

POM and the Gold Standard

"Gold, Glory, and God" was said to be the mantra of the Spanish explorers who followed Columbus into the New World. They certainly found a lot of gold in Central and South America and sent tons of it back to Spain. But why did gold rank so high in their aspirations? The easy answer is that gold is very valuable. But let's look a little closer. What is the basis of gold's value? Is gold good to eat? Does a coat made of gold keep one warm? Is a gold knife able to cut things that a knife made of steel cannot? Of what use was gold to the Spanish of 1520?

Well, gold is an inert metal which means that it reacts chemically with very few other materials and therefore does not corrode. Gold is a soft metal which means that it can be easily shaped and even hammered to a very thin sheet. Gold reflects light well, as do most pure metals. So gold makes good jewelry. It is decorative. But many things make good jewelry. Costume jewelry can be very beautiful and can certainly look like gold even when it is not. Yet jewelry which looks just like gold is not nearly so valuable as jewelry made of gold.

That brings us at last to the only other thing gold was good for in 1520, making coins to be used as money. Gold was (and still is) in relatively short supply. It was easily made into coins. It did not corrode as did silver. It could be divided up into smaller and smaller pieces for making change. It was easy to carry. Gold became the standard for desirable characteristics in metals used for money.

It was because gold was used for money that made it so valuable to the Spanish. In other words, to say that a money has value because it is backed by gold has things backward. Gold has great value only *because* it is used as money. If gold had never been used as money it would not be nearly so valuable. True, in our modern world there are industrial uses for gold for which its properties make it quite useful. But there are other metals which are equally and sometimes much more useful. We could get along without gold much more easily than we could get along without iron or copper for example.

So when someone wants to return to the gold standard you might ask them what backs up the gold money that gives that money value. Why should one accept gold in trade, given that it has very little utility? They will look at you as if you were crazy because, well, because gold has always been valuable, hasn't it? Gold just *is* valuable. Ask anyone. But you and I know that gold is only valuable because it was used as money.

Don't tell anyone. It might affect the price of gold.