

Silver as a Monetary Metal

H. Michell

THE issue by several European mints of silver coins has attracted the attention of those who study the monetary problems of the post-war world, and who realize that it affords a highly interesting development in the struggle against inflation through the issuing of paper money in unlimited quantities. A coin, whether it be franc, mark or ruble, with a high content of pure silver is "hard" money; it is not a flimsy piece of paper which tomorrow may be worth only a fraction of its value today. It feels satisfyingly heavy in the hand; it is tangible wealth that can be hoarded, buried in the earth or hidden. It is the kind of money that the European, and much more the Asiatic, peasant likes and understands, and if he can get it will be satisfied and feel secure in its possession. If the government of his country will give him that kind of money, he will have confidence in his rulers, and know he is not being cheated by a gang who will set the printing presses to work and foist upon him dishonest money. To win the confidence of the peasant is well worth the while of any government. It is more than worth while, it is vital to the stability of every economic system which rests upon the vast mass of inarticulate but intractably stubborn peasantry. That you cannot fool all the people all the time is a profound truth.

II

THE world has always used silver as money, and it is safe to say always will. In fact it has used silver far longer

and more extensively than gold, which Lord Keynes called the "parvenu of monetary metals." Unfortunately, the use of both metals gives rise to all the troublesome problems of a bimetallic standard which have plagued the nations for centuries. Into the lively history of the battle between silver and gold it is unnecessary to enter here. Silver seemed to have taken a beating and to have been finally driven from the field. But in an exasperating fashion it persists in coming back again and giving more trouble to the nations that are on the monometallic gold standard. That this should be so is hardly to be wondered at. We are apt to forget that considerably more than half the world still uses silver—China, India, Arabia and all the countries of the East who persist in clinging to it, unreasonably but stubbornly—and prefers silver to gold.

That is nothing new; it is older than our western civilization. But what is new and provides an interesting line of inquiry is the fact that the countries of the continent of Europe that have suffered from all the destruction of war and have seen their money become worthless have turned to silver once more. It has been known for some time that in East Germany Russian silver rubles have been circulating. Undoubtedly these were taken there for propaganda purposes to show the Germans what fine honest money they were given, much better than the worthless paper foisted on the dupes of the capitalist powers in West Germany. It was good propaganda, and called for counter measures in the West. Since 1948 the West Germans have been issuing

silver coins, 1 and 2 mark pieces. So popular were they that they began to drive out the paper marks. In 1950 they began to issue 5 mark pieces, handsome coins heavier than our silver dollars and very welcome to people who were tired of flimsy paper and liked the feel of these heavy pieces, which gave a satisfying sense of possessive smelting of intrinsic value. And more than that, these silver coins were admirably adapted for hoarding. If danger came they could be buried, and it is safe to say that if a third world war breaks out these silver coins will instantly disappear and Gresham's Law will be at work again.

BELGIUM followed suit, and the mint in Brussels has been hard at work turning out 100, 50 and 20 franc silver coins which have proved so popular that it cannot issue them quick enough. The people seize on them and hoard them, for which they cannot be blamed. Belgium went through a bad time with paper notes during the German occupation and the Belgians are profoundly distrustful of notes. It is true that the Belgian notes have been restored to a satisfactory state; in fact Belgium is one of the few 'hard currency' countries of the world. But nothing that government or press can do will convince the people nor make them satisfied with anything but good, honest metal for their money. The French mint is making a tentative issue of 100 franc silver pieces for use in Morocco, realizing that the Arabs are not at all enamoured of paper.

Austria would like very much indeed to start minting silver on a large scale, but difficulties have stood in the way; the principal one being that they haven't got enough silver bullion. A proposal that the United States should ship large quantities of silver to Austria under the Marshall Plan was received coldly in Washington. So far as is known at present the Italian government has made no move to issue silver coins. It would occasion no surprise if it were announced from Rome that it was about to do so.

It would be a good move to strengthen the Gasperi regime.

Turning to the East, Saudi Arabia is buying heavily from Mexico, and is about to issue silver coins of the same weight and fineness as the American dollar. This is something new, as hitherto Arabia has clung to the ancient Maria Theresa thaler which was especially minted in Vienna, a curious survival. It is related that when Haile Selassie of Ethiopia fled before the Italian invaders he took the royal treasure with him to Jerusalem consisting of these same romantic silver pieces. Pakistan is also buying Mexican silver for minting into the traditional rupees. The Indian peasants will use nothing else, neither gold nor paper money, and for centuries have hoarded these silver coins, the favourite and most picturesque way being to string them as necklaces or bracelets for their wives.

THE situation in China is, of course, chaotic; but one thing is certain that as soon as stable government and peace return the demand for silver will be enormous. The Chinese had an unfortunate experience some years ago when they tried to adopt the gold standard. It broke down completely; not, be it said, because the experiment was necessarily unwise, although that is highly arguable, but because of the Japanese invasion and subsequent civil war. The Chinese peasant has continued to use his silver, it is all he knows, and it will be the task of whatever government emerges from present difficulties to restore the confidence of the people by providing them with the money they want. Paper money is beyond their comprehension.

The situation with regard to the supply of silver bullion is likely to become serious in the near future. Indeed it is serious at the present moment. Silver is in short supply, since there are only two major stocks of the metal available for industrial uses. One is between 50 and 60 million ounces in Japan. This is not of standard purity and will have to be remelted, if it is to be sold in the world market. What the new Japanese government will do with

it remains to be seen, but it will probably be sold sooner or later, unless the Japanese want to use it themselves, which seems doubtful.

The other store of silver is in Cuba, which has about 60 million ounces, all of which will be sold on the New York market in due course. Mexico is very definitely short of the metal and is trying to buy it wherever available.

There is today a greater demand for silver than ever before and production is not keeping pace. It is anticipated that a serious shortage is to be expected by 1954. Mexico is trying to keep the market from running away but the prospect for an extended rise in price seems undoubted, up to or even beyond the old "parity" of \$1.29 an ounce.

There remains only one great store of silver, that in the United States Treasury, which amounts to 153 million ounces. The importance of this stockpile, not only to the United States but to the world in general, is obvious. In view of the present situation the wisdom of the Silver Purchase Act of 1934, whereby the Treasury purchases domestic production in the United States, becomes apparent. The advocates of this measure may well afford to smile, perhaps a little grimly, at the unbridled abuse which has been heaped upon them.

III

IF, and when, the present unsettled situation in world affairs clears, what will be the future of silver in world markets? Gazing into crystal balls is an unprofitable occupation at the best of times and today is even more hazardous than usual. It is, however, obvious that everything depends upon the settlement of disturbed China, and since China is

generally, if not always, in a violently disturbed condition, this contingency seems a little remote. Should a stable government, whether it be of a Communist character or not, emerge from the present chaos, China, will once more take its place in the international silver market. But whether to buy or sell is hard to say. If to sell silver, then the prospect for continued high prices for the metal would be doubtful to say the least. If to buy, then prices would go even higher. It is anyone's guess which may happen.

THE old question of international bi-metallism remains still as a possibility. Nobody, not even its fiercest and most uncompromising opponents, has ever denied that it is feasible, and a perfectly practicable scheme for implementing it has been put forward and never been seriously challenged and certainly never refuted. If it were inaugurated on a world-wide scale, the future distresses of the nations who still cling to their faith in "hard money" would be alleviated. Those who have brushed aside impatiently any idea of a world-wide bimetallic standard have done so because they have been bemused with the conception of the gold standard as the only practicable working device for the international exchanges. It may, in all fairness, be remarked that the present situation of these exchanges is hardly satisfactory, to put it mildly. It has always been assumed, and the assumption was on unsound grounds, that there is and always will be enough gold in the world to make the gold standard work satisfactorily. Those who cling to the idea have little to sustain their faith in the all powerful, one might almost call it mystical, potency of gold. They might with profit to themselves and benefit to international finance, reconsider their ideas.