GOLD BILLS DOCTRINE

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We look at the question how the circulation of gold bills will arise after the inevitable collapse of our regime of global irredeemable currency. At that point the world will be bereft of any usable currency. All paper money will be worthless, all gold and silver will have been chased into hiding by permanent backwardation.

In this desperate situation some governments shall, to revive trade, willy-nilly open their Mint to gold and silver. However, gold and silver coins will be in short supply for quite some time.

The phrases 'means of exchange' and 'store of value' have long been used in listing the various functions of money. Yet these terms are far too imprecise to be useful in a scientific discourse. One should use terms such as marketability in the large (also called salability) and marketability in the small (also called hoardability). Then gold appears as the monetary metal most marketable in the large; silver as the most marketable in the small. We need not recognize any other monetary metal beside these two. A common mistake is to confuse the concept of a 'precious' metal with that of a 'monetary' metal. Unlike gold and silver, platinum is *not* a monetary commodity. It fails have the requisite high stocks-to-flows ratio, reflecting its failure to have constant marginal utility.

The value of gold is *absolute* thanks to its constant marginal utility; the price of gold is *relative* (as it is defined in terms of the dollar.) Thus the two concepts have nothing in common, contrary to the universal deception current today. Once the Mint is open to the free and unlimited coinage of gold, we have a unit of value, the standard gold coin, while the gold price becomes a vacuous concept.

Gold bills emerge spontaneously to accommodate the needs of trade. Tradesmen cooperating in the production of semi-finished goods would *never* pay, or demand payment, in gold coin when buying their input, or selling their output. They never have. Instead they will simply endorse the bill of their supplier, or draw a bill on their customer as the case may be. Once properly endorsed by the drawer and drawee, these bills become gold bills as they are destined to be settled in gold coins that are made available *after* the ultimate consumer surrenders them in exchange for finished consumer goods upon maturity. The marketability of gold bills is next to that of the gold coin. At the same time gold bills earn an income in gold, too, in the form of *discount* that accrues to their holders proportional to the length of time they are held. Commercial banks scramble to get gold bills in any amount, as these are the most liquid earning assets a commercial bank can have to cover its note and deposit liabilities. The wishy-washy explanation of Mises how commercial banks are supposed to finance their operations through fees and hidden charges is implausible, to put it politely. There is no need to beat about the bush: commercial banks finance their operations, and make a profit to boot, through discounting gold bills.

This activity is entirely proper. No 'fractional reserves', let alone fraud are involved as confirmed by Carl Menger in his *Geld* (3rd edition, 1909). Of course, proper safeguards must be taken. It is a crime to misrepresent the quantity or quality of the maturing consumer goods on the face of a gold bill, or to recycle it upon maturity. Borrowing short to lend long is prohibited.

People find it hard to accept the fact that consumption is another source of credit, in addition to savings. The discount rate is inversely related to the propensity to consume; the interest rate is inversely related to the propensity to save. Other than this formal similarity, the two rates have nothing in common. Their origin and economic function are entirely different. They can move independently in the same or in opposite directions, subject only to the imperative that the discount rate must never exceed the rate of interest.

The circulation of gold bills is entirely spontaneous. Unlike that of irredeemable currency, it does not have to be propped up by legal tender laws and the strong arm of government. In addition to demand from commercial banks, a lot of economic agents with large gold payments falling due (e.g., firms with an outstanding bond issue maturing within the quarter, or buyers of real estate with the closing date coming up in less than 90 days) want to have them. They do not accumulate gold coins in anticipation of their maturing liability. It would be foolish and wasteful to do so. Rather, they go into the bill market and buy gold bills the maturity of which matches the due date of their obligations. Neither would they accumulate bonds. The marketability of bonds falls far short of that of bills. For these and other reasons the demand for gold bills is exceedingly keen and can be taken for granted.

It is preposterous to suggest that a bill of exchange can be settled in anything but gold coins. Clearly, a bill of exchange must mature into something the marketability of which is *higher*. The marketability of a maturing gold bill with two good signatures is exceeded by that of the gold coin, and only by that. To suggest that it is fraudulent to issue bills to be settled at maturity with a scrip is missing the point. Knowledgeable market participants wouldn't touch a bill maturing in scrips with a ten-foot pole. Thus there would be simply no market for them. If post-Mises Austrians came around and accepted properly constructed bills of exchange as non-inflationary, but thought it was admissible to let them mature in paper, they would only betray their utter ignorance of Menger's concept of marketability.

The market in gold bills is the clearing house of the gold standard. No gold standard can be viable without it. The 100% gold standard of Murray Rothbard is a phantom. Under it there is a dearth of circulating medium that leads to deflation and, ultimately, to collapse. Gold bills lend the gold standard the necessary elasticity. They provide this elasticity at harvest-time and during the Christmas shopping season when gold bill circulation expands, and during the post-harvest and post-Christmas season when it contracts. In the absence of gold bills there is no wage fund out of which workers producing semi-finished goods going into consumer goods can be paid *before* the latter is sold. In the absence of a wage fund there would be widespread unemployment. Division of labor could not be further refined. Social chaos and unrest would follow.

Our present experiment with the regime of world-wide irredeemable currency is a unique historical experience. It will lead to the collapse of the world economy, as all national experiments before have led to the collapse of the national economy. The 19th century gold standard with its exquisite clearing system, the gold bill market, was the result of an evolution lasting many a generation. It made an unprecedented expansion of world trade, employment and capital accumulation possible. This evolution must be replicated now in a very short space of time.

The sound money movement had better reach a consensus on the Gold Bills Doctrine before it is too late, lest the world succumb to an unprecedented disaster, decimating the world's population and destroying the world's capital no way less catastrophic than a nuclear war.

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