

It's official: Gold is money (again!)

☒ Gold bugs of the world will rejoice at the news that holders of physical gold can now, in effect, use that bullion as cash-in-hand. It's not quite the same as proffering coins with the gold content determining the value of those coins, but we can't expect change overnight. Still, the operator of a gold vault on the Isle of Man has made a start.

Nelson Bunker Hunt may not have got it quite right when he and his brother made an enormous plunge on silver 35 years ago, but his view that "anything is better than paper money; any fool can run a printing press" will resonate with many.

The big news is that IMGold, the company running the Manx bank vault, is to issue a 14-carat gold card to those who have at least £100,000 of metal bars in their vault. This solid gold Visa card which will allow them effectively to borrow against their gold; the card will be backed by physical gold. According to *The Financial Times*, the bullion storage company said the card was to allow customers to weather the period of low gold prices without having to sell their metal; they can draw on it in the meantime. If you bought at \$1,900/oz in 2011, you would be sitting on losses of more than \$600/oz.

So this is something other than your run-of-the-mill gold card. It really is backed by the yellow metal.

The gold enthusiasts will be given hope that we are turning the full circle back to 550 BC when King Croesus of Lydia, located in what now is Turkey, struck the world's first gold coin, which circulated through many countries and was accepted as value. Even when paper money came into being, you could present those notes and ask for the equivalent in gold. When the Bank of England introduced bank notes in 1694 they came

with a promise that the paper could be presented at the bank and the bearer could be handed gold to the equivalent value. (Try doing that with a pile of your local banknotes these days.)

In 50 BC Roman citizens began using a gold coin called the aureus, but it took the Norman invasion of 1066 for metallic currency to be used in what is today Britain. In 1284 England issued its own gold coin, the florin. Jump forward to 1792 when the Coinage Act established gold and silver as the basis for the U.S. currency system. The U.S. dollar was defined as being worth 24.75 grains of gold or 371.25 grains of silver.

In the modern era, there was the Gold Standard where paper money was convertible into gold. A country could print only as much money as could be backed by its gold. It was a dreadful strait-jacket (much like the euro is today with countries like Spain, Latvia and Italy all having to use the same valued currency as the Germans and Dutch.)

The end of the gold standard tarnished the reputation of using the metal as a means of regulating money supply. But there are those who argue it needed changing, not abolishing. In 2010 World Bank boss Robert Zoellick wrote an article in *The Financial Times* suggesting a return of the gold standard, albeit as a hybrid including major currencies and commodities, to provide a stable measure of worth of paper money.

In modern times, the greatest blows delivered against gold were executed by the White House. In 1933, Franklin D. Roosevelt banned all private holdings of gold; then in 1942 he ordered closed all U.S. gold mines, as he considered the production of gold non-essential to the war effort (although the British stepped up mining of gold in South Africa and elsewhere in order to be able to pay Washington for war supplies). Then in 1971 Richard M Nixon closed off the conversion of currencies into gold, de-linking the metal to the value of the dollar.

Little by little, though, gold is holding its ground as the original form of money, and the only one than cannot be debased.