Seasons of gasoline and silver

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The 1970s are a distant memory to everyone (who were present.) However, this was the decade where people began to confuse state fiat for money, or were rather cajoled into thinking that way by their respective 'governments,' at its greatest pace ever... since concept of govt. fiat began in hoary antiquity.

'Rates of return' of fiat upon fiat, or 'interest rates,' were increased across the world over the decade and many experienced hardship without willing to understand why. When US fiat became 'unlinked' to gold in 1971, the only mechanism to prevent masses from exchanging their fiat for gold was through a contrived theory around high (and higher) interest.

Paul Volcker was Fed chair in 1979. Volcker considered silver and gold as competition/alternatives to fiat... much like 'cryptocurrency' supporters view their abstraction relative to fiat (in its electronic form) itself today. One shouldn't have expected any different from Volcker – a mere agent of 'government' and so govt. fiat. As one can imagine in all of this (enhanced) lunacy, commodity quotations against fiat began to soar globally... without any willingness by anyone to address root issues. Within the chaos that began then and has accelerated since, an episode in the silver market stands out the most.

The Hunt bros: Nelson Bunker; William Herbert and Lamar – from an 'old money Texan oil family,' along with a few associates, began acquiring silver futures from 1974. The logic in such an enterprise was as valid then as it is now, however their execution was flawed. By all accounts the Hunts were not especially nice individuals - being the basis for 'the Duke bros.' in 1983's film 'Trading Places.' Since the beginning of their silver 'operation,' they'd kept their fiat 'profits' in cash by rolling over silver futures and not claiming delivery of their underlying silver.

In 1979, situations took a turn for the worst for those short of silver on futures exchanges as silver soared from under $10 to over $50. The Hunts, over the course of years, had decided to use some of 'the equity' flowing through to their futures accounts, not for earmarking to *ultimately* pay for silver already claimed... but various other 'hard assets' – including a stake in the commodities brokers conducting their business! Up to then, the various US commodities exchanges had introduced rules making it difficult for longs to continue to hold their positions... including reducing positions limits and increasing margin requirements. Up until late 1979, the Hunts had bypassed such rules by exchanging their silver futures for cash silver... but their action in late 1979 sealed their fate. Where those short of silver were short more silver than they could deliver, silver longs; who by this stage were reduced to the Hunts, were underfunded to complete their purchase…and one last margin call broke them.

What happens to a market where buyers don't have the cash to settle their purchase but equally sellers don't have goods contracted to deliver? The standoff could move against either party equally and was lost by the Hunt bros, who had to liquidate their silver holdings in a plunging bid to pay for the margin on their silver holdings – which were falling in 'value.'

This cascade led to 'Silver Thursday' - 27 March 1980 - when silver prices collapsed $14.80 to $10.80 and a malaise for silver since then.

With silver's backwardation emerging after 2008 and escalating since, we can be assured of many days going forward where silver will do the opposite of what it did on 'Silver Thursday.'

Metals in free exchange

When silver, gold, copper, nickel,… are in *unhindered* free exchange between everyone, 'moneyness' between them precipitates. In greater detail, 'moneyness' means we can say that 'so many gold coins go for so many silver coins go for so many copper coins…' and so on *at a particular location*. Menger's observation of bid/offered spreads is very much the basis to development of moneyness.

Precipitation of 'moneyness' must be left unhindered for idea of 'money' to work…and rates of exchange between coins left to adjust as we see fit through *unhindered* interaction. 'Governments' throughout history have attempted to fix exchange ratios between metals to make 'tax collection' easier and as a way of impoverishing some part of society for the profit of another part – usually their assembled friends and cronies – such is politics.

This simple idea of money will be resurrected again and with it, fiat and respective militarists/'governments' who control it will be destroyed – as night follows day.

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Bibliography

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