

Gold's Price Rise – Three Perspectives

Gold's rise over the last couple of years has been meteoric to say the least. While the media has largely overlooked the move, there have been occasional discussions on why the uncertainty surrounding Trump's tariffs and geopolitics has led to a rise in gold prices. These narratives overlook the massive tectonic shift underneath from an economic perspective. Unless one views the events with knowledge of Austrian Economics, forecasters will likely miss the action that lies ahead.

If one were to go by the US Government numbers (propaganda would be a better word – but that's a discussion for another day), gold's rise makes no sense – the US GDP growth is hitting nearly 4%, price inflation is on the decline, and US unemployment is near all-time lows. If this were truly the case, gold prices should not have doubled to over \$4,000/oz in the last two years. However, let us return to the numbers later.

Let me begin with an overview of the three prevailing perspectives on gold: Keynes's Barbaric Relic, the Neo-Keynesians, and the Austrian Economists.

I. KEYNES'S "BARBARIC RELIC"

John Maynard Keynes, wrote *"The General Theory of Employment, Interest and Money"*, in 1936 and referred to gold as a *Barbaric Relic* in his thesis. In one form or another, Keynesian economics has been widely adopted and built upon over the subsequent decades, far exceeding the wildest dreams Keynes might have had. So much so that it would be (almost) appropriate to say, "We are all Keynesians now" – a quote attributed to Milton Friedman.

Keynes suggested, in his work, among other things, the use of fiscal and monetary policy to manage business cycles extensively. From a Monetary policy perspective, the idea was to lower the interest rate during a recession to stimulate business activity and to increase the interest rate when price inflation is too high. How many times would we have heard this simplistic, and in fact naïve explanation, over the last few decades by Central Bankers, Economists, and commentators?

From a fiscal perspective, Keynes's suggestion was to run deficits during a recession and to use the surplus during the good times to pay down the deficits. Needless to add, once an intellectual justification (albeit a flawed one) was provided in favour of deficits, Governments never have the incentives to balance the budgets. For the record, the US Federal Government has not had a single year of budget surplus since 1971 (not an "accounting surplus", but viewed as a decrease in the National debt).

But what has gold got to do with the above fiscal and monetary stimulus? As Greenspan wrote in **Gold and Economic Freedom**, “Deficit spending is simply a scheme for the hidden confiscation of wealth. *Gold stands in the way of this insidious process*”.

Suffice it to state at this juncture that Gold limits the deficits as well as the manipulation of interest rates. The total accumulated National Debt of the US government between 1789 and 1971 was less than \$400 billion. In contrast, the US has run a higher deficit every quarter for the entirety of this decade so far, with the pace of addition only increasing over time.

Gold is an insurmountable barrier to even a very rudimentary implementation of Keynesian ideas of fiscal and monetary stimulus. Classifying it as a *barbaric relic* was a very self-serving argument for Keynes.

However, in some sense, I find a commonality between Keynesians who call gold a **barbaric relic** and some Austrian economists who refer to Bitcoin as **fool’s gold**. In much the same way, the former believes gold’s price will crash in the years ahead, I think Bitcoin and other unbacked crypto prices will crash. Perhaps alongside the AI bubble bursting. With one difference in the above commonality, the key distinction between gold and bitcoin is that the latter has no non-monetary utility (i.e., *Desirability* in the D3C2 table below), a very fundamental requirement of qualifying as money.

Barbaric Relic Summary: It would be tempting to term this as “Buffett Blindspot,” especially given the number of his followers who have used his observations on gold to classify it as a useless asset. Buffett’s views are, however, far more nuanced than that. While one doesn’t have to be Buffett to recognize that Gold has far outpaced the DJIA since Aug 1971 (a 115-fold return for gold as compared to a 55-fold return in the DJIA), I suspect nothing short of hyperinflation in the US dollar will eradicate the blind spot of this crowd.

II. THE NEO-KEYNESIAN ECONOMISTS

A nagging piece of evidence against the *Barbaric Relic Theory* has been the rise in gold prices over the decades. While it could be ignored/dismissed as the proponents of Keynesian Economics do, most Neo-Keynesians find it convenient to attribute non-monetary reasons to explain away surging gold prices.

The reasons for the justification date back to 1968, when the U.S. Senate Committee on Banking and Currency held hearings on legislation to eliminate the gold cover, i.e., the legal requirement that a fractional 25% of the issued Federal Reserve Notes (i.e., the paper U.S. dollar) be backed by gold. Parallel to the Senate hearings, the House also conducted similar hearings, with the Chairman Wright Patman declaring that “the US Dollar is stronger than Gold”.

The Treasury members, Federal Reserve officials, and noted Economists (including Milton Friedman) argued in favour of the bill, terming it a pro-dollar move. In reality, it was the final straw in abandoning the Gold Exchange Standard, and Nixon's closing of the Gold Window in 1971 was a foregone conclusion after the 1968 vote in favour of removing the *Gold Cover*.

The 1971 removal of the Gold-Dollar exchange rate was a historic move whose significance will be recognized in the years ahead. However, at the time, many officials/economists argued that it was the Bretton Woods agreement and the US Dollar that gave strength to gold prices. And in the absence of such an arrangement, gold prices would be much lower than the then-prevailing \$35/oz. Only for them to see gold prices make a 25-fold move to more than \$850/oz over the subsequent decade after the closure of the Gold Window.

But what to do with the gold price increases? The minority few who argued in favour of the Gold Standard as part of the 1968 hearings were ignored. However, the officials still had to contend with the stark reality of rising gold prices in the open market. A series of non-monetary excuses were created – wars, economic uncertainty, price inflation, and interest rate fluctuations were used to explain the marginal changes in gold prices. And these seem to effectively serve the purpose even today. Ninety-nine out of hundred economic commentators would be using these reasons – or a modified version thereof.

The Neo-Keynesian Economists Summary: It would be tempting to call these people “Useful Idiots”. They would enthusiastically justify a gold price of \$400/oz or \$40,000/oz with the same set of reasons without breathing a word about the monetary status of gold. However, the CIA declassified files from the pre-1971 era do indeed show that, despite all of the superficial public observations of the 1968/1971 events, the rationale for the “tradition” of holding gold was well understood behind the scenes.

Snake oil salesmen have a deeper understanding of what they are selling as compared to Neo-Keynesians.

III. THE CORRECT PERSPECTIVE OF THE AUSTRIAN ECONOMISTS.

The correct way to look at gold is from its primary utility as “Money,” and its price has to reflect the current money supply in circulation and the expected growth in the years ahead.

Why gold has been money and is likely to remain so for the foreseeable future stems from its D3C2 properties, as outlined in the table below. This has been the case for nearly the last 5000 years, i.e., from 2800 B.C. to 1971 A.D. It is essential to note that, before gold’s reign as money, Iron and Copper served that function between 4000 B.C and 2800 B.C. And before that (from 5000 B.C to 4000 B.C), it was Wheat and Barley that served the purpose. The current brief intermission of “Gold is Money” is nearing the end date, and it is hard to conceive of a scenario

where the prevailing paper currency system can continue beyond the end of the current decade.

“D3C2” Properties of Money

	Desirable¹	Durable	Divisible	Convenient	Consistent
Gold / Silver	✓	✓	✓	✓	✓
Wheat / Barley / Salt	✓	X	✓	X	✓
Iron / Copper	✓	X	✓	X	✓
Diamond	✓	✓	X	✓	X
Real Estate	✓	✓	X	X	X
Cigarette / Tobacco	✓	X	✓	X	✓
Cryptocurrency / Bitcoin	X	?	✓	✓	✓
Fiat Currency (e.g. USD)	X	✓	✓	✓	✓

Analysis of commodities in terms of the properties desired of “Money”. Gold / Silver satisfy all the requirements and hence are the ideal form of money.

- 1. Why would the USD or Bitcoin not be “Desirable”? – The definition of “Desirable” in the table above is for their utility other than “money” and hence the negative score.**

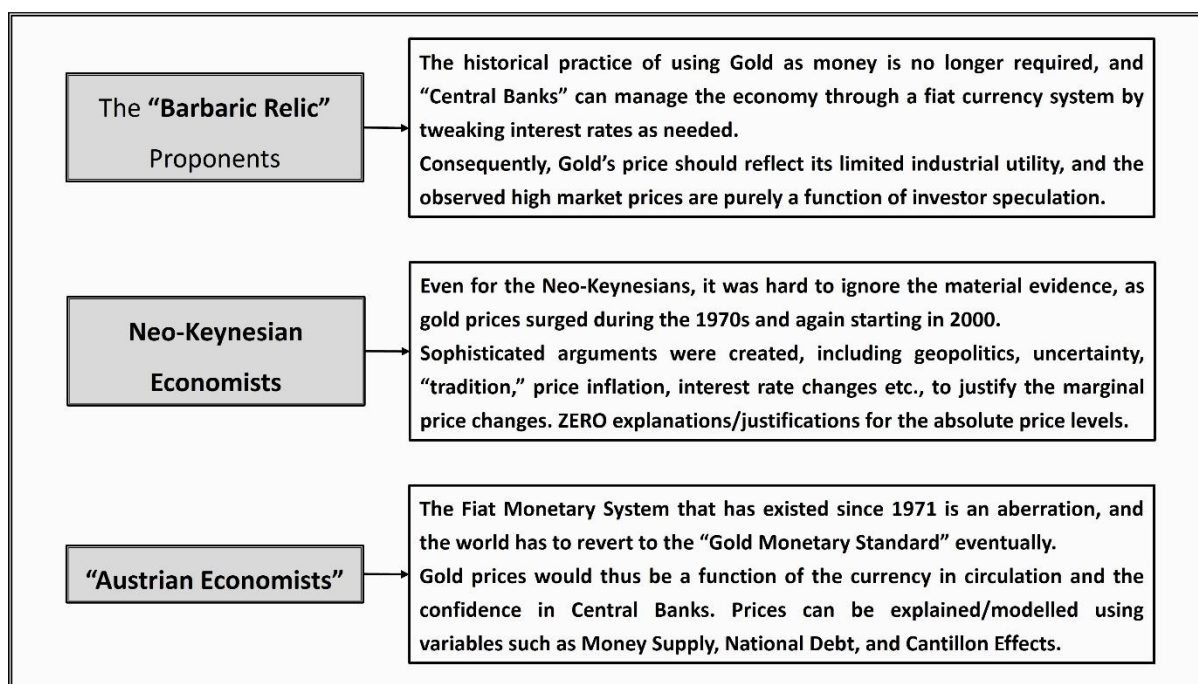
The anticipated increase in Money Supply would be a function of the current National debt, the expected growth thereof, the preference for holding Dollar-denominated debt by investors outside of the US (and this includes foreign Central banks), and the elephant in the room, the hundreds of trillions of unfunded liabilities of the US Federal government.

Using the above and the phenomenon of Cantillon effects, the price movement of gold over the last 5+ decades can be modelled/explained without having to resort to the sophistry of the Neo-Keynesians.

What does it mean for gold prices?

Before that, a summary of the three perspectives is provided below. For a long time, the narrative of the Neo-Keynesian school has dominated market thinking, and that is beginning to change. Early indicators are the inclusion of gold in the 60-20-20 model portfolio of Morgan Stanley. Goldman Sachs and Bank of America have put a \$5,000/oz target for gold – perhaps an inconceivable scenario just a year back.

A Brief Overview of the Three Perspectives on Gold



But these are very early days in the bull market for gold. If one thinks of this as a nine-innings baseball game, we have probably just entered the second inning. A base case analysis of the factors mentioned leads to a price of \$24,000/oz as explained in my book **"RIP USD: 1971-202X"**. Of course, since the publication in 2024, fiscal and debt conditions in the US have deteriorated substantially. Before that, there was a chance that DOGE would deliver on its promise of trillion-dollar budget cuts and that Trump would balance the books. The probability of those events is now zero.

How high can gold go? That depends on how low the US Dollar can plummet. Ruling out ZERO for the US Dollar (which is, incidentally, its intrinsic worth) in this cycle would be a very flawed and dangerous economic proposition.

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