

The case of US\$ v Gold; interim judgment

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A major milestone in monetary history has been reached. The value of the US Dollar in terms of gold is now exactly¹ 1% of what it was when US Dollar coins were first minted in 1792.

Many governments are considering setting up a central bank crypto-money system to drive the elimination of physical fiat money and get all transactions online where they can be monitored and controlled, removing privacy and autonomy from citizens. Hacks, power failures, software bugs, foreign cyberwarfare, sabotage or government action could lock anyone or any group of people or everyone out of a crypto-money economy. Negative interest rates can easily be imposed, penalising anyone holding central bank crypto-money. The Bank of England says that it's not going to set negative interest rates "*at present*"². With crypto-money, this would be very simple to impose on any or every account. Paper money is bad enough for economic health. Crypto-money replacing paper and coin is much riskier.

Paper money not backed by gold can be termed as "fiat" currency, meaning that their value is essentially dictated by government dictat or fiat. The word comes from Latin; "*let it be done*". While fiat money has a long history, it has always ultimately failed because governments cannot resist printing ever more of it, reducing its spending power and store of value until citizens lose confidence in it.

The United States Constitution (passed in 1787) Article 1 section 10 Clause 1³ states; "*No State shall enter into any Treaty, Alliance, or Confederation; grant Letters of Marque and Reprisal; coin Money; emit Bills of Credit; make any Thing but gold and silver Coin a Tender in Payment of Debts; pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts, or grant any Title of Nobility.*"

The US Coinage Act of 1792⁴ established a Mint to create coinage. It set the percentage of gold in all gold coins at 11 parts in 12 of the full coins weight – 22 carat gold. The remaining $\frac{1}{12}$ th must be an alloy of silver and copper, of which silver would be no more than half. A ten dollar gold coin – called the Eagle - would contain "*two hundred fort-seven grains and four eighths of a grain of pure, or two hundred and seventy grains⁵ of standard gold*". The amount of gold would be 16.04 grams, so one dollar would equal 1.604 grams of gold. A gram of gold was therefore equal to \$0.62.

Today, the price of a gram of gold is \$62.11⁶. Against gold, the US Dollar has lost 99% of its value.

Money must perform 3 functions; a unit of account, a medium of exchange and a store of wealth. As the US, UK, EU and other central banks create more money, this increases the fiat money in circulation but does not increase wealth. It merely reduces the wealth value of each pound or dollar or euro.

Fiat money does not store wealth.

Here is a graph which shows the US consumer price index and the market price of gold since 1792:

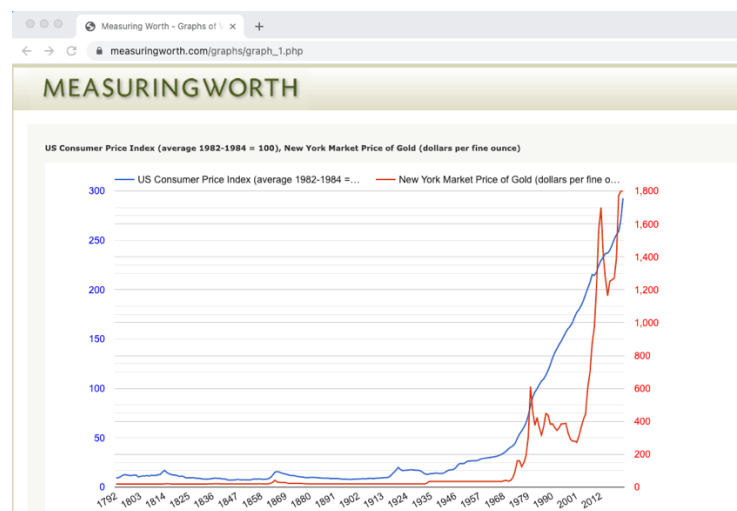


Figure 1 - US CPI and gold price 1792-2003¹

¹ Within price fluctuations today, 30/01/2023.

² <https://www.bankofengland.co.uk/explainers/what-are-negative-interest-rates> accessed 30/01/2023

³ <https://constitution.congress.gov/browse/article-1/section-10/clause-1/>

⁴ <https://www.usmint.gov/learn/history/historical-documents/coinage-act-of-april-2-1792>

⁵ One gram = 15.4324 grains.

⁶ Online gold price from <https://goldprice.org/gold-price-usa.html> accessed 30/01/2023.

There are two inflexion points, one in each line on the above graph (Figure 1). On the red line, the market price of gold in Dollars was stable for 179 years until the USA officially abandoned the gold standard in 1971. That's the point where the price of gold started to increase dramatically, or to put it another way, where the value of the US Dollar in gold terms started to decrease dramatically.

Gold coins were taken out of circulation in the USA in 1933. That marks the other inflexion point, which is better seen by plotting the years 1925 to 1945;

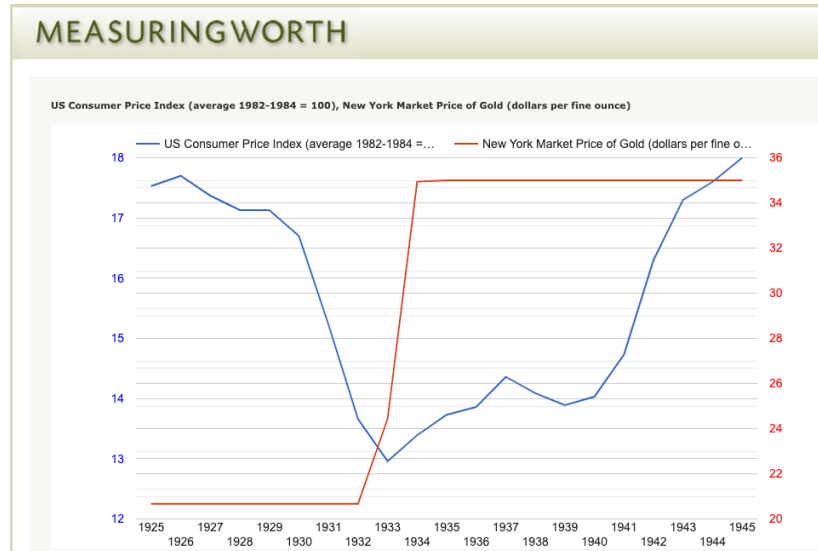


Figure 2 - US CPI and gold price 1925-1945

There is a jump in the gold price (red line) where it almost doubles but then stays stable for 37 years until the gold standard was abandoned in 1971. However the CPI starts a long, steep march upwards from 1933.

If the Troy ounce⁷ gold price is examined over the last ten years in all currencies on www.xe.com, every currency listed has lost value in gold terms, with one exception. The US Dollar went from \$1667 to \$1927 an ounce (13% drop in value, which was the same loss as the Swiss Franc). Euro lost 31%, Sterling lost 32%. The Russian Ruble lost 81% when it invaded Ukraine but recovered to some extent by today, down 63% over 10 years. Chinese Yuan Renminbi lost 20%, SDR⁸ 25%.

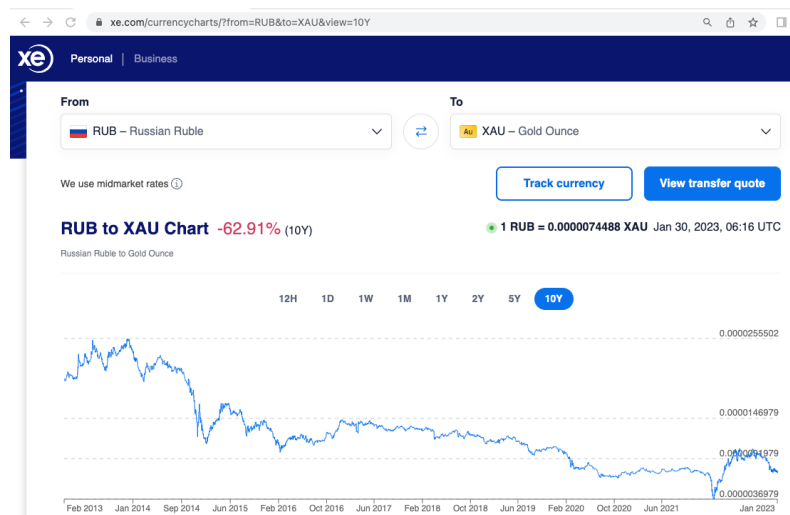


Figure 3 – Ruble to Gold rate over the last 10 years⁹

⁷ One Troy ounce = 31.103 grams.

⁸ <https://www.imf.org/en/Topics/special-drawing-right>

⁹ <https://www.xe.com/currencycharts/?from=XAU&to=RUB&view=10Y> viewed 0515 UTC, 30/01/2023

There is only one currency that gained value – the Somali Shilling increased by 144% against gold. GDP increased from \$356bn in 2013 to \$447bn in 2021, according to World Bank data¹⁰. It's outside the scope of this article to look at that in detail but it stands out as the only currency to be worth more in gold than a decade ago.

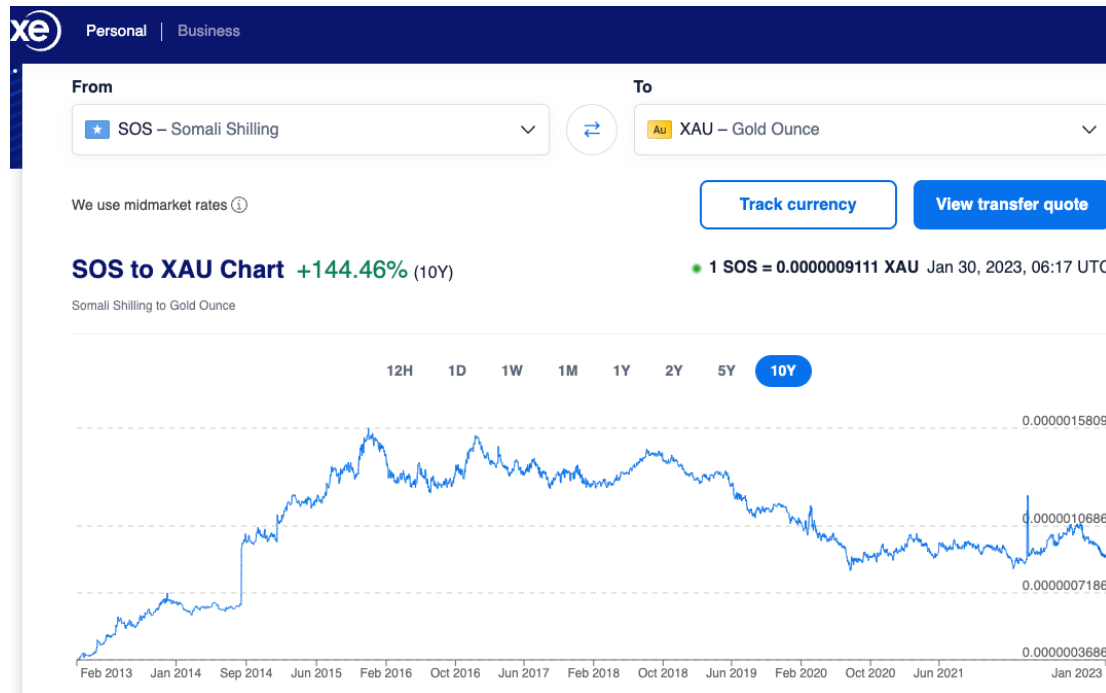


Figure 4 - Somali Shilling to Gold rate over the last 10 years

Interim judgment

The time may come when a critical mass of citizens in a major economy realise that fiat currency (including central bank issued cybercurrencies) with no intrinsic value are not a store of wealth. Their spending power is dropping fast, as inflation continually outstrips wage rises. If crypto-money becomes widely used but many people suffer loss of wealth or ability to use it, that will increase pressure as others realise that the risk to their own savings is high. Once confidence is lost, things will turn bad very quickly. It will effectively be a run not just on a bank but on the central bank.

There is no easy answer to this. Crypto-money greatly increases the risk to an economy and that risk is increased if it becomes widely used. Government attempts to set up a central bank crypto-money system should be abandoned. The continual inflation of the money supply must stop. The influence of the electoral cycle on the economy should be broken. Current politics makes all of these unlikely.

We await the final judgment.

¹⁰ <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2021&locations=SO&start=2013&view=chart> accessed 30/01/2023.