CHAPTER 9

Some Concluding Thoughts

This is the final chapter of this book. In the preceding chapters, I have tried to explain the concept of money. I presented a brief history of money. I went over the various forms of money that humans have used over thousands of years of recorded history. In the preceding chapters, I have also shown how money affects the economy. In this chapter, I will make concluding remarks and present questions for future research.

9.1 A Longing for Gold

Gold holds a special place. While our knowledge of the functioning of economy along with our understanding of the relationship between money and the economy has improved, this knowledge does not seem to have spread widely. We now know that changes in money supply are necessary for the smooth functioning of a modern economy. Experts in this field have presented a convincing case against having a fixed amount of money in a dynamic economy. Yet anytime a central bank changes money supply the motives of central bankers are considered sinister. This is so even in the developed world where central banks remain largely independent of political pressures. And this is especially so in the age of newfound appeal of populism across the globe. As we saw it in the

1 Gold holds a special place. James Ledbetter. One Nation Under Gold: How One Precious Metal Has Dominated the American Imagination for Four Centuries. London: W. W. Norton, 2017. Print.

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dialog between the former Fed chair, Ben Bernanke, and the former Congressman, Ron Paul in Chapter 1, there seems almost an aching longing for having gold as the monetary standard.

The realization of the spread of COVID-19 was a shock to the world. In the United States, along with some people hoarding basic necessities from toilet paper to canned food, the demand for gold also increased.

Why do people want to hold gold? Some argue that since the value of gold is stable, the prices of goods and services will also be stable. An article in the Wall Street Journal put it this way:

Gold is popular with survivalists and conspiracy theorists but it is also a sensible addition to investment portfolios because its price tends to be relatively stable. It is especially in-demand during economic crises as a shield against inflation. When the Federal Reserve floods the economy with cash, like it is doing now, dollars can get less valuable.

The beliefs that gold holds its value and that prices would be stable if we were to either use gold as currency, or back currency by gold, do not pass the evidence test, however. In Fig. 9.1, I plot data that show the value of gold in terms of goods and services. As a comparison, the figure also plots data for personal consumption expenditure, chain-type index.

Note the fluctuations in the series representing “Value of Gold in Terms of Goods and Services.” This series is represented by thicker of the two lines. The mean of this series is 270.44 with a standard deviation of 122.69. Compare this with the “Personal Consumption Expenditure Index.” represented by the thinner of the two lines. The mean of this series is 88.51 with a standard deviation of 9.15. It is not hard to see that had gold, or gold-backed currency, been used as money, price fluctuations would have been much larger. The reason is that the supply of gold and the demand of gold is outside the control of the Fed. With the fixed quantity of gold, when economic activity changes (economy goes through business cycles, Chapter 6), prices of goods and services change along with it. The supply of fiat money, however, is in the control of the Fed. In order to maintain price stability, the Fed changes money supply accordingly. As we saw in Chapters 3 and 5, in the case of the Fed,

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2 COVID-19 and gold rush. https://www.wsj.com/articles/coronavirus-sparks-a-global-gold-rush-11585332624?mod=hp_feast_pos2 (Accessed: March 28, 2020).
price stability is one of its dual mandates. The other mandate is maintaining high employment. So the stability of the second series (Personal Consumption Expenditure Index) in Fig. 9.1 is not an accident. Any responsible central bank would do this.

Note that one can also construct similar series in terms for silver. One would find that the fluctuations in series would be similar to that of the first series in Fig. 9.1 (Value of Gold in Terms of Goods and Services). How about Bitcoin and other similar cryptocurrencies? One would, again, find that the fluctuations in series would be similar to that of the series labeled “Value of Gold in Terms of Goods and Services.”
The reason is the fixed quantity of such mediums. While there are skeptics (Chapter 3), Bitcoin and its cousins, for instance, advertise a fixed quantity so that prices would not change much. However, since the economy goes through business cycles, having a fixed quantity of money is not a virtue when the objective is to have stable prices.

As we saw in Chapter 3, military ventures may be another reason that people want to have currency backed by gold or silver. People fear that unbacked currency may turn into a “Continental.” If the reason for advocating specie-backed currency is price stability then, as we just saw, data do not support this contention.

9.2 A LONGING FOR THE TANGIBLE

But what explains the increase in cash holdings during perceived and actual crises. After all, cash as it stands as it stands now, is not backed by gold or silver. For instance, on the eve of the twenty-first century, when people thought that ATMs would stop working due to computer glitches, the amount of dollars bills held increased significantly. In Fig. 9.2, I plot data for the total value of twenty-dollar bills in circulation.

The data plotted in Fig. 9.2 are in billions of US dollars. These are annual average data so the daily fluctuations have been smoothed out. Still note the jump in the value right before 2000. The total value in circulation jumped by about 27.7 percent. Similar trends are found in the five-, ten, and fifty-dollar denomination bills. The twenty-dollar bill, however, seems to be the most popular. Once the threat subsided and cooler heads prevailed, the value of hard cash held outside banks dropped to the trend level.

I mentioned that people want to hold on to something solid especially in times of crises, actual or perceived. Be it a dollar bill, a comfort blanket, or a loved one, the actual object is irrelevant. I wonder whether this desire is rooted in our evolutionary past. Our brains evolved in an environment where everything familiar was tangible. And even those tangibles have to have certain dimensional qualities.

Indeed, phenomenon that did not make sense was assigned to some entity that was tangible. Various cultures called it by various names—gods, God, Krishna, Yahweh, Allah, and many more. Readers may find
Fig. 9.2. Value of twenty-dollar bills in circulation (Source: Figure prepared by the author. Data Source: Board of Governors of the Federal Reserve System [US], Value of Currency in Circulation: $20 [CURRVAL20], retrieved from FRED, Federal Reserve Bank of St. Louis. [https://fred.stlouisfed.org/series/CURRVAL20] [Accessed: April 23, 2020])
Robert Wright’s book, *The Evolution of God*, useful.\(^3\) Numerous qualities were assigned to various entities. (I wish Wright had titled his book “*The Evolution of the Concept of God.*” This way he would have avoided the so-called use-mention error where one confuses the concept with the phenomenon.\(^4\))

What explains the desire to hold gold or silver, or for that matter, the desire to hold cash. What this behavior may imply for the future of electronic forms of currencies. I leave these questions for future research. Evolutionary psychology is not my area of expertise. I leave this to the experts—the evolutionary psychologists.

And expertise matters. There aren’t any authorities when it comes to knowledge. But there are certainly experts. When we need a blocked artery re-plumbed we go to a heart surgeon. When we need our hearts mended we go to a therapist. And when we want to give voice to our heartache we go to an artist—a poet, a musician, a painter, a sculptor. We confuse one with the other at our own peril. We confuse authority with expertise at our own peril.

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\(^3\) Various names of gods. Robert Wright. *The Evolution of God*. New York, NY: Little, Brown, 2009. Print.

\(^4\) Use-mention error. Ned Block. “What Is Dennett’s Theory a Theory of?” *Philosophical Topics* 22.1 (1994): 23–40. *JSTOR*. Web. See also https://www.logicallyfallacious.com/logicalfallacies/Use-Mention-Error (Accessed: April 23, 2020).