

Most of the below essay is from a copyrighted commentary that economist George Reisman wrote in 1997 when gold prices were trading at \$340 per ounce. We downloaded the essay from the website <http://www.capitalism.net>. After Mr. Reisman's remarks, we have provided tables that reflect recent (September 2011) gold and silver values so that readers may put into context the value of today's fiat dollars when expressed in terms of gold and silver bullion.

A GOLD STANDARD TODAY*

By

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The gold standard is an essential protection against inflation of the money supply. While the possibility of the enactment of a legal gold standard is presently remote, gold can nonetheless be used as a standard for expressing prices and changes in prices now, today, by anyone. To do so requires no act of Congress, no court decision, no new law of any kind. Anyone who wishes to adopt gold as his own, personal standard of prices can do so immediately. Here is all he need do.

(1) Start with the current price of an ounce of gold. Recently, it has been about \$340.

(2) Recall that until 1933, the U.S. Dollar was defined as (approximately) one-twentieth of an ounce of gold. Take one-twentieth of an ounce of gold as your definition of *the gold dollar*. Observe that the current paper-dollar price of a gold dollar is \$17--that is, one-twentieth of the prevailing \$340-price of an ounce of gold.

(3) To transition to a personal gold standard, all you need do is start expressing prices in terms of *gold dollars* instead of paper dollars. To do this, simply divide the paper-dollar price of anything by the paper-dollar price of a gold dollar. For example, because the current paper-dollar price of a gold dollar is \$17, the gold-dollar price of anything is one-seventeenth of the paper-dollar price. If the paper-dollar price of a gold dollar were \$20 (which would be the case if gold were \$400 an ounce instead of \$340), the gold dollar-price of everything would be one-twentieth of the paper-dollar price. If the paper-dollar price of a gold dollar were \$40 (which was the case when gold was at its peak of \$800 per ounce), the gold-dollar price of everything would be one-fortieth of the paper dollar price. The

essential formulas are:

(i) paper-dollar price of gold dollar = $1/20 \times$ paper-dollar price of an ounce of gold

(ii) gold-dollar price of any good = paper-dollar price of the good divided by paper-dollar price of gold dollar

The series of tables, below, illustrates the use of the gold dollar as the standard of prices of goods. The tables are based on paper-dollar prices of an ounce of gold of \$340, \$400, \$500, and \$800 respectively. The examples used in each case include paper-dollar and gold-dollar prices of a medium-priced house, a medium-priced automobile, and an expensive restaurant meal for four. The gold-dollar price of the paper dollar itself, which is particularly significant, is also included. It ranges from a low of 2.5 gold cents (when the paper-dollar price of an ounce of gold is \$800) to a high of less than 6 gold cents (when the paper-dollar price of gold is \$340 per ounce.) The gold-dollar price of the paper dollar is an indication of the extent of the depreciation of the paper dollar.

\$340 Gold

Item	Price in Paper Dollars	Price in Gold Dollars Defined as 1/20 of an Ounce of Gold
One Ounce of Gold (Approx. Current)	\$340	\$20
One Gold Dollar	\$17	\$1
One Paper Dollar	\$1	\$.06
House, Medium Priced	\$300,000	\$17,647
Automobile, Medium Priced	\$20,000	\$1,176.47
Restaurant Meal for Four, Expensive	\$400	\$23.53

\$400 Gold

Item	Price in Paper Dollars	Price in Gold Dollars Defined as 1/20 of an Ounce of Gold
One Ounce of Gold (Recent)	\$400	\$20
One Gold Dollar	\$20	\$1
One Paper Dollar	\$1	\$.05
House, Medium Priced	\$300,000	\$15,000
Automobile, Medium Priced	\$20,000	\$1,000
Restaurant Meal for Four, Expensive	\$400	\$20

\$500 Gold

Item	Price in Paper Dollars	Price in Gold Dollars Defined as 1/20 of an Ounce of Gold
One Ounce of Gold (Previously)	\$500	\$20
One Gold Dollar	\$25	\$1
One Paper Dollar	\$1	\$.04
House, Medium Priced	\$300,000	\$12,000
Automobile, Medium Priced	\$20,000	\$800
Restaurant Meal for Four	\$400	\$16

\$800 Gold

Item	Price in Paper Dollars	Price in Gold Dollars Defined as 1/20 of an Ounce of Gold
One Ounce of Gold (Peak Thus Far)	\$800	\$20
One Gold Dollar	\$40	\$1
One Paper Dollar	\$1	\$.025
House, Medium Priced	\$300,000	\$7,500
Automobile, Medium Priced	\$20,000	\$500
Restaurant Meal for Four, Expensive	\$400	\$10

To make the idea of gold-dollar prices more real, one should imagine using actual old U.S. gold coins to make the purchases described in the tables. Thus, prior to 1933 there was a twenty-dollar gold piece known as the Double Eagle, which contained just about one ounce of gold--the exact quantity of gold bullion representing \$20 at the legal definition of \$20.67 equals one ounce of gold. Similarly, there were \$10, \$5, \$2, and \$1 gold coins, each containing the amount of gold bullion required to exactly equal its face value at the legal definition of the gold dollar. One should imagine paying for the various goods in gold dollars by counting out the appropriate number of old U.S. gold coins of the various denominations. Thus, to take a very simple example, a restaurant check in the amount of \$400 could be paid simply with one, twenty-dollar gold piece if the price of an ounce of gold were \$400. A twenty-thousand-dollar automobile could be paid for by counting out fifty twenty-dollar gold pieces at a paper-dollar price of gold of \$400 per ounce.

Of course, present law does not allow merchants to accept gold (or silver) coins at their real, bullion value, but only at their nominal, face value. Thus to pay for the \$400 restaurant meal in gold coin in the above example, the law demands that one pay 20 twenty-dollar gold pieces in settlement of a \$400 restaurant check (i.e., gold with a bullion value of \$8,000 paper dollars). For the \$20,000

automobile, the law demands payment of 1,000 twenty-dollar gold pieces (i.e. gold with a bullion value of \$400,000).

The law does not allow merchants to accept gold (or silver) coins at their bullion value because doing so would make it obvious to everyone, every time he went shopping, just where the problem of rising prices lay--namely, with the paper dollar. In the face of such evidence people would turn away from paper money: they would demand that money due them be payable in gold dollars not paper dollars. Indeed, in the face of a growing preference of the public for gold, paper money could be kept in circulation only by restoring its redeemability on demand in gold.

While probably nothing can educate the public concerning the nature and causes of inflation as effectively as a side-by-side comparison of gold and paper in making purchases, informing people of the difference in the prices they would pay if payment in gold were allowed cannot fail to have some significant educational value. Every merchant who would make such information available to his customers would be doing them and everyone else a real service.

Addendum: Exactly the same kind of calculations could be carried out in terms of pre-1965 U.S. silver coins. Here one could use the silver bullion content of four pre-1965 quarters or ten pre-1965 dimes as the definition of a silver dollar. The bullion content of \$1 face value of these coins is .71 ounces of silver. At a price of silver bullion of \$5 per ounce, the bullion content of such pre-1965 coins with a face value of \$1 is \$3.55. At a paper-dollar price per ounce of silver of \$5, prices expressed in terms of such coins would thus be about 28 percent of what they are when expressed in terms of paper dollars.

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The following tables present an updated gold price conversion at \$1800 per ounce that reflects Reisman's above procedure as well as two tables that

reflect his Addendum remarks about silver at prices of \$5 per ounce and \$40 per ounce, respectively.

\$1800 Gold‡

Item	Price in Paper Dollars	Price in Gold Dollars Defined as 1/20 of an Ounce of Gold
One Ounce of Gold	\$1800	\$20
One Gold Dollar	\$90	\$1
One Paper Dollar	\$1	\$.0112
House, Medium Priced	\$300,000	\$3,360
Automobile, Medium Priced	\$20,000	\$224
Restaurant Meal for Four, Expensive	\$400	\$4.48

\$5 Silver‡

Item	Price in Paper Dollars	Price in pre-1965 Silver Coins Defined as 0.71 of an Ounce of Silver
One Ounce of Silver	\$5	\$1
One Silver Dollar	\$3.55	\$1
One Paper Dollar	\$1	\$.28
House, Medium Priced	\$300,000	\$84,000
Automobile, Medium Priced	\$20,000	\$5600
Restaurant Meal for Four, Expensive	\$400	\$112

\$40 Silver‡

Item	Price in Paper Dollars	Price in pre-1965 Silver Coins Defined as 0.71 of an Ounce of Silver
One Ounce of Silver	\$40	\$1
One Silver Dollar	\$28.40	\$1
One Paper Dollar	\$1	\$.035
House, Medium Priced	\$300,000	\$10,500
Automobile, Medium Priced	\$20,000	\$700
Restaurant Meal for Four, Expensive	\$400	\$14