

Gold Coins, Gold Standard, Good Night

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October 31, 2012

President Franklin Delano Roosevelt said good night to gold coins in 1933 thus ending a 2600 year old monetary tradition. Beautiful American gold coins melted into gold bricks lie nestled at Fort Knox. Gold specie, gold coins, rest in peace.

President Richard Nixon bid farewell to the Bretton Woods Accord in 1971. Vestiges of the gold standard had lasted 250 years. Gold standard, rest well.

An untried currency system had been declared by fiat in the realm. The price of gold would now float on its own on. Temporary policy makers would permanently lord over an untried fiat currency financial system.

To understand the modern role of gold in investment demand, let us briefly view the historical monetary role of gold heritage from antiquity to the International Gold Standard until the collapse of both. Today gold serves as a physical and electronic-paper commodity and has importance for the jewelry and the medical- dental fields.

History of Gold Coins

A gold-based monetary system existed from the time of Croesus to Caesar Augustus until the Great Depression of FDR.

Lydia, Greece, Rome, Europe, England and the United States had gold and silver monetary systems.

China and India minted silver coins. The East generally believed that gold was too precious to circulate gold coins in its monetary system.

Monetary systems have generally been based on a physical commodity. Gold and silver coins were exalted above all else. The less precious copper, nickel, brass and steel metals have also been used as coins.

A gold-based monetary system existed from the time of Croesus to Caesar Augustus until the Great Depression of FDR.

The Egyptians were casting gold bars as money as early as 4000 B.C. Egyptians began to use gold as jewelry and adornment because of its beauty about 3600 B.C.¹

From Herodotus in *The Histories*², we learn that *the Lydian's are the first people to mint and use gold and silver coins, and they were the first retail tradesmen.* Lydia was located in Anatolia, modern western Turkey.



***Gold Croesus Coin 564 B.C.
World's first international gold currency.***

King Croesus is the famed Lydian King. In 564 B.C. the “Croesus coin”³ became the world’s first international standardized gold currency and legal tender universally recognized and traded. He declared it the *coin of the realm*. Croesus also invented bimetallic coinage, issuing coins of not only pure gold but also of pure silver.

Standardized coins simplified the need to weigh precious metals for each trade transactions.

Coinage led to a democratic heritage of gold, which is to say gold was now in the hands of merchants, albeit wealthy merchants. Gold no longer solely belonged to the realm of kings and high priests.

The ancient Athenian Greek silver drachma, a remarkably constant 65 or 67 grains (about 14% of an ounce), and less prevalent gold stater, would be the main coins in trade for 400 years. This early trend of silver being the more commonly traded metal rather than gold would continue throughout history.

Roman currency included the gold *aureus*, the silver *denarius* and the brass *sestertius*. The gold

1 World Gold Council www.gold.org About Gold, Heritage

2 Herodotus, 1992 *The Histories*. Translated by Walter Blanco, New York: W.W. Norton

3 World Gold Council www.gold.org About Gold, Heritage

aureus would circulate throughout the Roman Republic and Empire for about 400 years.

Caesar Augustus, founder of the Roman Empire, reformed the coinage system and ruled Rome from 27 B.C. until his death in 14 A.D. The aureus became debased and replaced.

The redesigned Roman Constantine gold bezant, also known as the solidus, circulated an impressive 700 years, perhaps the longest reign for any gold coin.

The Spanish milled silver dollar and its fractional coins were the principal coins in America when the Revolutionary War ended 1783. Fractionals of this Spanish Reale were also known as *pieces of eight*. The Spanish silver dollar and fractionals circulated with official sanction in the U.S. until 1859.

The Continental, paper currency of the American Revolution, became so debased that the phrase, *not worth a Continental* came into being due to over-issue.

On April 2, 1792, the U.S. Congress passed the Coinage Act per the recommendation of Alexander Hamilton, the first Secretary of Treasury. Hamilton's Act defined the basic monetary unit as the dollar with fractional coins.



The Augustus St. Gaudens "Saints" are considered some of the most beautiful coins ever designed. A 1933 \$20 Double Eagle is pictured.

President Theodore Roosevelt commissioned Augustus St. Gaudens to design new gold coinage. These *Saints*, as the coins came to be known, were issued from 1907-1933. The *Saints* are considered some of the most beautiful coins ever designed. Each \$20 Double Eagle contains 0.9675 ounce of fine gold.

In 1933, FDR banned the U.S. public from owning gold coins, bullion and certificates to alleviate a banking panic. Coin dealers and numismatists could still own

nominal amounts of the banned coins. Businesses needed special licenses to own gold. Treasury commenced melting American gold coins into gold brick bars to be stored at Fort Knox.

Most of the world too stopped minting gold coins as currency by 1933 as countries left the gold standard due to the economic crisis of the Great Depression.

The International Gold Standard

How did the English Gold Standard come about and how did the Victorian Gold Standard end? How did the U.S. Dollar become the coin of the realm?

Literature for the Gold Standard is complex and in-depth reading could serve as a tonic for insomnia. Noted economists and politicians often stand at odds on

the advantages of the gold standard, the bi-metallic system and the fiat currency system. For example, John Maynard Keynes offered this view: *In truth, the gold standard is a barbarous relic.*⁴ American

Congressman and Presidential hopeful Ron Paul ran a platform to bring back the gold standard in 2012.

The gold standard is a monetary system in which gold is a fixed economic unit per weight of gold and is regulated by supply, or linked to a country which did so. Price stability and economic growth are often credited by economists as benefits of a country being on a gold standard.

On the other hand: *Moreover, the history of the gold standard in not just happy centuries of price-level stability. It is also a long history of crises, devaluations, suspensions of convertibility, and defaults on sovereign debt. ... A gold standard does not eliminate debt crises or debt-induced inflation. No monetary system can absolve a nation of its fiscal sins.*⁵

The height of the traditional International Gold Standard was about 1870 to 1914.

During times of war or severe economic distress, a government sometimes went off of the gold standard, often with the intent of eventually returning to the gold

4 A Tract on Monetary Reform John Maynard Keynes (1923) Originally published London, MacMillan p. 172

5 Myths and Facts about the Gold Standard by John H. Cochrane. Professor at Chicago Booth School of Business. Wall Street Journal July 28, 2012

standard. For example, England went off the gold standard during the Napoleonic War and World War I. Lincoln suspended specie payment, i.e. convertibility to gold coins, during the Civil War.

In 1914, the advent of World War I sounded the end of the gold standard in the classic sense as many countries suspended convertibility of gold at that time.

The case against the gold standard and its strict adherence is associated with causing unnecessary financial strain during times of duress. For example, deflation and unemployment during the Great Depression likely occurred as a result of the stern adherence of gold standard measures. Tightening of liquidity in the banking community further contributed to the Great Depression.

However, for much of history, the reality was that governments were on bi-metallic systems that involved both gold and silver, alternating standards between the two metals.

A bi-metallic system is where there is a ratio of gold to silver. *The rate of exchange between silver and gold was sometimes specified by the authorities, sometimes left to the market. If a legal rate was specified, the result was a bimetallic system ...*⁶ A government mint would convert into either commodity specie.

By the late 1870's, India and China were the only major countries on silver standards and not on a gold standard. India, however, would eventually join the gold standard.

China never did link its currency to the gold standard, but instead had a silver standard.

Some referred to the use of gold and silver coins as “sound money” for the notion that they thought the system was fiscally sound. Others enjoyed the fact that the coins “jingled, jangled” in one’s pockets, making a sound, a source of tangible comfort.

History of the English Gold Standard

In 1717, England became the charter member of the gold standard.



In a 1717 report, Sir Issac Newton overvalued the gold guinea to silver and inadvertently set England on a Gold standard.

The International Gold Standard traces its beginning to Sir Isaac Newton, one of the greatest scientists of all time. Newton was elected to Master of the Mint after his major scientific works were published.

Prior to Newton, England had been on a bimetallic standard. In 1717 report, Newton inadvertently overvalued the gold guinea to silver in a Master of the Mint report to parliament. As charter member, England set sail with the consecrated gold standard crown.

The height of the traditional International Gold Standard was about 1870 to 1914.

Britain adopted the monometallic gold standard in 1816. As a result of Peel’s Act in 1819, Britain resumed convertibility of legal tender into specie on the basis of gold in 1821.

Great Britain ruled the seas and served as a world power beginning with the defeat of Napoleon and ending in World War I. Queen Victoria ascended the throne in 1831. The Victorian Era lasted 70 years. As the most colossal Empire since Rome, other nations would emulate England. England’s preeminence as world power gave special status to, rightly or wrongly, the gold standard as well as some special favor to the pound sterling for currency exchange rates.

⁶ Money Mischief. Episodes in Monetary History by Milton Friedman 1992, 1992 p. 126 A Harvest Book Harcourt Brace & Company. San Diego New York London

Between silver and gold, *silver composed nearly the entire circulating metallic currency of Europe*⁷ at least until the 19th century. Remember that the British monetary system was the pound sterling, which implies sterling silver after all.

The death knell for the International Gold Standard tolled when the Bank of England stopped redeeming gold for paper currency on September 21, 1931. England had left the gold standard for good and this action would constitute a 20th century financial milestone.

History of the American Gold Standard

In the Coinage Act of 1792, Congress followed Hamilton's recommendation on precious metal specie. The price of gold was set at \$19.3939 per troy ounce, silver at \$1.2929, a ratio of 15:1.

This Coinage Act specified *free coinage* of gold and silver. Thus, an individual could bring legal-tender currency denominated in dollars into the government mint and *freely* receive either gold or silver specie in trade. Initially the currency for specie redemption was in coin, later currency available in paper certificates as well. In 1792, America was on a bi-metallic standard, freely convertible into *either* gold or silver specie. Hamilton's advice to adjust the silver: gold ratio as needed over time was little heeded.

Gold would be about \$20 an ounce, silver about \$1 an ounce, for 140 years.

As for monetary union, *America twice created central banks in its early years and then dismantled them because of populist dislike.*⁸ After President Andrew Jackson dismantled the Second Bank of the U. S. in 1832, America spent the next 80 years without a true central bank. As a consequence, states issued their own currencies and banking panics and depressions ensued.

The U. S. switched to gold in 1834 when Congress raised the price of gold to \$20.67 per ounce where it remained until 1933. This change in 1834 favored gold at the expense of silver putting the U.S. on a *de facto*

7 Martin, David A. The Impact of Mid-Nineteenth Century Gold Depreciation Upon Western Monetary Standards Journal of European Economic History 6 (Winter 1977): 641-58, p. 642

8 Economic focus. One Nation overdrawn by The Economist December 17th, 2011 p.132 www.economist.com/lessonsforeurope

gold standard.

With the California gold rush of 1849, the supply of gold was so great that \$1 and \$20 gold coins were added. Though silver lodes too were discovered in the west, the great supply of western gold kept America favoring gold over the bi-metallic system.

In 1861, during the Civil War, President Lincoln suspended the convertibility of currency into either gold or silver specie. Thus, the American *greenback* came into being, a fiat currency, i.e. not convertible into anything, backed only by the good name and reputation of the government.

The consequences of the Coinage Act of 1873 are important. The intentional omission of silver in this Coinage Act caused gold to become the standard monetary metal for the financial system. The Coinage Act of 1873 outraged western mining silver concerns, farmers and followers of bi-metallism. William Jennings Bryan's opposition to the Coinage Act a generation later was too late.

The United States resumed specie payments in 1879 on the basis of gold.

From 1792, gold would be about \$20 an ounce, silver \$1, for 140 years.

In 1896, the presidential election framed an economic debate in terms of the gold standard vs. bimetallism. William McKinley championed the gold standard and was backed by the Eastern establishment. The battle cry of democratic opponent Bryan was *free silver* indicating free coinage of silver with the hope for a gold to silver ratio of 16:1. Bryan became famous for his campaign *Cross of Gold* speech. McKinley beat Bryan.

In 1900, The Gold Standard Act of the United States was passed into law putting America on a *de jure* gold standard. President McKinley signed the bill that established gold as the only standard for redeeming paper money and effectively stopped bimetallism. Gold was \$20.67 an ounce.

In 1913, Congress created the U.S. Federal Reserve Bank, also known as the Central Bank. The Federal Reserve monetary policy makers would grow in importance when the last vestiges of the Gold Standard collapsed.

On April 25th, 1933 America and Canada dropped the classic gold standard.

After World War II, Europe and Asia were in shambles. Many European countries had suffered the loss of blood in the millions from not one, but two world wars. Millions more were homeless and displaced. Treasuries of nations were lost. Cities were in ruin. Many European and Asian governments were not intact. The pound sterling of England, which had ruled the seas from 1814 until 1914, would rule no longer.

One the other hand, the U.S. was essentially intact at the end of World War II. About 75% of the worlds known gold also resided in the U.S. as gold had been sent from abroad to the U.S. during the world wars for safe keeping.

The Bretton Woods Accord, a new monetary arrangement, was the brainchild of economist John Maynard Keynes of the British Treasury and Harry White of the U. S. Treasury. The Bretton Woods system of monetary management established financial and commercial rules for major nations. Forty-four nations and 739 delegates participated in the Accord.

Thus, in the foothills of Breton Woods New Hampshire in 1944, Keynes proposed the U.S. Dollar be the centerpiece of the world's economic system in a fixed gold-exchange standard. The U. S. Federal Reserve would promise to redeem other central banks holdings of dollars for gold at a fixed rate. Gold was set at \$35 for transactions. The planners also established guidelines for the International Monetary Fund (IMF) and also for what today is the World Bank. Harry White became the first American IMF director.

In 1966, Alan Greenspan, former Reserve Bank Chair from 1987-2006, made a couple of points on the gold standard in *Gold and Economic Freedom*. ... *Thus, government spending under a gold standard is severely limited.* Then last paragraph of article: *Deficit spending is simply a scheme for confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statist's antagonism toward the gold standard.*⁹ In 2009, in his book *End the Fed*, Ron Paul asked Greenspan if

⁹ Gold and Economic Freedom. Alan Greenspan, 1966 Originally appeared newsletter: The Objectivist. Reprinted in Ayn Rand's Capitalism: The Unknown Ideal

he would retract or change anything from that same article. Greenspan's answer, paraphrasing, was that he had just re-read the article recently, and no, he would not change a word.

On March 18, 1968 the U.S. Treasury suspended gold sales and industry was forced into world markets for gold supplies. Government stocks had been available to licensed users at \$35 an ounce. Now industry and commerce were to pay higher prices of gold. The lower government price remained fixed. All major world banks announced that they had a *two tier* gold market.

Good Night

President Nixon abandoned the Bretton Woods Fixed Gold Exchange Standard on August 15, 1971. The gold window was closed. Convertibility to U.S. gold was unilaterally terminated. Nixon had little choice as gold stocks had become depleted. The U.S. dollar became a fiat currency and remained the reserve world currency. The Bretton Woods Accord was never intended to last forever. Shades of the Gold Standard had lasted 250 years. Supply and demand now would set the price of gold. Economic fate is no longer tied to a finite amount of golden metal.

American citizens were once again allowed to own gold January 1, 1975 under President Ford. Gold was \$194 an ounce, silver \$4.44.

In 1975, U.S. Treasury gold auctions began. In 1976, the first IMF gold auction began. Treasury and IMF gold auctions would continue over the next decades.

Gold dramatically rose on January 21, 1980 to close at \$850 an ounce under the Carter administration,. London silver closed at \$49.00. This \$850 gold peak would be the high point for decades. From January of 1980, gold would retreat and lose luster over the next generation.

The day before the Twin Towers on 9/11 of 2001 went down, London gold closed at \$271.50 an ounce. Silver was \$4.18, platinum \$443.00 and palladium \$455.00.

From less than \$300 an ounce in 2001, resurgent investment demand continues to drive the price of gold to new heights. Gold has more than doubled from the

once lofty January 1980 high \$850 an ounce.

There are trillions of global investment dollars available worldwide. Billions of investment dollars have moved into gold, especially over the last decade. Gold stocks are a finite quantity. Thus, billions of investment dollars are driving the price of gold in the global economy.



President Nixon abandoned the Bretton Woods Fixed Gold Exchange Standard on August 15, 1971.

For 2600 years, the monetary system used gold as well as silver as basis for underlying strength in financial systems. Gold currency was used from the time of Croesus and Caesar Augustus until FDR with the bi-metallic standard operating for much of that time. From Sir Isaac Newton to Nixon, bi-metallic and gold standard systems formed relatively stable guidance for governments. However, it was not always smooth sailing and much pain often resulted from its adherence. The U.S. dollar became the coin of the realm with the acceptance of the Bretton Woods fixed exchange system at the close of WWII.

Before 1971, every major currency from time immemorial had been linked directly or indirectly to a commodity. Occasional departures from a fixed link did occur, but only at times of crisis.¹⁰

It has been over 40 years since America entered the realm of an untried fiat financial currency system.

Unsurprisingly, most central banks and bankers do not see a return to a gold standard as making sense.

The author believes it is unlikely we will return to a gold standard. However, there is a great nostalgia for the gold standard given the financial problems facing governments and the global economy.

The kings and high priests' of money, the presidents, congress and unelected Federal Reserve bankers now permanently lord over the American financial fiat system that doubles as the world's reserve currency.

Alexander Hamilton was rightly worried about government debt from the beginning. Though numbers vary, American government debt now is about \$16 trillion. This debt does not count additional trillions of IOU's held by U.S. governmental entitlements. The fiscal cliff may be coming. The political mantra today is to fix the economy so as not to spawn another phrase similar to the earlier one, *not worth a Continental*.

On the bright side, dawn glistens, as gold is still important in the financial, jewelry and medical-dental industries, all which are important sectors for our country.

However, the kingdoms of gold coins and gold standards have now passed into the good night.

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10 Money Mischief. Episodes in Monetary History Milton Friedman p. 30

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Other References: CPM group www.cpmgroup.com