

THE MARGINAL UTILITY OF SILVER

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I welcome the Internet debate on the question whether the Mint should be opened to gold and silver. The latest contribution by Hugo Salinas Price, entitled *Free Coinage of Gold and Silver – Then and Now* (www.gold-eagle.com, 9 June 2011), expresses doubts that such a measure, at least insofar as silver is concerned, would work today. One of the arguments he offers is that silver, like all non-monetary metals (but unlike the monetary metal *par excellence*, gold) has a declining marginal utility. This, he suggests, is an historical change as prior to the 1870' s the marginal utility of silver, like that of gold, was constant (or nearly so). In this brief rejoinder I cannot go through all the arguments of his long article, but would like to add my penny of wisdom, such as it is and for whatever it may be worth.

Does silver have a declining marginal utility? I wish I knew! *There is but one way to find out: one of the governments must bite the bullet and open its Mint to silver.* This would allow all comers to bring forth their bullion and convert it into standard silver coins free of seigniorage charges. If the response were so overwhelming that the Mint would be inundated and forced to close its doors to silver again, it would go a long way to establish evidence for declining marginal utility. It would indicate a panic among owners of silver bullion, prompting them to get rid of their holdings while riddance was good.

If, however, the flow of silver to the Mint was controlled, if the premium on freshly minted silver coins did not precipitously collapse but only showed moderate decline, this would be a strong evidence that the marginal utility of silver, though not constant, showed a record slow decline, second only to that of gold.

To be sure, ultimately, the premium on silver coins would go to zero. But the process would take time, possibly years. The new silver coinage would reach its saturation point where demand for souvenirs and for piggy-bank fillers was satisfied. This, however, would not stop the flow of silver to the Mint. Coins would continue to be minted even after the premium vanished. The new silver coins would go into circulation. People would become confident and start spending their silver coins once they got used to the idea that they could always tap coin

circulation for replacement. They could get any number of silver coins on exactly the same terms as they could spend them, that is, without having to pay or sacrifice a premium.

But why would people want to have more silver coined once the hoarding demand for silver coins dried up? Well, that's just the interesting part. People would want to make their purchases of goods and services *on the best terms possible*. Silver coins would give them the best terms of trade – certainly far better than terms that holders of Federal Reserve notes have. For example, people could negotiate long-term contracts for delivery of grains or crude oil at stable prices if they pay with silver coins, while such contracts were no longer offered to holders of dollar balances.

Gresham's Law has nothing to do with it. People won't stop eating, nor will they want to stop keeping themselves warm in winter just to uphold a badly misunderstood and misquoted economic law attributed to the financial advisor of Queen Elizabeth I. To the extent people will want to eat and keep themselves warm in winter, paper dollars *will not* drive silver dollars out of circulation. By the way, Gresham's Law, correctly quoted and understood says that worn silver coins will drive full-bodied silver coins out of circulation *provided that* the government makes worn coins legal tender and forces people to accept them at face value. Absent legal tender provision, people would simply pay for their purchases in silver coins by weight, rather than by tale.

There can be no question that silver coins will start to circulate as soon as the premium on freshly minted coins is reduced to zero, assuming that the Mint is kept open come rain or shine. Already there is pressure on governments to open their Mint to silver. If they haven't done it yet, it's because they know that their banks are insolvent and could not withstand the shock of removal of the prop of legal tender protection for paper money. They hope against hope that their insolvent banks, given time, will be able to heel themselves.

The Chinese government is holding back for one additional reason. It wants to convert as much of its dollar balances into silver as possible before opening its Mint to silver. The Chinese hope to make up for inevitable losses on their dollar account by gains on their silver account. They have to go gingerly about their

silver purchases though, not to upset the apple-cart. In waiting, the Chinese take a calculated risk while watching like a hawk what other governments are doing. They certainly don't want to be pre-empted by the Indian or Mexican governments. *Early bird gets the worm.*

Last year I was in China and I met several officials in influential positions. I came away with the impression that American-trained people in the banking establishment suffer from an overdose of America-worship. While studying at U.S. universities they fell for Keynesianism hook, line and sinker and can't get it out their system. These people laughed me out of the lecture room when I was trying to tell them about the benefit of a metallic monetary system. But I also met others who were totally immune to America-worship. If they were Communist, it certainly didn't stop them from promulgating a new policy letting Chinese peasants acquire as much silver as they would. This policy makes sense only if China has long-term plans to open its Mint to silver. Naturally the plan, if it is to be effective, must be kept secret for the time being.

When you ask them if they are not afraid that America may beat them to opening the Mint to silver before China does, they would answer with an enigmatic smile. They would mutter something to the effect that sometimes you have to take a chance in assuming that thieves who plot to rob you, while they are sharp at stealing, may in fact be dull at poker.

Think about it. The U.S. may have already lost the silver game against China. Perhaps the Chinese kept the Communist façade for one reason only: they wanted to lull the Americans into a false sense of security that they would *never ever* open the Mint to silver and gold as they have meekly acquiesced in carrying the yoke of the irredeemable paper dollar forever. Japan's example as an American fiefdom does not appeal to the Chinese, but they are not yet ready to bolt from the dollar-feedlot.

The Americans messed it up so badly that it is hard to find words to talk about it. They should have played copycat at the silver chessboard. When the Chinese built up their silver refining capacity, Americans should have done likewise. They did nothing. When the Chinese started encouraging silver imports and made noises about putting embargo on silver exports, Americans should have

followed suit. They did nothing. When the Chinese prompted their banks to extend their silver and gold market activities into their rural heartland, Americans should have imitated them. They did nothing. When the Chinese actively started making their silver and gold mining industry competitive, Americans should have removed the fetters from theirs. Again, they did nothing.

The writing is on the wall: *Mene tekel upharsin* – the dollar has been put on the scale and found wanting. The Chinese will open their Mint to silver in their own good time. *It is their destiny*. If they don't talk about it, that's because they want to give a chance and a little extra time even to the poorest Chinese peasant to buy a silver coin or two before it's too late.

China has been on a silver standard since time immemorial. F. D. Roosevelt's silver purchasing policy after 1933 forced them off silver. It was one of his hare-brained monetary schemes to foster inflation in the United States. He was completely oblivious of the fact that he was fostering deflation in China, fatally weakening it and making it an easy prey to Japanese imperialism.

There are simply no reliable estimates how much silver has been coined during the long history of Chinese civilization. Most of those coins are still around in mattresses and cookie-jars. Multiply the number of mattresses and cookie-jars by hundreds of millions. You got the idea.

Chinese peasants are suspicious people. They are still afraid that their nominally Communist government has designs to confiscate their well-hidden silver coins that have escaped Mao's Long March as well as his Great Cultural Revolution. Watch for the day when this enormous silver treasure, the accumulation of millennia, will be released. The Chinese government is in no hurry to give the world an object lesson on what the marginal utility of silver is. The best experts on silver in the world are Chinese but they keep their cards close to their chest. They know that in playing poker it is not a good hand you need but a good brain. One that is not contaminated with Keynesian bunk.

June 13, 2011.

Calendar of events

Come to Munich, the capital of Bavaria, for the next ten-day course of the New Austrian School of Economics, from August 20-29, 2011, where I shall answer any questions you may have on the opening the Mint to silver. Also on hand will be Sandeep Jaitly to tell you about the marginal utility of silver, as well as about the gold mine of the silver basis, and about the last contango in Washington. For details, consult:

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See also my website:

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