

## Some Basic Facets of The Relationship Between Gold and Silver

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### Abstract:

Money based on precious metals is often tied to a gold standard or silver standard or bimetallic. Silver and gold have at sometimes been converting relationship. At other times and places, silver has not been easily converted to gold. This article examines the relationship between silver and gold. The "Crime of 1873" refers to the decision of the United States government to have a gold standard economy and not widely recognize the value of silver into a convertible amount of gold. There had been a bimetallic standard in the United States from 1792 until 1873. Then the "Crime of 1873" occurred. The event was "a crime" in the view of those people had been counting on the continued easy conversion of silver to gold. This article examines some of the attributes of the relationship of silver and gold, in the United States over time. All economists need to understand this relationship.

"Silver and gold  
Silver and gold  
Everyone wishes  
For silver and gold  
How do you measure it's worth?  
Just by the pleasure  
It gives here on Earth"  
-Burl Ives, American Singer (1909-1995)

Intellectual work regarding the relationship between silver and gold has been around for many years. The fact that both gold and silver are high value precious metals may naturally be viewed as possible standards for money.. Indeed both silver and gold have been used as standards at certain times and places in history. Gold is shiny and if it is 100 percent gold, it will not tarnish or rust (Rothans, 2019; Maverick, 2022; Kayal et al., 2021; Lee, 2021; AZRUST, 2023; APMAX, 2024).. Presently, fiat currency is used in many countries. Fiat currency is not based on a gold or silver. Instead the government's pledge that fiat is what the currency is based on.. (Taylor, 1966; Rutherford, 1992.) , The fiat currency of the United States is "legal tender for all debts private and public/" (These are the exact words printed on Federal Reserve notes.) This article examines some of the important facets of the relationship between gold and silver. This will be conveyed in sections I and II of this article. A summary and conclusion is provided at the end of the article.

### I. Gold and Silver Standards:

Gold, silver and platinum are considered examples of precious metals. They are rare metals that have high economic value. Yet platinum has not been used as a standard for money (Fernando, 2022; Maverick, 2022; Bloomberg, 2023). Hasentab (2017) points out that "gold is shiny and valuable and people like it." It is common knowledge that both gold and silver are extensively used in jewelry. As far as industrial uses, silver is more

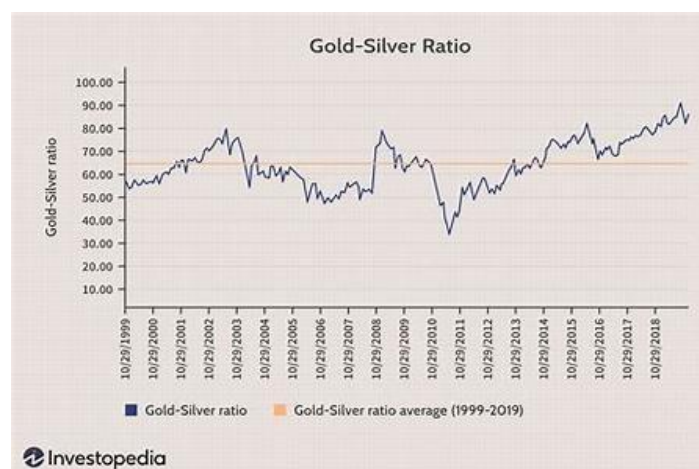
commonly used than gold. (AZRUST, 2023; Royal, 2023). Whether gold or silver or both being a standard, there are three requirements for something to be money. It has to be a store of value. Silver and gold are certainly valuable. It must be a medium of exchange. And the items must have a unit of account (Mishkn, 2016). For example gold or silver coins or certificates representing a specific amount of gold and silver coins could be used to make purchases, depending on the price in terms of gold coins or silver coins (Hayes, 2022b). In American history there were times when both silver and gold are mediums of exchange, depending on the laws of government. Then the “Crime of 1873” occurred. This refers the lack of easy convertibility from silver to gold. The event was “a crime” in the view of those people had been counting on the continued easy conversion of silver to gold. (Hayes, 2022b). From 1792 until 1873, a bimetallic standard was used. During that time, both gold and silver served standards for United States money. A bimetallic standard was also present at times other places (Velde, 2002). In 1873, silver dollars were dropped from official coinage by act of Congress in that year (Costagliola, 2022; Loudis, 2023). Yet silver certificates became present in 1878. When silver certificates were used and that had some effect on the money supply (Hayes, 2022a, Gorton, 2023). The Bland-Allison Act of 1878 and the Sherman Silver Purchase Act of 1890 stipulated that the U.S. government will buy certain amounts of silver a year. In 1963, because of a prospective shortage of silver, there was the retirement of silver certificates. For ten months the holders of silver certificates could use them to exchange for silver dollars. After this ten month period, the certificates could be redeemable for silver granules. After June 1968, the redemption period from silver certificates ended (Officer, 2018; Sherman, 2018; Gorton, 2023). Several other countries were using silver certificates at certain times. These included China, Columbia, Costa Rica, Ethiopia, Morocco, and the Netherlands and Panama (Bratter, 1933; Gorton, 2023). Currently, the United States and many other countries use fiat currency. Fiat money is anything deemed to be acceptable as money by a country’s finance ministry or central bank. Most often fiat currency takes the form of banknotes. There is no intrinsic value in the fiat money except the finance ministry or central bank has said the fiat currency has value. Being a medium of exchange and having units of account are present with fiat currency (Taylor, 1966; Rutherford, 1992; Mishkin, 2016; Ruthans, 2019; Hayes, 2022b). During certain times of American history, there has been a call for bimetallic standard of both gold and silver. With a bimetallic standard, the total money supply is increased. So we can see by certain groups think they can benefit (Lee, 2021). Importantly, the election of 1896 was between Republican William McKinley and Democrat William Jennings Bryan and McKinley won. Favoring a bimetallic standard, Bryan received support from groups that favored including silver easily convertible to gold to be in the money supply. McKinley received support from people who desired a gold standard (Velde, 2002). Actually the United States was not on a gold standard between 1934 and 1944. Towards the end of World War II, Bretton Woods Agreement occurred in 1944. It tied many of the World’s currencies to the United States dollar. And the U.S. dollar was tied to a gold standard. In 1971, the U.S. case of the gold standard. In

effect the U.S. dollar became a type of fiat money (Velde, 2002).

## II. The Gold-Silver Ratio:

“The practice of trading of the gold-silver ratio is common among investors in gold and silver. The most common method of trading they do in using the ratio is that of hedging a long position in one metal with a short position in the other” (Maverick, 2022, Banton, 2023; Gold Price Oz, 2024). Maverick (2022) and Banton, (2023) maintain that investors who follow the gold and silver markets are familiar with the gold-silver ratio. Calculating the gold-silver ratio is determined by dividing the current market price of one ounce of gold by the current price of one ounce of silver (Maverick, 2022; Banton, 2023; Gold Price OZ, 2024).

**Figure 1:** Is an example of the Gold-Silver Ratio over time. The price of silver may be more volatile than the price of gold. Though neither metal has a constant price (Kayal et al, 2021; Parthajt et al, 2021).



**Graph 1:** Gold-Silver Ratio

**Source:** Investopedia

## III. Summary and Conclusion:

This article examines some of the facets in comparing silver to gold. Both metals are valuable. In order for an item to serve as money, it must be a medium of exchange, hold value and have a unit of account. There have been times when silver and gold have met these criteria. The United States has gone through some interesting stages in regard to monetary policy. The nation started with a bimetallic standard. In 1873 it switched to exclusively a gold standard. By that it is meant that silver could not be easily converted based units value in gold. Nonetheless there were silver certificates for a period of time. Switching from a bimetallic standard to just a gold standard reduces the money supply. From 1934 through 1844, the United States was not on a gold standard. The Bretton Woods agreement in 1944 provided the currencies of many nations to be tied to the United States dollar. Until 1971, the U.S. dollar was tied to gold. Then it no longer was tied to gold and thus fiat money has been the result.

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