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SILVER MONEY FOR AMERICANS

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I think that my readers will agree that there is a desperate need for some fresh thinking about money in the U.S.

Many respected analysts worry that the expected action by the Fed to apply a new bout of QE after the coming elections is fraught with danger.

Fiat money in the US is in an advanced stage of decomposition and when money rots, the whole social, economic and political structure of the nation rots with it. A return to sound money is urgent. More and more people are aware of the perilous road ahead if nothing is done.

The problems facing the US are so gigantic in nature, that an all-round solution to them is impossible when analyzed in practical terms. A return to sound money is a return to gold and silver as currency. Gold is outstanding as money – but how to realize that goal? Silver is great for popular use – but again, how to regain it?

The only way open to regain a sound footing of real money for the US economy must be by establishing a process through which there will be a gradual and natural return to sound money. It is impossible to reform or improve the present monetary system of the US any other way.

The US abandoned sound money in a series of gradual steps; the first metal out of the monetary system was gold, in 1933; the second metal out of the system was silver, in 1965. The return to sound money would follow those steps, in inverse order: silver would return first, because silver has always been the money of the people; gold would return last, silver having opened the way.

Why did silver coinage disappear from circulation in America? It disappeared because the dollar price of silver rose to a point, back in 1965, where the value of the silver in the silver coin was superior to the value of the coin itself. The result was that most silver coinage was melted down into bullion, which had a value greater than the monetary value of the melted coins. On October 20 a silver dime contained silver worth \$1.72! (www.coininflation.com) Dollar inflation caused by expansion of the fiat money supply and expanding credit drove up the price of silver and thus drove silver coinage out of circulation.

The gradual return of silver money to circulation in America

In today's world, a world where the Fed is probably going to print another huge amount of money out of nothing by "QE2", explicitly in order to cause the American people to have inflationary expectations, is it possible to think of silver money returning to circulation in America?

The answer is "Yes"! But, it must be done by a new method. This new method will operate gradually by introducing silver money into circulation *in parallel* with the present monetary system of "fiat" paper bills and digital currency.

In recent years, others have attempted to restore silver money to the US economy. However, these well-meaning attempts have not been well thought out and have failed. You will recall that not long ago, Von Notthaus got into trouble with the Feds due to his misguided work.

Private attempts to restore silver to circulation as money must necessarily fail. Money is an extremely sensitive matter and only the cooperation of government can allow any reform to the monetary system.

The powers that be in the US Government must recognize at some point that it is indispensable to the health and continuing existence of the US as we have known it, to restore silver coin into circulation. At present, its policy is to ignore public discontent; the results of the coming elections will probably do little to change its policy. The discontent of the American people will increase until the government hears the rumble of distant drums. Perhaps then, it will be willing to turn to silver, to appease the population.

Silver money can indeed be restored to circulation in the US, but it must be by a new method. Anything new in monetary affairs must always be suspect and must face an initial opposition. However, we are forced to resort to a new method because the conditions are new: inflation of the money supply

and unlimited expansion of credit are new conditions which silver coinage, as it has been created for centuries, has never before faced.

A new method for monetizing silver

Silver went out of circulation because the monetary value of silver coins was engraved upon them. When the market price of silver rose, and the value engraved upon the coins was left behind and below the value of the silver in the coins, the coins became more valuable as bullion than as coins. The coins were melted down. The silver coinage disappeared.

This gives us the clue to restoring silver into circulation: eliminate the engraved value.

In this case, what would be the monetary value of a silver coin with no engraved value?

The answer is that – like a stock – its value would be a quoted value; however, unlike a stock, the quote would not be a market quote but a quote coming from the Treasury.

The legal tender monetary value of the silver coin quoted by the Treasury would take the place of an engraved value. This monetary value would be increased to meet rises in the price of silver, but remain stable at its last quote, during falls in the price of silver.

Stocks prices fluctuate, but the monetary value of a silver coin cannot be allowed to fluctuate, because money must have a stable value. A silver coin, whose quoted monetary value goes up and down, remains a commodity. It cannot be used as money. The Treasury must issue a stable quote for the monetary value of the silver coin with no engraved value.

This Treasury quote of the monetary value of this silver coin must always be superior, albeit by a small amount, to the market price of the silver contained in the silver coin. The difference between the market price of the silver in the coin, and the monetary quote issued by the Treasury, would result in a small profit for the Treasury, classically called “seigniorage”. Since the quoted monetary value of the silver coins would be slightly higher than the value of the silver contained in the coins, there would be no profit in melting them down. They would remain in circulation permanently.

When silver was money per se, that is to say, when silver money was accepted by weight of silver, the Treasury simply received silver from

miners, and returned it to them in minted form, with little or no seigniorage. This practice ended in 1873.

The situation is different today. In order for a silver coin to circulate as money, in parallel with paper “fiat” money, it must have a legal tender monetary value. The Treasury must attribute a legal tender monetary value to a one-ounce coin which has no engraved dollar value, in order to fit this coin into the scheme of the prevailing fiat monetary system.

Besides this, the Treasury must derive a seigniorage or profit, from minting silver coin for the American people; otherwise it will be losing money by issuing these coins to the public. It can earn this necessary seigniorage by issuing a monetary quote, slightly superior to the value of bullion silver, which will move upward according to rises in the price of silver, and thus keep the silver coin in permanent circulation. Further rises in the price of silver will mean further rises in the monetary value of the silver coin. Henceforth, there will be no reason for it to disappear from circulation.

The *rising* monetary value of a silver coin, whose last quoted legal tender value by the Treasury cannot be diminished, presents no problem whatsoever to its acceptance as money by the American people. It will be eagerly accepted.

Falls in the bullion price of silver

Should not the monetary value of the silver coin be reduced, when the price of silver falls? The answer is: No!

During the Depression of the 30’s, the price of silver fell drastically. This did not affect the circulation of the beloved silver half-dollars, quarters and dimes. They continued to serve the American people. During that period, the Treasury received a larger profit from minting those coins, because the silver required to mint them cost the Treasury less, but the value – the engraved monetary value – of the coins remained the same.

The same thing will take place when the Treasury monetary quote remains stable when the price of silver falls: the Treasury simply makes a larger profit because its monetary quote, which takes the place of an engraved value, does not diminish.

The rising value of silver, which will continue as long as the fiat monetary system is in operation, will allow Americans to save in a very simple medium which derives its value from its silver content and becomes more

valuable when the price of silver rises. This is the greatest possible incentive to popular savings, so desperately needed in America today. (Of course, the fundamental importance of savings is irrationally denied by today's Keynesian monetary authorities, who are now facing a great collapse which will sweep them away. Britain, the great ally of the US, has announced a fiscal policy which in effect, turns its back on Keynesian economics.)

The falls in the price of silver will not affect savers, for the monetary value of the coin will not fall together with the price of silver. It will remain stable, an absolutely essential element in any monetary unit. As stable as American silver dimes, quarters and half-dollars were during the Depression, when the price of silver fell.

The public will value silver coins more highly than paper money. The silver coin, whose quote will increase with an increase in the price of silver, will assure increased or sustained purchasing power for the public.

QE2 is supposed to “stimulate” the economy by putting more purchasing power in the hands of the public by creating more money. However, the effect is inverse, because increases in the money supply diminish the value of the dollars already in circulation and cause prices to rise. This is classic monetary inflation and this is what the Fed wants.

The monetized silver coin will not be inflationary for two reasons. The first reason is that its “velocity of circulation” will be near zero, because these coins will go directly into savings (“Gresham's Law”). People will use paper bills and bank deposits to pay their expenses, and retain silver as savings. The second reason is that the increases in the monetary value of the coin will reflect the increased value of a tangible asset. Purchasing power that increases because what you own - silver money - is worth more is completely different from increases in purchasing power because you have more money that the Fed has created out of nothing: such money will be falling in purchasing power and there is no reason to keep it for savings.

If dollar inflation – as explicitly proposed by the Fed – forces the price of silver to rise, the monetized silver ounce will rise in value with it. This is silver money that is *inflation-proof*.

It is very important to reiterate that the US dollar would continue to be the money of the US. The silver coin would exist and float in parallel within the present monetary system; in the long-term, it is possible that it might gradually and naturally displace the present system of “fiat” money.

A proposal for the introduction of a silver coin into permanent circulation in the United States:

1. The Treasury shall mint a new silver coin containing one-ounce of pure silver. No engraved monetary value shall appear on the coin.
2. The Treasury shall issue a monetary quote for the coin upon the following basis:

To the market price of the silver ounce shall be added the cost of minting. The sum shall be multiplied by 1.1 to give the Treasury a seigniorage or profit of 10%. The result shall be increased to the nearest multiple of 50 cents, and this shall be the monetary quote for the silver one-ounce coin.

(Note: the cost of minting, the multiple to be adopted for seigniorage as well as the multiple for purposes of rounding-out the monetary value of the silver one-ounce coin, are all suggested and can be modified to suit.)

3. When the price of silver rises and impinges upon the seigniorage of the Treasury, the Treasury shall issue a new, higher monetary quote to restore its seigniorage to 10% (plus profit from rounding-out the monetary quote.)
4. When the price of silver falls, the Treasury shall retain its last monetary quote for the silver coin and not reduce it under any circumstances.
5. The Treasury shall mint these silver coins in amounts sufficient to satisfy the market and prevent the appearance of premiums upon the monetary quoted value, because such premiums would seriously detract from the use of the silver coins as money.
6. The Treasury shall be allowed a period of six months to ignore speculative peaks in the price of silver, a period during which the Treasury shall not alter its last quote. (During this period, the American people can be expected to hold on to their monetized silver coins and not turn them in for a profit to those who wish to smelt them for their bullion value, *if they know that after a period of at most six months, a new and higher monetary value will be assigned to their coins.*)

An example of how monetization would be done

See the graphs at the end of the article (pages 11 and 12). The first one shows us the spot silver price from 1995 to 2010 (data from Kitco). And the

second one shows us the monetary value of the American silver coin, through this period, if monetized since that time.

The formula to arrive at the monetary value – Treasury quote - of the silver coin is as follows:

(Silver closing price + Cost of minting) x (1.1 – to add 10% seigniorage) and the result, rounded to nearest multiple of .50 cents.

At the beginning of our exercise, on January 3, 1995, the silver price was \$4.84. Add 50 cents for minting costs. Then take the result, 5.34, and multiply by 1.1 = 5.87. Then, round out to nearest multiple of 50 cents = \$6.00. So, the first monetary quote for the silver coin would have been \$6 US dollars, if the Treasury would have begun on January 3, 1995.

Anyone holding this monetized silver coin would have been able to pay for purchases with this coin, or deposit it in a bank account. (The bank, however, would not be obligated to return the silver coin! *The monetary system of the U.S. would continue to be based on the US dollar* – whatever that is, for Greenspan himself was not able to define it, when Ron Paul asked him to do so.)

On March 31, 1995, the price of silver rose to \$5.16 dollars. So, we repeat the exercise with the new price of silver: 5.16 for the silver, plus 50 cents minting costs. Take 5.66 and multiply by 1.1 = 6.22. Since this amount exceeds the previous quote (\$6.00), we have to adjust it upward. Round 6.22 out to nearest 50 cent multiple = \$6.50 dollars, the new monetary quote for the silver ounce. The silver one-ounce coin would have had a new monetary value of \$6.50 dollars, as against the \$5.16 dollars of silver in the coin.

For the following months, the silver price kept on rising, reaching \$6.03 in May 1995, and the monetary value of the ounce would have followed it, reaching \$7.50. This rally ended in the summer, and the silver price fell to \$5.08 in July 1995. In spite of that, according to this method, the monetary value of the ounce would have remained stable at the last monetary quote: \$7.50.

Calculation of the first Treasury Quote and the following quotes:

Date	Silver price	Cost of minting	Cost	Seigniorage (10%/cost)	Total cost. Quote before rounding (*)	Treasury Quote
1/3/95	4.84	.50	5.34	.53	5.87	\$6.00
3/31/95	5.16	.50	5.66	.57	6.23 Since this new cost surpasses the current Treasury quote (\$6.00), a new quote is required.	\$6.50
4/18/95	5.65	.50	6.15	.61	6.76 Same case as above.	\$7.00
4/19/95	5.91	.50	6.41	.64	7.05 Since this new cost surpasses the current Treasury quote (\$7.00), a new quote is required.	\$7.50
05/05/95	6.03	.50	6.53	.65	7.18 In spite of the silver price peak during the season, current quote (\$7.50) still covers the costs, so no new quote is required.	\$7.50
03/07/95	5.08	.50	5.58	.55	6.13 In spite of the price of silver fallen to previous levels, according to the plan, the Treasury quote remains unchanged.	\$7.50

(*) As you can see, the ‘Cost before rounding’ includes the current price of the silver, the cost of minting, and the minimum seigniorage for the Treasury – which is 10%. So, when this calculation surpasses the current Treasury quote, it implies that the minimum seigniorage and minting costs are no longer covered; a new quote is required to restore full seigniorage.

On October 22, 2010, the highest recent quote, which took place on October 14, 2010, would place the legal tender monetary value at \$27.50, calculated as follows:

Date	Silver price	Cost of minting	Cost	Seigniorage (10%/cost)	Total cost Quote before rounding	Treasury Quote
14/10/10	24.49	.50	24.99	2.49	27.48	\$27.50

Thus would the monetized silver ounce coin remain permanently in circulation and never again go to the refinery to be melted down, since the Treasury would be assigning new and higher quoted monetary values to the coin as the price of silver rose.

The consequences of monetizing a one-ounce silver coin

Humans can never know all the consequences of any action. We can foresee certain things but must be ignorant of the endless consequences of everything we do. We act because we think that by acting, we will attain a better, preferable situation to that which we have if we do not act. We generally evaluate any action and predict the near-term consequences, expecting to improve our condition.

For long-term consequences we have to rely on philosophy and Austrian Economics.

Can we know all the consequences of putting a silver coin into circulation in the United States? Certainly, we cannot.

However, we know that it will be good for millions of Americans to be able to save silver money and prepare themselves for any adversity; to be able to save in order to have a secure basis for retirement and old age; to be able to save in order to have that precious thing called “peace of mind”.

We also know that powerful interests will not be happy with this measure, because it will cause those interests losses and pain. The banks will not be happy – they want the public to deposit their savings with them; they will not be pleased with the idea that Americans can save excellently by saving their ounces at home.

We know that silver empowers the individual and protects him from tyranny.

We know that those whose lives are linked to tyranny will not approve.

We are confident that putting silver money into circulation in the U.S. will have numberless good effects; that developments favoring prosperity will present themselves spontaneously, thanks to the silver coin in circulation. New things will happen, things like Treasury silver certificates for silver ounces held by the Treasury, which will allow the payment of larger amounts of silver, without the cumbersome movement of heavy weights of silver. Or things like Custody Deposits in banks, where the silver remains

the property of the depositor, and can be moved to other accounts by electronic means.

American demand for this coin would be absolutely enormous and undoubtedly force the price of silver much, much higher; the concomitant rise in the monetary value of silver savings would contribute to the recapitalization of the population and most importantly, infuse the American people with hope and optimism regarding the future, fundamental psychological elements of any society.

A humanist philosophy and Austrian Economics allow us to foresee that the favorable consequences of putting a monetized silver coin into the hands of Americans would be vast and reach even into the international sphere, where the American silver coin could easily become an international currency, supplementing the American dollar which is now increasingly coming into disfavor around the world.

This silver money would be in circulation permanently and its existence would be independent of the stability of the financial system. It would be immune to banking crises and since it would not be debt-money, fluctuations in the rate of interest would not imply a shrinking or expansion of the quantity of this money in circulation. It would be immune to dollar devaluation, since the price of silver is determined in the world market for silver.

Monetizing the silver ounce, with a Treasury quote, is not a panacea. It will not solve every problem, for the problems are immense. But it will be a balm for the American spirit, so damaged and divided at present, and it will be *a seed from which mighty institutions can grow*.

It is up to Americans to exert themselves toward the end of recuperating silver as everyday money for Americans. The consequences of achieving this measure would be world-shaking. I have shown how it can be done, and can do no more.

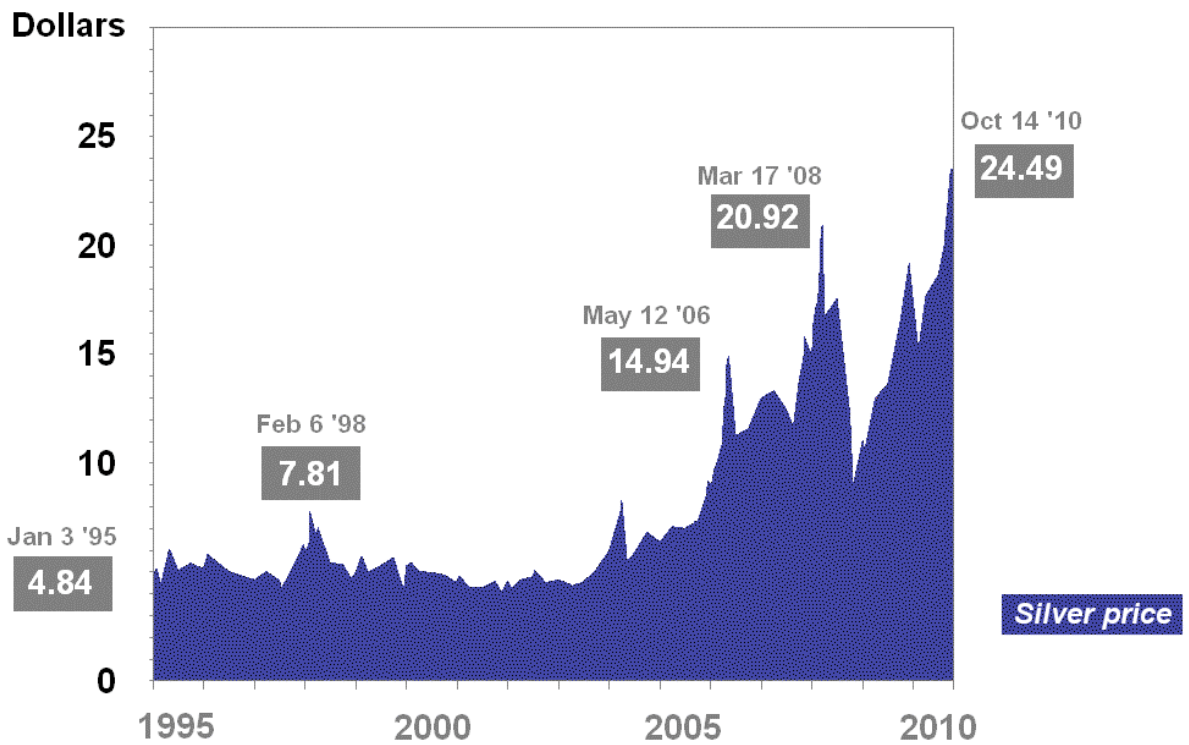
Addendum

This essay proposes the monetization of a silver coin containing one-ounce of pure silver. It is quite important that the weight of silver in the coin be expressed upon it. Otherwise, a silver coin with less than one ounce of silver might be called “the American Silver Eagle”, for instance, in which case the necessary relation of the coin’s monetary value to a specific weight of silver could easily be lost. Such a coin could be retired from circulation by the

government and substituted with another “American Silver Eagle” containing less silver. There are many precedents for such fraudulent behavior in other nations.

Please see Graphs 1 and 2, below.

Graph 1
Silver ounce's value as commodity (in **gray)**
1995 - 2010

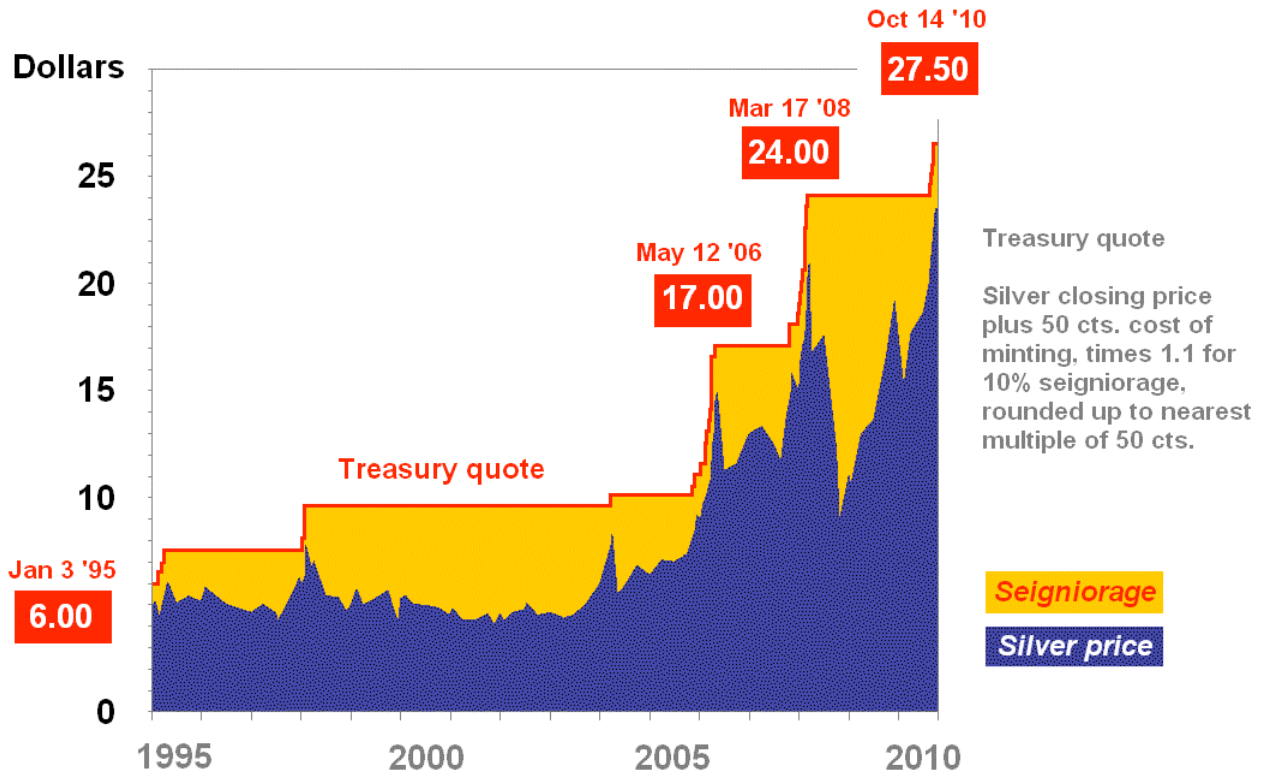


Elaborated by: Asociación Cívica Mexicana Pro Plata, A.C. / Data: kitco.com

Graph 2

American silver ounce's value if monetized in 1995 **(in red)**

1995 - 2010



Elaborated by: Asociación Cívica Mexicana Pro Plata, A.C. / Data: kitco.com