

The Rise of Gold

There has been an unprecedented increase in the price of gold. Global price is nearing \$1000 an ounce while in India it has scaled Rs 16,000 per 10 grams. This increase is likely to continue because no other reliable store of wealth is available.

Historically, 'money' has served as a medium of exchange as well as a store of value. In the earliest of times, shells, beads, elephant tusks, furs, skins and even livestock were used as money. These could be exchanged for other commodities like salt or barley. They could also be stored. A proud owner of elephant tusks could simply store the tusks in his backyard. The tusks themselves had value. There was little chance of the value of the tusks being eroded. Tusks served both the functions of medium of exchange as well as store of value.

Copper, silver and gold replaced shells and tusks with the advent of metal. Articles made of these metals, or chunks of them, began to be used as money. Coins made their appearance. These coins, like tusks, could be stored.

The coins were true store of value as long as the metal content was equal to the currency marked upon them. However, the rulers did not adhere to this rule. In periods of distress, or simply for convenience, they started to mark the coins with a value higher than the value of metal contained therein. Rulers could enhance their purchasing power by using this simple technique. As far as exchange was concerned, such over-valued coins served just as well. But, these coins did not serve as store of value. In due course, the people lost confidence in them and oftentimes this led to the downfall of their rulers.

Such happened in the ancient Roman Empire. The financial pressures of the Punic Wars caused the Romans to replace gold and silver coins by copper coins. In later period, the basic 'silver' coin contained only 5 percent silver. Later this was brought down to 2 percent.

Gradually, 'money' has ceased to be a store of value. The United States suspended convertibility of the dollar into gold in early Seventies. That was the end of money being a store of value. A note issued by the Government acquires value only by the writ of the issuing authority. This is okay as far as exchange is concerned. But, such paper money cannot be stored because its value depends upon the ability of the issuing authority to redeem it with real goods. The US dollar was a true store of value as long as the US Government was committed to exchange a note with the specified amount of gold. It was no longer a store of value once the gold standard was abandoned and the Government would exchange it with such amount of gold as dictated by market rates. Thus, cash-surplus countries like China, India and Saudi Arabia cannot store their wealth in US dollars today. The value of their stored wealth will rise and fall along with the fate of the US economy. In consequence, the world economy has become unstable. There is no currency that can be relied upon for store of value.

The solution is gold. This is borne out historically. Asia has been the seat of the oldest of human civilizations—the Sumeric, Indus and Chinese. Asia has known the rise and fall of civilizations (and their currencies) as none other. Thus Asians have a penchant for gold.

Although India remains as the largest consumer of among them, a new gold craze is fast developing in countries like China and Korea. It is not without reason. Their experience has that gold is the best medium for storing wealth. □□□

[Contributed]