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Perspective

Free coinage for gold and silver –Then and now

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Some people think that one of the fundamental institutions of the 19th century should be restored; we singled out Great Britain as the great leader embracing this institution. This institution was the free minting of gold practiced by Great Britain in its heyday of growth, world economic and financial power. Under this system, any owner of gold bullion could take his bullion to the Royal Mint and have it minted into coins containing exactly the same amount of gold. This was done at no cost to the owner of bullion as a government service to the economy. Thus, the owner of gold bullion converted his bullion directly into money which could be saved, invested or spent at will. The new gold was turned into money and increased the money supply because gold was money. Another idea was been floated, regarding doing the same with silver: “Opening the Mint to Silver” is the same idea as free coinage of gold, outlined earlier, but applied to silver. Some people thought that re-instituting this practice of centuries prior to the 1800’s, which was indeed entirely wholesome and beneficial in its time, would produce the same wonderful results today; supposedly, the restoration of this institution would restore stability, growth savings and true and lasting prosperity.

Free coinage of silver considered

First we must think of what sort of “free coinage” of silver we are thinking of. Would we propose the free coinage of a coin with a face value, or with no face value? If we propose the free coinage of a coin with a face value, then the face value must be superior or equal to the intrinsic value of silver. No one is going to take silver bullion to the U.S. Mint, for instance, and have it turned into silver coins with a face value that is less than the bullion value of the silver in the coins. If the face value is equal to the intrinsic value of the silver, then within a week’s time the silver coinage would probably be on its way back to the refinery, the price of silver having gone up in the meantime and made the melted coins worth more than the coins themselves. If the face value is superior to the bullion value of the silver in the coins, then the miners who are taking their silver to the Mint are obtaining a State subsidy of their mining operations, which is politically objectionable. Alternatively, if we are proposing the free coinage of a coin with no face value, then the situation is different. There is no subsidy at all involved; if there is a cost for minting, it could reasonably be attributed to social and economic policy for the benefit of the community in general. It would be an acceptable State expenditure, indeed, a quite legitimate function of the Treasury.

However, the miner having turned his silver bullion into coins with no face value – or with a face value far below the intrinsic value, which negates the coin’s monetary function - is now faced with the problem of what to do with them. The coins are valuable, indeed, but – what is their value? They can be designated as “legal tender”, they are a product of the Treasury, but the problem does not go away – what is the value of these coins? Each individual would have a different idea regarding the value of these coins with no face value! And the ideas of each individual would change hourly, according to the quoted price of silver on the international exchanges. Each transaction with these coins would necessitate a process of haggling about the correct value of the coins.

Some people, but most definitely not all people, would wish to save these coins, and under present conditions, they would most likely be doing something wise and prudent; however, they would be speculating on a rise in the price of silver, either long-term or short-term, according to the views of each individual saver. Speculators are a small portion of the total population, especially among the less-affluent savers who are the most interested in silver as a means of saving. The fact is that silver coins with no face value, or with a face value so low as to be meaningless, as in the case of the American Silver Eagle 1 oz. coin, are generally available in quantities sufficient to cover the needs of American speculators on the price of silver, who wish to speculate by purchasing Silver Eagles. For this reason, if under present conditions the US Mint or any other Mint were open to “free coinage of silver”, there would probably not be a great increase in the amount of such silver being minted. Such miners who turned in large amounts of silver to be minted, would be well and truly stuck with them and have a great deal of trouble in placing them among the public, which in the U.S. for instance, is already largely satisfied with the production of Silver Eagles by the U.S. Mint.

The dilemma

If free coinage refers to minting as legal tender a coin with a face value superior the value of its silver content, then this implies a *subsidy* to the mining interests. This is unacceptable, politically. If free coinage refers to a coin with no face value, even if by Law classified as legal tender, this means that any important amount of additional minting is going to lead to piles of coins stuck in the hands of the miners who delivered the bullion to the Mint for minting into coins. This is unworkable economically, as there is insufficient market for silver coins with no face value.

Why did free coinage work at one time, and why would it not work again today?

The reason is not hard to find: in the past, in earlier centuries, silver was money in itself. There was no “price of silver” The price of silver was expressed in the amount of things that a given amount of silver could purchase. The closest thing to a price of silver was the amount of gold one ounce of silver could buy. Miners digging up silver were actually “digging up money”. With free coinage of silver, all the miners had to do was take their silver to the Mint, and - presto! – their silver bullion was turned into silver money.

How did we get from there, to where we are today?

It is a very long story but we shall try to abbreviate it. The greatest minter of silver in history was the Spanish empire.

In 1535, the Spanish Crown established a Mint in Mexico city, to mint coins which already existed in Spain before the Conquest of Mexico. These were the “Pieces of Eight”, which were coins that bore in inscription “Ocho Reales” – meaning “Eight Reales”. A “Real” was the name given to a certain weight of pure silver, about 3 g. This size of coin probably derives from the Arabian Rial, for Spain was under Moslem domination for about seven centuries until the Moors were expelled from Spain in 1492. And the Rial itself is perhaps another name for the Koranic “dirham” which is defined in Islamic Law as a silver coin of about 3 g in weight. Eight reales, of 3 g each, made a coin of 24 g. And since the U.S. silver dollar was modeled by Thomas Jefferson upon the Spanish “Pieces of Eight” used by the American Colonies before Independence, the U.S. Silver Dollar as defined by the Constitution contains – 24.05 g of pure silver.

The ratio between the values of gold and silver, at the dawn of the Industrial Revolution, was fixed in the U.S. at 16:1. The gold dollar contained 1.505 g of gold, while the silver dollar contained 24.05 g of silver. 24.05 / 1.505 = 15.984, that is, very close to the ratio of 16:1. We must pause to understand something with regard to the peculiar valuation which humans give to gold, a valuation which is quite different from that accorded to silver. Gold has, for practical purposes, no declining marginal utility. What this means is that no one ever has so much gold, that he begins to attribute a lesser value to any additional gold. Regarding the world as a whole we can say that world demand for gold is insatiable. At the end of 1970, there was an above-ground stock of 90,000 tonnes of gold, and the price of gold was $ 35 dollars an ounce. At the end of 2008, the above-ground stock of gold in the world has been calculated as about 162,500 tonnes, and yet the price had gone up to close to $ 1,000 dollars. Additional gold is being added to this pile at a rate of about 2,500 tonnes annually, approximately 1.5% per year, and it all has an immediate market. And yet, as of June 2011, the price is in the $ 1,500’s.

Silver, on the other hand, does have a declining marginal utility. The old ratio of 16:1 between the price of gold and the price of silver was established before the Industrial Revolution, when the extraction of silver from the ground was still a primitive labor-intensive process. This changed radically in the 19th century and huge quantities of silver began to flood the world and notably, the United States. The prevailing view of what happened to silver in the 19th century is as follows:

The world’s appetite for silver began to taper off as a result of its declining marginal utility under the impact of the enormous production of silver. There arose a great conflict between those miners who insisted that the U.S. Government should maintain, to their benefit, of the old ratio of 16:1, and the market for silver, which began to reflect the declining marginal utility of silver in lower prices for silver, while the gold price stood firm, due to its non-declining marginal utility, even when gold mining was also producing increasing quantities of gold.

In 1873, the Sherman Act by the U.S. Congress finally demonetized silver. The struggle to maintain the old ratio of 16:1 was ended. Gold had triumphed.

Professor Antal E. Fekete has a different explanation for what happened to silver in the 19th century. As we understand his explanation, the Sherman Act of 1873 was not the result of a fall in the price of silver, which would have meant an enormous subsidy of the Western mining interests had the policy of the “Open Mint” been continued, but rather the cause of a fall in the price of silver. Because up until the Sherman Act, all silver taken to the US Mint was minted into coin for the account of the owner of the silver –that is to say that, the miners; whereas the Sherman Act changed this crucial arrangement and declared that henceforth, the Treasury would mint silver dollars for its own account, that is to say, only in the amounts which it, the Treasury, decided should be minted. The miners were thus left hanging in the air with an excess of production of silver which had to be offered on the market. The result was that the price of silver began to decline. Whatever the cause of the demonetization of silver – whether the fall in the price of silver gave rise to the Sherman Act, or whether the Sherman Act was itself the cause of the fall in the price of silver, the fact is that silver finally ceased to be regarded as money in itself, except for China, which capitulated in the 1930’s and Latin America which abandoned silver in the early 1900’s.

In spite of having been demonetized, in spite of no longer being money-in-itself, silver went on being used to manufacture coins for everyday use all over the world until the 1950’s. Since then, all silver coins in the world gradually went out of circulation, one by one. The reason for the disappearance of silver money was that the increasing volume of money in the form of banknotes and bank deposits created by the banking systems of the world began to exert an upward pressure upon the price of silver. The silver in coins of various denominations began to be worth more when melted down into silver bullion, than as monetary coins. Some people saved their silver coins, perceiving the increase in the value of silver, but the vast majority of silver coinage in the world was melted down and sold as silver bullion.

The rise of technology in the world since 1950 created the principal market for silver bullion. Silver’s continued use in the minting of coins became a minor part of the market. Industrial use created by technology became the major support for the price of silver. Silver is no longer used to mint coins for monetary use. The fall in the price of silver, initiated in the 1800’s, has now ceased and silver is gaining value, partly as an effect of the increase in money in circulation and the perceived probability of huge future increases in money in circulation due to current monetary policy around the world. People around the world are now concerned about the safety of their savings and are buying silver and gold as a refuge for those savings. The silver coins that people are buying are not monetary silver coins; they cannot easily and immediately be used in daily transactions to pay for purchases of goods or services. Purchasing those coins is a form of speculation on the future increase in the price of silver and the value of the coins. It is a wise speculation, but a speculation nevertheless. More and more people are now buying silver coins in spite of the occasional falls in the price of silver, because the fears caused by these falls are outweighed by the fear of losing all their savings when invested in other ways. This is where we are today, with regards to silver.

The rise of numeric money

At the dawn of the 20th century, gold was the world’s money. A British Pound was 7.32 g of gold, and the coin which contained that amount of gold was called the “Sovereign”; it had no numeric value engraved upon it, which is significant: gold was money and the Sovereign did not require a numeric value in terms of something else. A US dollar was the name for a monetary unit that contained 1.505 g of gold. A Mexican peso was the name for a monetary unit that contained .75 g of gold and so on, around the world.

The 20th century saw the birth and growth of the power of the State thanks to the idea that the State is to be responsible for prosperity and the amelioration of the economic condition of the poor - the Welfare State, in other words. The Welfare State requires expenses far beyond the resources of the State which can be provided by taxation.

Banking systems all over the world collaborated in providing their respective States with banking money (deposits) and bank notes created out of nothing. Initially, it was possible to redeem this bank money by claiming gold against the delivery of bank money, but finally in the 30’s, paper claims against gold were so excessive that general bankruptcy took place, and since then, no bank note in the world has been exchangeable for gold upon demand.

The last tenuous link between money and gold which existed in the world was expressed by the Bretton Woods Treaty of 1944. Only foreign Central Banks could claim gold redemption for dollars which they held. Their own monetary systems were based on the trust that their dollar claims upon US gold would be honored. On August 15, 1971 those claims were dishonored. Nixon “closed the gold window” and the dollar, and with it the whole world, was freed from any constraint upon the increase of debt – debt could be “paid” with more debt, forever and ever, or so it was thought. The international bankers were delighted. At last, they were free from that pesky limiting factor, gold! Free to expand credit, free to create more money *ad libitum*. The ensuing decades were a banker’s dream.

By and large, the change to irredeemable bank money was enormously successful, if the creation of a world gone mad can be considered a success. As the decades went by, people eventually forgot about the gold into which their bank notes (paper money) had once been redeemable. They began to think about their bank notes as money itself, when they are not so by any means; they are only a formerly redeemable representation of actual gold money.

The bank notes bear numbers which originally referred to the weight of metal they represented. The world has forgotten this entirely and now people everywhere regard the bank note as money itself and the quantity of money as equivalent to the number on the note. The population of the globe today thinks of money in terms of numbers which refer to no quantity of anything. The more numbers you can add up, the wealthier you are! The world's money is simply numeric.

Problems of free coinage of gold without a gold monetary system

Within a world monetary system that is exclusively numeric, the free coinage of gold would mean the minting of coins either bearing a face value, or not bearing a face value. The U.S. mint does produce gold coins with a face value, but the face value is so low as to be meaningless – the face value is ignored; it is as if it were not there at all. If the Mint were open to free coinage, the miner supplying the gold bullion would be in the same position as the miner supplying silver bullion in exchange for silver coins with no face value: "Now, what do I do with the coins? Who wants them?" The market for gold coins is satisfactorily served by current minting. There is no scarcity of gold coins. They are readily available. The miner does not want this hassle. He disposes of his gold by other means. Since they bear no numeric face value which is related to reality, gold coins are not easily useable in commerce. Purchasing them was pure speculation – even if the best and most solid speculation. Using them as money directly will require negotiation between buyer and seller. This is cumbersome and inefficient.

Gold is money, but it cannot at present be used as money directly in day to day affairs, because using it requires what is actually barter activity. Today it is not possible to make a deposit in a bank anywhere in the world, using a gold coin. Some banks in Europe buy and sell gold coins. If you want to make a deposit, you must first sell your gold coin at one window, and with the numeric money you can then make a deposit at another window. My friend James Turk has invented an ingenious system which he calls "Goldmoney" and it does perform a useful service for gold owners; "Goldmoney" can accept numeric money from the owner of an account, and convert that numeric money into gold held for his account; conversely, "Goldmoney" will convert the gold holdings of the owners of an account into numeric money and effect a transfer of this numeric money according to the account holder's instructions. Alternatively, "Goldmoney" can affect transfers of gold between gold holder's accounts. Let us now suppose that the U.S. Mint is going to produce gold coins with a true face value. Just what is that value going to be?

A moment's consideration will suffice to conclude that such a project is not feasible, because the true price is fluctuating every day in terms of numbers and today, numbers rule in this world. Gold is not directly useable as money in today's world, but it remains a mighty metal.

Let us suppose that the U.S. Mint produced a gold ounce coin and that it was given a value of $ 2,000 dollars, when the market price of gold is $ 1,600 dollars per ounce. What would be the result?

The result would not be a gold coin overvalued in terms of present numeric dollars. The result would a devaluation of the numeric dollar in terms of gold! Up to 1934, the U.S. dollar represented 1.505 g of pure gold. This worked out to a price of gold in dollars of $ 20.67 per Troy ounce.

Suppose gold has reached a price of $1,600 dollars an ounce. If a gold coin is minted that says "$ 2,000 Dollars", then that means that the dollar is now worth less, it has been devalued to one two-thousandth of an ounce of gold; otherwise, people would take four of these coins, paying $ 8,000 dollars for them, and buy five ounces of gold bullion. What people want with gold is to have more gold, no matter how it looks. So, it is not possible to overvalue a gold coin.

Winding up this discussion it is clear that as things are, "opening the Mint to the free coinage of gold" cannot be a useful measure, because it can only be considered as an institution that complements a monetary system wholly based on gold as money in it. Whenever we talk of "the price of gold" it is evident that we are living in a monetary system that is not a gold system. Under a gold monetary system, there is really no "price" of gold, for everything is priced in terms of gold, and "the price of gold" is revealed by the things which gold can purchase – its purchasing power.

Free coinage of gold is not viable except as a support to a monetary system that consists exclusively of gold, or of gold and silver, where the silver floats in relation to gold. To put it simply, think of the monetary system as a duck, and of free coinage as the feathers on the duck. The two must exist together.

Considerations regarding silver

If silver is currently $ 36 dollars an ounce, a one-ounce silver coin can be successfully placed in circulation with a monetary, numeric face value of $60 dollars, which overvalues the silver contained in the coin. These coins would be very useful to the population and would be eagerly snapped up in vast quantities. The population would save these coins and use paper money for transactions – Gresham's Law; individuals would dispose of their silver money only in situations of great need. Theoretically, it would be possible to gather important quantities of these coins and use them to purchase a greater weight of silver bullion than that contained in the coins. However, it would be difficult to gather such quantities of silver, as the people would be jealously hanging on to their silver coins. Those individuals who might wish to carry out such an operation would be turning in silver money in exchange for bullion, and bullion, unlike the coins, would carry the risk of a fall in the price of silver. The speculators would have abandoned cash for a speculative position in bullion. Those people who might wish to own more silver bullion would want to purchase their bullion with numeric money and not with overvalued silver money – this is predicated by Gresham's Law: you spend the money that appears less desirable, and retain the money that you think is more desirable; a silver coin which overvalues the silver in the coin, is certainly more valuable, in the eyes of its owner, than a paper note or a bank deposit.

However, these temporarily overvalued silver coins would eventually exist in a situation where silver bullion is valued at more than $ 60 dollars an ounce, because since numeric or fiat money is continually increasing in volume, prices are rising and silver bullion will eventually be worth more than $ 60 dollars an ounce. These coins would then be undervalued and their destination would be the refinery, where they would be turned into bullion with a higher numeric value. Thus, silver coinage with an overvalued face value is possible, but destined to a short life in circulation.

We have covered all the alternatives regarding free coinage of silver and of gold. The free coinage of both precious metals poses similar yet different problems which make it impossible to implement free coinage.

Free coinage is only possible and indeed, highly useful and desirable where people think in terms of quantities of precious metals when they are doing their economic calculation, not in terms of numeric money, and this can only happen where the monetary system is based on gold or silver, or on both.

The way back

How can we return to such a sound and realistic economy, where precious metals become once again money itself, because people think in terms of quantities of precious metal, either silver or gold?

First, we do not believe any change can be effected by a decree of any sort. The change must come in a roundabout way, insensibly. The problem of an overnight change, from the whole world's way of economic calculation by simple numbers, to calculation by quantity of precious metal is simply overwhelming. Just as the change from using quantities of precious metal to effect economic calculation was gradual – a gradual decline in quality of money, we may remark – so a change back to using precious metals in economic calculation will have to be gradual. We believe that the insertion of silver into circulation must come first, because silver is the metal that is accessible to the majority of the world's population. This can be done by a kind of collaboration with the present system of numeric calculation in terms of money which is only numbers.

Gresham's law is popularly expressed as "bad money drives out good", meaning that money of higher quality is driven out of circulation and into savings. The plan is to infiltrate good silver money into potential circulation, in parallel with numeric – paper – money; "potential circulation" means that though the silver money will be usable in any transaction, in practice it will not circulate, because as higher-quality money it will be driven into savings. And savings, immediate and massive increase in savings, is what is vitally necessary in today's over-indebted world. Good silver money could and would provide the necessary incentive and means to accommodate massive savings. Silver can be turned into money that will never vanish en route to the refinery, as in the past, but remain permanently in savings as potentially circulating money

There is only one way to achieve this

A silver coin with no engraved face value can be granted a numeric value by means of an official quote on the part of a State Authority, either by the Central bank, or preferably by the Treasury itself.

The numeric value will overvalue the silver in the coin, ideally by a small percentage. This numeric value, granted by the Central Bank or Treasury, will increase as the price of silver rises; the rise in the price of silver will be inevitable, due to the constant increase in the volume of numeric paper money and bank deposits.

The overvaluation of the silver coin by the Treasury or other authority creates a profit for the Treasury or other authority that mints and grants a virtual monetary value to the coin. This is can be called either a subsidy or a tax paid by the population to the issuing institution. This is a one-time-only cost of furnishing real, tangible silver money for the population, and it will willingly be paid by the population. The cost will not be paid by the monetary authority, but paid by the population to the monetary authority.

Temporary falls in the price of silver will not be allowed to affect the official numeric value, only rises, just as the value of a dollar bill does not depend upon the value of the paper it's printed on. (Though rises in the price of paper and costs of printing are making the printing of paper dollars uneconomical already, as shown by the attempts to introduce metallic dollars into circulation in the U.S.). A fall in the price of silver would mean greater profit for the monetary authority, and a larger over-valuation of the silver in the coin, regarding which the public will be totally indifferent. Absolutely no one will wish to turn in his over-valued silver coins for paper bills. This coin will never disappear from circulation, as it bears no engraved value which cannot be modified when the intrinsic value of the silver in the coin begins to approach its engraved value. This coin, due to its superior quality as incorporating a quantity of silver, will immediately be snapped up by the population and retained as savings. Daily expenses will be met with numeric money but silver will be kept back as savings, useable in emergencies directly as money in daily transactions.

The creation of this silver coin, now become money with a virtual numeric value, makes its use possible in numeric economic calculation and in daily needs in case of pressing circumstances. It can co-exist with numeric money. Whoever pays with the coin, the recipient of the coin will probably retain it in savings. It can be deposited for credit in a bank at its numeric value, in which case the bank manager will probably keep it for himself, by substituting an equivalent amount of paper money out of his own pocket for the silver coin.

This plan for monetizing silver is not a plan for "free coinage of silver". The Mint will coin such quantities of silver coins as demanded by the public. If the coin is scarce, a premium will be paid by savers anxious to own this coin. The monetary authority will be charged with the task of minting quantities of this coin sufficient to satisfy popular demand. If the coin is so abundant that its quantity exceeds the capacity for savings of the population, the excess will return, via the banking system, to the Central Bank, until the desire for saving on the part of the population once more manifests itself in further demand for the coin. Thus, silver will come once again into use as money, with the help of a virtual numeric value granted by a monetary authority.

It is foreseeable that masses of this silver money, put away in savings, will be in the hands of the people as numeric money destroys itself, as it appears to be doing through its issuance in astronomic quantities. When the pernicious numeric money destroys itself, silver will remain in the field! When the Central Banks collapse through their own actions, silver will once again take its rightful and reasonable place in the lives of people, by default.

World demand for this coin, ideal for savings, will be so great as to drive industrial use of silver into second place in the determination of the price of silver. As silver is sought as a monetary refuge, minting of coins will become so great that demand for silver as money will determine limits to its industrial use and drive the price so high that the old ratio of 16:1 might become a reality once again. But, that would be far in the future.

The fixed ratios between silver and gold which existed in the past were actually mistakes of policy and theoretically, it is unsound to look for such a fixed ration, because of the difference between gold and silver. Gold does not have a diminishing marginal utility, while silver does have such a diminishing marginal utility. This indicates that the ratio between silver and gold must be a fluctuating ratio, where it is the value of silver with relation to gold that fluctuates. It is important to place monetized silver in the hands of people once again so that the idea of silver as money does not totally disappear from the memory of mankind. Our very civilization depends upon the use of real, physical money. We cannot have an industrial civilization along with the use of numeric money which is now either paper, or in bank accounts nothing more than imaginary money. Man cannot deal with reality with what is the stuff of numbers of no substance.

Silver must be first in circulation, before gold, because silver is for use by the masses and gold is much more special. The way back to gold, which is so vitally important, is through silver as money in the hands of the people. All of this does not mean that people will be saddled with the need to handle heavy quantities of silver to make payments. The ownership of a quantity of silver money can be transferred by electronic means from one owner to another; "Goldmoney" can also be "Silvermoney". Only 50 years ago, the U.S. Treasury issued Silver Certificates representing silver in the vaults of the Treasury. Silver Certificates representing monetized silver coins in Treasury vaults would be acceptable, as there would be no leveraging involved.

All great transformations in social and economic life must involve masses of people. In other words, change must come from the grass roots. The mobilization of silver as money once again, to circulate in parallel with numeric money, is the way forward. Silver money is the thread that will allow humanity to escape from the Labyrinth of numeric money. We have no idea to propose, regarding the reform of the international monetary system to restore gold as money. This is something that has to take place, because the world has truly turned into a madhouse of disorder since gold was banished in 1971. We have no idea how the restoration of gold as money in the world will take place.

The restoration of gold money is gigantic counter-revolution in monetary affairs. While we wait for this event, the monetization of the silver ounce, or some fraction of it, to allow it to circulate permanently in parallel with numeric money is something that favors humanity and that can be carried out without upsetting the world's numeric monetary system.

We conclude with a phrase borrowed from Franz Lehar's "Merry Widow" operetta: *"Man tut vas man kann!"* – one does what one can.