

Feb. 1, 2010 – Super Money

Super Money

I'd like to relate a thought process that came out of a conversation with a friend recently. My friend, like many, is a big believer and investor in both gold and silver primarily as a means of protecting his assets against the creation of unlimited government money supply. Regular readers probably know that while I consider that an important consideration, my focus is on the fundamental supply/demand equation in silver, with particular emphasis on the ongoing manipulation. Still, I don't dismiss my friend's premise; just that I consider the continuous creation of money as a bonus to holding silver as an investment.

In our conversation, my friend raised the issue that gold and silver were the only true and honest money known to man, and that had been true for centuries. And how this was proof that gold and silver were money. I had been expecting this statement, as it is one that I have heard countless times before. It's also a statement that I have a little bit of difficulty in accepting at face value, because any dictionary definition of money always includes it being a medium of exchange. Because neither gold nor silver appear to be used as a medium of exchange, both are lacking that key feature of the definition of money. Certainly, both gold and silver can be sold almost instantly and converted into any currency and then that currency can be used to pay for the good or service of your choice, but that can also be said about many different assets. My point is that virtually no one uses silver or gold as money for direct payment any more, say at the supermarket or utility office.

Further, I am convinced that it is unlikely that gold or silver will ever return to widespread use as a direct payment method, for instance in everyday coinage. In the case of silver, the US removed silver from common coinage almost a half-century ago because there wasn't enough metal available to continue such a use for silver. Since then, US Government inventories of silver have been completely exhausted and the USG now owns zero silver (although the USG is the world's largest gold holder). So if we didn't have enough silver then, we surely don't have enough now for coinage. Besides, it's not just gold and silver that have fallen out of fashion as a payment method in ordinary transactions; the use of cash and checks (compared to credit and debit cards and other electronic payments) have also fallen to all-time lows on a percentage basis.

All this being the case, my friend still had a valid point in principle and I thought I knew what he meant when he said that gold and silver were money. Certainly, they meet the other definitions for money, such as being a store of value, and having widespread recognition and divisibility. Recently, I even wrote how another friend, Carl Loeb, had a very worthwhile suggestion that people might consider silver as a form of savings, instead of holding cash in a low-paying savings account. Therefore, it is true that silver and gold have many of the characteristics of money, even if they are not currently popular mediums of exchange.

All these thoughts were running through my head as my friend said that silver was money. Then it dawned on me. Silver is not money, it is something else. It is Super Money, a kind of money different than any we have ever experienced. Kind of like there is ordinary man, but then there is Superman, who can bend steel in his bare hands, has x-ray vision and can leap tall buildings in single-bound. Please bear with me for a moment.

In my conversation with my friend, I could see in an instant that what people were talking about when they stated that silver and gold were money was a different kind of money than everyday money. I got to thinking that it was almost an insult to refer to gold or silver as money. One of the big obstacles for silver and gold ever becoming regular money, for example, is that no one would like spend it like ordinary money, except when absolutely necessary. Any gold or silver put into circulation as coinage would be immediately removed and hoarded not spent. Who, in their right mind, would spend silver or gold as money, when you can spend cash or swipe a card instead? We need to have as money that which will be circulated freely, to lubricate the economy. As long as there are far more efficient mediums of exchange, like cash and electronic payments, silver or gold can't function as a realistic medium of exchange. This is Gresham's Law; bad money will drive good money out of circulation. Here's a corollary to that law; Super Money drives itself out of circulation. As people start to realize the great difference that exists between money and Super Money, more demand is certain.

Let me talk specifically about silver as Super Money. I believe silver, even more than gold, is the true Super Money. That's because, as time has evolved, there is less of it, relative to total world population. Yes, I know that the world governments still count gold as a monetary asset and that is not the case for silver. But the main characteristic behind Super Money is that it is outside any government's edict. The value isn't up to what any government says. So, who cares what the any government declaration of what money may or may not be? Simply stated, there is less silver available as money or investment to the world's citizens than at any point in history. Silver's rarity is unlikely to change in the relative near future. And remember – rarity is the first determinate of value.

Not only is there less above ground silver bullion in the world than there is gold bullion, there is shockingly less silver bullion in the world than there was hundreds of years ago, when the world's population was a fraction of what it is today. Due to relentless industrial consumption over the past 70 years, there is 90% less silver bullion in the world today than there was back then. This is something that cannot be said of gold, as we have three times the amount of above ground gold today than existed in 1940. I am not saying that gold is not rare or has no value. I am saying that there is three times more of it in the world than there was 70 years ago, while there is only 10% of the silver inventory today than there was 70 years ago. For this reason alone, if there can only be one Super Money, it has to be silver.

Super Money is money that can't be created at will; it only comes from blood, sweat and tears, and at great expense. It is money that can't go worthless. It is money that can be passed to future generations without fearing for what the future may hold. It is money whose value will be determined by the collective judgment of the world's citizens. One of main factors that guarantee that silver is the Super Money of the present and the future is how few people are aware of the facts surrounding silver. As those facts become increasingly known, the demand for silver must grow. The next time someone tells you that silver is money, please correct them. Let them know it is Super Money. And make sure you own as much as you can.

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