Trick or Treat - A Halloween Special

Gold and Silver as Shadow Money

You may know that gold is sometimes called "shadow money." This description is both accurate and misleading. It is accurate because the metals that once were humanity's sole source of money are still held by central banks as monetary assets on their own balance sheets. It is also accurate, because many private holders of specie continue to acquire gold and silver principally as a store of value. It is misleading because gold and silver are no longer the medium of exchange; they are priced and settled with the same statutory notes, tokens, and electrons used for every other commodity. These claims are the product of the SENP system — the *System of Ex-Nihilo Privilege* — under which licensed banks have been granted the statutory right, since the founding of the Bank of England in 1694, to create purchasing power out of nothing. What was once criminal fraud under the English common-law principles of bailment was legalized and privileged. Unfortunately for the promoters of *ex-nihilo privilege*, counterfeit remains counterfeit whether legislated statute authorizes it or not. That central banks still vault the metals is consistent with their awareness that the statutory claims that they issue remain fragile relative to a real asset that cannot be created out of privilege.

In the present arrangement those who trade the metals form an integral market function of the SENP system. Physical gold and silver are more liquid than most commodities—you can nearly always find a buyer willing to exchange them for the prevailing monetary unit—yet the channel is not ubiquitous. There is no precious-metals dealer just around the corner, and gold or silver bullion or coin cannot be spent at a local convenience store. Each round trip typically incurs a spread (the difference between the price at which something is bought and sold), and in many jurisdictions the transaction is taxable relative to the unit in which it is denominated. The metals' price in that unit is also more volatile than the unit itself. When the need to sell is greatest, demand may be weak; when many wish to acquire the metal, limited supply can push the price beyond reach.

Dealers earn their margin on the aforementioned spread. This spread widens when the unit is perceived as weak and demand for the metals rises; it contracts when conditions are calm. The dominant retail message is therefore the metals' utility as a hedge against the statutory unit's loss of purchasing power. Calls to hold the metals as a store of value during sustained periods in which this unit is strengthening are rare, which follows from the demand that dealers face. There is, in any case, no contractual return on the metal itself — no dividend or fixed interest — only

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the likelihood that its exchange rate against the statutory unit will rise. Those who intermediate the metals inside the SENP system do not generally press for the abolition of the privilege that makes the hedge necessary; these intermediaries are operating and profiting within the system.

The activity of increasing one's own purchasing power through the diminishment of others' is built into a money supply that can be expanded at will and that reaches early receivers first. This is the *Cantillon Effect*: new purchasing power is spent or lent into existence by those closest to the source of issue, allowing them to acquire real goods and services before prices adjust. By the time the new claims reach producers and savers, their purchasing power has already been diluted. Cash held as claims on the real goods and services of the economy lose their purchasing power when the number of claims expands. The security of the physical possession of gold or silver is real — the weight, the hallmark, the ability to place the bars in a safe known only to the holder — yet the metal remains a residual store of value inside a system whose statutory monetary unit continues to diminish the real wealth of those who produce it.

The shortcomings of gold and silver as a store of value listed above are artifacts of the metals' present status under the SENP system. Price volatility measured against the statutory unit, tax measured against the unit, and the framing of the metals as an investment whose return is calculated in the unit would all cease to exist once a single metal (gold or silver) itself became the unit of account and medium of exchange in the absence of fractional-reserve banking. Real purchasing-power changes relative to goods would remain, governed by supply and demand, but the tradable comparison with a counterfeit substitute would not, and the privilege of creating purchasing power out of nothing would be gone. So long as the metals are traded against that counterfeit, the spreads, the relative volatility, the tax treatment, and the marketing emphasis on hedging will persist. The alternative is, of course, the restoration of gold or silver as the monetary unit itself, which would end the immoral and highly pernicious extraction that the SENP system has institutionalized.

Finally, recall what real money is. It is a piece of the earth. It is to the worker, what rent is to the property owner. It is a passive source of income whose value grows with the passage of time. One should not have to pay a fee to a precious metals dealer or broker to enjoy this important source of passive income. What is denied us by our nation's bankers and our government, on the one hand, and abused by their large corporate friends who stand first in line to acquire more property than they have rightfully earned, on the other hand, is not something that should be traded as a hedge against our own exploitation.

I cringe every time I listen to the host of each of my favorite political podcasters advertise the services of their most favorite precious metals dealer. For, always I am left with either of two

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thoughts and two feelings. The two thoughts are ignorance or complicity, and the two feelings are disappointment and anger. It is what keeps me coming back, for I refuse to become indifferent. Humanity is too precious to my own existence.

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