

Question: What gives the gold and silver currency system a stable value?

Answer:

- a) A precious metal chosen has an intrinsic value—whether it was a currency or not. Like gold for example; people demand it for the purpose of adornment and other needs etc. This means the currency will not be subservient to the economy of the particular state it belongs to and the confidence in that particular economy, as is the case now. This is because it has an intrinsic value in itself; this is contrary to the currency today, which has no intrinsic value except the confidence in the state economy. It is well known that state economies depend on the balance of payments, imports, expenditure and exports. In addition to this, in some cases, political strength has an effect. All of these matters are not constant. If the currency has an intrinsic value, free from the fluctuations of state economies, then this gives it stability.
- b) This gives stability to the exchange rate of state currencies because it is attributed to the gold, which is a guarantee for it. This leads to the value of the currency being stable, and it does not depend on the differences in power of the state economies when exchanging currencies between them. This is because the exchange is between gold currencies (whether it was between gold itself or paper money representing gold) according to the amount that is guaranteed in each state currency.
- c) The domestic and international currency is one. So, people inside and outside the country deal in the same units and not as we can see today; where the domestic transactions are with the domestic currency, and dealings with outside states are with other hard currencies. When the domestic and foreign currency is the same for all transactions then this gives stability to the currency.

In addition to this, when using the gold and silver system, the metal currency available for transactions will be of a greater quantity, because there are two rather than one precious metal. This would remove the fear of monopolising the metal currency offered in the market, thereby increasing price stability further. Price stability when using single-metal currency is quite feasible, but there will be more stability when using the system of two precious metals.

21/10/2003