This week, I met with several people who are very concerned, extremely even, the worst case scenario is fast upon us. By that, I mean a global economy which doesn’t accept the US dollar, or any other intrinsically worthless paper currency, as a medium of exchange. Obviously, such a world would be unpleasant, at best. At worst, it would play out like a post-apocalyptic nightmare.

It doesn’t take too much imagination to go down that road. After all, none of the world’s major currencies, of even minor ones for that matter, are truly worth more than the paper and ink required to make them. So, at some point, people will wake up and demand something of value for their troubles, right? Relegating all this paper money to the dustbin of history in the process.

Maybe, but I am not so sure. Further, what would happen IF that worst case scenario actually happened, and the money on which our economy depends suddenly ceased to exist? Without getting down into the weeds too far, or devising a Hollywood script, first things first. If that were to happen, there wouldn’t be any resources remaining to cool nuclear reactors or maintain chemical storage facilities. There also wouldn’t be any people left to do the work, as they would be out scrounging for food and beating back the marauders looking to do all sorts of nasty things.

The world as we know it would last until the necessary coolant at various nuclear plants around the globe eventually ran out. Weeks, months, quarters, or years? I don’t know about the inventory of such things, but I do know no firm would be creating it if it couldn’t get paid. So, one inevitable meltdown after another would occur, and, eventually, the earth’s atmosphere would choke with the radioactivity of 437 failed nuclear reactors around the world.

If that didn’t get you, perhaps a chemical leak somewhere world, or maybe a dam break. You know, that sort of thing. Good times.

In essence, Doomsday preppers can load up on MREs, bottled water, and freeze dried whatnot until the cows come home. If the worst case scenario does actually happen, and the world says “nuts & bolts” to fiat, paper money, they would be lucky to get to the end of their supplies before a big cloud of nothing fun descended upon their compound.

Okay, Mr. Breath of Fresh Air, we have gone from worst case scenario to a depressing case scenario. What about what would happen if we all went back to silver and gold as mediums for exchange? Fair enough.

First, let me point out it is almost impossible to find a point in time when silver and gold were the ONLY mediums of exchange. The reason is simple: they are too scarce. As such, people have resorted to things like copper, bronze, tin, steel, and even things like shiny stones, beads, and shells to facilitate transactions. In other words, they relied on things that had little intrinsic value, or at least nowhere near as much as the real shiny stuff.

So, what would happen if the rest of world simultaneously decided to stop accepting paper dollars, or keystrokes (as the case may be). Well, the US would say “right back at you,” and the rest of the world would scramble for as much gold and other precious metals as it could. Almost instantaneously, the ridiculousness of trying to maintain dynamic economies using only precious metals would become obvious, and central banks and Treasuries around the world would come up with a very
workable solution: their currency would be worth some amount of either gold or silver. For instance, after the surge in demand, gold might be valued at $10,000/ounce. So, the US Treasury would proclaim $1 = 1/10,000 ounce of gold. There, problem solved, at least for the most part.

After all, a $10 transaction would require 1/10,000 of an troy ounce of gold, or 3.11 milligrams. That would be roughly the same amount as, say, 3 grains of course kosher salt. Care to keep up with that for accounting? Want to entrust your employees with that type of thing? A full year’s wages in a paper cup? I don’t think so.

As a result, we would still use paper money, and no one would really claim their gold because it would be too much of a pain in the neck. So much so, the US Treasury would probably limit redemptions to no less than 10 ounces, or so, which would be $100,000.

Then there is the simple fact, the US produces around 230 metric tons of the stuff every year. That works out to be 32,151 troy ounces times 230 = $73,947,300,000, which would help to offset our current account, read trade, deficit to some degree. Further, we currently have around 8,133.5 metric tons of gold in official reserves, which would be worth $2.615 trillion at $10,000/ounce.

In fact, our gold reserves dwarf the rest of the world, meaning we would be in a dominant position to dictate global monetary policy, maybe even more than we currently do. Further, our major trading partners depend, and I mean depend, on trade with the US for their economic well-being. Would the Mexicans and Canadians want to run the risk of either bleeding their major trading partner dry OR ticking them off royally? Would the Chinese? The Japanese? That is highly questionable. However, one of our smaller trading partners might decide to get cute, and do you know what would happen? That is right, we would throw some tariffs on them in a heartbeat, and that would settle that.

In so many ways, global trade is now so vast, so dynamic, so intertwined, and so complicated, swapping precious metals would be so cumbersome it would lose its appeal in very quick order. I mean, what is the accounting for a US company which designs, engineers, and markets its products domestically, but outsources the production to a subsidiary in lower cost country? Or how about a Mexican maquiladora which imports parts from the US but exports back a finished product...all within the same company?

What if Washington, um, removed the tax on foreign profits of US multinational corporations, heck gave a sizable tax credit, IF the companies repatriated their earnings back in bullion? What if Washington removed the taxation on US subsidiaries of foreign multinationals provided they kept their earnings in the US, heck even gave them a tax credit?

Basically, once country A decided to “get to the bottom of the accounting,” so would country B, and by the time the dust settled and the smoke cleared, we would be back to trading paper currency and keystrokes for a simple reason: it is too freaking efficient, and trading specie isn’t. Sure, we might have a [blank] contest for a few months or maybe even quarters, but we would be right back to where we currently are in a relatively short period of time.

In the meantime, domestic transactions would pretty much continue apace, meaning there would be plenty of coolant for nuclear reactors and chemical storage facilities.

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I guess what I am trying to say is this: I don’t lose sleep over the world deciding to quit taking fiat, paper currency as a medium for exchange. It is just too practical, as impractical as that may sound. Strangely enough, what sounds practical, gold or silver, is amazingly impractical in a world where global trade is conducted by airplane or container ships which can be up to 1,300 feet long. That is obviously one-quarter of a mile, and, get this, you could line up 21 Santa Marias, Christopher Columbus’ flagship, end to end with that length. Don’t like that one? Okay, how about it being twice as long as the USS Arizona, the famed battleship sunk at Pearl Harbor? What if I told you the new class of container ship displaces about 3-3.5 times as much as the Titanic?

However, if I were to ever seriously worry about such stuff, I would hop down to the coin store and buy silver coin in bulk bullion, meaning old nickels, dimes, quarters, and heavily worn dollars. I would not buy anything with any numismatic value, only bullion value. On the flipside, I would load up on the GLD exchange traded fund in my investment portfolio.

So….bulk bullion silver coins for necessary small transactions, and bulk gold paper assets to take advantage of the sharp spike in gold prices a worse case scenario would effect. This would be a very good trade over the several months of any economic disruption. By the time cooler heads prevail, I will be out of small silver coins, and I will have a tidy profit in my gold ETF.

In the end, I have spoken to a lot of people recently who are extremely worried about the US dollar, and paper currency in general. I appreciate that, as fiat money doesn’t make a ton of intuitive sense. However, you have to delve and wade into the matter, and explore probably outcomes. When you do, the worst case scenario remains just that….the worst case scenario, and if that happens, it really won’t matter what you are doing in your investment portfolio.