

12-3-2012
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Competition Between the Dollar and Gold

1. It is a mistake to look at gold as an alternative money in competition with the dollar.
2. This makes gold appear as a threat to the dollar and only creates more incentive for those in charge of protecting the dollar to tax transactions in gold.
3. Gold cannot compete with the dollar as a currency unless the dollar suffers a complete collapse and the economy returns to primitive barter. Then gold would most likely arise as the new currency.
4. Gold would not destroy the dollar but rather could save it from destruction through resumption of specie payments. Specie payments were suspended in 1933 by the Roosevelt administration.
5. The more that people hold their wealth in gold, the easier it will be to save the dollar currency from collapse. Holding gold could be facilitated by bonding. It could be bonded, yielding interest, just as dollars are, to yield a return. Buying a bond is lending with the expectation of a return. Interest rates on gold-bonded debt would be much more stable than on dollars (Fed Res Notes) because the supply would be more stable. This is because gold is limited in supply, unlike printable notes or digitally created balances.
6. Returning to redemption in gold would allow widely redistributed titles to gold as anyone could liquidate any asset of value into gold.
7. Reestablishing titles to gold through currency redeemability would reverse the centralization of the world's gold holdings, allowing gold to be held again in local banks and thus the population at large.
8. The nationalization of the gold in 1933 forced the holders of gold--the local banks--to exchange their gold reserves for Federal Reserve note balances at the Federal Reserve. This concentrated control of gold. It centralized gold holdings and denied the people control over their gold. Currency redeemability would allow gold to return to decentralized control by the people.
9. Mises' regression of money analysis clearly shows that gold is not the nemesis of the dollar because the dollar had a specie-based origin. Gold cannot fight against gold.
10. Once a form of money becomes established as a currency, it gains momentum from extensive exchange. This produces an array of prices difficult to displace by attempts to introduce a new form of money with no array of prices. So, any attempt to replace the fiat dollar outright would meet with insurmountable difficulties.

11. This is despite the fact that gold is the ultimate commodity for the storage of wealth.

12. Gresham's Law then does not tell us that gold could overthrow the dollar!
It could only do so if the market were literally free. But that would also mean that the dollar would collapse along with savings and economic calculation.

Good money drives out bad money on the free market; hence, one might be free to reproduce dollars as paper promises to nothing, which is what the Fed does. Is there fraud in reproducing Federal Reserve Notes, as they are devoid of a promise of anything of material value?

The 'dollar' would have no copyright in a purely free market. The U.S. currency would collapse overnight if real competition in producing it were allowed. This is why Liberty Coin could not be permitted to create its 'dollars'. The seigniorage they were collecting was cutting into the seigniorage of the Fed and the banking system. The government could not allow Liberty Coin to persist because copycats would have begun arbitraging the seigniorage. It would end in the total destruction of the dollar's marginal value.