth. The information could be disclosed to counterparties, allowing them to make informed decisions about trust and risk.

John Mitnick, also at Heritage, talked about a topic I have previously addressed. Texas has recently enacted a law that authorizes the creation of a precious metals depository. There are two interesting features. One is the ability of any metals holder to pay metal to another. The other is that the state of Texas will stand between the metals holders and the federal government, should the latter move to confiscate gold again (as it did in 1933).

Arie Cohen, originally from Venezuela, flew in from New York to talk about the broader theme behind blockchain and smart contracts. His theme was the Golden FinTech (financial technology) revolution. We have seen a pattern play out over and over. Yahoo, then Google, then Facebook, and most recently Uber sprang into multibillion dollar market opportunities. Something happens when a real and urgent human need occurs and at the same time technology is mature and available enough. Entrepreneurs create solutions. Disruptive innovation may displace or commoditize incumbents in the process, but that's how markets work. If the need is big enough then someone brings the solution to market.

Each of these speakers is doing more to help the world move to the gold standard than all the sound money conferences in the world.

And this brings us full circle. The flaws of the irredeemable dollar—exponentially rising debt and falling interest—create urgent problems for everyone. Jobs, savings, and retirement are not "right wing" issues. They're of concern to everyone (ironically the richest, who speculate on rising asset prices, are the least interested in gold).

Gold solutions are emerging, and look for more as we go forward.

Keith Weiner
President, Gold Standard Institute USA

Targeting the Targeteers

GSI USA's president Keith Weiner just offered a quick critique of Scott Sumner's "NGDP Futures Market" programme for taming the US Federal Reserve's manipulation of the world's stock of dollars. Here's some background.

Monetary Policy commands such mind-space in the modern crisis that it's easy to mistake it for the Holy Grail of Economics. But, by definition, policy is only a brute force solution at best. Buried amidst the debates over "what the Fed should do", the classical gold standard seems like just another policy prescription, one among many *rules* that might run the economy for better or worse. That is a misapprehension; accepting that view concedes our whole position.

Statists especially criticize "pegging the dollar to gold" as unworkable within their highly-nuanced central plans. One planner, Scott Sumner, quipped that, despite working well from 1815 to 1914... *"by the interwar years it was more a hindrance than help to policymakers"*. Actually they'd hog-tied it well enough to not hinder their plans for WWII, Scott!

In Sumner's view, mobilizing gold and commercial bills maturing into gold is no way to achieve his pet plan, under which the Fed should "target" Nominal Gross Domestic Product (NGDP). Sumner caught my attention in 2010 because, of all the rules-based policies proposed then, having a money supply which adjusts to changing GDP seemed closer to what the New Austrian School believes sound money accomplishes. If only Sumner's plan involved the horse *pulling* the cart.

NGDP, M_0, and You

GDP numbers, expressed in dollars, emerge from the Bureau of Economic Analysis are a retrospective total of the values of everything produced, consumed, or otherwise transacted over previous time frames. BEA's calculation is inexact and subject to later revisions; it includes government spending which is arguably destructive of subjective value (taxation being involuntary and government borrowing capricious). Even with these flaws many people accept it as a rough guide to the volume of economic activity; after discounting for political spin it's close enough for gov't work. **Nominal** GDP is the *raw* number (neither seasonally- nor inflation-adjusted) of special interest to policymakers rigging the *monetary* unit.

Central banks can act to change a quantity they call the money supply which, like GDP, they measure retroactively and statistically. Their control and the boundaries of this "supply" are only approximate because banks and other credit-granting agents produce indirectly-controlled tiers of the money supply labeled M_1, M_2, ... The central bank and other unprosecuted printing presses provide M_0, the base money. Guiding the yield on T-bills and T-bonds higher (or lower) acts indirectly to call forth more (or less) of the kind of savings which earns this so-called risk-free rate of return found in bank deposits and the money markets (M_s for s>0).

Most monetary policies, Sumner's in particular, have a seductive simplicity to them: if the supply of money matches the demand for money, the value of each unit of money should appear to be stable. Since NGDP is the sum total of transactions which required money to clear, the demand for money must be related to NGDP. The Quantity Theory of Money says this is a linear formula, just divide by the velocity of money during the time in question—a scalar that Milton Friedman and his many followers explicitly assume is a relatively constant number, albeit dependent on technology and unknown animating spirits. Put on your Systems Analyst hat; we have to debug another very large rule-based system!

Rule-based Monetary Policy and the Targeteers

Currently the Federal Reserve's Open Market Committee acts on the money supply by affecting interest rates with their purchases and occasional sales of Treasury bonds and bills. Under Quantitative Easing (QE) programs, purchase amounts are newly-created dollars that increase M_0. Sumner proposes that the Fed discover which to do via a market-like process. They should buy and sell a new type of asset he hopes to create—an NGDP future contract—in rule-bound tandem with the usual reserve-asset trades (QE & Q_{exit}). The Fed would pick a target value for the NGDP at different future times based upon some oracular insight into the need for real growth, the nation's changing population, its propensity to consume or export, voices in the chairman's head, or some other central planning vision. They would enter into futures contracts betting that the NGDP will come in at their prediction. At maturity, savvy counter-parties who took the opposite side would be rewarded or penalized by the sagacity of their bets. See the above link to Sumner & Woolsey for details. By underwriting this market, Sumner hopes the Fed can out-source the work of observing where the economy is actually going.

One devil (and I'd claim the fundamental bug) in these details is the presumption that prevailing theories about monetarist interventions will have the predicted effects. Specifically that, however well-observed the economy may be, the Fed must act counter-cyclically to cause supply and demand to converge. In Sumner's world, rising NGDP is a symptom that the economy is heating up, and that by operating with *less* money in circulation, it will return to their target (on a nominal basis). Conversely, an undershoot indicates that the economy is slowing and needs stimulation in the form of easier credit. Sumner's rule-based policy implements this familiar trope with supposedly less planning discretion and supposedly more market inputs. He does not suspect that the theory itself may be flawed. His proposal does not treat rising NGDP as rising demand for money to be met by an accommodating money supplier. Under his scheme even seasonal variations in the need for circulation credit will set supply and demand off on a diverging course.

The very application of the laws of supply and demand for goods may be at fault here. In the classical analysis of the supply and demand curves for goods, the x-axis is the price of the good in dollars. The various targeteers each replace this when analyzing the money supply by something else–interest rate (cost of money), inflation/deflation rate (value of money), or "expectations" of different sorts. The analyses differ from the usual meanings of supply and demand so fundamentally that they need new rationales from first principles to be credible.

Anarchists' Aggregates

What then of a GDP-sensitive tier within the money supply? Our attraction to gold is its stability: both chemically, and also in terms of the inability of new mining or new consumption to cause any sudden change in the above-ground stock and proven reserves. It is *insensitive* in the extreme! But something near to our certainty about gold exists in the act of Commerce itself. This certainty can be monetized! As Bastiat wrote: "Paris gets fed": a fact that could only be contradicted by the demise of humankind.

Humans living on earth give rise to urgent needs which we well know how to meet via agricultural, commodity, and manufactured products moving through supply chains to paying customers. These flows are really quite certain. The Lombard Street bill mongers, who formed the secondary money-market, traded paper, which funded such urgent production in progress. The sum total of that paper was effectively the core GDP measured up-to-the-hour. Bankers used these bills as effective ways to mobilize their reserves with minimum risk. An issuing bank's job was to adjust its note supply to what could be supported by the most credible bills with the shortest terms. We used to call returns on commercial bills "the discount rate" and it always stood well below the long-term interest rate for speculative ventures. **The gold standard's money market was the M_1 of its day** and it *was* the GDP of the British Empire's and the world's economy—no targeting agent, no BEA required—only a hive mind of self-interested bankers and bill mongers driven by self-interest and the Invisible Hand.

Public vs Private Policy

The application of policies and rules is not itself flawed, only their monopolization by one central actor: the state, or its specially-franchised central bank. When independent agents devise their own strategies, policies, and rules, the net effect is that society runs a mixed strategy, with feedback constantly operating to weed out the worst and elevate the best. Sometimes central planners are wrong because they use the wrong theories and implement the wrong plans. When they do, they synchronize all mistakes into one huge mistake concentrated in time and space. If we let these crises reaffirm our faith in central planning, we do humanity a huge disservice.

Greg Jaxon
Greg Jaxon is an American software architect who builds silicon compilers for microchip-designers. He has studied New Austrian economics for over a decade, in part by boldly exchanging emails with the best authors on any side in a good debate, Scott Sumner being one of the many who've replied with new or improved thoughts.

Golden Leaf

I am a citizen of Canada... not the world's worst place to live, especially if Canada manages to avoid some of the madness brewing south of our border. I do not generally follow Canadian politics very much, it is more or less a 'who cares'... at least on a world wide scale. Canada is a small country and has little international influence.

It did have a decent reputation, that of a peace loving country, that of a peace keeper not a warmonger. Canada rarely involved itself in military conflicts, but the Canadian military did serve a useful and even honorable role as a peace keeping force; helping to hold suspicions in check once two warring parties agreed to cease fire.

Unfortunately, the late Conservative government led by former prime minister Harper has pretty well destroyed this reputation; Canada is now seen more as a lap dog of the Washington warmongers, than as an 'honest broker' to be trusted to remain truly neutral.

Well, for what it's worth, the Harper government has been soundly defeated in the recent Federal elections, mainly on an 'anybody but Harper' vote, and the liberal party has taken over the reins of office. Our new prime minister is Justin Trudeau. If you are at all familiar with Canadian political history, this name will ring a bell.

Mr. Trudeau jr. is the son of Pierre Elliot Trudeau... 'PET''... who was Canada's prime minister for many years, and who wrote some interesting history. Trudeau Sr. was a charismatic, Napoleon-styled socialist, loved by the great majority... especially by pubescent girls. He spent Canada to the verge of bankruptcy. It took several decades of proper Conservative governance... not Harper... to heal the financial wounds.

Now part of Mr. Trudeau Jr's campaign was 'I am not my father'... and of course this is true. Kids either imitate their parents, or rebel against them; often a bit of both. No one is his father... but then, the acorn never falls far from the tree, does it?

In any case, time will tell. Most interestingly in these times of global nervous breakdown, looming WWIII, ongoing financial collapse, terrorism etc., Mr. Trudeau's first official act as PM will apparently be to... hold your breath, hold it... decriminalize marihuana! Wow.

Now mind you, a libertarian thinker will believe this is fine, get the G'man out of what people choose to inhale, give a bit of power and choice back to the individual, reduce criminalization; a small but significant step towards liberty. I wish.

The reality is quite different; decriminalization is not at all the same as legalization. In fact, the decriminalization effort is geared towards regulation, towards the creation of new bureaucracy to enforce new regulation. Marihuana police to control production, distribution, packaging, quality, price, etc. How about the bureau of Alcohol, Tobacco, Firearms and Marihuana?

More compliance costs, more paperwork, more profits and more power to the G'man... certainly not more liberty. Expand the G'man monopoly; usurp choices of individuals, put more power and wealth into the hands of the 0.1%.

We come to the heart of the problem; people are so brainwashed that they cannot imagine anything without G'man 'oversight' (interference)... after all, who will guarantee the 'quality' of the product if not the G'man? We cannot trust those greedy capitalists, can we? We can trust our honest, honorable politicians... can't we?

This is where the free market rubber meets the road. A free market in pot, or anything else, is superbly regulated by powerful feedback mechanisms inherent to free markets but not to monopolies. If the quality of pot produced by seller A is off, while seller B provides a desirable product, seller A will soon enough be out of business, and seller B will prosper. In a truly free market the consumer is King.

Some pundits will start to compare and critique brands... and if these pundits get serious, they may develop profitable businesses as Marihuana quality testers. Whee! Consumers readily pay for trustworthy information. The key is free enterprise; free to succeed if the enterprise serves the consumer well and just as free to fail if it doesn't... the exact opposite of a G'man created monopoly.

Examples of free enterprise still exist; consumer reports, Underwriters Laboratories for testing safety of electrical appliances, etc. These enterprises jealously guard their reputations for impartiality. Their success indeed their survival depends on honest, accurate reporting. Even a hint of bias or corruption will put them out of business.

On the other hand, G'man monopolies do not have this concern at all... they are simply dedicated to saying and doing whatever their owners and controllers demand of them. Not one government agency, not one Fascist corporation (dependent on G'man support and regulation, not on satisfied customers) has the well-being of their 'customers' at heart.

The principle of free enterprise vs G'man monopoly and corruption applies in spades to honest money (Gold) vs bank notes (Fiat currency) masquerading as money. The world badly needs honest money, badly needs an ultimate extinguisher of debt; badly needs Gold in unhindered circulation.

However, the world does not need a so called Gold Standard. I know we call our organization The Gold Standard Institute... but the word 'Standard' needs to be well understood. Gold Standard does NOT mean G'man regulation of the 'price' or 'face value' of Gold, its value relative to Silver or to paper, nor regulation of interest rates on Gold bonds, nor any other regulations understood as being necessary for a 'Gold Standard' by a well indoctrinated public.

All a Gold Standard means is that a standard weight and fineness of Gold is the basic unit of economic measure; one Troy ounce, 99.999 pure Gold, is the coin of the realm. This is the Gold Standard... no more, no less.

Mints all over the world are perfectly capable of issuing such coins, no G'man supervision or regulation needed. Free market feedback will wonderfully, optimally settle all the rest; the purchasing power of Gold, the rate of interest it commands, etc. Unlike G'man created Fiat with its inevitable endless corruption, Gold is incorruptible.

Gold belongs in the hands of the consumer... not in the vaults of the 0.1%. Remember the Golden Rule; He who has the Gold makes the rules. Join the movement to liberty. Acquire Gold, dilute the coercive power of the 0.1%... and enhance your personal power and liberty.

Rudy J. Fritsch

Why Silver Fell in the 1870s and Gold Rose in the 1970s

During the 1960s when the market price of gold began to rise above the official redemption rate of $35 per ounce of gold, economists and others began discussing the likelihood of the dollar no longer being redeemed in gold. When this event occurred, most expected the dollar price of gold to drop because the demand for gold as money would cease. Most expected a decline in the value in gold when redemption ended because of a decrease in demand.

A similar discussion occurred in the late 1900s as the free coinage of silver ended and most of the world moved to the monometallic gold standard. Most argued that silver declined in value because of the demand for silver as money ceased except in subsidiary coins and its supply continued to rise. However, in 1971 when redemption in gold ceased, gold acted oppositely. Instead of falling in value, gold rose. Why?

Several explanations have been offered to explain the decline of silver's value (priced in gold). These explanations are mostly variations of the Quantity Theory of Money.

Friedman and Schwartz assert that supply of and demand for silver explains its decline: *"The reasons for the price decline seem fairly clear: on the supply side, rich new mines were opened in the American West, and there was a world wide increase in productivity; on the demand side, a number of European countries shifted from a silver or bimetallic to a gold standard and sharply reduced their monetary use of silver."*[2]

The monometallists, advocates of the single gold standard of this era, claim that the increase in the supply of silver caused its fall in value. However, the fall in value began before the world's silver stock had greatly increased. Moreover, gold production was relatively much greater than that of silver. To which the monometallists reply that the fall resulted from an anticipation of an increase in supply.

Even today, the supply argument seems weak. In recent years (decades), the increase in the supply of gold has been relatively greater than that of silver. During this time, the demand for silver seems to have been much higher as its usages have been higher. Yet the value of silver generally lags that of gold.

Laughlin opines that the abundance of gold caused silver to lose value relative to gold.[3] With the discovery of gold in America, enough gold came available to supplant silver coins. People preferred gold to silver because it had more value per unit weight. As the demand for gold grew, so did its value. As the demand for silver fell, so did its value. Moreover, the supply of silver began increasing after 1872. (Laughlin incorporates quality with his explanation: Gold has a higher value, purchasing power, per unit of weight, which contributes to its quality as money.)

The bimetallists, advocates of the silver-gold system with a legally fixed exchange rate or ratio between the two, claim that "demonetization" caused silver's fall in value. They point to Germany ending the free coinage of silver in 1871, which glutted the market with silver. This action forced France and the other members of the Latin Union to abandon the silver standard, i.e., to end the free coinage of silver. The United States ended the free coinage of silver in 1873. During the 1870s, other European countries ended their silver standards or bimetallic silver-gold systems and adopted the monometallic gold standard. To the bimetallists, ending the free coinage of silver and by that discontinuing the use of silver as standard money caused its decline in value.

One result in discarding the silver standard was an increase in demand for gold coins. This increase demand for gold coins would account for some of the decline in the value of silver in terms of gold. Not only were countries

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[2] Milton Friedman and Anna Jacobson Schwartz, A Monetary History of the Untied States, 1867-1960 (Princeton, New Jersey: Princeton University Press, 1963), p. 114.
[3] J. Laurence Laughlin, The Elements of Political Economy (New York, New York: American Book Co., 1887), p. 311.

replacing the silver standard with the gold standard, they were also replacing fiat paper monetary standards with the gold standards.

The abandonment of the silver standard around the world reduced the demand for silver. As countries moved onto the gold standard, the demand for gold increased. Thus, the value of silver was pushed down and that of gold was pushed up.

Although silver ceased to be used as standard money in most countries (China and some Latin American countries being notable exceptions), it was still used in subsidiary coins in most countries and as fiat money in the United States. If merely ending the use of silver as standard money caused its fall in value, why did gold soar in value (in terms of standard fiat currencies) when its last legal connection to money was severed in 1971? Although the Quantity Theory of Money offers a reasonable explanation of silver's fall in value, it fails to explain gold's rise in value. Whatever explanation used to explain silver decline in value after 1873 needs to be able to explain golds rise in value after 1971.

Rist offers this explanation for the decline of silver's value and the rise of gold's value when they ceased being standard money. (In the United States, silver ceased being standard money when the free coinage of silver ended in 1873. Gold ceased being standard money when the United States stopped converting the dollar to gold under the gold exchange standard, the Bretton Woods system.) When the free coinage of silver ended, people replaced silver with gold. Gold adequately performed all the basic functions of money. Silver was not needed to perform any of these functions. Therefore, the monetary demand for silver declined. As demand fell, so did its value. When gold redemption ended, people replaced gold with irredeemable paper money. Irredeemable paper money does not perform all the basic functions of money. As it nearly always depreciates, it fails as a store of value. Gold continued to perform a monetary function as a store of value. Therefore, a monetary demand for gold remained after its redemption ended. Thus, when gold replaced silver, it fulfilled all silver's monetary functions. When irredeemable paper money replaced gold, it failed to fulfill all gold's monetary functions.[4]

Thus, the Quality Theory of Money is needed to explain gold's rise in price in terms of irredeemable paper money. Being low quality money, irredeemable paper money cannot store value over time. Being high quality money, gold stores value over time. Consequently, gold rose in price after its formal use as money ended because people still demanded a form of money that stored value.

As shown above, the Quantity Theory of Money can explain the fall of silver's value after 1873, but it fails to explain the rise of gold's value after 1971. The Quality Theory of Money is needed to explain gold's rise in value. It can explain both silver's fall in value and gold's rise in value.

Thomas Allen
http://tcallenco.blogspot.com.au/

[4] Charles Rist, The Triumph of Gold, trans. Philip Cortney (New York, N.Y.: Philosophical Library, 1961, pp. 122-124, 151-153.