

Gold Exposes the Dollar

by [Rep. Ron Paul, MD](#)

The existence of gold in the economy is a constant reminder of the poor quality of the government paper, and it always poses a threat to replace the paper as the country's money.

~ Economist Murray Rothbard

One year ago I wrote about the precipitous decline in the value of the U. S. dollar against other world currencies, a decline that continues unabated today. A Euro note worth only 89 cents shortly after its introduction was worth about \$1.16 at the end of 2003. Today it's worth \$1.33. In fact, the dollar has fallen to an all-time low against the Euro, and a 12-year low against the British pound. Since 2000, the dollar has lost 30% of its value.

Gold, by contrast, has surged 70% in the same period. The *New York Times* last week acknowledged that gold "was now a more favored currency than the U.S. dollar." As analyst Harry Schultz points out, when gold prices are low the financial press calls gold a commodity. When prices are high, they call it a currency. Investors cannot afford to sit idly by while their dollar accounts lose another 30% in value, so the rise in demand for gold is hardly surprising.

The world financial markets are betting against the dollar. Our creditors, particularly Asian central banks, are losing their appetite for U.S. Treasuries. Our federal government's huge debt and voracious appetite for deficit spending make our economy dependent on the actions of foreign governments and central bankers. Yet few Americans realize the extent to which their own government has sold out American sovereignty by borrowing money overseas.

Washington seems oblivious to the problem. Our current account deficit is roughly 6% of GDP, and our total foreign indebtedness is over \$3 trillion. We borrow \$1.8 billion every day! Unfortunately, our politicians and the public will ignore the problem until the combination of dollar inflation, price inflation, and higher interest rates brings the borrowing frenzy to an end. Americans, like their government, seem to have lost the ability to live within their means. When their standard of living falls, however, they will look for someone to blame in Washington.

The consequences of a rapidly declining dollar are not yet obvious to the American public. A trip to Europe costs more than it did a few years ago, but most Americans still don't sense they are becoming poorer as the dollar falls. The long-term significance has not yet begun to sink in. However, our relative wealth as a nation is measured in dollars, and the steady erosion of the value of those dollars means we will all be poorer in the future. Federal Reserve chairman Alan Greenspan has relentlessly increased the money supply throughout his tenure, ostensibly to keep the economy expanding. But this artificial stimulation through cheap money comes with a price. When dollars are abundant, they are worth less. This is the reality facing Americans today, especially older Americans who rely on savings to finance their retirement years.



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