The Role of Gold in a Market-Based Monetary System

Jerry L. Jordan

> I am convinced we shall never have good money again so long as we leave it in the hands of government. Government has always destroyed the monetary systems.
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> —Friedrich A. Hayek (1978)

Fruitful consideration of the role of gold in a market-based monetary system must be preceded by an understanding of why gold is not part of our government-based monetary system. I have set out my view on that issue elsewhere (Jordan 2011) and will not repeat it here. People whose views on money I greatly respect still advocate restoring gold backing to the Federal Reserve-issued U.S. dollar. During the Hearings of the U.S. Gold Commission in 1981–82, several witnesses advocated restoration of some linkage between Federal Reserve-issued dollar notes and gold.[1] I frankly do not understand their arguments. Yes, the Federal Reserve Banks were

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[1]The case for restoring the gold standard was made by Rep. Ron Paul and Lewis Lehrman (1982) in their *Minority Report*. For a review of the Gold Commission *Report*, see Schwartz (1987: 317–32).

legislated into existence when our currency was defined in terms of gold, but World War I abruptly ended that linkage, and subsequent attempts to relink to gold all failed. At the outset the Reserve Banks' functions did not include monetary policy. That changed with enactment of the amendments to the Federal Reserve Act in the 1930s that formalized the Federal Open Market Committee. If advocates of restoring gold backing to the dollar are advocating the necessary abolition of the FOMC, then I can start to imagine the institutional arrangements they may have in mind. However, I don't think that is going to happen, and I don't think it is necessary in order to open the door to alternative privately issued competing currencies, which may have gold backing.

As a general matter, I don't think it is fruitful to preface any policy proposal with the necessity of abolishing existing politically created and protected institutions. As much as I would like to abolish the IRS, World Bank, IMF, EX-IM Bank, and even the OECD, if I thought such was a necessary condition for achieving my policy objectives, I would not waste my time tilting at those windmills. Fortunately for what I believe is feasible, it is not necessary to start with a campaign to abolish the Fed or even the FOMC—the monetary authority of our central bank. Instead, like many other legacy institutional arrangements, there are avenues to innovate around the ossified, politically entrenched institutions. It is a philosophy of, "Don't challenge their existence, just ignore them."

However, there are some attitudes and conceptions that need to change, and some avenues of innovation that need to be opened, in order to offer market-driven vehicles for the services people demand but government doesn't provide or is preventing. For example, at one time I no doubt shared the view of many people that the U.S. public (government) school system is in desperate need of reform. That has not happened and, in my view, cannot happen for political reasons. Instead, a couple decades ago the combination of the rise of homeschooling by fed-up parents and state-level legislation authorizing charter schools has fostered a genuine revolution in the way educational services are provided, driven by the economic proposition of consumer sovereignty.

The list of new avenues of innovative approaches to delivering demand-determined services by bypassing legacy delivery systems is getting long and is still growing. Taxi and limo services, overnight

accommodations, news sources, travel arrangements, on-demand movie viewing/rental, book and music purchases, buying movie and theater tickets, and even "yellow pages" have changed, so why not monetary services? Bitcoin may not be the ultimate market-driven response to government-issued, monopoly fiat currency, but it certainly has been a provocative beginning.

Why Not Restore Gold Backing to Government-Issued Currency?

Earlier this year, my friend Sebastian Edwards asked me to comment on a proposal for a new book he is writing. Sebastian had been stunned when he came across a little known fact—namely, that it was illegal for Americans, in the land of the free, to own gold from 1933 to 1974, under penalty of large fines or even prison. Sebastian is a well-educated University of Chicago economist with great experience at the IMF and the World Bank, and an eminent UCLA professor, but he had never before come across the fact that the confiscation of a particular form of property (gold) had been enacted by the executive and legislative branches of government and held to be constitutional by the judicial branch. Furthermore, Sebastian was dumbfounded to further discover that the gold clauses in bond contracts had been abrogated by ruling of the Supreme Court.

Surely, thought Sebastian, the economics profession understood that protection of property and enforcement of contracts are crucial underpinnings of our market economy.[2] Yet, he found only a single paragraph in Friedman and Schwartz's monumental *Monetary History of the United States* and a single footnote in Allan Meltzer's mammoth *History of the Federal Reserve* that even mention the unconstitutional nationalization of gold holdings and unenforceability of gold protections of both government and privately issued bonds.

[2]The importance of property rights to our economic (and political) system has received increasing attention in recent years. Even the popular press has been carrying more columns and op-eds about protection of rights to property. A recent excellent column by Kevin Williamson (2014) at *National Review* is quite good in illustrating the ways our property rights have been steadily eroded in the past century.

My explanation to Sebastian was that it seems that for a few decades one had to be a student of Armen Alchian, Ronald Coase, Jim Buchanan, or a few others of their generation, in order to have been taught the fundamental importance of the protection of rights to property and inviolability of private contracts in order to have a true market economy.

In effect, several provisions of the U.S. Constitution guaranteeing a market economy were simply suspended with the concurrence of all three branches of government. In *The Rise and Fall of Economic Due Process: When the Supreme Court Championed and then Curtailed Economic Freedom*, Bernard Siegan (1983) argued that actions taken by Congress and the Roosevelt administration in 1933, which were subsequently held to be constitutional by the Supreme Court, represented a failure to enforce the provisions of the Fifth, Ninth, and Fourteenth Amendments of the Constitution assuring the protection of property and the sanctity of contracts.

While some progress has been made in restoring substantive or economic due process after the *Nollan* decision,[3] any approach to backing the U.S. dollar by gold would be vulnerable to the same assaults on liberty as carried out by the federal government in the 1930s. Quite simply, no matter the initial exchange rate between dollars and a quantity of gold, any emergency would be sufficient for the government to declare a suspension of convertibility, or unilaterally alter the exchange rate (i.e., devalue the dollar against gold).

Introduction of a Gold-Backed Private Currency

With full restoration of the protection of property and enforcement of contracts by the U.S. judicial system, a gold-backed, market-driven private currency would not suffer the same vulnerabilities to political whims as gold backing of the official currency. While the experience of the 1930s was that the judicial branch of government would not overturn decisions of the executive and legislative branches of the federal government with regard to gold ownership, *private, voluntarily negotiated contracts involving payment of gold-backed private currency* are more likely to enjoy constitutional protection by the judicial branch.

[3]Nollan v. California Coastal Commission, 483 U.S. 825 (1987). The right to just compensation for the taking of private property for public use (under the Fifth and Fourteenth Amendments) was upheld by the Supreme Court in this case.

Full restoration of property rights and contracts begins with popular political revolt against Ronald Reagan's description of modern-day government. A few decades ago, Reagan said that contrary to the Founders' vision of a just, and minimal, government that serves the people, we have evolved to a government bureaucracy that believes, "If it moves, tax it; if it keeps moving, regulate it; if it stops moving, subsidize it" (Reagan 1986). The first two policies—taxation and regulation—must be dealt with for any currency competition to be viable. We don't have to worry that the government will see fit to subsidize immobile private monies.

Tax Treatment of Alternative Currencies

In economics, we talk about stocks and flows; politicians see two sources of tax revenue. In business and finance, we talk about balance sheets and income statements; politicians see two sources of tax revenue. In households, we talk about wealth and income; politicians see two sources of tax revenue. In New York, California, and no doubt other places, people like to have dogs and cats as pets; politicians see two sources of tax revenue.

My point is, any stock of assets and any form of transactions is viewed by politicians as something that can and should be taxed. From the lunacy of the Tobin transaction tax to the Piketty "tax all your stuff" prescription, holding assets denominated in gold or other alternatives to dollars, or transacting in gold or other alternatives to dollars, will not provide protection from burdensome taxation, and may not offer any effective protection from inflation of the dollar.

Let me provide an example of the conceptual issues we must confront. It is common to find financial journalists (and maybe far too many economists) make reference to someone "profiting from inflation" because the value of their home or farm rose along with the rate of inflation. How is one gaining if the market value of an asset merely keeps pace with inflation? Would it be accurate to say that increases in wages and salaries that match the inflation rate are gains to the worker? Nevertheless, even though the homeowner or worker has not had a real gain, they are taxed on their nominal gain—that is a real loss even with a before-tax nominal gain.

This asymmetric tax treatment of the fiat currency and alternative currencies must be confronted in order for the market-driven currencies to become standards of value or units of account—whether

or not they are successful as media of exchange. Suppose I own gold, or claims to gold, to give me protection against the erosion of purchasing power of dollars. Assume the dollar price of gold appreciates at exactly the rate of inflation. In order to sidestep the question of which statistical series best measures the loss of purchasing power of dollars,[4] take an average of 10 or 12 measures, they all come out the same over the relevant horizon of a few decades. If the government promises and delivers on 2 percent inflation of prices in dollars, in 36 years the market value of my gold will be twice the number of dollars at the beginning; I break even in real terms. Yet the politician's view is that I have had a doubling in the value of this asset and am therefore subject to capital gains taxation. Think about it, the government deliberately erodes the purchasing power of its fiat currency and I get taxed for avoiding that loss.

The problem would be the same if I were offered the opportunity to own shares in a mutual fund where my original balance would earn interest equal to the average of the dollar inflation rates. My real purchasing-power balance at some future point would be the same as the original, yet the tax authorities assert I have "gained from inflation" and am therefore taxed on this illusory gain.

The essential point is, to the extent that appreciation of fiat-dollar prices reflects debasement of dollars as a standard of value, it is wrong to impose taxes on the higher dollar prices of assets or transaction values, including higher wages and salaries, that reflect nothing more than debasement of dollars. For our purposes, how can an alternative currency become a commonly held standard of value when the government treats its success at maintaining stable purchasing power (versus a deliberately debased dollar) as a source of tax revenue?

I've argued this point elsewhere (Jordan 2006), in different language. Namely, it has been incorrect for decades to say the government "raised the price of gold" instead of the government "devalued the gold backing of the dollar." Changing the gold/dollar exchange rate from 1/20 oz/dollar to 1/35 oz/dollar in the early 20th century was not raising the price of anything. Whether we are considering bit-

[4]Measures include: the consumer price index, with or without things people buy frequently; hedonic measures of such transactions; personal consumption expenditure deflators; and trimmed-mean, median, and sticky measures of these series.

coins or other alternatives, bitcoins are not a standard of value until we stop saying "the (dollar) price of bitcoins rose" but say instead, "the bitcoin price of dollars fell."

Regulatory Treatment of Alternative Currencies

A worsening problem in the functioning of our economy over the past century will likely prevent the emergence of alternative currencies and financial intermediaries without fundamental reforms in the relationship between agencies of government and the people. No doubt it is still taught in junior high schools in much of the country that a bedrock principle of our society is "innocent until proven guilty." While that is still mostly true for individuals,[5] it has not been true for enterprises in our modern overregulated economy for a long time. *The Economist* magazine (2014) concludes the United States "risks the prospect of a selective—and potentially corrupt—system of justice in which everybody is guilty of something and punishment is determined by political deals."

Under administrative law, the effective principle is "guilty unless you can bear the burden of proving your innocence." Our legislative branch of government has gotten in the habit of creating regulatory agencies that operate as extensions of the executive branch of government, something the authors of our Constitution had endeavored to prevent. The rules and regulations issued by these agencies have the force of law; they must be obeyed under threat of fines or imprisonment. Merely being "under investigation for," let alone being actually accused of, violation of some rule or regulation is as much as a guilty sentence, without benefit of trial in the judicial system. Arthur Anderson was destroyed by accusations, not by trial and conviction (Powell 2014). The burden of proof is on the business enterprise to substantiate claims of innocence (Ryan 2014).

Firms in the financial services industry are especially vulnerable because reputation for integrity and reliable, prudential dealings with their customers is essential to survival. Supervisory authorities have grown accustomed to expecting that financial firms will undertake

[5]Sadly, it is becoming more common for individuals (especially political opponents) to be presumed by the media and the public to be guilty of something as a result of being "indicted" by some authority of government. Resulting loss of reputation can ruin careers even when no guilt by trial is ever rendered.

considerable effort and incur substantial expense *in advance* of a regulatory examination in order to be able to "prove innocence" of malpractice. Failure to produce convincing evidence of innocence of various possible accusations can result in fines, prison, and "banned for life" rulings by supervisory authorities.

Whether justified for historical reasons or not, the general public seems to accept the premise that if bankers or others providing financial intermediary services are accused, or under investigation, they are most likely guilty. At the same time, there is pervasive suspicion that if businesses or even individuals choose to utilize unconventional financial services, they must have something to hide. Foreign currency transactions, foreign bank accounts, and financial instruments denominated in foreign currencies are all subject to stringent reporting requirements. Swiss economist Peter Bernholz (2013: 72) recently wrote that "all U.S. residents with foreign bank accounts are now suspected of fraud." Even large cash transactions in U.S. dollars are viewed with suspicion. While not everyone who wants to put up $100,000 in cash as downpayment on a home has engaged in illegal, criminal activities to acquire large amounts of cash, they are certainly suspected of unethical, immoral, and possibly criminal behavior.

This suspicious mind-set will carry over to assets held in alternative currency, or transactions consummated in alternative currency. Without affirmative legislation to require currency and transactions *neutrality*, regulators and supervisory authorities in the financial services industry will presume guilt of "something to hide" on the part of individuals and firms who are predisposed to seeking alternatives to the official national currency.

Regardless of the merits of the original purpose of "know your customer" and bank secrecy regulations and the legislation intended to combat illegal money laundering, the result has been the suppression of legitimate innovation in financial products and services. Furthermore, unlike other startups in e-commerce, a potential innovator in financial transactions services must register as a "Money Services Business" engaged in "money transmitting" (U.S. Treasury 2003) in all 50 states prior to initiating operations.

It is not possible to have a digital currency that satisfies all the key attributes of "cash" (i.e., transactions consummated with hand-to-hand currency). Even with the low cost and convenience of

electronic payments, an enormous amount of paper currency is still held and used in routine commerce. Cash transactions are immediate, final, and anonymous. Banking laws and regulations will not permit electronic transactions to be anonymous, which was tried by the original e-gold service.

New initiatives to offer private digital currency will have to accept that the identity of account holders and transactors will have to be discoverable. Offering anonymity is not an option, although a greater degree of privacy versus alternative electronic payments methods is feasible, which leaves offering immediacy and finality. However, even finality cannot be absolute. While e-gold transactions were not reversible—the transacting parties were not known—successor payments initiatives will be required to have a method of identifying the transacting parties and, presumably under court order, reversing a transaction in the case of fraud or other criminal activity by one of the parties to the transaction.

Without review and reform of the Patriot Act (U.S. Treasury 2001), the burdens of compliance may be prohibitive for would-be innovators in digital financial services, including alternative private currencies. Such review and reform (ACLU 2011) are likely to be driven more by concerns about privacy in digital communications than financial services, but are essential to the latter. While total secrecy regarding financial transactions will not be tolerated by authorities, a reasonable degree of privacy would be a byproduct of reforms strengthening privacy of communications generally. With the news of increasing frequency of credit and debit card information theft by hackers, the greater security and protection of personal information inherent in private digital currency could become a decisive competitive advantage.

Structure of a Private, Gold-Backed System

Assuming all the existing taxation and regulatory barriers and obstacles to emergence of an alternative market-driven money can be reformed, it is useful to contemplate the structure of the private system. That is not difficult. The legislation at the end of 1913 creating the system of "bankers' banks," which became known as the Federal Reserve System, never envisioned what evolved into a purely fiat currency managed by a "monetary authority." Without

the outbreak of World War I, the United States would not have abruptly abandoned specie backing of national currencies soon after operation of the 12 "bankers' banks" commenced in the fall of 1914.

Hypothetical History

The U.S. system of bankers' banks in 1914, the 12 Federal Reserve Banks, held gold (or claims to gold) as the primary "reserve" asset, and earnings to cover the cost of operations came from very short-term, collateralized loans to banks ("rediscounting" by commercial banks at the Fed banks). The "economic service" provided by these bankers' banks was to provide a uniform currency with high authenticity and transferable reserve balances (i.e., deposits owned by commercial banks that could be readily transferred and achieve finality in settlements). However, technology in 1914 did not provide the Reserve Banks a way of generating revenue from these highly valuable services, so income was generated from the assets acquired (including government debt monetization once open market operations were discovered). With modern technology, a bankers' bank could earn a service fee for transfers of electronic currency (giro-type payments) and also could charge a fee ("negative interest") for maintenance and transfer/settlement services. PayPal provides a model of the payments process under such a system. It is an historical accident that the United States developed a credit transfer-type payments system (checking accounts, whereby the payee presents a right to receive payment to his own bank) instead of the debit transfer-type more common elsewhere (the payor instructs his bank to make payment to the bank of the payee). A digital, market-driven alternative will be a debit-transfer system.

The liabilities of a bankers' bank are "outside money" and serve as the monetary base upon which the "inside money" (customer-owned deposits at transfer/banking companies) stands. A private bankers' bank would have as its primary asset something that defines the outside money liabilities—traditionally gold, silver, jewels, or other assets of "intrinsic worth." If the only asset of the private bankers' bank is gold, the outside money liabilities are "as good as gold."

The inside money deposit liabilities of commercial banking companies that are denominated in units of the outside money of the bankers' bank must be limited to some pre-determined multiple of

the outside money via a (ideally) single, uniform reserve requirement.[6] That is, each commercial bank that offers liabilities (deposits owned by customers) denominated in units of the gold-backed outside money of the bankers' bank must maintain a reserve balance in its account at the bankers' bank that cannot fall below a contractual fraction of its own liabilities denominated in units of the gold-backed outside money. The total amount of gold-backed money in circulation (both the electronic forms of currency issued by the bankers' bank, if any, and deposit liabilities of commercial banking companies, are strictly constrained by the total assets of the bankers' bank.

Note that the deposit liabilities of commercial banking companies in a system that allows fractional reserve banking (the commercial banking companies hold earning assets in addition to their deposit balance at the banker's bank) are not "as good as gold." Allowance of anything less than 100 percent gold backing of the liabilities of commercial banking companies means there is allowance for the possibility of insolvency of the commercial banking companies (i.e., losses on earning assets exceed net worth).

The quantity of money outstanding and circulating will depend on whether fractional reserve banking is allowed and on how bank customers (money holders) choose to hold their gold-backed private currency. In a 100 percent gold-reserve model, there is no difference. However, if bank customers choose to download currency onto a mobile device, a legal and accounting distinction will need to be made between digital currency and claims to money. The accounting treatment by the commercial bank is important. When the customer of the bank adds to the balance on a mobile device, does the bank treat that as a withdrawal or an advance?

If it is a withdrawal (both assets and liabilities of the commercial bank are reduced), the balance on the mobile device is digital currency, the same as Federal Reserve Notes in one's pocket.[7] Theft or loss of the device is a loss of the money, the same as when your

[6]The reserve ratio may be 100 percent, in which case commercial banks need to generate earnings by transactions fees—their deposit customers pay a small amount for the service of electronic payments to recipients. Whether the ratio remains at 100 percent or becomes some fraction should be determined in the marketplace by competition among commercial banking companies offering varying levels of capitalization and earning asset composition.

[7]Note that in this case the balance loaded on the mobile device is a claim to the liabilities of the banker's bank, the same as paper currency issued by central banks.

wallet is lost or stolen; no recovery is possible. If the bank records the loading of value on the mobile device as an advance, purchases made by the holder of the mobile device merely transfer ownership of the funds (liabilities of the bank) from one party to another.[8]

Alternative Approaches

A successor to the defunct e-gold system is being planned around a single gold-reserve repository and a network of transfer agents, which may be existing commercial banks. Instead of one or more bankers' banks, the proposed "Global Standard Payment System" (GSPS) consists of an entity with only one asset, physical gold, and one type of liability, gold-backed digital currency (AUG). Approved transfer agents (or primary dealers) will acquire physical gold and transfer it to the gold repository in exchange for units of AUG, presumably equivalent to grams or fractions of grams of gold. The AUG may initially be the property of the transfer agent, or of the party selling physical gold to the transfer agent.

Note that the outside money in this system is virtually identical to a foreign national currency.[9] The liabilities of the gold repository may be held directly by and circulate among individuals and businesses without the involvement of financial intermediaries, or may be essentially the same as foreign-currency deposit accounts at a bank. It is also noteworthy that these liabilities are not claims to gold or warehouse receipts for gold bullion. The holder of AUG does not own any gold, so transfers of AUG do not involve the transfer of ownership of actual gold bullion.

The quantity of money outstanding is a simple function of the demand for AUG: parties currently holding physical gold must choose to exchange actual gold for AUG. Conversely, decreased demands for AUG that are returned to the gold repository for redemption of physical gold will result in a contraction of the balance

[8]The commercial bank's balance sheet does not contract; one liability (deposits) contracts and another (advances) increases.

[9]Nothing in the business plan of GSPS precludes an approved account holder from offering credit intermediary functions. Clearly, as seasonal demand for AUG emerges, there will be opportunity for banks or bank-like firms to offer to pay interest to AUG holders in order to aggregate the quantities demanded by AUG borrowers.

sheet of the central gold repository: there will be less gold held as an asset and fewer AUG liabilities outstanding.

The business model of GSPS anticipates two types of payments. The first is holders of AUG making payments for goods and services offered by merchants/vendors who accept AUG, and making personal transfers to other persons who are pre-approved account holders. Much like PayPal-to-PayPal transactions and transfers, it is a closed system of account holders. The second type of payments is holders of AUG-denominated deposits instruct the transfer agent (bank) to make payment to a recipient who does not wish to receive AUG. The transaction would be essentially the same as current foreign-exchange transactions. The payor gives up one currency and the payee receives another, with the bank or banks involved earning a fee for the exchange conversion. Any recipient of AUG can exchange the value received for national currency/deposits via the approved money transfer agents (at the momentary exchange rate between grams of gold and the national currency).

While this limited functionality should not encounter many regulatory barriers and obstacles, it is short of the array of functions of money. As a medium of exchange for acquiring immediate delivery of a good or service (e.g., buying a newspaper from the local kiosk), units of national currency (paper or coins) serve quite well, and AUG offer little added value, except for reduced risk of theft or accidental loss. However, in transactions that would normally involve credit or debit cards, AUG would offer several competitive advantages. The spender of AUG would not be furnishing any personal identification or financial information to the vendor. Like vendors today that accept bitcoin in payment, the vendor does not know and has no need to know anything about the buyer. Also, transactions in AUG would be immediate and final to the seller, with lower transactions fees than credit or debit cards.

Longer-run, it is in the standard-of-value, unit-of-account, abode-of-purchasing-power functions where there is greater potential for value added—and greater obstacles to be overcome. Once time is introduced into the subject of money and payments, legal questions are also introduced.

Without specific-performance legislation concerning digital currencies, contractual obligations to deliver AUG (or bitcoin or other alternative currencies) in the future in payment for delivery of goods

or services would not be enforceable in the exact terms of the contract. Financial instruments involving payment or repayment of AUG would be inferior to similar instruments involving national currencies if courts are not required to compel delivery of the promised AUG. Furthermore, tax treatment of transactions involving AUG is still evolving along with treatment of other digital currencies. A bitcoin has no physical counterpart and is not a claim to a future stream of dividends or interest payments like common stock or bonds. A bitcoin is not a claim to anything, yet the IRS has chosen to treat it as a commodity.[10] It certainly is true that physical gold and silver are commodities, but it is not at all obvious that an electronic currency defined in terms of gold can be construed as a commodity or an earning asset and taxed accordingly. However, these are unresolved, and crucially important, issues.

Growing popular support for ending the taxation of precious metal assets and transactions is evidenced by the increasing number of state governments that have ended such taxes, Oklahoma being the most recent. Building a national consensus that taxation of gold and gold-backed currency transactions should be eliminated at the federal level is essential.

Redistribute the Wealth

Momentum toward usage of private gold-backed currency would be enhanced by increasing the share of the population that owns gold or claims to gold. Also, popular opposition to taxation of gold holdings and gold-based transactions would increase along with wider gold ownership.[11]

As a demonstration of who was the master, the U.S. government nationalized private holdings of gold in 1933 (Executive Order 6102): both citizens and foreign residents were required to "sell" physical

[10]The IRS logic is that while the payor is giving up bitcoin, the payee will make an immediate conversion to dollars. If the bitcoin/dollar exchange rate at the time of the transaction is different than at the time the payor acquired the bitcoin, the payor has incurred a gain or loss in dollar terms. Of course, if both payor and payee transacted only in bitcoin and neither ever exchanged dollars for bitcoin or bitcoin for dollars, the IRS logic for capital gains and losses does not hold up.

[11]In the transition from socialism to a market economy in the early 1990s, Václav Klaus put forth the political proposition that the best way to build popular support for protection of property rights was to get property into the hands of the people. Support for an abstract proposition of "protecting private property rights" means little to people who have no property.

gold to the Federal Reserve Banks for $20.67/oz by May of that year. Private ownership of gold by Americans was banned by the federal government until 1974. Now, four decades later—as a symbol of who is the real master—the people should ban ownership of gold by their government.

The U.S. government currently possesses (I will not say "owns" because of the way the gold was acquired) more than 260 million Troy ounces of gold, which is more than 0.8 ounce (or about 27 grams) for every citizen in the country.[12] Congress should set a date in the near future to distribute, as a matter of birthright or naturalization, a certificate entitling the holder to claim 0.8 ounce or 27 grams of gold from the U.S. Mint.[13] Note that this is emphatically not a proposal that the government "sell" its holdings of gold to the citizens.

Upon distribution of the certificates, markets for trading these claims to gold would quickly develop. Persons or parties who acquire 400 certificates would present authenticated certificates to the U.S. Mint in exchange for one standard gold bar. At current exchange rates, each certificate would be valued at over $1,000. The legislation instructing the U.S. Mint to distribute gold to certificate holders would of necessity include a provision that there would be no federal taxation of any sort associated with the transactions to acquire or sell certificates. State and local government politicians would support local taxation at their political peril.

Organized and well-financed opposition to a proposal to distribute the U.S. gold stock to the nation's citizens can be anticipated to arise from the commercial dealers in precious metals. In fact, they can usually be counted on to cheer news that some government or central bank in the world is reported to be buying gold or silver. While such traders in gold and silver advertise aggressively to promote individual ownership of the metals, the last thing they want is for the government to give (back) to the people the gold they were banned from owning from 1933 to 1974.

[12]See U.S. Treasury (2015) for updated figures. There is no reason to distribute certificates to noncitizen residents; in fact, making only citizens eligible would heighten the incentive for naturalization.

[13]If a gold-backed private currency system, such as GSPS, is in existence, the U.S. Treasury could simply assign the gold to the private repository and send AUG worth 27 grams of gold to every citizen. Recipients of AUG could continue to hold in that form of money or convert to the national or other currency at the prevailing exchange rate.

End Monopoly Money

Many of the trappings of "nationhood" have fallen away in recent decades. A half a century ago, newly independent nations adopted their own flags and anthems as symbols of nationhood, but also insisted on national airlines, national railroads, national television and radio stations, and, of course, a national currency managed by a national central bank. Even when they employed currency boards in the transition to full independence, the goal was a national money.

Just as the notion of independent national airlines now seems quaint, the adoption of the euro by (initially eleven) nations in Europe has rendered the insistence on national currencies to be obsolete. Holding foreign currencies (mainly U.S. dollars and German deutschemarks) has been common to many people around the world for the past half century, and more recently people regularly own bank accounts and financial instruments that are denominated in something other than the "official" currency. Even contracts specifying foreign currency have become enforceable in domestic courts.

The technologies that have given rise to cybercash and digital currency necessitate further evolution toward full currency competition. Gresham's law about bad money driving out good money is a statement only about the medium of exchange function (circulating cash) under fixed exchange rates. With regard to the standard of value and abode of purchasing power functions under currency competition, Gresham's law is flipped on its head: High confidence money drives out low confidence money (see Hayek 1976: 29; Mundell 1998). People "used" U.S. dollars and German marks as standards of value even when they had none.

In just a very few years, bitcoin has become a limited-use medium of exchange, but not a standard of value. It is probable that initially AUG or other gold-backed digital currencies will be introduced and employed as media of exchange. Evolution of alternative currencies toward familiar standards of value will develop more slowly and will be influenced by ongoing experience and satisfaction with national currencies as standards of value and stores of value. The evolution will be quicker if tax authorities readily begin to accept cybercash/digital currency in settlement of personal and business tax obligations. Technologically this is quite simple, even if the tax collection authority initiates immediate conversion to national fiat currency. At the federal level, the tax authorities will have a requirement

for tens of trillions of dollars for many decades as a result of legacy debt, interest on that debt, and "entitlement" promises to people. Nevertheless, it is no more difficult for the taxpayer to tender AUG to settle tax obligations than it is make an online purchase from a private vendor.[14]

At the end of World War II, the newly introduced German mark was defined as 1/4 of a U.S. dollar and the Japanese yen was defined as 1/360 of a U.S. dollar, at a time the dollar was defined as 1/35 ounce of gold. All of the new currencies in the 1990s after the end of the Cold War began this way. Early in this century, the euro was introduced as essentially a German mark by a different name. All newly introduced currencies have begun this way—defined in terms of something of known value—and it can be expected that digital currencies (even if backed by gold) must develop a history before becoming an independent standard of value, floating against other private and national currencies.

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